Executive Summary

A concern in the affairs of the Caribbean Community is that despite its age-old existence, integration has not achieved much in terms of economic gain for the region. Related points of speculation suggest that lackluster performance is the consequence of the promotion of integration for two decades in the context of protectionism and that the regional integration process itself has been given weak stimulus.

The purpose of this thesis research is to test the hypothesis that the pursuit of integration in the Caribbean Community in collaboration with high protection of the region's market from third countries' exports has stymied the region's development potentials. Specifically, it quantifies the impact of the new liberal trade policy of the Caribbean Community in integration on the region's (average) output per person. It is herein argued that, the special circumstances of the region considered (small size, heavy reliance on international trade, net importer of industrial goods), further integration would best contribute to a realization of the developmental goals of the Caribbean Community if undertaken in conjunction with an external policy of trade openness.

Econometric analysis is at the core of the present research. Modeling centers on the 1991 trade policy integration (a common external tariff on imports to the region from third countries was implemented by all participating countries in concert with a reduction of tariffs on imports to the region from third countries from a range of 0-70 percent to 0-45 percent) in the Community. An *anti- monde* (designed as a combination of thirteen (13) countries of the region that did not participate in the 1991 reform) is used to demonstrate the evolution of the Caribbean Community had it not adopted the 1991 reform. The average level of Gross Domestic Product per capita in the Caribbean Community before and after 1991 is compared with the average level of Gross Domestic Product per capita in the *anti-monde* pre- and post-1991. Observed differences are attributed to the effect of the 1991 reform. It is hypothesized that reform, as was undertaken, should leave both static and dynamic effects on the level of GDP per capita. Dynamic effects should be made possible mainly by a change in the region's formation of capital. The Pooled Ordinary Least Squares and Panel methods were utilized with the use of data sourced mainly from the World Bank and for the periods 1986-1990 and 1992-1996.

Results of estimation indicate that the Caribbean Community may have had an average national output of 78.6 percent below what it had over the period 1992-1996 had the reform of 1991 not been adopted. Further it was found that the smaller countries of the Caribbean Community (measured by Gross Domestic Product) may have benefited more from the reform than larger countries. Moreover, the main influence to higher output levels may have originated not from changes in domestic levels of investment but from foreign direct investment.