Marion Williams

An Analysis of Regional Trade And Payments Arrangements in CARICOM 1971–1983

INTRODUCTION

Cultural similarities and strong trading links within the Caribbean prompted early efforts at mutual support of trade. It was felt that trade cooperation would lead to increased output, higher exports and, hence, to accelerated economic growth in the Caribbean. These trade links took formal shape with the signing of the CARIFTA arrangement (Caribbean Free Trade Association) in 1965. Efforts at monetary co-operation followed the implementation of these preferential trading links forged by CARIFTA territories. Also experience of other regional monetary arrangements such as the Central American Clearing House and the Central African Clearing Union were evidence of the usefulness of such arrangements. This paper will examine trade patterns of CARICOM during the period 1971–83 as they relate to the payments arrangements among the Central Banks and monetary authorities in the region.

AN HISTORICAL BACKGROUND

As early as December 1969, the Central Banks of Trinidad and Tobago, Guyana and Jamaica agreed to establish the Intra-regional Payments Scheme (IRP). The East Caribbean Currency Authority (ECCA) entered the scheme on February 2, 1970. This was an arrangement between the central banks and monetary authorities in the region to economise on foreign exchange by using an offsetting payments system with periodic net settlements. The process starts when a customer of a member country presents to its commercial bank documents evidencing debts due to foreign customers. The central bank receives a request for payment through the commercial bank. The local bank pays the central bank in local currency, debiting its customers' accounts, and advises the central bank of the details of payment. The central bank advises the central bank in the receiving country of the credit to its account and the correspondent bank through which payment is to be made.* The Intra-regional Payments Scheme operated on a bilateral basis, *i.e.* the central banks of the monetary authorities effected settlements with each other individually. Each member extended an interest free maximum line of credit and outstanding balances were settled quarterly. Settlements were effected at a rate of exchange corresponding to existing *par* values of the currency of each member. The facility was simply a clearing house and considerations of exchange rates, and the balance of payments of participating territories did not impact seriously on the arrangements in its early days. Credit was minimal and was borne equally by each participant.

In 1974, the arrangements were expanded. Debt balances were allowed to accumulate up to a maximum of STG500,000 with the first STG100,000 being non-interest bearing. Amounts in excess of STG100,000 attracted a rate of interest each month at the average discount rate of three-month Treasury Bills obtaining in the region during the previous month.

In 1976, the total credit in the arrangement was increased to US$40 million. This was apportioned among members according to their special economic circumstances.

*Effective June 1977 Central Bank of Trinidad & Tobago was appointed Agent and was notified of each transaction.

Debtor participants were allowed 20 per cent of their credit on an interest free basis and interest on the balance was payable to the creditor participant at a rate of 5 per cent *per annum*.

The Monetary Authority of Belize and ECCA were allowed to negotiate lower rates of interest with individual members. Settlements were made in U.S. dollars. Implicit in the increase in total credit and the apportionment of credit according to economic circumstances were assumptions of credit worthiness. The Clearing House, thus, introduced an element of payments support on the basis of financial requirements. This aspect of the arrangement developed further after the bilateral arrangement was transformed into a multilateral arrangement (CMCF). In many ways, therefore, monetary cooperation was a consequence of regional trade in so far as increased regional trade led to the need for extended credit.

The monetary arrangement in the Caribbean assumed a multilateral nature after the signing of the CARICOM Treaty in 1973, though not necessarily as a consequence of the Treaty The Treaty defined and enlarged upon the areas of preferential trading arrangements agreed under the CARIFTA arrangement. It called for harmonisation of payments policies within CARICOM and urged the development of new areas of cooperation other than trade and finance. The Treaty restated the principles of the existing bilateral arrangement, but did not, specifically, call for multilateralisation. *Articles 17 and 43* are the sections which deal specifically with monetary and financial payments arrangements.

Article 43 of the *Chaguaramus Agreement* called for:

1) Freedom of payments by member states on current accounts and capital accounts – necessary to attain the objectives of the Common Market.
2) Exchange of information on monetary payments and exchange rate matters, and harmonisation of monetary and exchange

rates and payments policies in the interest of the smooth functioning of the Common Market.

3) Member states to take action to permit through their Monetary Authorities, notes and coins of member states to be exchanged at *par* without exchange commission.

In general, members were to refrain from applying any import duties on goods of Common Market origin. (An exception was made in the case of the LDCs for certain products.) *Article 15* of the Treaty stated that "import duties", taxes or surtaxes of customs and other charges, whether fiscal or monetary, which were levied on imports would constitute a charge under the Treaty (duties notified under *Article 17* were exempted).

By classifying both monetary and fiscal charges as charges on imports, the Treaty attempted to exercise some control over the manipulation of exchange rates and commission charges, etc. as a means of imposing import duties. The Treaty under *Article 17* stated that countries could not apply fiscal charges to protect domestic goods or to protect the domestic production of substitutes which compete with them and which do not bear in the country of importation, fiscal charges of equivalent value. Special arrangements were provided for, in the *Schedule II,* for import duties to be charged by LDCs, but also for the progressive elimination by LDCs within 10 years from May 1, 1973, of import duties.

DEVELOPMENT OF CMCF

With the multilateralisation of the payments arrangements in 1976, participant's debtor or creditor positions were no longer compiled on the basis of payments to each other, but on the basis of their overall net position with the group as a whole. This meant that a country which was in debt to another country could utilise that balance due to it to purchase goods and services from a third country within the arrangement, without effecting settlement. Records were kept by the Agent, the Central Bank of Trinidad and Tobago, and participants were notified periodically of their debtor or creditor positions. This arrangement further economised on the use of hard currencies, and it was envisaged that it would lead to a promotion of trade.

EXTENSION OF CREDIT

Procedural rules were drawn up which were to be followed. There were several amendments to these rules during the life of the Facility. Limits were established as set out in Table 1.

The development of the monetary arrangement on a multilateral basis did not change its primary status as a clearing house. However, the development of the facility was seen as a vehicle for accommodating a potentially larger volume of trade and, hence, potentially larger volume of production. The benefits for employment and non-trade flows were also major considerations.

In 1978, credit was increased from US$40 million to US$80 million and settlement periods changed from quarterly to semi-annual. This marked the increased emphasis being placed on the promotion of trade at the expense of cash settlements. It coincided with a shift towards allocation of debtor limits on the basis of need. Further liberalisation took place in 1980, with the increase in eligible transactions to include air travel, and payments for oil and fertilizer. The credit limit of the facility was also further increased from US$80 million to US$100 million.

TRADE PATTERNS

During the early years of the payments arrangements, Trinidad was the largest net exporter on merchandise trade account. Barbados was a small net importer and Jamaica fluctuated between net exporter and importer. ECCA and Guyana were consistent net importers. These magnitudes did not matter, particularly when settlement was quarterly and no credit was allowed. Non-trade payments and receipts by country were not included in the body of knowledge on

TABLE 1: CMCF DEBTOR AND CREDITOR LIMITS

Limits at June 1977

US$ million

	Debtor Limit	Creditor Limit
Central Bank of Trinidad & Tobago	6.0	15.0
Central Bank of Barbados	5.5	5.0
Central Bank of Guyana	8.5	6.5
Central Bank of Jamaica	9.5	6.0
East Caribbean Currency Authority	5.5	5.0
Monetary Authority of Belize	5.0	2.5
	40.0	40.0

June 1980

	Debtor Limit	Creditor Limit
Central Bank of Trinidad & Tobago	6.0	
Central Bank of Barbados	14.0	
Central Bank of Guyana	25.0	
Central Bank of Jamaica	23.0	
ECCA	20.0	
Monetary Authority of Belize	12.0	
	100.0	100.0

March 1982

	Debtor Limit
Central Bank of Trinidad & Tobago	2.0
Central Bank of Barbados	10.0
Central Bank of Guyana	29.5
Central Bank of Jamaica	27.5
ECCA	23.0
Monetary Authority of Belize	8.0
	100.0

which credit limits were later agreed, largely because data were not available.

Table 2 shows the net trading positions of participants during the pre-CMCF era with CARICOM partners.

The bilateral nature of early payments arrangements 1969–77 did not permit participants to know the payments positions of their partners so that when the facility was multilateralised comprehensive data on payments were still not available. Accordingly, the amounts due for settlement and clearings by participants under the multilateralised facility was the basis for learning, for the first time, what the overall payments position of participants with each other really was.

TABLE 2

Year	Guyana	Jamaica	Trinidad	ECCA	Barbados
1971	-5.0	-1.4	36.5	-25.1	-5.1
1972	-5.0	7.8	42.8	-24.0	-6.2
1973	-19.3	-15.8	65.8	-26.2	-6.7
1974	-34.2	-44.9	125.6	-33.8	-17.6
1975	-17.2	-60.9	24.4	-30.2	-16.2
1976	-36.8	-24.7	109.0	-24.6	-18.2
1977	-32.9	-16.2	100.5	-36.0	-21.1

In 1979 when creditor/and debtor limits were, therefore, introduced, the only available information was merchandise trade information. Indeed, subsequent revision to the credit limits and amendments to transactions eligible for settlement through the facility were based on payments data for only one and a half years. Data however, indicate that between 1971 and 1976, CARICOM trade increased at an annual average rate of 27 per cent, and that since 1976, the average annual rate of increase has slowed to an annual average rate of 11.6 per cent *per annum*. The volume of clearings through the CMCF, in the latter period, rose faster than the annual increase in interregional trade. A comparison of transactions passing through the facility with that of CARICOM trade for selected years is presented in Table 3.

TABLE 3: GROWTH IN CMCF/GROWTH IN TRADE % PER ANNUM

Year	Growth of Transactions through CMCF	Growth in Caricom Trade
1979	20.3%	20.3%
1980	37.3%	32.3%
1981	15.4%	9.9%
1982	-5.0%	-3.1%

No data are available on the volume of transactions through the facility which arose from invisible trade which appears to be partly responsible for the disparity in the numbers. Secondly, an increase in the volume of eligible transactions could have been responsible for the bulge in the volume of CMCF transactions in 1980. A contraction of trade and payments took place in 1982.

In most cases, participating countries increased their share of exports in CARICOM during the period under review. However, this seemed to be at the expense of extra-regional exports. For the most part, exports to CARICOM grew at a faster rate than exports to non-CARICOM countries, though the rate of growth of exports to CARICOM slowed in the post-1976 period. An analysis of the case of individual countries is illustrated.

THE CASE OF GUYANA

In 1971, Guyana's trade deficit with CARICOM was $5 million or 32.7 per cent of its exports to CARICOM. In that year, Guyana had a trade surplus with the rest of the world. While Guyana continued to be a net importer from

CARICOM, its overall trade position with the rest of the world worsened. In 1977, Guyana's trade deficit with CARICOM was $32.9 million or 66.8 per cent of its exports, and by 1982, it represented 115.7 per cent of its exports to CARICOM. Indeed, since 1975, Guyana has been in trade deficit with the rest of the world as well as with CARICOM, and by 1982, its CARICOM trade deficit was virtually the same as its world trade deficit. Clearly, without non-trade inflows, capital inflows or official financing, this was an untenable situation. However, from 1976, one year before the development of the bilateral payments arrangements into the multilateral arrangement which became CMCF, this had been the Guyanese situation.

Guyana's major trading partners in CARICOM are Jamaica and Trinidad. While Guyana was a net exporter to Jamaica of about $20 million *per annum* over the five-year period, 1978–82, Guyana was a net importer from Trinidad and Tobago of about $57 million *per annum* over the same five-year period. With other CARICOM members, Guyana's trade was not significant in aggregate terms though on an item by item basis, trade with Guyana was quite significant for individual LDCs e.g. citrus/rice with Dominica.

Overall, Guyana's annual trade deficit has been declining consistently, so that by 1982, it was significantly smaller than in 1974. This reflected a decline in the standard of living in that country and the consequent withering of Guyana as an export market for CARICOM goods. Given that world inflation rates have risen by approximately 11.6 per cent* *per annum* over the last eight years, in real terms, imports into Guyana have declined substantially since 1974.

This illustrates the importance for regional arrangements of judging the point at which the balance of payments situation of participating countries is becoming chronic. At those

**IMF International Financial Statistics, Supplement on price statistics.*

times, the quest for markets and the persistence in exporting under those circumstances must, ultimately, involve serious payments problems. While exporters in Barbados, Jamaica and ECCA reached this awareness and restricted the volume of their export trade, Trinidad and Tobago persisted, partly because the country could afford it and partly because of their reluctance to cut off essential exports of oil to Guyana. This persistence culminated in Barbados, the major creditor, being left with huge debts due to it by Guyana. This situation was facilitated as a result of government giving special privileges for payments from Guyana for oil to be received in regional currencies. (Normally oil exports are paid for in U.S. dollars and would not, therefore, be passed through the facility.) Indeed, Barbados' small oil related imports of reformate from Trinidad, some 6 per cent of its total oil bill, were being paid for in U.S. dollars outside the Facility. In 1982, Trinidad imported goods and services from Guyana of US$92.1 million and exported $31 million. This contrasted with Barbados' exports to Guyana of $3.2 million and imports of US$3.5 million. This shows that Barbados' massive creditor position in CMCF was not a result of its own exports to Guyana. However, the argument for bilateralising these trade payments retrospectively and requesting payment from Trinidad, was not acceptable. Trinidad, indeed, had no legal responsibility for these debts.

THE CASE OF TRINIDAD AND TOBAGO

The trade patterns of the other CARICOM countries are much less dramatic. CARICOM countries have been increasing their exports to Trinidad and Tobago at a faster rate than that country has increased its exports to the rest of the Caribbean. During the period 1971–82, Trinidad and Tobago exports to CARICOM rose six-fold, while its imports from CARICOM rose nine-fold. Nevertheless, Trinidad and Tobago's exports to CARICOM, as a percentage of its total exports, rose slightly over the period from 9.9 per cent to

10.4 per cent. Of these CARICOM exports, 1 per cent were oil exports of which the greater proportion went to Guyana

Between 1976 and 1978, Trinidad and Tobago's exports to the region, particularly to Jamaica and Barbados, slowed down slightly. This seemed to coincide with a general slowdown in the economic growth of those countries, and may have been a function of import capacity, rather than a switching of the source of supply.

THE CASE OF JAMAICA

In contrast to Trinidad and Tobago, Jamaica increased its exports to CARICOM at a faster rate than it increased its imports from CARICOM. Over the period 1971–82, Jamaica's exports to CARICOM rose six-fold while its imports from CARICOM rose five-fold. By 1982, exports to CARICOM represented as much as 10.3 per cent of its exports compared with imports from CARICOM which represented only 5.8 per cent of its total imports. Despite the increasing proportion of its exports going to the CARICOM market, and while its imports from CARICOM did not grow as rapidly as its exports, Jamaica remained, for the most part, in a net trade deficit to CARICOM and depended on surpluses earned outside of CARICOM to settle its net debtor position with CMCF.

THE CASE OF BARBADOS

Barbados' exports to CARICOM and its imports from CARICOM rose at about even rates during the period under review. Barbados tended to have a small trade deficit with CARICOM. The CARICOM market accounted for a greater proportion of its exports than that of any other participating country. CARICOM accounted for 24.3 per cent of Barbados' total exports in 1971 and by 1982, it accounted for 27.3 per cent of its total exports. This immense dependence on the CARICOM market partly explains the commitment of Barbados to the regional effort, and the debt with which it has acquired, due by the CMCF even though its exports were mainly to Trinidad and Tobago, a solvent creditor. The CARICOM market is more important for Barbados' manufacturing sector, for its level of employment and output, than for any other participating territory. On the import side, Barbados is less dependent on CARICOM but, nevertheless, imports some 15 per cent of its merchandise from CARICOM. Over 90 per cent of its oil and oil related imports are from non-CARICOM sources.

A second unusual aspect of Barbados' payments situation with respect to CARICOM lies in the flow of invisible trade-travel and other non-trade payments. Those inflows are much more significant for Barbados than for other CARICOM countries and generally tend to turn its zero or negative trade balance into a major creditor position with the CMCF.

EASTERN CARIBBEAN CURRENCY AREA

The ECCA territories more than any other participating unit have rapidly increased their exports to CARICOM. East Caribbean exports to CARICOM rose twelve-fold during the period 1971–82 while their imports from CARICOM rose three-fold. Like Barbados, ECCA benefits from fairly significant non-trade inflows, invisibles and other current and capital flows, particularly from Barbados. In aggregate, however, while the East Caribbean has rapidly increased its exports to CARICOM, it is still a net importer from CARICOM. This is, to a large extent, reduced by significant non-trade inflows making the ECCA territories a marginal debtor and, recently, a marginal creditor with CMCF. Because of the Currency Board system which existed, ECCA territories were not able to accumulate large debts and balance of payments deficits. Their debts always tended to be within their capacity to repay.

TRADE IMPLICATIONS

It has been suggested that the overall growth of CARICOM trade may have been the result of the inability of

participating governments to break into third markets, and may be associated with the stage of manufacturing expertise in the region. It may also have been related to the fact that domestic production in the early 1970s in CARICOM countries could not satisfy domestic demand. Countries turned to regional imports. However, in later years as production in individual countries grew and competing manufacturing enterprises sprang up, exports from participating countries were less welcome and were seen as threats to domestic production.

The individual import substitution policies which had marked the 1960s shifted to regional import substitution policies in the 1970s and contributed to an expansion of interregional trade. Efforts at rationalisation of manufacturing in the region proved increasingly futile and this added to the trend towards protection in later years. While it was clear that protectionism would surface if industries were not rationalised, the level of cooperation required for successful industrial rationalisation proved beyond the capability of the political directorate in the region.

It has been argued that the existence of a captive regional market which assured regional exporters a market for their products dulled the zeal with which exporters would otherwise have applied to breaking into non-regional markets. Indeed, in some cases, the products produced were solely for regional markets and in other cases, neither the products themselves, their pricing or the financial and trading arrangements and product standards under which they were produced rendered them capable of being exported into third countries.

On a *macro* scale this emphasis on the regional market seriously affected the hard currency earning capacity of CARICOM countries. Indeed, some of those countries which most increased their share of CARICOM trade suffered the worst balance of payments problem. For example, in 1980 when Guyana's total exports rose by only 0.8 per cent or $2.8 million, its exports to CARICOM grew by 44.8 per cent or $17.9 million. Clearly, it had shifted its exports to the CARICOM market. Yet, it was a major net importer from CARICOM. This state of affairs underlined the limitation of regional trading in non-convertible currencies. Since the obligation is to settle in hard currencies, participants must either balance their trade within the region or earn hard currency by exporting to non-CARICOM destinations in order to effect payments. Guyana was able to do neither. This situation existed, to a lesser extent, in the case of other participants and was part of the crisis of expectations which grew out of the CARICOM arrangement. All businessmen saw the combined market as a huge market for exports, but insufficient attention was paid, by individual governments, to balancing their payments equations.

THE PAYMENT PROBLEM

In the CMCF, members contributed no capital to the operation of the Facility, thus the full amount of the credit utilised by debtor participants was supplied from the current accounts of creditor participants. A portion of the profit earned by the Agent was withheld to meet the operational costs. In some Clearing Unions, operations are based on a system of quotas which form working capital. Members contribute a portion of the capital in U.S. dollars and a portion in local currency. This acts as a buffer which is replenished periodically when depleted by the member countries accumulated debts. While it may be argued that contributions to working capital might have prolonged the life of CMCF, this must not be overemphasised since the basic balance of payment difficulties of participants would have remained and the problem of 1983 would only have been postponed.

Participation of the monetary authorities in the integration movement tended to be very low key, and did not

directly involve the governments of the region. The monetary aspect of the regional integration movement was never fully integrated into the overall trading arrangements. Trading concessions, protocol arrangements, *etc.* were not monitored, either by the CMCF or by CARICOM, and payments, legitimate and otherwise, were handled in the same way. For example, problems of illegal imports and regional exports, not of CARICOM origin, were not seen as, and indeed were not, a matter for the payments arrangements. The CMCF saw itself primarily as a payments mechanism and not as a policy arm of CARICOM. No third arm was set up to monitor the legitimacy of payments. The separation of the two functions was intrinsically efficient only while the trading arrangements and the CARICOM trade agreements were adhered to. The payments arrangements had its own secretariat, the agent, Central Bank of Trinidad and Tobago which had no obligation to liaise with CARICOM.

At the monetary level, there was an attempt to incorporate trading aggregates into the credit limits in the early years of CMCF. This tended to become less important, later, and credit seemed to have been extended on the basis of need, often after the excesses had been incurred. Implicit in the operational rules of CMCF was the notion that credit was temporary and that long term trends and underlying trade flows did not bear a great deal of weight in deciding on operational rules. Nevertheless, as a precaution, the procedural rules did not permit settlement of certain transactions through the Facility which would have utilised large amounts of available credits e.g. oil payments, (up to 1980) payments for travel and capital payments.

The CMCF arrangement respected the individual autonomy of participating countries by refraining from making its credit conditional on the implementation of any fiscal or monetary measures. To some extent, this gave participating governments freedom to implement medium term fiscal and monetary measures based on a continuing foreign exchange availability provided by creditor participants. Indeed, the CARICOM treaty itself encouraged, but did not commit participating countries to bring about harmonisation of economic fiscal policies, nor did it sanction conditionality of any sort. There was, therefore, no CARICOM guideline within which the CMCF could impose conditionality and claim to do so under the *aegis* of the *Chaguaramus Treaty*.

There was no means at the disposal of participants for pressuring delinquent participants into responsible economic management. Indeed, because settlement could be postponed, debtor countries could increase the domestic money supply to permit payment in local currency for regional goods. This system placed tremendous responsibility on participating governments to prevent this by exercising sound economic management. At the same time, the trading agreement forbade the imposition of restrictive import practices on regional goods unless countries were experiencing chronic balance of payments problems. This meant that the system permitted, even encouraged, debtor countries to postpone the taking of preventative measures pertaining to regional trade. The imposition of preventative measures at an early stage was seen as harmful to trade and, so, balance of payments difficulties had to be chronic before such measures could legitimately be implemented. Countries were expected to make adjustments first with respect to non-regional trade before restricting regional trade or utilise often fiscal and monetary measures to redress their problems.

CONTRADICTORY TRENDS

Contradictory trends were evident in the stance of participating CARICOM territories from very early in its inception. Even when the monetary arrangement was developing a multilateral dimension and participants pledged commitment to monetary cooperation many participating countries were at the same time issuing instructions to cease acceptance of their bank notes through the clearing arrangements. Early in the operation of CMCF, Guyana limited the amount of its bank notes that it would accept through the clearing house and soon ceased to accept them altogether. Jamaica followed the same example. This was in direct contravention of *Article 43* of the *Treaty of Chaguaramus*, and it occurred at a time when the credit limits of CMCF were being expanded to accommodate these very debtors.

Indeed, for some time only Trinidad and Tobago, Barbados and ECCA accepted their own bank notes through clearing, and in 1981 Trinidad and Tobago, after restricting the volume of notes it would accept by denomination, soon ceased to accept them altogether, leaving only ECCA and Barbados accepting repatriation of their own currency notes.

At the same time, however, participants agreed to the establishment of a CARICOM Travellers Cheque. In 1981, the new CARICOM cheque was launched. This was used subject to the exchange control regulations of participating countries. It was mandatory in some countries, and optional in others, and still remains that way. Technically, it permitted the monitoring of informal flows and set up a framework for their possible control. With the establishment of the CARICOM Travellers Cheque, Barbados increased its foreign exchange allowances for travel while Guyana and Jamaica further tightened theirs.

TRADE QUOTAS AND EXCHANGE CONTROLS. THEIR AFFECT ON TRANSACTIONS AND IN CMCF

While the CMCF operated notionally in an environment of free trade, participating governments implemented trade and exchange rate measures which affected the flow of transactions within the region and, ultimately, through CMCF. The absence of sanctions also caused great pain when participating countries did not honour the procedural rules in respect of settlement. There was no basis on which sanctions could be imposed in as much as there were none in the operational rules of the Facility. Guyana and Jamaica instituted increasingly stringent exchange controls and quota restrictions. While these actions may not be deemed a breach of either the rules of CARICOM or of the CMCF, they were contraventions of the spirit of CARICOM. Indeed, this very dependence on participants adhering to the spirit and this absence of concrete rules brought difficulties for both CARICOM and the CMCF.

In 1983, Jamaica introduced a parallel exchange rate, and global quotas which distinguished between consumer and intermediate goods. The introduction of this parallel exchange rate and quota system by Jamaica marked the beginning of the reduction of trade involving Jamaica for many participating countries. Both the *Treaty* and the CMCF were mute on this and nothing could be done. However, this action by Jamaica:

(a) breached *Article 17*, in that it was a fiscal charge, since the public paid considerably more Jamaica dollars for U.S. dollars than was used for settlement with the CMCF;

(b) it imposed extra charge on consumer imports ,

(c) it misused the CMCF by making excessive profits on foreign exchange when a single rate for settlement had been agreed with the CMCF and

(d) through the Export Development Fund it subsidised its exporters to CARICOM by allowing special exchange rate privileges to CARICOM exporters.

In February 1983, the Central Bank of Barbados took a defensive action and ceased to provide foreign exchange cover for transactions with Jamaica, leaving commercial banks to offset transactions through correspondents in Jamaica at rates negotiated between them. It was referred to as the floating of the Barbados dollar against the Jamaica dollar. In May, Trinidad placed all CARICOM imports under licence. In the same month, Jamaica agreed to a special rate

for CARICOM goods. This was abandoned in October 1983, in which month Trinidad tightened exchange controls on CARICOM imports. The last quarter of 1983 also saw the first in a series of devaluations of the Jamaican dollar. Indeed, the year 1983 was a watershed in the history of the regional effort and the responses of regional governments reflected their concerns for their individual economic survival.

BALANCE OF PAYMENTS DIFFICULTIES

The international recession and the interdependence of regional markets contributed to a deterioration in the balance of payments of almost all participating countries during 1981–83 so that the balance of payments of participating countries tended to deteriorate simultaneously in the 1981–83 period. This simultaneous weakening undermined the feasibility of support being provided within CARICOM as all participants with the exception of Trinidad (which, itself, had experienced a deterioration in its balance of payments) suffered substantial reserve depletion during this period.

While a temporary respite to this problem as far as the Facility was concerned could have been found by reducing the number of eligible transactions through the Facility, this was not acceptable to those debtor countries which could not find alternative means of funding their payments. In addition, the operational rules of CMCF had not specified what action would be taken to handle these difficulties. Operating as it did, on the basis of consensus, any measure to prevent unfinancial debtors from accumulating further debt required the approval of these very debtors. Naturally, debtors were reluctant to agree to restrictions on themselves. Had they had the vision to do so, it would have extended the life of the Facility.

STABILISATION FUND

Since 1979, the CMCF had been discussing the feasibility of establishing a Stabilisation Fund. This would be a second window of the CMCF through which participating debtors would obtain balance of payments support. Its capital would be contributed by participating countries, both debtors and creditors. The idea of the Fund was to give additional support to the regional monetary cooperation. This proposal was never finalised, as it was envisaged that the participating countries best able to contribute to the capital of the Fund, were the creditor countries within the CMCF itself. It was also envisaged that third countries and extra-regional organisations would be called on to contribute to the capital of the Fund.

One of the difficulties of implementation was that the CMCF was not a legal entity and could not ultimately bind participating governments to undertake liability for loans which they acquired from extra-regional organisations. Indeed, the legality and authority for granting such loans to the Fund was not straightforward, and seemed to require the implementation of legislation in the countries of participating governments, in order to give legal effect to those borrowings.

Additionally, there was the problem of the terms of borrowing. It was envisaged that participating debtor countries which borrowed from the Fund would need to be guaranteed by the borrower i.e. by the government of the borrower. Also, it was felt that such borrowing would need to be conditional on the borrowing country, following an adequate and viable financial programme aimed at correcting its balance of payments problems. But, the likelihood of adding further conditionality to borrowing by governments already in Fund programmes was felt to be a deterrent.

Even the authority of the Fund to require from participating governments a commitment to implement corrective measures in their domestic economies was doubtful. While this would have enhanced fiscal and monetary cooperation in the region, it was not, therefore, felt that this aspect of the Fund borrowing would have been acceptable to participating governments, some of which are already in IMF programmes.

TRADE AND PAYMENTS INFORMATION

The experience of CARICOM trade and payments over the last 12 years has illustrated a weakness in our information system. Trade and payments information on trade of CARICOM member countries, both with each other and with the rest of the world, have not been prompt. In some cases, full disclosure on offsetting arrangements and counter trade with their countries have not been quickly available.

Since it is quite possible for some countries to import from third countries on a counter-trade basis, while at the same time building up debts to participating CMCF members, it becomes very important for CMCF and for CARICOM to know the extent of such trade in order to gauge to what extent preference was being given to third country trade. (Both Jamaica and Guyana have entered into counter-trade arrangements with non-CARICOM countries, trading their major commodities against consumer imports and factory equipment.)

For example, in 1982, Guyana's trade deficit with the rest of the world approximated closely its payments deficit with CMCF, and it seemed to have been the only trading region giving credit to Guyana, but CMCF only knew this long after the fact. In some ways, this absence of full and prompt information was a reflection of the lack of full integration in CARICOM and of the monetary arrangement with the rest of CARICOM. There were not many signals to indicate precisely when the extent of trade participation with third countries was a matter which impacted on regional payments. The region was, for the most part, dealing in generalities with respect to trade flows of their trading partners.

It has not been agreed that there is a need for a central institution to control, as distinct from monitor, unfavourable trends within CARICOM. Further, even if this need were clearly defined, it is not clear whether it is a role which should be performed by a monetary institution or by a third institution or by the Secretariat, which up to now, was not vested with a controlling function, but merely a monitoring function. Full and prompt information would lead to an early warning system which would alert participants on a current basis of the credit-worthiness of participants. Full information on the trade categories of imports and exports on a current basis and a breakdown of such trade showing the proportion passing through CMCF would also have been useful. For example, not all oil payments by Guyana passed through CMCF. Information on the total oil bill paid outside CMCF compared with the payments within CMCF was a critical piece of information which was not available to all participants, and was obtained with difficulty.

During 1983, for example, data on the impact of trading measures, quota controls, etc. imposed by participating countries was obtained by participating members from the countries involved on an *ad hoc* basis. While governments may not normally wish, for strategic reasons, to divulge full information on the results of measures imposed, where such countries, however, are members of a regional trading arrangement, full information on a current basis would seem necessary if decision-making is to be made on the basis of accurate data.

FEASIBILITY OF A REGIONAL UNIT OF ACCOUNT

There is some concern that net regional exporters should not suffer merely because they are exporting to countries with inconvertible currencies, that is, the direction of trade should not be such a critical factor, diminishing the importance of the export thrust itself. In this regard, more recently, the notion of a regional unit of account has surfaced as the currency of settlement for regional transactions. The idea of a regional unit of account can be seen as a means of economising on the use of convertible currencies. However, the question of the liquidity of such balances and the

need for creditors to be assured convertibility cannot be solved in this way. Unless this unit of account is convertible to a hard currency then its usefulness for creditors will be limited. Other central banks or financial institutions would need to be convinced of the convertibility of such a unit of account enough to hold this as part of their reserves. However, while the ultimate debtors are suffering balance of payments problems, such a unit will probably be unacceptable as a reserve currency, unless it is capable of purchasing goods and services from outside CARICOM. This is most unlikely. It has been mooted that clearing houses may be willing to hold these surpluses of the CARICOM creditors to fund imports from other geographical areas. However, similar strains are being experienced by these clearing houses so that the prognosis is not good.

It is ironic at a time when regional central banks are at their financially lowest ebb and (except for Trinidad and Tobago) cannot guarantee convertibility of such a unit of account, that the notion should become so topical. The introduction of the idea at this time of regional balance of payments crises, is untimely.

THE PRESENT: 1984

Presently, individual countries are trading with each other on a bilateral basis. It is clear that the difficulties of CARICOM are not liquidity problems they are chronic balance of payments problems. While the bilateral offsetting arrangements presently being used are similar to the pre-1977 arrangement, for the most part, there is no voluntary credit given. However, where payment of balances due by participants is not prompt, members still need to guard against the build up of debts.

Creditor countries have benefitted from improved liquidity during 1983. Barbados, for example, acquired US$31 million in the period from April–December 1983, almost as much as it had received in settlement during the prior two years of the CMCF. As a consequence, however, improved liquidity has been offset by reduced trade, mostly in late 1983 and early 1984. While the choice between increased manufacturing output and delayed payments may have been easier when the CARICOM payments situation was less chronic, most net exporters are being forced to make the unhappy decision to sacrifice trade where there is no hope of payment.

CONCLUSION

The experience of the multilateral payments arrangement emphasises that CMCF cannot in itself promote trade. The economic fundamentals e.g. healthy levels of output in key sectors, improved levels of productivity, varied market penetration and responsible management of domestic economies which recognise the limits of their debt burdens, are essential. The scope of the payments arrangements must be consistent with the foreign exchange earning capability of individual countries. An increase in the scope of a payments arrangement in the hope that increased trade and, hence, improved foreign exchange earnings will result for all, is not feasible in the Caribbean situation where competing products are produced. Also, it has been shown that while participating countries are prepared to widen the scope of such arrangements in good times, they are not prepared to narrow it in less fortunate times, even in the interest of survival. Hedged arrangements, complete with sanctions and severance of those in breach, or an arrangement geared to the lowest common denominator are possible alternatives.

APPENDIX

TABLE 1

PERCENTAGE OF MERCHANDISE TRADE TO CLEARINGS: 1979 and 1982

Country	1979		1982	
	Payments	Receipts	Payments	Receipts
Trinidad & Tobago	100%	64.6%	83.7%	183%
Barbados	138.2%	66.2%	112.6%	63.9%
Jamaica	149.3%	149.3%	111.9%	104.5%
Guyana	123.0%	94.8%	127.0%	131.6%
ECCA	130.6%	88.7%	107.6%	66.8%

Note

Excess of trade (imports) over clearings (payment) may have resulted from lags in payments, offsetting arrangements between traders, foreign currency accounts held in the country of the importer, simple trade credits, or imports for which payment is not eligible through the facility e.g. oil payments up to 1980, and reformate up to 1983.

Note

Excess of exports over clearing may be attributed to some of the above, as well as purely non-payment e.g. in 1982 approximately 95 per cent or $22.8 million of Guyana's CARICOM imports were from Trinidad and Tobago of which approximately 70 per cent represented oil imports. Non-payment or prolonged credit for oil imports, would have contributed to the huge excess exports over receipts through the clearing in the case of Trinidad and Tobago.

TABLE 2

BALANCE OF PAYMENTS OF CARICOM COUNTRIES

(Balance for official Financing)

(US$m)

	Jamaica	Trinidad and Tobago	Barbados	Guyana	ECCA*
1972	-56.8	-28.6	-1.9	10.1	n.a.
1973	-28.9	-13.6	-12.4	-21.4	n.a.
1974	58.4	295.3	+3.9	28.7	n.a.
1975	17.4	455.4	+17.4	39.8	n.a.
1976	-261.9	232.2	-17.9	-90.7	n.a.
1977	-13.0	446.7	-3.0	-29.2	-2.8
1978	-77.5	323.6	29.5	-9.8	-0.1
1979	-150.9	386.9	11.1	-48.5	-0.5
1980	-88.0	619.6	20.5	-84.3	-0.8
1981	-164.9	558.5	-41.4	-1.3	-1.2
1982	n.a.	n.a.	6.5	n.a.	n.a.
1983	n.a.	n.a.	n.a.	n.a.	n.a.

* Reserve change.

TABLE 3

IMPORTS BY BARBADOS

(US$m)

Year	Guyana	Jamaica	Trinidad & Tobago	ECCA & Belize	Total	B'dos Total Exports CARICOM	Total Exports	Total Imports
1971	2.6	2.1	9.4	1.3	15.0	9.9	40.9	123.5
1972	3.1	2.9	11.6	1.2	18.3	12.1	44.1	140.8
1973	2.9	3.7	13.4	1.9	21.5	14.8	53.9	167.9
1974	3.9	5.1	24.1	2.4	36.5	18.9	85.7	204.4
1975	5.0	5.7	22.1	2.7	35.8	19.6	106.9	216.5
1976	4.9	6.9	26.6	2.8	41.1	22.9	88.3	236.8
1977	5.2	7.9	27.2	4.0	44.3	23.3	95.4	273.6
1978	4.7	7.5	28.3	5.6	46.0	32.1	129.9	312.6
1979	4.3	12.7	44.9	6.5	68.4	38.1	151.1	422.9
1980	4.4	10.8	73.3	6.5	94.7	63.4	226.4	521.6
1981	4.3	14.1	66.4	6.9	91.6	60.6	194.4	570.8
1982	2.9	11.5	52.1	5.6	72.1	70.7	258.8	553.7
1983	3.2	11.2	55.9	5.8	75.2	64.5	323.0	624.5

General Note on Trade Statistics:

Data on trade statistics were obtained sometimes from the source country and sometimes from the receiving country. No adjustment was made where exports f.o.b. of one country were used as imports (normally c.i.f.) of another. As a result of this, and other factors, the total imports of CARICOM will not equal the total exports. This discrepancy is not sufficiently significant to invalidate the data.

Source: Central Bank of Barbados, *Annual Statistical Digest 1982*.

TABLE 4

IMPORTS BY GUYANA

Year	Barbados	Jamaica	Trinidad & Tobago	ECCA	Belize & Other	Total CARICOM	Guyana's Total Exports to CARICOM	Guyana's Exports	Guyana's Imports
1971	.6	2.2	16.9	.6	-	20.3	15.3	150.4	135.4
1972	.8	3.9	19.6	.8	-	25.2	20.2	147.1	142.7
1973	1.3	5.5	31.1	1.0	.03	38.9	19.6	135.6	175.4
1974	1.8	6.7	57.6	1.4	-	67.5	33.3	270.3	254.4
1975	1.7	8.1	61.2	2.1	.01	73.0	55.8	366.4	346.1
1976	2.6	8.8	69.4	.9	-	81.7	44.9	278.9	363.7
1977	1.5	9.5	70.5	.7	.1	82.2	49.3	260.0	314.1
1978	1.4	3.4	63.8	*.3	-	67.5	45.2	295.6	257.0
1979	1.1	6.9	79.6	.4	-	87.9	39.8	286.6	317.4
1980	1.1	3.9	99.7	.5	-	105.3	57.7	289.2	396.0
1981p	1.4	3.9	120.2	.5	-	126.1	60.5	348.6	439.5
1982p	1.0	3.4	122.8	.6	-	127.8	59.3	241.3	283.5
1983	1.5	4.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: 1971-1978 Direction of Trade, 1971-77 IMF.

TABLE 5

IMPORTS BY JAMAICA

Year	Barbados	Guyana	Trinidad & Tobago	ECCA*	Belize	Total	Jamaica's Export to CARICOM	Jamaica's Total Exports	Jamaica's Total Imports
1971	.6	3.3	8.4	.3	.8	13.4	12.0	345.5	559.7
1972	1.1	8.1	16.5	.7	.8	27.2	34.8	375.6	610.3
1973	1.8	8.3	21.9	1.4	1.9	35.3	21.1	390.0	664.6
1974	3.1	15.2	49.1	1.3	2.8	71.5	27.0	730.9	935.7
1975	4.0	31.0	54.3	2.2	2.8	94.3	33.4	783.6	1123.7
1976	4.0	17.8	38.8	2.0	1.9	64.5	39.8	632.5	912.8
1977	2.6	23.0	29.5	3.5	3.4	62.0	45.8	612.2	697.1
1978	3.6	19.3	22.6	2.2	1.6	49.3	44.1	710.1	834.5
1979	3.3	11.2	37.4	2.8	2.2	56.9	65.1	909.3	1012.1
1980	6.5	24.4	43.4	9.2	1.4	84.9	67.9	964.6	1178.1
1981p	11.9	24.4	61.7	9.2	1.4	108.6	63.9	974.0	1472.6
1982p	9.5	20.8	40.5	8.0	1.2	80.0	72.9	710.2	1372.2
1983p	9.4	2.9	29.9	15.0	2.0	60.3	68.6	n.a.	1220.9

Source: Direction of Trade, IMF.

TABLE 6

IMPORTS BY TRINIDAD AND TOBAGO
(US$m)

Year	Barbados	Guyana	Jamaica	ECCA*	Belize*	Total*	Trinidad's Exports to CARICOM	Trinidad's Total Exports	Trinidad's Total Imports
1971	2.0	7.2	5.4	.9	.1	15.7	52.2	527.6	674.6
1972	3.4	7.3	9.1	1.5	.1	21.4	64.2	558.9	767.3
1973	3.8	5.1	9.5	.2	.3	18.8	84.6	700.5	798.5
1974	4.7	11.0	12.2	1.9	.1	29.9	155.5	207.3	1847.2
1975	6.1	16.1	16.4	2.3	.3	41.1	165.5	1929.6	1749.7
1976	8.6	18.3	20.8	4.8	1.0	53.6	162.6	1598.3	1336.8
1977	10.2	16.4	23.3	6.3	1.2	57.4	157.9	2247.2	2011.1
1978	13.6	17.1	25.4	10.0	2.9	69.1	157.6	2179.7	1808.6
1979	17.2	21.1	39.0	12.5	6.2	95.9	221.6	2039.5	1967.0
1980	25.9	23.9	46.8	15.7	7.7	119.9	304.3	2610.3	2104.4
1981p	42.3	26.7	39.1	19	4.6	131.7	348.2	3760.6	3124.4
1982p	40.4	30.4	50.6	25	8.5	154.9	335.4	3238.7	3430.3
1983p	47.4	26.1	57.0	39.0	8.6	178.1	205.5	2352.6	2582.0

Source:* *Annual Statistical Digest,* (Trinidad) 1980.

TABLE 7

IMPORTS BY ECCA
(US$m)

Year	Barbados	Guyana	Jamaica	Trinidad & Tobago	Belize	Total	Total Exports from ECCA; CARICOM	ECCA's & Belize's Total Exports	Total Imports into ECCA & Belize
1971	6.4	2.4	2.4	17.5		29.0	3.9	60.9	194.1
1972	6.6	2.4	2.4	16.4	.5	28.3	4.3	79.9	204.9
1973	7.3	3.2	2.3	18.2	.8	31.8	5.6	101.8	212.7
1974	8.8	3.1	3.0	24.7	.5	40.1	6.3	132.3	267.7
1975	7.7	3.7	3.3	27.9	.2	42.8	12.6	164.5	303.9
1976	7.8	3.9	3.3	22.9	.1	38.1	13.5	126.9	260.9
1977	8.7	4.7	5.0	36.8	(.9)	56.1	20.1	142.3	306.7
1978	11.2	4.1	7.8	42.9	.2	66.2	22.7	186.4	377.5
1979	15.5	3.2	6.6	24.1	.1	49.4	30.6	95.0	266.4o
1980	29.3	5.0	6.4	29.1	.2	69.9	40.9	74.3	241.5[o]
1981p	18.4	5.1	6.8	31.4	.3	62.0	41.8	62	n.a.
1982p	17.2	5.2	7.5	39.7	.4	70.0	48.8	70	n.a.
1983p	16.0	n.a.	8.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: *Annual Statistical Digest,* 1980, Trinidad and Tobago; *Annual Digest of Statistics 1982,* Central Central Bank of Barbados,; *A Digest of Trade Statistics 1970-1980; ECCA.*