THE CMCF AND CARICOM TRADE

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Abstract -

Payments facilities (with interim credits) within common markets with an established network of banking relationships are known to produce maximum economies in the use of the area's foreign exchange holdings as well as the reduction in costs of money transfers.

The treaty establishing the Caribbean Community (Caricom Agreement) emphasises the importance of the liberalization of trade within the region as a means of promoting intra-regional trade. Article 43 of the Caricom Agreement spells out areas of cooperation and coordination "...whereby through arrangements by their Central Banks or monetary authorities, notes and coins of other member states shall be exchanged within their own states at official par value without exchange commission", and "to develop arrangements for cooperation in other monetary matters including the operation of a clearing arrangement by these Central Monetary Authorities".

Within Caricom there have been bilateral and multilateral clearing arrangements. The successful bilateral arrangements which lasted from 1969 to 1977 were replaced by a multilateral arrangement which was dissolved in 1983. The multilateral arrangement was succeeded by a series of bilateral agreements. Since 1983 there have been discussions on implementing another trade-supporting mechanism in Caricom, including a barter system of trade.

This paper will examine the trade effects of Caricom bilateral and multilateral payments arrangements.

I. INTRODUCTION

A clearing facility is an international association based on the cooperation of central banks or similar monetary authorities, which clears all or some payments among the participating countries. Clearing facilities are designed to permit trade by a large number of exporters and importers working independently of each other in the member countries, with zero or little use of foreign exchange.

Regardless of whether any given country would channel all of its intra-regional payments through the clearing facility, it is not usually a requirement that participating countries be obliged to bring their long-term intra-area trade into equilibrium, nor achieve any bilateral trade equilibria. The clearing facility would not establish creditor and debtor relations among participants, but only between each participant central bank/monetary authority and itself. Any trade imbalances would be settled in hard currency, usually the U.S. dollar or the p sterling.

It is important to note that a clearing facility may be organized either with a minimum of facilities or with a considerable amount. It is unlikely that a clearing facility would not e any credit at all, but it is possible that the credit extended be minimal and short-term only. Caricom Multilateral Clearing Facility (CMCF) was originally designed with a relatively s short-term credit element, but later evolved to provide increased credit lines and for a l term.

The main objective of a clearing facility with a small credit element is to achieve an imp payments system. The benefits include:

- *Increased use of local currencies*
  The net intra-regional expenditure of foreign currencies is not affected, but the reduced need to maintain foreign reserves in liquid form as credit is being provided rather than extra-regionally. The level of foreign reserves over time is not affected real benefit is a saving in interest.
- *Reduced cost of transfers*
  - direct charges (fees, commissions, etc),
  - exchange spreads.
- *Decreased transit time*
  This has become less applicable now as international communications have becom sophisticated, but was previously a major benefit of clearing facilities.

With a large credit element the main objectives of the clearing facility are (i) to achi improved payments technique, and (ii) to produce an economic impact through the con attached to the apportionment and the subsequent repayment of an available amount of Although the CMCF was not originally designed to function in the manner of a facility large credit element, there were late attempts for it to assume this type of role.

The elements of a clearing facility arrangement include:

- manner of channelling payments through the facility
  (It need not, and indeed should not be compulsory to channel payments throu clearing facility.)

- registration of claims and debts by the facility
- technique of settlement
- timing of settlement
- currency of settlement
- exchange rate guarantees
- legal aspects

The separate elements of the arrangement may allow that participating countries maintain some exchange restrictions which affect the operations of the facility.

Technical aspects of clearing facility credit include:

- *Purpose for which credit will be required*
  To facilitate intra-regional trade and stimulate development and integration. Clearing facility credit is essentially balance-of-payments credit.
  Unless a synchronization of credit inflows and debit outflows is ensured so that the clearing facility does not assume a position of cash flow insolvency, a separate liquidity fund will be required.

- *Size of the credit*
  The credit needs of a clearing facility should be based on development needs of expected future trade, not inferred from past trade flows. Once credit available to any given country has been exhausted, that deficit country would revert to hard currency for making further payments.

- *Methods of repayment*
  There are two repayment methods:
  (i) In accordance with prearranged time schedules, in instalments or in total, or
  (ii) A debtor country's effective use of the credit facilities, within the limits of its credit line, would at all times be determined by its cumulative deficit. This method is called "compensation over time", and implies that as long as a debtor country stays within the limits of its credit line, it will not be called upon to make repayments in a convertible currency.

- *Time for which credit will be made available*
  Short-term or interim credit serves the purpose of facilitating trade by simplifying payments. Long-term credit amounts to an almost permanent balance-of-payments support system.

- *Source of credit*

  a) Inside credit - made available by member countries themselves.
  (i) NON-MUTUAL CREDIT is where some or all members would set aside a certain amount of foreign currency reserves, in the form of a special fund, from which qualified members could receive credit.
  (ii) MUTUAL/RECIPROCAL CREDIT is where group members reach prior agreement about credit lines representing maximum amounts of credit that they would stand ready to extend to, and be entitled to receive from the group, without determining in advance who would be the grantors and who the recipients of credit.

  b) Outside credit - obtained from outside the group.
  Creates credit for the group as a whole rather than (as with inside credit) shuffling credit and debit balances within the group.

  From a balance-of-payments point of view, inside credit redistributes financial resources among participating countries.

- *Criteria for allotment among member countries*
  Options include allotment according to the incidence of intra-regional trade and/or balance-of-payments imbalances, allotment according to members' contributions to a fund, allotment according to the relative sizes of the economies of member countries, and allotment according to projected trade volume. This is a particularly sensitive issue since criteria chosen may give rise to increase balance-of-payments deficits.

- *Conditions attached to access to credit and to its use*
  There are several options for access to clearing facility resources:
  (i) Within credit limits available to each participant, there is full and automatic access. This is predicated on the existence of a deficit. However, this option has been tried under bilateral agreements with little success. Fully automatic credit may be absorbed without remedying the underlying conditions that created the need for it. Clearing facilities may encourage countries to live with unfavourable balance-of-payments positions.
  (ii) Credit is made available to any deficit country that satisfied certain conditions agreed upon in advance. For example, enforce regular and reliable US$ payments prior to invoking credit facilities. This serves to make credit facilities available only where there is genuine need, and to create a disincentive against imprudent use.
  (iii) All or some credit after settlement stage might be made available on a discretionary basis. That is, the size and conditions are subject to negotiation in accordance with merits of the individual case.

1969-1977 Intra-Regional Payments Scheme (IRP)

Clearing facilities in the Caribbean were first implemented in December 1969 with the Intra Regional Payments Scheme (IRP). The IRP consisted of a series of bilateral payment arrangements.

IRP MEMBERSHIP	
COUNTRY/AREA MEMBER	DATE OF MEMBERSHIP
Guyana, Jamaica, Trinidad & Tobago	December 1969
OECS	February 1970
Barbados (as independent member)	May 1972
Belize	February 1976

Under the IRP, the central banks or monetary authorities effected settlements with each other individually. Each member extended an interest-free maximum credit line of £100,000 (Sterling) and outstanding balances were settled quarterly in Sterling. Only the net balance for the period was settled by actual currency exchange. Settlements were effected at a rate of exchange corresponding to existing par values. In 1974 credit lines were increased to £500,000. In 1976, as the exchange rate regimes in the region returned to fixed parities with the U.S. dollar, total credit in the arrangements was increased to US$ 40 million and was distributed as follows:

CREDIT LINES OF THE EXPANDED IRP ARRANGEMENTS
US$ 000

RECEIVED BY	EXTENDED BY						
	B'DOS	GUYANA	JAMAICA	T'DAD & T'GO	BELIZE	ECCA	TOTA
BARBADOS	-	1000	1000	2000	500	1000	5500
GUYANA	1000	-	1000	5000	500	1000	8500
JAMAICA	1000	2000	-	5000	500	1000	9500
T'DAD/T'GO	1000	1500	2000	-	500	1000	6000
BELIZE	1000	1000	1000	1000	-	1000	6000
ECCA	1000	1000	1000	2000	500	-	6500
TOTAL	1000	6500	6000	15000	2000	5000	4000(

The IRP was judged to have facilitated the flow of regional trade, to have conserved on the of the region's international reserves, and to have encouraged the integration of the banl systems of the region. The element of credit provided by the stated limit and the necessity settlement only on a quarterly basis when the limit was not exceeded was a significant be for the participating countries. There was a reduction in the erratic changes in foreign exch reserves which might have been caused by the previous requirements to settle at least once day in both directions - to pay for imports and to receive funds from exports.

In spite of the satisfactory working of the IRP, it emerged from discussions of the Wor Party of the IRP that:

- the system was cumbersome to operate because of the fact that each participant h keep individual accounts for all the other participants;
- the growth in intra-regional trade justified an increase in the volume of credit prov under the IRP;
- although all countries extended credit bilaterally to all the other central banks monetary authorities, on a net basis, Trinidad and Tobago was the only creditor u the IRP;

- all settlements should be made in convertible currencies and creditor countries should not be obligated to extend credit indefinitely;
- there was a case for putting the scheme on a multilateral basis.

As a result, the IRP Scheme was replaced in 1977 with the Caricom Multilateral Clearing Facility.

1977-1983 Caricom Multilateral Clearing Facility (CMCF)

The Caricom Multilateral Clearing Facility (CMCF or the Facility) introduced a centralised accounting system for all eligible intra-regional payments. The agreement establishing the CMCF was signed by the Central Bank of Barbados, the Monetary Authority of Belize, the East Caribbean Currency Authority, the Bank of Guyana, the Bank of Jamaica and the Central Bank of Trinidad and Tobago. The Central Bank of Trinidad and Tobago, as agent bank of the CMCF, carried out the secretariat functions of the Facility, including responsibility for the accounting records and distribution of cash settlements.

The broad objectives of the CMCF were the same as those of the IRP Scheme and the differences between the two systems were to be found only in their operational structures. The main objectives of the CMCF, as outlined in its Agreement, are:

(i) to facilitate settlement on a multilateral basis of eligible transactions between participating countries;
(ii) to promote the use of currencies of members in settling eligible transactions between the individual countries, thereby economising on the use of foreign exchange; and
(iii) to promote monetary co-operation among the participants thereby contributing to the expansion of trade and economic activity within Caricom.

Observe that there is no overt objective providing support for balance of payments disequilibria.

The CMCF respected the individual autonomy of participating countries by refraining from making its credit conditional on the implementation of any fiscal or monetary measures. The Caricom treaty itself did not commit participating countries to bring about harmonisation of economic fiscal policies, nor did it sanction conditionality of any sort.

The design of the CMCF provided for interim rather than long-term financing. Balances were to be settled in sterling or US dollars at exchange rates corresponding to existing par values.

CMCF DEBT SETTLEMENT STRUCTURES			
DATE	CREDIT LIMITS (US$ millions)	SETTLEMENT PERIOD	% OF DEBIT BALANCE REQUIRED TO BE SETTLED
1977	40	quarterly	100%
February 1978	80	semi-annually	50%
June 1980	100	semi-annually	50%

Multilateral clearing facilities have been implemented in several regions, including the West African Clearing House, the European Payments Union and the Asian Clearing Union. In spite of demonstrated success, there are arguments both in favour of and against multilateral clearing facilities.

ARGUMENTS IN FAVOUR OF MULTILATERAL CLEARING FACILITIES
Benefits to general public: • reduced transactions costs of trade • reduced barriers to trade • increased confidence between importers and exporters within the Common Market • more rapid settlement of commercial transactions • invoicing can be done in the exporters' currency Benefits to commercial banks: • reduction of correspondent deposits in foreign exchange • longer time for investment of deposits where drawn cheques are in circulation within the region Benefits to central banks and monetary authorities: • minimum turnover of foreign exchange to effect payments in the region • stronger confidence in the national currency • greater use of the national currency to make payments within the area, including transactions outside the banks, carried out in bank notes • temporary relief for the adjustment of the national balance of payments • allows for non-discriminatory treatment of intra-regional trade and the extension of same to all participating countries • improved psychological climate for economic integration and other important policy objectives as a result of fostering cooperation among regional central bankers and unification of payment instruments.

ARGUMENTS AGAINST MULTILATERAL CLEARING FACILITIES

- legal implications arising from fact that many clearing houses (including the CMCF) are <u>not</u> established as separate legal entities
- lack of formal enforcement mechanism in the event of debtor default
- need for an independent regulatory/supervisory body
- technical and administrative complexities
- the need for and difficulty of achieving some measure of regional coordination of policies
- certain commodities (for example minerals in Latin America) are traded on a cash basis only, even during times of bilateral agreements
- possibility of the creation of a "soft currency" area which might detract from the urgency of improving the overall balance of payments positions of member countries
- with fully automatic credit systems there are no built-in deterrents which would cause debtors to use their credit lines slowly and sparingly, and no pressure is placed to encourage repayment of debts once credit has been used

1983 - Present Bilateral Agreements

Since the disintegration of the CMCF there have been suggestions of re-implementing the Facility with a variety of modifications, creating a balance of payments support facility, and instituting intra-regional barter trade. What has actually happened since mid-1983 is that the Caricom nations have reverted to a web of bilateral trade agreements. While the bilateral offsetting arrangements being used at present are similar to the IRP arrangement, there is no voluntary credit granted.

II(B). TRADE ANALYSIS OF BILATERAL AND MULTILATERAL PAYME ARRANGEMENTS PERIODS

<u>Barbados</u>

The Caricom market is more important for Barbados' manufacturing sector, for its lev employment and output, than for any other participatory territory. On the import side Barb is less dependent on Caricom. Purchases from Caricom account for 8 to 10% of its merchandise imports. One unusual aspect of Barbados' payments situation with respe Caricom lies in the flow of invisible trade-travel and other non-trade payments. Those inf are much more significant for Barbados than for other Caricom countries and generally te turn its zero trade balance into a major creditor position with the Facility.

During the IRP and CMCF periods Barbados' exports to and imports from Caricom ro about equal rates. The Caricom market accounted for a greater portion of Barbados' ex than that of any other participating country. Caricom accounted for 24.3% of Barbados' exports in 1971 and 27.3% in 1982.

This immense dependence on the Caricom market partly explains the commitment of Barl to the regional effort, and the debt acquired which is due by the CMCF. Barbados rem a net creditor throughout the entire life of the CMCF. At termination of the Facility it w major creditor, owed approximately US$65.1 million.

During the latter years of the CMCF period the growth in Barbados' exports to Ca outstripped the growth of its imports from Caricom. In 1982 when both exports to and in from Caricom declined, the import rate fell by a larger percentage than the export rate. overall effect of this was that while Barbados was boosting its exports, it was also buil creditor position in a facility which would ultimately default on the debts.

<u>Belize</u>

Belize began as a net debtor to CMCF and by 1983 was a net creditor. For Belize th

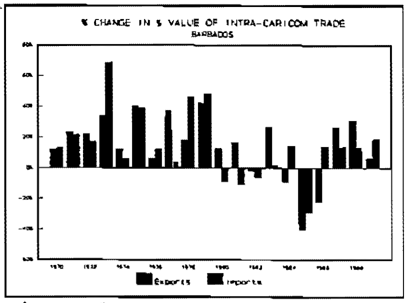

Figure 1

more due to an increase in its volume of exports than a decline in imports. The nation's Caricom trade fluctuated very little from 1970 through 1990. Up until 1979 Belize's imports from Caricom consistently exceeded its exports to the region. This trend was reversed after the implementation of CMCF, from 1979 through 1985, and has been fluctuating ever since.

ECCA

Like Belize, the ECCA began a net debtor and ended up as a net creditor to CMCF. Intra-regional exports rose fairly consistently, but imports skyrocketed in mid-CMCF and then declined through the termination of the Facility.

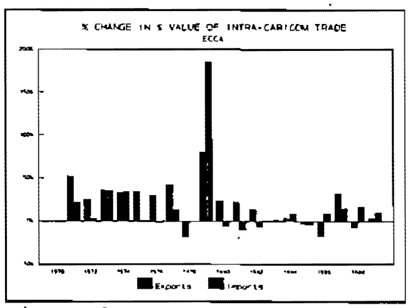

Figure 2

During the early 1980s the ECCA'S volume of regional exports rose while imports fell, improving its trade balance. During the IRP and CMCF periods the ECCA's total exports to Caricom rose twelvefold, while imports only tripled. Like Barbados, the ECCA benefits from fairly significant non-trade inflows, invisibles and other current and capital flows, particularly from Barbados. In the aggregate, however, the ECCA is still a net importer from Caricom.

The ECCA and Guyana are the only two countries/regions for which intra-Caricom imports have been consistently greater than the value of exports to the said region for each and every one of the years 1970 through 1990.

Guyana

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. Guyana's major Caricom trading partners are Jamaica and Trinidad and Tobago. During the CMCF period Guyana was a net exporter to the former and importer from the latter. For the duration of the CMCF Guyana was a net debtor to the Facility, at cessation owing almost US$100 million.

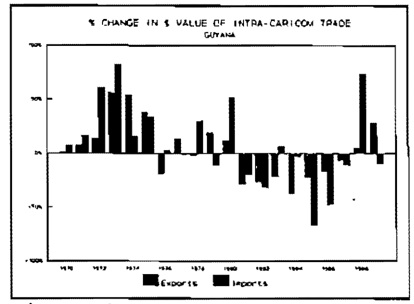

Figure 3

Like many other Caricom countries, Guyana's imports from Caricom declined from the mid-1980s. Unlike the other countries however, Guyana's imports did not increase again through 1990 except for one year in 1988, although the rate of decline slowed after 1985. Of all Caricom nations Guyana's intra-regional import capacity has suffered the greatest. From being the largest intra-regional importer in 1973, 1976-1979, and 1981 (refer to Figure 10), Guyana fell to having the second lowest import volume after Belize from 1986 through 1990.

Jamaica

During the IRP and CMCF periods Jamaica's exports to Caricom rose about sixfold and its imports fivefold. Rising exports to Caricom was the trend for Jamaica for the period 1977 through the termination of the CMCF, with deviations only in 1977 and 1979 where the country experienced very modest declines in its level of exports. Subsequent to the CMCF Jamaica's intra-regional exports fell in 1983 and 1984, then continued to climb through 1990. Imports from the region were far more volatile, peaking in 1974, 1980, and 1988. Jamaica remained for the most part in a net trade deficit to Caricom.

Trinidad & Tobago

Although Trinidad & Tobago has remained the largest intra-regional exporter on the merchandise trade account within Caricom - an average of 53.9% of total intra-Caricom exports originated in Trinidad & Tobago during the IRP period and 53.12% during the period of the CMCF - the other Caricom countries have been increasing their exports to Trinidad & Tobago at a faster rate than Trinidad & Tobago has increased its exports to the rest of Caricom. Since 1983 Trinidad & Tobago's exports to Caricom have averaged only 46.79% of total intra-Caricom exports. In dollar terms, Trinidad & Tobago's exports to Caricom increased sixfold during the IRP and CMCF periods, while its imports increased ninefold. Nevertheless, Trinidad & Tobago's exports to Caricom as a percentage of its total exports rose from 9.9% to 10.4% over the period. The reverse of Guyana and the ECCA, Trinidad & Tobago's exports to Caricom have remained continuously greater than its imports during both decades under review.

In contrast to Barbados, during the latter years of the CMCF period Trinidad & Tobago allowed the rate of increase in intra-Caricom imports to exceed that of exports. As a result, Trinidad & Tobago's net creditor position in the CMCF was significantly reduced by the time of termination of the Facility in 1983.

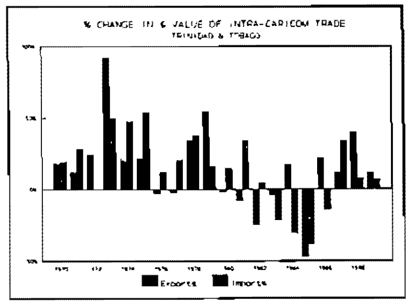

Figure 4

Caricom

Of the entire growth in intra-Caricom trade, only Trinidad & Tobago experienced substantial and sustained positive intra-Caricom trade balances over the decades of the 1970s and 1980s. Guyana and the OECS remained in constant trade deficit intra-regionally. Until 1981 Trinidad & Tobago was the only nation which achieved an overall improvement in its intra-area trade balance. During this time all other Caricom nations, with the exception of Belize, realized a deterioration in trade balances. From 1981 through 1983 this scenario was reversed.

The oil price hikes in 1973 and subsequently left the external accounts of members (except

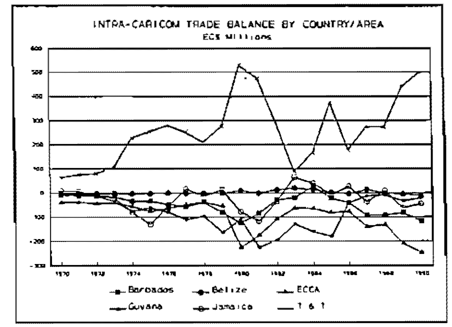

Figure 5

Trinidad & Tobago) in a state of sh Trinidad & Tobago's exports ballooned w imports of Jamaica especially and also other nations increased disproportiona Sluggishness in external markets as a resu the oil shocks led to a fall off in tou arrivals and spending.

From 1977 to 1981 the world experienc period of economic expansion. benefitted Caricom in a number of ways, including providing buoyant tourism and oil indust From 1981 through 1983, however, there was a global recession. Within Caricom the oil b was over. Exports declined and the tourist industry contracted. There were few real sig economic recovery until the mid-1980s.

In most cases participating countries increased their exports to Caricom during the period through 1981. However, this seemed to be at the expense of extra-regional exports. Fo most part, exports to Caricom grew at a faster rate than exports to non-Caricom countrie

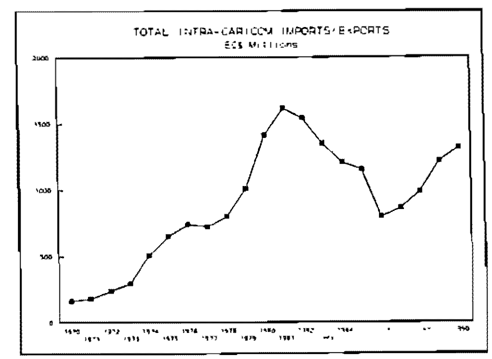

Figure 6

Domestic production in the early 1970s could not satisfy the rising domestic demand, and as a result countries turned to sources within the region for imports. It has been argued that the existence of a captive regional market which assured regional exporters a market for at least a portion of their products dulled the zeal with which exporters would otherwise have applied to breaking into non-regional markets. There may be arguments against this but there are some cases in which product quality, pricing, and standards of production rendered export to non-Caricom markets infeasible.

This emphasis on the regional market while downplaying extra-Caricom markets seriously affected the hard currency earning capacity of Caricom countries. Indeed, it is those countries which most increased their share of Caricom trade which suffered the worst balance of payments problems. For example, in 1980 Guyana's total exports increased by 0.8% while its exports to Caricom increased 44.8%.

In 1980 the eligible transactions for the CMCF were extended to include air travel and payments for oil and fertilizer, the bulk of which (in dollar terms) originate in Trinidad & Tobago. These had previously been omitted from the CMCF because they consume a large amount of credit for relatively few transactions. The effect of this decision was that CMCF credit limits were more rapidly reached by the respective importing nations.

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.

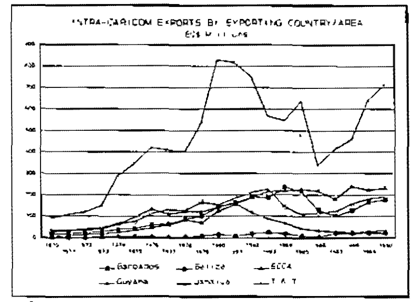

Figure 7

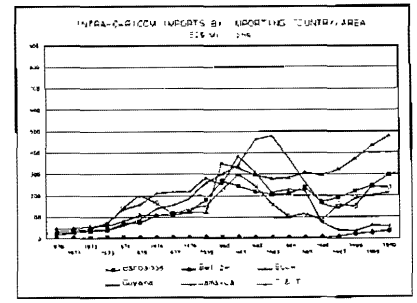

Figure 8

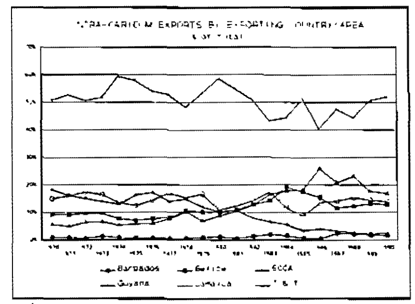

Figure 9

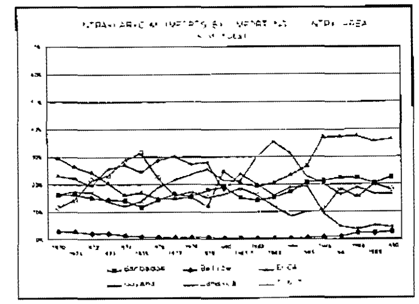

Figure 10

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 and even encouraged debtor countries to postpone the taking of precautionary measures pertaining to regional trade. The imposition of precautionary/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 fiscal and monetary measures to redress their problems.

III. IMPACT OF THE CMCF ON TRADE

As illustrated by figures 11 and 12, there was almost uninterrupted growth in intra-area trade from 1970 to 1981. The world recession of the early 1980s contributed to the decline in Caricom trade from 1982 through 1986, and the region has seen improvements in its intra-area trade volume since 1986.

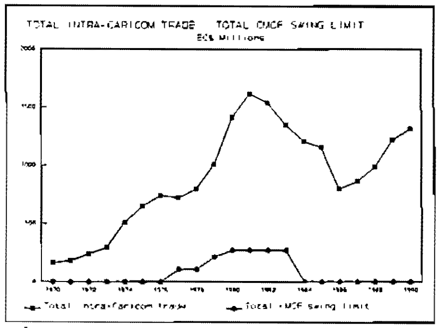

Figure 11

An examination of figure 11 suggests a direct relationship between the CMCF credit (also called swing) limits and regional trade. Even if oil payments are extracted from the aggregated Caricom trade data from 1970 through 1980 (not illustrated), because they were not permitted to be funnelled through the Facility until 1980, the shape of these two lines remains distinctly similar, if far less divergent in magnitude.

Four separate phases in Caricom trade can be observed in figure 12, three of growth and one of decline. From 1970 to 1976 the average growth rate of trade in Caricom was 30.0%; from 1978 to 1981, 25.6%; from 1982 to 1986 there was an average annual 12.6% decrease in the volume trade; and from 1987 through 1990 trade volume increased approximately 13.5% per annum. The CMCF spanned two of the four distinct trade intervals.

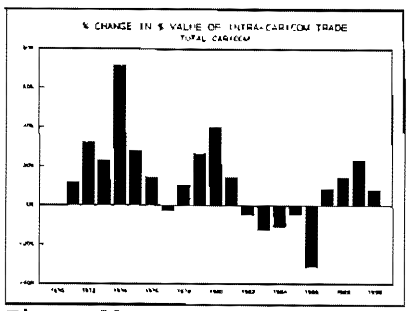

Figure 12

The Facility was introduced in a year during which the growth rate of intra-regional trade was negative (1977). Although the growth rate of trade had been positive for the two previous years it had been growing at a reduced pace. The growth rate for the period immediately following the introduction of the CMCF, 25.6%, was lower than the 30% rate from 1970 through 1 Even if it can be said that the Facility coincided with or even caused an increase in the vo of trade, it must be acknowledged that intra-Caricom trade was growing at a slower rate it had prior to the Facility.

The 12.6% average annual rate of decrease in trade from 1982 through 1986, straddlin CMCF period while its credit limits were at the highest level ever, presents an anomaly i argument that the Facility's credit was causing trade to increase. One argument that m offered in defense of the Facility (albeit unsubstantiated) is that the decline in trade volum due to exogenous factors and would have been greater in magnitude had the Facility not ex

The provision of credit (such as CMCF credit), if used to augment a nation's prod capacity, would have the effect of increasing that nation's income level, thereby increasing If such credit is employed instead to satisfy current consumption or for other non-productiv then there is either no trade boost or merely a temporary and unsustainable one. The scenario can also result in debts which are not honoured because the nation in question w be building the competence to repay its debts. CMCF credit was allocated more on the of need than on estimated permanent income, and did not address the capacity of debtor n to satisfy their obligations.

Figures 7 and 9 suggest that of the member countries/regions Trinidad & Tobago benefit most from the CMCF. This country's exports increased the most during the period Facility and by exporting over one half of the region's total goods it maintained a do position. However, Trinidad & Tobago's position as the dominant economy within Carico not entirely a result of the CMCF. It is difficult to measure the magnitude of effect CMCF on Trinidad & Tobago's economy. Trinidad & Tobago's relative strengt established long before the Facility came into existence; this country was the only net c under the IRP. This position within Caricom has continued to date with respect to intra-r trade.

It is difficult to envision a scenario in which the provision of readily accessible credit does not boost trade via increased purchasing power. However, there is no real proof of causality linking CMCF credit and intra-Caricom trade. In fact, it was the rising value of total Caricom trade from 1973 to 1976 which prompted the replacement of the IRP with the CMCF, implying causality in the opposite direction. This trend in Caricom trade continued through 1981.

In addition to the absence of reliable proof of causality is the lack of a measure of magnitude of the CMCF's significance. Even if causality is assumed an argument can be offered that the CMCF's impact on intra-regional trade was not significant. Only a fraction of Caricom trade was effected through the Facility while the bulk of transactions were conducted in hard currency as previously.

It is also possible that although a regional entity, the CMCF's credit could have affected nations' total international trade rather than intra-regional trade. For example: Country X could have imported an annual average of $100 million worth of goods from Caricom in the absence of the CMCF, and after institution of the Facility still import the same $100 million but channel payments through the Facility while using the hard currency freed up in the process in order to finance non-regional imports. The result of this would be an increase in total trade but not in intra-regional trade.

IV. WHY THE CMCF FAILED

While in force it can probably be said that the CMCF was successful in achieving its objective of facilitating trade by acting as a clearing house for payments. By termination some US$436.3 million of regional trade was being effected through the Facility.

The reason for the eventual failure of the CMCF lies not in the purpose or structure of the Facility itself, but in its attempted usage. Instead of being used for its primary purpose of simply minimizing the foreign exchange requirement for intra-regional trade, some members saw it as a balance of payments support facility to allow them to continue purchasing goods which they otherwise would not have been able to have, given the limitations in their export sector and level of foreign exchange reserves.

Otherwise stated, the CMCF was designed to facilitate payments and not to boost the volume of trade within Caricom. However, notwithstanding the original design of the Facility, the stipulations that (i) only partial settlement of debit balances was required at any one time, and (ii) the extension of the settlement period from quarterly to semi-annually effectively allowed for increased intra-regional trade. It must be acknowledged that any increase in trade volume was an indirect and temporary effect of the Facility. The temporary and artificial boost in trade on the demand side spurred a reaction on the supply side. Short term credit allows for an increase in imports to meet domestic demand, but once credit limits are reached countries would be forced to resume their former trading levels, governed by the other factors that drive trade. If the Facility had been designed with an explicit trade objective then *perhaps* the trade benefits would have been increased and sustainable.

Thus, the collapse of the CMCF was only inevitable because of the extent to which the Facility was allowed to be misused. While balance of payments stresses in the Caribbean were a very real problem in the early 1980s, the CMCF was neither designed nor intended to be used to alleviate that particular problem. In fact, even if there had been a formal agreement to amend the purpose of the Facility, commensurate changes (discussed further in Section V of this paper) would have had to be made in the design and functioning in order to address the balance of payments problem.

The CMCF crisis was certainly predictable. The major creditors, Barbados and Trinidad & Tobago, were experiencing deteriorating external positions which no longer enabled them to support intra-Caricom trade to the benefit of those Caricom members experiencing balance of payments difficulties. The oil price hikes of 1973 and subsequently left the external accounts of member countries, except Trinidad & Tobago, in a state of shock. A fall off in tourism arrivals and spending also contributed to the decaying situation.

However, during a time of external economic pressures, the need for the CMCF to continue functioning vibrantly in order to prevent intra-regional trade from becoming a casualty of the foreign exchange crisis in the region should have been confirmed.

Although there have been arguments that the size of the interim facility was too small given the magnitude of the foreign exchange gap developed by Guyana and Jamaica in 1977, increases in the overall credit limit did not help improve chances of success for the CMCF because the result was only to increase the burden of credit on the current creditors. Nothing inherent in the CMCF encouraged the deficit countries to improve their external positions. Guyana's balance of payments problem was a long term one. Deferral of settlements acted to prolong the term of credit but still did not render it long term in nature, six months being the maximum deferral time. The composition of the CMCF, economies at various stages of development, would have presented an innate obstacle to the generation of funds to provide long term credit even if this was a stated CMCF objective.

It may be argued that the CMCF was adequately structured to fulfil its stated functions. Nevertheless, the Facility faltered within five years of its inception and collapsed in the sixth. It is my belief that this is mostly attributable to one flaw in the Facility's structure: no enforcement mechanisms were instituted. These mechanisms should have been pre-specified on a number of levels. Individual countries were allowed to borrow and lend beyond their swing limits, once a country assumed a debtor position there were no pre-established incentives for country to satisfy its debts, and for creditor countries there were no avenues for redress i event of default on the part of debtors.

From the outset the ECCA and Guyana were exceeding their respective credit limits. B end of 1979 they were in excess by US$9.2 million and $2.9 million, respectively. At the of termination of the Facility Guyana's deficit position had reached US$98.5 million of w US$54.7 million were from previously unpaid settlements. Jamaica held US$2.3 million in at this time.

Barbados remained the major creditor as of March 1983, owed US$65.1 million by the Fac Trinidad & Tobago was the second largest creditor, relinquishing first place to Barbad 1982. From a credit balance of US$73.4 million at the end of 1981, Trinidad & Tobagc owed a total of US$25.2 million by March 1983.

Towards the end Barbados indicated that in view of its deteriorating overall balance of payn it could not continue to extend credit at the current levels. The clearing facility had transformed into a balance of payments support fund. Reciprocal balance of payments su is associated with the multilateral financing of balance of payments deficits in order to avo adoption of trade sanctions and exchange controls. In a region where payments difficulti endemic (that is there are no economies so buoyant that they can afford to sustain the w members in the hope that the latter would ultimately recover their strength), a clearing fa cannot also be a balance of payments stabilization fund *while it is based on regional res only.*

Settlement of debit balances was required in hard currency (US dollars or pounds sterling a result, even with the CMCF the net foreign reserves for the region as a unit coulc remained unaltered in the long run. Foreign exchange that would otherwise be tied up in regional transactions could be diverted to cope with extra-regional transactions of the indi member countries of the CMCF. Only to the extent that extra-regional trade was subs with intra-regional trade would Caricom sustain a long term benefit in terms of its net foreign reserves. Even so, in the event that one or few countries were substantial and persistent debtors and others substantial creditors, payments would not be "netted" out in the process of CMCF accounting but would have to be settled in hard currency. In this event the region as a unit would not benefit substantially in terms of net foreign reserves.

V. HOW COULD THE ORIGINAL DESIGN OF THE CMCF BE IMPROVED IN ORDER TO FACILITATE INTRA-REGIONAL TRADE

Subsequent to the disintegration of the CMCF the Caricom nations regressed to a lattice of bilateral trade agreements. While some seem content to remain with this type of trading agreement, others have suggested alternatives such as barter, establishment of a balance of payments support fund in conjunction with a multilateral clearing facility, and resumption of the CMCF.

Bilateral trade agreements work, but as discussed earlier, multilateral agreements offer larger benefits. It has already been stated that this particular group of developing countries is not in a position to establish a balance of payments support fund (which would in essence be a miniature IMF). With regard to barter, this is considered to be one of the lowest forms of trading agreements. It is restrictive because of the double coincidence of wants prerequisite, and because it is not easily multilateralized. This leaves resumption of the CMCF as the most advantageous option.

It is plausible that very modest alterations in the design of the CMCF would lead to much improved functioning of this Facility. Some possible modifications in design are described as follows:

- Allow member nations to channel payments through the Facility or outside of it, at their own discretion. This would allow for implementation of one recommendation of the Board of Directors of the CMCF: "Debit transactions on behalf of Guyana would be excluded from the CMCF...";
- Settlements would be made quarterly instead of semi-annually;
- An external source of financing would be sought;
- Institute a member subscription pool whereby members would contribute financial quotas to form working capital and be held by the Facility. This would ensure that net creditor countries are able to regain at least a portion of any outstanding balance due in the event

of debtor default. In addition, this would encourage responsible behaviour on the part of member countries since every nation could be at risk of loss if funnelling payments through the Facility;

- Put management of the Facility in the command of a board of directors comprised of professionals with substantial experience in the relevant fields. Also, elect/appoint these directors to non-renewable, fixed terms of service. The objective here is to make some headway in separating political from economic/business decisions (acknowledging that the two cannot be fully separated). A non-renewable term of office serves to remove the re-election/re-appointment motivation for behaviour and decision-making;
- Operate on the basis of majority voting or some other proportionate voting. Decision-making by consensus as was previously the case meant that any measure to protect the Facility which went contrary to the particular interests of any member(s) would not likely get the approval of such member(s), to the detriment of Caricom as a unit. In this case the Facility could and did easily reach an impasse;
- Institute policies of conditionality whereby parties to the facility would be compelled to satisfy some minimum standards of economic management. Credit may be granted on the basis of credit-worthiness or some particular credit rating, not solely on need (as was previously the case). For example, in 1982 Guyana's trade deficit with the rest of the world closely approximated its payments deficit with the CMCF: The CMCF was the only trading region granting substantial credit to Guyana. The Caricom nations were said to have been not fully aware of this until long after the fact. Knowing this and incorporating it into the credit-extending decision criteria may well have assisted Caricom in avoiding Guyana's debtor problems;
- Ensure periodic and accurate financial reporting in order to properly evaluate progress and to anticipate threats, allowing for preventative and/or timely corrective action;
- Although debit and credit balances are held with the Facility and not between individual countries, in the event of a country(ies) defaulting on debt repay the creditor nations in chronological order (rather than in proportion to size of credit) according to when they paid money into the Facility. Thus, the nations who lent the earliest would receive repayment first. This would serve to discourage countries from continuing to grant credit to the Facility when any nation shows signs of being delinquent, and thereby destabilizi the entire Facility. (It should be mentioned that this option has its drawbacks.);
- Prevent facility from being used for balance of payments stabilization purposes enforcing the CMCF credit guidelines. Actions could include:
  - not permitting members to borrow in excess of their individual swing limits,
  - sanction the violating members by refusing to allow further debit transactic until the outstanding balance is paid in full.

  Stringent enforcement procedures are vital to the sustained functioning of entity such as a multilateral clearing facility;
- Give the Facility legal status as an entity separate from the governments it serves. T would allow for enforcement as the CMCF could then bind participating governments undertake liability for breach of agreements.

VI. CONCLUSION

Although it is disputable whether the CMCF served to boost intra-regional trade, its benefits were adequately substantial in the area of facilitating payments to justify its existence, and now its reinstatement.

The CMCF was established to serve Caricom objectives and the Caricom member nations. This should not be compromised because of one or few recalcitrant cases. Rather, Caricom should attempt to help those with particular problems, outside of the confines of the CMCF, while keeping the Facility active and allowing the region to progress according to the stated goals of the Community.

Allowing discretion as to whether or not any individual nation would channel payments through the Facility has propitious repercussions of its own. For example, if Guyana is a major debtor and Barbados a major creditor, and Barbados cuts off exports to Guyana for reasons of non-payment, then this forces Barbados to seek alternative markets for its exports. Increased competitiveness and innovation would ensue. If the alternative markets sought are external to Caricom then there would also be balance of payments gains. Guyana of course would be forced to address its internal economic problems and be prevented from attempting to pass these on to other nations, to the detriment of the entire region.

It should be mentioned that attempts are being made to remedy the CMCF payments situation. At least a part of the outstanding debt was being settled: Guyana had undertaken to pay the CMCF any receipt of claims under the Trinidad and Tobago Oil Facility. Barbados is also in the process of trying to reduce its creditor position. Under a current bilateral trade agreement with Guyana, Barbados is owing several millions of dollars. The hope is that the CMCF member nations will approve that this debt be used to partially offset Barbados' credit position with the CMCF. The impediment here is that Guyana's debt is owed to the CMCF and not to Barbados, and therefore any money repaid to reduce CMCF debt by Guyana (via a trade agreement with Barbados or otherwise) should be used to proportionately reduce the credit positions of all CMCF creditors.

The task of boosting the Caricom economies involves not only facilitating Caricom trade payments, but simultaneously addressing a wide spectrum of issues. No one policy executed in isolation can satisfy the Caricom objectives. Therefore, instituting the CMCF or any similar arrangement should be planned in conjunction with complementary endeavours.

Some arrangement providing members with long term balance of payments support would be necessary. This would require the use of extra-regional resources and would be instituted separate from but parallel to the CMCF. There would also be a need for full and prompt information relating to intra- and extra-Caricom trade and trading agreements. Varied market penetration should be assured, as well as the presence of responsible management of domestic economies which recognizes the limits of their debt burdens, etc. In summary, the CMCF can be only one step in the comprehensive advancement of Caricom.

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