

# **The Economic Theory of Integration in Central America and the Caribbean:**

## **From Autonomy to Open Regionalism**

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*This paper analyses the evolution of integration ideas in Central America and the Caribbean. Firstly, the Vinerian logic of integration is analysed. Then, the basis of the Prebischian logic of regionalism is examined. The aim of the paper is to demonstrate that Viner's proposals on regionalism were not important by promoting regional integration in the 1960s and 1970s. Integration was largely based on Prebischian proposals of regional industrialisation. However, the collapse of the first wave of regionalism has produced a return of traditional Vinerian theory of customs unions. Integration is currently conceived as a mechanism to further the insertion of Central American and Caribbean countries in the world economy. The paper evaluates this evolution of integration ideas and its implications for regional development.*

*Conversely to previous integration initiatives developed in 1960s and 1970s, the new wave of regionalism in the 1990s in Central America and the Caribbean has subscribed to an economic approach based on the insertion into the world economy and trade liberalisation.*

### Introduction

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Latin American and Caribbean countries have promoted many integration schemes since the 1950s. These proposals were part of wider economic policy the main objective of which was the achievement of economic autonomy and the reduction of the dependence on external markets. Such policies were based on ideas and approaches originated in the same Latin American and Caribbean region, such as those proposed by Raúl Prebisch and the Economic Commission for Latin America and William Demas. The cornerstone of these authors' ideas was the need for industrialisation and modernisation of Latin American and Caribbean economies as requirement to achieve economic development. Economic integration was a component of a general strategy in order to foster this objective of an increased economic autonomy through industrialisation. Latin American and Caribbean intended creating a new "integration philosophy" different from that originated in the developed world to explain European Integration.

The collapse of the first generation of integration in the 1980s led to regional leaders to modify their ideas. Integration was not conceived as a mechanism to help achieving autonomy and industrialisation but as an economic tool to contribute to structural adjustment of national economies and to foster its better insertion in the world markets. This has implied in fact the predominance of traditional theory of economic integration and in particular those ideas considering it as a "second best" in the way to promote free trade.

This paper examines this evolution of integration theory from propositions of autonomy presented in the 1950s to current neo-liberalism and open regionalism. The analysis is particularly dedicated to two integration schemes in which is quite evident the transition from one sort of integration inspired in regional industrialisation and autonomy to another centred on neo-liberal ideas: Central American Common Market (CACM) and Caribbean Community (CARICOM). The paper is divided in four sections: firstly, a general review of traditional integration theory and its relevanc

e to explaining integration initiatives between developing countries is made. Secondly, the first generation of integration in Central America and the Caribbean is analysed. Then, current period of neo-liberalism is examined. Finally, some conclusions are presented.

### Traditional Theory of Economic Integration

In the economic literature integration theory is almost synonymous of the theory of customs unions. In this issue is particularly important the distinction between trade creation and trade diversion introduced by Viner (1950) in his classical book "The Custom Union Issue." This is an approach to customs unions that basically considered their static effects, in the sense that it is related to gains and losses incurred by the establishment of a preferential trade agreement. Briefly, trade creation occurs when trade between the customs union's partners is increased. In this case, expensive and protected domestic production is displaced by cheaper production coming from the partners' countries. This shift would imply a move from less efficient to more efficient producers. By contrast, trade diversion would occur when imports from the efficient, or cheaper, "world market" producers are replaced with imports from a higher cost or less efficient producers from the customs union (Viner, 1950).

To explain trade creation and trade diversion, economists assume the existence of variables such as perfect competition in both the commodity and factor markets, automatic full employment of all resources, costless adjustment procedures, perfect factor mobility nationally, perfect im-

mobility across national boundaries and prices determined by costs. It is also assumed that the supply from the producers in the rest of the world is fully elastic at price level (El-Agraa, 1989: 13). The consequences of creating a custom union will differ depending on whether the initial situation was protectionism or free trade. If protection was the initial situation of country A, a new trade flow would occur between partners originating a

trade creation effect. By contrast, if free trade was the initial situation of country A, a negative development will occur. There would be then, a reduction of trade on the producer side and on the consumer side. Additionally, trade would be diverted from the lower-cost world producer to the high-cost partner country. This is the trade diversion effect (Viner, 1950).

In short, Viner concluded that customs unions do not always enhance welfare. They can promote trade creation, by eliminating obstacles to free trade among member countries. As a result, the world welfare would increase. However, if they lead to take trade away from efficient outside suppliers and giving it to inefficient member countries, they would be "trade diverting" integration schemes. Welfare would diminish in this sort of customs unions. As states are assumed to be utility maximisers intending to enhance their economic welfare, then, integration would aim to expand trade exchange. In other words, states should promote "trade creating" customs unions.

Another approach to customs union is proposed by specialists such as Cooper, Massel and Johnson. They stated that the main objective of integration is not furthering of trade and welfare but the creation of conditions for the provision of public goods. Consequently, research about customs unions should evaluate the extent to which these latter could be an instrument to promote policies such as industrialisation, economies of scale and stabilisation and strategic policies in an area or jurisdiction smaller than the world and larger than states. Cooper and Massel (1965), argued that regional integration *leivmotiv* is not the searching for an optimal allocation of the economic activity or the promotion of welfare, as Viner asserted. This is because empirical evidence demonstrated that unilateral trade liberalisation is a better mechanism to fulfil these above mentioned goals than customs union. In consequence, there should be other reasons leading states to further economic regionalism and the study of tariff protection would be the main point to explain it. Thus, the promotion of customs unions is conceived as a deliberate employment of tariff policy by one or more states in order to achieve objectives which cannot be att

ained by individual action.

Jonhson (1965) argues that the decision to further customs union could be explained by the interest of states in promoting "public goods". He proposes a new approach to the customs union issue that was based upon the following assumptions: (a) governments use tariffs to achieve certain non-economic objectives; (b) actions taken by the governments are aimed at offsetting differences between private and social costs, consequently, they are rational efforts (c) governments policy is a rational response to the demands of the electorate; and (d) countries have a preference for industrial production."

Johnson's analysis also distinguishes between private and public consumption, real income and real product. Consumption is understood as the sum of planned consumption expenditure and planned investment expenditure. Real income is defined as the utility enjoyed from both public and private consumption. Finally, real product is conceived as the total production of privately appropriable goods and services. According to Johnson, competition among political parties can lead governments taking policies in order to maximise consumer satisfaction of private and public goods. This is achieved when the rate of satisfaction per unit of resources is the same for both types of consumption goods. Additionally, Johnson assumed a "collective preference" for industrial production. This implies that consumers are willing to expand industrial production (and industrial employment) beyond what it would be under free trade" (Brada and Méndez, 1993: 187). This industrial promotion policy is basically financed through tariffs but, on the one side, General Agreement of Tariffs and Trade regulations rule out exports subsidies and, on the other hand, internal political considerations make tariffs the usual instruments of protection. Then, the creation of customs union is seen a mechanism to stimulate investment and promote competition in the industrial sector as well as a way of capturing economies of scale. Customs unions are created basically to protect the collective preference for industrial protection, promote the expansion of industrial sector and improve its efficiency. Accordingly, Johnson regards custom unions as a mean of capturing economies

of scale, stimulating investments and promoting competition in the industrial sector. In addition, customs unions could help states in achieving other collective objectives such as the improvement of their term of trade *vis-á-vis* the rest of the world or the improvement of the bargaining power *vis-á-vis* larger countries (Brada and Mendez, 1993: 187).

A very significant debate about the relevance of these traditional theories for explaining integration among Third World countries (south-south integration) took place during the 1960s and 1970s. In short, most of specialists believed that traditional concepts of trade creation and trade diversion were not applicable to customs unions among developing countries. Economic integration would unlikely produce trade creation but likely will generate trade diversion. As Lipsey demonstrated, trade diversion was not necessarily negative and developing countries could benefit from it. Arguably, trade diversion was a means to expand production by furthering import substitution on a regional scale. As Linder asserted, "to the extent that it consists of diverting the importation of non-input goods away from advanced industrial countries, trade diversion is almost to the very essence of customs union postulate [among developing countries]. It enables the concentration of scarce foreign trade on inputs imports, thereby enhancing capacity use and growth" (Linder, 1972).

Other specialist such as Axline, considered that one of the most salient consequences of integration among developing countries is the reduction of the degree of dependence on the rest of the world. Integration intends broadening regional market and reducing regional dependence on trade with outside of the world. Similarly, restrictions on foreign investment and transfer of technology on regional basis must be included in the integration schemes (Axline, 1977: 86).

### Traditional Theory and the First Generation of Integration in Central America and the Caribbean.

The relevance of traditional integration theory to less developed countries

s was a crucial issue by assessing the convenience of establishing integration schemes in Latin America and the Caribbean in the 1960s and 1970s. This was particularly valid by referring to Central America and the Caribbean, sub-regions in which many of the premises of traditional theory did not exist. The transfer of Vinerian customs union theory supposed overlooking the fact that many of the conditions of a modern industrialised economy, such as full employment of factors of production or perfect competition, did not exist in the region. Similarly, traditional theory precluded considering the importance of external and scale effects in the decision of furthering integration among developing countries.

As Rosenthal (1993: 75) has asserted, in the particular case of Latin America and the Caribbean, the main reason leading to promote economic integration was not its effects on welfare according to the Vinerian logic of trade diversion and trade creation but the desire of promoting a joint process of import substitution. The ideology driving regional integration was the prebischian logic of regional industrialisation.

Presbisch (1949 [1996]) demonstrated that the pattern of trade from the middle of nineteenth century and the middle of the twentieth century did not confirm the theory of comparative advantages. Prebisch argued that gains from trade had been divided unequally between mainly industrial countries (centre) and the agricultural states (periphery). As a result, technological process leading to increase productivity occurred in the centre only, whilst structural features and the international division of labour thwarted the periphery from benefiting from technological advancement. This uneven distribution of technical progress produced cyclical price on raw materials and caused a different demand for industrial products and primary products, factors that would have produced a steady decline on terms of trade of the periphery. This deterioration affected the possibility of economic development by reducing the periphery's capacity to purchase goods and services from the centre. To overcome this situation, Prebisch recommended promoting an import substitution industrialisation, tariff protection and encouragement of foreign investment in manufactures (CEPAL, 1952, Prebisch, 1949 [1996]).

Prebisch also criticised policies of autarchic industrialisation fostered by various Latin American countries since the 1920s. This sort of industrial development had been implemented in the framework of narrow national markets in which economies of scale cannot be generated. Furthermore, the irrational tariff protection allowed the establishment of inefficient factories.

Regional economic integration was one of the pillars of the new development strategy. ECLAC and Prebisch proposed the development of a regional plan of industrialisation to create factories able to produce capital goods in competitive conditions as well as able to generate economies of scale. Thus, integration was conceived as a project of industrialisation the main objective of which would be to specialise countries in the production of capital goods within a framework of a common market. Free trade had a secondary role, subordinated to the success of regional industrialisation (see Prebisch, 1959).

Economic integration was also a policy option for those countries that had not started its industrial development or that were in the initial stage of this process. By fostering integration small states, such as those of Central America and the Caribbean islands, would be able to begin a rational process of industrialisation. As these small countries' market were not wide enough as to allow the establishment of competitive factories, ECLAC recommended to governments the promotion of a joint program of regional industrialisation based upon the premises of reciprocity and equity. Thus, these new factories would be able to generate economies of scale in a process of import substitution industrialisation developed in a coherent and autonomous way.

Integration was also perceived as a mechanism to enhance competitiveness of industrial production. ECLAC criticised the excessive protectionism and the lack of rationale of tariff policy. Many ECLAC documents and papers point out that those policies had created an industrial structure isolated from the rest of the world and protected by tariffs granted without moderation. ECLAC rejected the lack of selectivity in national polici

es of tariff protection, a factor considered the fundamental reason to explain the little competitiveness of Latin American and Caribbean industries. This irrational tariff policy affected the objective of achieving a much better distribution of technical progress derived from industrialisation. Integration was meant as an economic tool to work out these problems by rationalising existing protection and by furthering a tariff reduction in the Latin American intra-regional exchange. Furthermore, ECLAC emphasised the need for promoting complementation agreements between national factories as a way to impulse regional industrialisation and foster a shift from extra-regional providers to regional ones (Prebisch, 1963 : 86).

These ECLAC's ideas played an important role in the design and implementation of integration policy in Central America in the 1950s and 1960s. Integration was conceived as a mechanism to further regional economic development but also like a process leading to break with endogenous and exogenous structural constraints that impeded economic development.

The objective of ECLAC integration strategy for Central America was the promotion of both regional industrialisation and a rational localisation of economic activities. As a result, ECLAC recommended the establishment of a regional programme of industrialisation to set up new factories throughout the region. Thus, trade creation and trade diversion were not the main concerns to Central American governments but the promotion of a model of integration the utmost objective of which would be to accelerate industrial development. In other words, integration was aiming at increasing the size of domestic markets by fostering a free trade area, where industries were able to capture economies of scale. Free trade also would allow importing intermediate products and capital goods duty-free. Similarly, integration included the creation of a common external tariff in order to protect the new regional production from extra-regional competition.

Then, ECLAC's approach to Central American integration established a close relationship between industrial and tariff policy in which the for

mer was subordinated to the latter. Free trade was justified only just a mechanism that would help promoting a strong industrial sector (CEPAL, 1951 [1976]: 30). Similarly, the programme of integration was based on a principle of reciprocity according to which governments agreed to set up industries in all five Central American countries. Accordingly, that all members of the integration scheme would mutually share benefits from industrialisation.

In short, as Bulmer-Thomas (1998: 314), asserted, "the architects of the CACM [Central American Common Market] hoped to use the customs union to reduce dependence on the external sector, improve the net barrier terms of trade and achieve industrialisation at one and the same time". However, ECLAC did not intend promoting a model of introverted integration. Conversely, governments also believe that the furthering of a greater interaction with the world economy was a long-term economic objective that could be achieved when regional industries had matured (Blomqvist and Lindholm, 1992: 47).

Sir Arthur W. Lewis proposed that the main instrument to create a modernisation of Caribbean economy was a coherent program of industrialisation. Notwithstanding this, Lewis rejected Prebisch's ideas on regional import substitution and proposed a strategy to promote industries specialised in the production of manufactures intensive in labour. Lewis recommended to further a model of industrialisation aiming at exporting towards extra-regional markets, called "industrialisation by invitation". As the Caribbean experienced severe financial problems, foreign investors would finance industrial development. Furthermore, foreign firms were more prepared to compete in the metropolitan market where the industrial production was going to be sent. Due to these reasons Lewis suggested to the Caribbean governments grant incentives to foreign investors such as low wages, tariff protection in local market, subsidies and fiscal privileges (Lewis, 1950).

Lewis did not consider regional integration as a priority for the Caribbean because of his emphasis in a sort of specialisation leading to export

towards world markets. Nevertheless, he pointed out that a Caribbean customs union would pave the way to a successful export promotion strategy by allowing to attract investors interested in producing for the region and the world, protected by common tariff policy. For this reason, Lewis proposed a rationalisation of industrial projects by localising them in a few places and not dispersing throughout the islands. Similarly he recommended measures such as free movement of labour and a common external tariff (Lewis, 1950: 32).

William Demas complemented Lewis' ideas about industrialisation and criticised the relevance of traditional theory to explain Caribbean integration. In particular, he rejected proposals such as the need for competition between industries recently established or the alleged disadvantages of trade diversion in economies where the neo-classical assumption of full employment does not exist. Conversely, by making use of the argument of "infant industries", Demas argued that trade diversion was an inevitable result of industrialisation. Despite its trade diverting effects Caribbean countries should resign to promote industrialisation. Similarly, Demas considered that the real importance of economic integration was concentrated in the dynamic effects not accounted for in the Vinerian approach to customs union. As the main structural constraint of West Indian economies was their small size, economic integration would allow to widen markets and would also facilitate the capturing of economies of scale and external economies. Demas proposed a regional import substitution. As Payne puts forward (1980: 62), the cornerstone of this proposal was "to secure the very production effect condemned by traditional customs union theory, viz. the diversion of trade from extra-union sources to higher-cost intra-union sources, which is, after all, the essence of import substitution".

Another, Caribbean approach to regional integration was presented by a team of scholars of the University of West Indies (UWI). They considered integration as "an adjunct to the conventional tenets of customs union theory but as the central feature of a radical theory of social and economic transformation" (Payne, 1980: 76). UWI scholars emphasised that

the dependence of West Indian economies on the external world for factors such as capital and technical knowledge impeded regional development. Similarly, UWI thinkers proposed a regional legislation to regulate foreign investment and to control multinational corporations that dominated the Caribbean economies.

UWI studies proposed an integration strategy in which free trade was combined with a functional approach which explicitly allows the introduction of planning techniques in an effort to ensure the positive development of certain agreed areas of economic activity in the region (Brewster and Thomas, 1967: 19). Accordingly, West Indian integration was seen as a way to further the structural transformation of Caribbean societies. This would imply that the main reason to drive integration was not the gains that follow from the fusion of natural markets but the promotion of the resource base of the region. For UWI scholars "the theory of economic integration must be an integral element of a theory of economic and social transformation and simple an adjunct of the micro-economic of static location" (Brewster and Thomas, 1971: 113).

### Open Regionalism and Neo-liberalism in the New Generation of Economic Integration: The Return to Traditional Theory.

The concept of open regionalism was originally developed in the Asia-Pacific in the 1960s to describe a sort of economic integration and cooperation based on principle on non-discrimination and compatible with multilateralism (Palacios, 1995). The Latin American version of open regionalism was delineated by ECLAC (1993) in the document "Open Regionalism in Latin American in the Caribbean: Economic Integration as Contribution to Changing Production Pattern with Social Equity". The document asserts that integration policies in Latin America in the last few years. On the one hand, diverse intergovernmental commercial agreements leading to the creation of free trade areas or, in some cases, customs unions have been promoted. Other integration initiatives included

objectives such as regulation of investments, intellectual property, elimination of non-tariffs barriers and co-ordination of economic policies. ECLAC describes this dynamic as "integration furthered by policies".

These agreements have been accompanied by a parallel process of "*de facto*" integration impelled by a series of macroeconomic and trade policies that have had the effect of creating similar conditions in the majority of Latin American countries. This has created conditions to foster regional interdependence in issues such as a share tendency towards the consolidation of a coherent, stable macroeconomics framework, unilateral tariff reduction, non-discriminatory promotion of exports, elimination and deregulation of obstacles to foreign investments and privatisation.

ECLAC defines open regionalism as the process that results from reconciling "the interdependence that stems from special, preferential agreements, and that which basically arise from the market signals that are produced by trade liberalisation in general. What open regionalism seeks to accomplish is to make explicit integration policies compatible with, and complementary to enhance international competitiveness" (ECLAC, 1993 : 13).

By promoting open regionalism Latin American countries would be aiming at making compatible formal integration policies with those policies leading to promote a better insertion of Latin American countries in the world economy. In other words, "open regionalism may be understood as a non-multilateral way to move towards an open international system of commerce" (Cisneros and Campell, 1996).

Another approach to explaining the new wave of Latin American regionalism is neo-liberalism. Accordingly, integration policy must be based upon free trade and economic deregulation, a strategy that would induce a rational use of resources and would allow creating rational structures of markets and prices. Neo-liberalism is then a return to the classical theory of second best, according to which unilateral tariff reduction is superior to preferential trade arrangements. As world commerce is not free of tariffs and non-tariff barriers, neo-liberalism accepts economic integration as a policy option the ultimate objective of which is to eliminate su

ch barriers. In other words, integration is conceived as a stage in a process leading to create a multilateral trade regime (see Briceño Ruiz, 1997: 882).

Thus, neo-liberalism recommends an integration strategy centred on the promotion of free trade in which policies to further industrial development are excluded. For neo-liberalism integration must always be subordinated to multilateral liberalisation of trade and must be oriented to foster trade creation and not trade diversion. This is the Vinerian logic considering trade creation enhances welfare whilst trade diversion reduces welfare. Those arguments that considered trade diversion as a cost to be paid for fostering regional industrialisation have been abandoned (Briceño Ruiz, 1998: 882-883).

Open regionalism seems to be quite close to neo-liberalism about regional integration. Both approaches are centred on the idea that countries must pursue policies to promote the insertion in the global economy. As a result regional integration should further wide range liberalisation of markets in terms of countries and products. Similarly, neo-liberalism and open regionalism propose the regulation of norms of origin, non-tariffs barriers and the granting of national treatment to foreign investments. Finally, both approaches recommend a normative armonisation of sector such as intellectual property and services according to international standards.

Because of all these similarities open regionalism is considered by specialists such as Salgado (1994) as a return to the theory of second best.

If open regionalism is just as a complement of policies leading to promote the insertion in the world markets, then integration must be promoted only if can contribute to achieve this aim. However, it is difficult to accept as an indisputable true that trade liberalisation will improve international competitiveness. Integration can certainly contribute to achieve this objective by its own. Otherwise Latin American open regionalism would not be different from that proposed in the Asia-Pacific which is centred on "the non-discriminated regional openness". This is certainly the weak point of ECLAC's proposal that could led to confuse open regionalism

with neo-liberalism.

However, by analysing ECLAC's documents on open regionalism one can find the elements that allow to distinguish it from neo-liberalism: the concept of changing pattern of production with equity. This is also a key concept for understanding that new ideas on open regionalism are related with the prebischian logic of regional integration and insertion in the world economy. For ECLAC open regionalism is a mechanism to further a changing of pattern of production with equity. Regional integration would help developing the technological transformation and industrial reconversion of Latin American and Caribbean countries. This is closely related to Prebisch's ideas on the need for improving competitiveness and diffusing technical progress.

Open regionalism also supposes, as Prebisch did, a relation between industrial policy and tariff policy. Integration would be the framework within which countries will foster modernisation of factories created in the period of import substituting industrialisation. Competition among these industries or the establishing of strategic alliances among them will create incentives for developing new technologies and furthering competitiveness. Then, open regionalism rescues the old prebischian ideas on the diffusion of technical progress by adapting it to the conditions of a globalised economy. Furthermore, open regionalism is also a strategy to continue a new stage of industrialisation through the modernisation of old factories and the creation of new sectorial alliances.

Nevertheless, current period of economic integration in Central America and CARICOM are based on neo-liberal ideas. Empirical evidence demonstrates the little relevance of open regionalism in the design of current integration schemes. These latter are grounded in policies such as full integration, without exception or reserves of goods and services, low tariffs, elimination of restriction to foreign investments, abandonment of policies leading to promote industrialisation and exclusion of preferential and compensatory measures to assist less developing countries.

Central American integration has been adapted to the programs of structural adjustment implemented by Central American governments since

the late 1980s. Following the recommendations given by the International Monetary Fund and the World Bank, integration has been transformed in a mechanism "to regionalise" the structural adjustment (Ortiz R., 1989: 33). According to Isa Contreras (1997: 132), the World Bank recommended to the Central American countries a strategy of integration based on the reduction of nominal tariffs and the elimination of other restrictions to trade. The most important objective of this strategy is the rapid and low cost insertion of the region in the world economy. ECLAC's proposals of a changing of pattern of production with equity have not been included in the new integration initiative.

The Plan of Economic Action for Central American (1990) was the first step to reactivate and adapt the CACM to the neo-liberal strategy recommended by the World Bank. The Protocol of Guatemala to the General Treaty of Central American Economic Integration (1993) set the ideological grounds of the new Central American integration by proposing measures such as the elimination of protectionism, unilateral tariff liberalisation, reduction of non-tariffs barriers and deregulation of national economies. Similarly, state intervention in the economic was significantly reduced and market became the main force leading the integration process.

Both PAECA and the Protocol of Guatemala clearly show that open regionalism is not the model of integration followed by Central American governments. Integration is currently synonymous of liberalisation of markets. The productive transformation has become secondary. The new strategy of integration in Central America does not include policies to strengthen the capacity to incorporate technological innovation and take advantage of market niches, and are linked to supply, training and technological policies (Isa Contreras, 1997: 133). Integration is a second best in Central American, namely, Vinerian proposals lead current period of CACM.

CARICOM has also gone on a similar transformation. As Bryan (1994: 11) has pointed out throughout "the Caribbean the era of protection of domestic industries and subsidies for the state sector is over. Free market economic policies have been adopted...in every country except Cub

a." Like the CACM, the CARICOM has become an instrument to "*regionalise*" the neo-liberal reforms. The new model of integration was designed in Grand Anse Declaration and Work Programme for the Advancement of the Integration Movement, documents approved in the meeting of CARICOM leaders held in Grenada in 1989. Caribbean integration is currently a mechanism to encourage trade liberalisation and foreign investments. For achieving these objectives the Caribbean leaders decided: a) promote a common market; b) implement a common external tariff; c) eliminate all barriers to intraregional trade and d) implement a uniform standard for handling a system of rules of origin (Erismasn, 1992: 136). Open regional-

ism, in particular the proposal of changing the pattern of production, is even less important in the Caribbean than in Central America. The Caribbean countries have certainly promote a transformation of their industrial sector but this process is more related to the establishment of the Caribbean Basin Initiative than ECLAC's ideas on open regionalism.

## Conclusion

The development of integration schemes in Central America and the English speaking Caribbean evidences the real impact of traditional theory on the design of integration policies in Central America and the Caribbean. Assumptions of traditional theory were not relevant when the Central American and Caribbean decided to further economic integration in the 1950s, 1960s and 1970s. Integration was a tool for promoting economic development and industrialisation. Prebisch, Lewis and Demas established the intellectual grounds of the policies of regional industrialisation through integration. Although, Johnson, Cooper and Massel argued also for a sort of integration for promoting industrialisation, its theoretical basis differs from those of the Latin American and Caribbean scholars. Johnson, Cooper and Massel considered that integration was a policy rationally implemented to create conditions for the provision of public goods. Jo

nson in particular considered that integration was the result of a collective preference for industrial production. However, the arguments held by Prebisch and Demas were quite different. To a minor or lesser extent, these latter authors conceived integration as an instrument to push forward the industrial development and enhance the economy autonomy of the region from the rest of world.

After the crisis of the first generation of integration schemes in Central America and the Caribbean and the implementation of programs of economic adjustment traditional theory has substituted Prebisch's and Demas' ideas on regional integration. This latter is currently a policy of second best the ultimate objective of which is to facilitate the multilateral liberalisation of trade. By contrast ECLAC's proposals on open regionalism are secondary and a policy leading to promote a changing of patterns of production with equity have not been implemented.

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