

The CARICOM Single Market and Economy and CARICOM's External Trade Negotiations

by
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A. CONTEXT

The CARICOM Heads of Government in 1989 decided to deepen the regional economic integration process and strengthen the Caribbean Community by creating the CARICOM Single Market and Economy (CSME). This decision was enshrined in the Revised Treaty of Chaguaramas. The objective was to go beyond facilitating the liberalization of intra-regional trade to the creation of a single CARICOM economic space to facilitate the expansion of regional trade, production and investment. This action, while reflecting concern about the limited level of intra-regional trade was made more urgent because of external developments, specifically the multilateral trade liberalization taking place through the World Trade Organization (WTO) and the General Agreement on Tariffs and Trade (GATT).

In the case of overcoming the additional constraint of size on economic development¹ the CSME was a natural progression² from the CARIFTA, which was a free trade area established in 1968. The idea of a free trade area was influenced by the formation of the European Economic Community (Common Market)³ in January 1958, the breakup of the West Indies Federation in 1960 and Caribbean economic thought about development in small economies⁴ and regional economic integration in the absence of political union.⁵ By the early 1970s there was a growing feeling in the region bluntly articulated by Forbes Burnham, Prime Minister of Guyana as "we must integrate or perish."⁶ The Caribbean Community (CARICOM), which was established in 1973, moved the integration process beyond the free trade area to a customs union.⁷ This involved a further liberalization of intra-regional trade behind a common external tariff with the objective of "accelerated harmonious and balanced growth."⁸ The CSME goes further by setting the goal of creating a single CARICOM economic space by the elimination of national barriers to the movement of goods and services as well as factors of production.

The creation of the CSME, while reflecting concern about the limited volume of intraregional trade and the incomplete state of the common external tariff was also impelled by the need to coordinate foreign policies and employ a common position in external economic negotiations. Joint conduct of external negotiations dates back to the 1960s and has encompassed preferential marketing arrangements for sugar and bananas, the Lomé Conventions and the General Agreement on Tariffs and Trade. Over time and as the degree of integration advanced, the arrangements for cooperation in external negotiations have become more formally organized.

The CARICOM Member States are confronting the unprecedented situation of simultaneously negotiating in several fora, specifically the World Trade Organization (WTO), the Free Trade Area of the Americas (FTAA), and an Economic Partnership Agreement (EPA) with the European Union and several bilateral trade agreements. These negotiations involve coverage of virtually every form of international economic transaction and seek to design rules, which in regulating trade, impinge on the ability of governments to pursue certain types of domestic policy measures. In the WTO, the region is facing the prospect of further trade liberalization with the pressure of an accelerated movement towards reciprocity from the longstanding preferential trade arrangements to which the region had benefited over the last couple decades. The changes in the banana regime of the European Union, which predictably caused severe economic damage is a graphic illustration of the impact, which can result from changes in the multilateral trading rules. The FTAA is intended

to be WTO-plus, i.e., it seeks to exceed the WTO in both coverage and in the extent of liberalization. The EPA with the EC is aimed at shifting the basis of its trade with the region from preferential arrangements to reciprocity.

The implication of the external trade negotiations in which CARICOM is involved is further liberalization of an increased range of international economic transactions with a concomitant erosion of preferential trade arrangements, which the region has traditionally enjoyed. Consequently the small developing economies of CARICOM will increasingly be exposed to the intensive competition of global market. In this context the continued economic development of CARICOM economies requires increased international competitiveness of existing and future exports of goods and services. The challenge of economic development for CARICOM in this new global economy is creating and sustaining a process of continuous upgrading and renewal of internationally competitive production for both export and domestic consumption.

B. CARICOM SINGLE MARKET AND ECONOMY

The CSME started as the incorporation of nine new protocols into the Treaty of Chaguaramas. An additional five areas are contemplated, covering (1) electronic commerce, (2) government procurement, (3) treatment of goods produced in free zones, (4) free circulation of goods in the CSME, and (5) rights contingent on establishment, provision of services and movement of capital.⁹ These protocols have been incorporated into the Revised Treaty of Chaguaramas as chapters and their provisions are either in force or are in various stages of negotiation, ratification and implementation. In addition, the CSME involves the establishment of several new regional institutions including the Caribbean Organization for Standards and Quality (CROSQ), the Caribbean Court of Justice in November 2004 and the Community Competition Commission some time in the future.

1. The Community's Institutions and Operations

Appropriately, Chapter II of the Revised Treaty provides a strengthened institutional framework to support and facilitate the enhanced programme of regional economic integration and functional cooperation. The principal feature of this chapter is that it modifies the decision-making rule from requiring unanimity, which impeded prompt decision-making, to allowing for decisions by qualified majority vote.

2. Rights of Establishment, Services and Capital

Chapter III removes barriers to the cross-border movement and establishment of businesses so as to promote investment and the intra-regional movement of goods, services and capital. The rights of establishment provided in this chapter are a significant departure from the original Treaty provisions because it provides CARICOM nationals with the right to establish businesses, provide services and move capital any where in CARICOM, except for a few areas where restrictions apply until 2005. The removal of legal, administrative and other restrictions permit the establishment of subsidiaries, branches and agencies and allow for the movement of managerial, supervisory and technical personnel. It is also a positive incentive to investment as it enshrines the right of non-discriminatory access to and ownership of land, businesses and other property.

3. Industrial Policy

Part I of Chapter IV makes provision for industrial policy and to date thirteen Member States have signed and declared provisional application, while one Member State has deposited its instrument of ratification. The Community Industrial Policy is targeted to the development of a wide range of sectors. It seeks to stimulate market driven production, which is internationally competitive in price and quality. It is also intended to stimulate the generation and transfer of technology.

4. Agricultural Policy

The objective of Part II of Chapter IV is to promote the diversification and transformation of the agricultural sector leading to improved efficiency in production and marketing within the region and for export. It includes provision for the management of natural resources, fisheries and forestry and for sustainable development. It also seeks to promote and maintain adequate sanitary and phyto-sanitary regimes.

5. Trade Policy

The fifth chapter deals with trade policy and includes the rules and disciplines governing intra-regional trade within the framework of the Single Market and Economy. It also obligates Member States to coordinate their trade policies with third states and pursue the negotiation of external trade agreements on a joint basis. The establishment of the Caribbean Regional Negotiating Machinery has facilitated a common approach to external trade negotiations at a time when the region is involved in an unprecedented number of external negotiations, notably the WTO, the FTAA and the EU-ACP arrangements. By facilitating a common external trade policy for CARICOM this protocol seeks to revamp the network of existing trade partnerships and provide a platform for the negotiation of new agreements with traditional and non-traditional partners.

6. Transport Policy

One of the constraints on the growth of intra-regional trade is the inadequate transportation system, which in some cases involve an absence of adequate land, air and sea transportation infrastructure to facilitate commerce. For example, canned fruit juice from Jamaica destined to the Bahamas is trans-shipped through the port of Miami, increasing the cost to consumers and increasing the time of delivery. The Community Transport Policy includes among other things, the provision of adequate, safe and internationally competitive community transport services for the development and consolidation of the CSME.

7. Special Regime for Disadvantaged Countries, Regions and Sectors

Chapter VII provides for temporary technical and financial support to the smaller economies within the region and to sectors, which could suffer dislocation due to the coming into effect of the Single Market and Economy. The Regime for Disadvantaged Countries, Regions and Sectors provides support for sensitive industries through the establishment of a development fund for transitional, technical and financial assistance to promote viability and competitiveness.

8. Competition Policy

Eleven Member States adhere to the provisions of Chapter VIII, which sets out CARICOM's competition policy, which is intended to ensure that unfair business practices do not diminish the efficacy of a regional free market. This chapter includes provisions for a Community Competition Commission, the scope of which extends beyond monitoring corporate conduct to encompass consumer protection. It is envisioned that national competition authorities will coexist with the regional body. However it is not clear that all Member States will be able to establish and operate their own institutions.

9. Dispute Settlement

Dispute Settlement is treated in Chapter IX, which provides six modes of resolution including 'good offices', mediation, conciliation, arbitration and adjudication. Such arrangements provide transparent mechanisms for the resolution of disputes, and will be further strengthened when the Caribbean Court of Justice comes into operation.

C. OBJECTIVES OF THE SINGLE MARKET AND ECONOMY

The objectives of the CSME include the following:

1. Promote Economic Development

The CSME is a regional economic arrangement, which can contribute significantly to the structural transformation and economic development of the small, developing economies of CARICOM. Adjustment and transformation has been made urgent by profound changes in the international economic environment in the last 10–15 years¹⁰ and the challenges of globalization. Owen Arthur, Prime Minister of Barbados, who has responsibility within CARICOM for overseeing the implementation of the CSME believes this to be “the only realistic and viable option by which to achieve sustainable development” and “the most effective means by which the individual economies of the region can be successfully integrated into the proposed new hemispheric economy and the evolving global economic system.”¹¹

The Revised Treaty in Article 6 (e) states that the objectives of the integration process include “enhanced levels of international competitiveness” and in Article 6 (f) refers to increased productivity.¹² The CSME is the mechanism which can bring these goals to fruition. The CSME can offset some of the disadvantages of small size by consolidating national into a larger regional market. An enlarged market and pool of resources, which would be available in a regional market, would mitigate some of the constraints of the small size of national markets and would permit the attainment of economies of scale in an increased number of economic activities. The regional market, in addition to facilitating the realization of economies of scale, would promote efficiency and international competitiveness by enhancing the intensity of competition. Achieving improved efficiency and attaining economies of scale can also permit reduced costs of production, which can be passed on as lower prices to consumers and less expensive inputs for both domestic and export production.

The rationale for regional economic integration¹³ is to overcome the limitations of small size by the formation of the regional market by liberalizing the national impediments to the trade in goods and services. It is also anticipated that the freedom of movement of the factors of production would lead to an expansion of intra-regional trade, the attainment of economies of scale and increased flows of private investment. All this would in turn stimulate economic growth by the increase in production, capital formation and employment. In situations where private enterprise fails to identify and utilize opportunities, the State could initiate regional projects for integrated production. Beyond the stimulation of economic growth the CSME is intended to facilitate the structural adjustment of Member States in a manner which will reduce their vulnerability to external shocks and provide for sustainable economic development. In this regard there may have been an overestimate of the extent to which the aggregation of a number of small economies can amount to a market size sufficient to produce economies of scale and induce the commencement of new types of production previously prohibited by the size of individual national markets. Similarly, the hoped for reduction in vulnerability to external developments has not been realized despite progress in regional economic integration.¹⁴

The thrust for economic development will be reinforced by functional cooperation in the form of the establishment of common services in such areas as education, health, security, scientific research and transport. The justification is the pooling of resources will allow the attainment of a critical mass, rationalization of resources use on a regional scale, avoidance of costly duplication and standardization across Member States. The coordination of foreign policies and conduct of external negotiations is intended to increase the bargaining power of the region vis-à-vis larger, more powerful countries or groups of countries. This function has become so important and specialized that in 1996 the CARICOM governments established the Caribbean Regional Negotiating Machinery to service their external trade negotiations.¹⁵

Intensified competition can encourage innovations in technology and production. Improved competitiveness can promote exports and discourage extra-regional imports. The enlargement of the market

will permit some firms to produce larger volumes for a regional market. The larger scale of production will allow CARICOM firms to achieve economies of scale and economies of scope, i.e., economies obtained when a firm uses its existing resources, core skills and technologies to create new products or services. The CSME can generate an intensification of competition, which can engender improved productivity. In addition, the CSME could foster efficiency by increasing macroeconomic stability, facilitating risk reduction and promoting infrastructure development and thereby contribute to improved competitiveness.¹⁶

2. Facilitate the Transition to Global Markets

Several Caribbean firms have employed a variety of corporate strategies to achieve international competitiveness and export market penetration, including branding and niche marketing.¹⁷ While many firms moved directly from national to international markets, the experience of exporting in the CARICOM market could be helpful particularly to smaller firms. The full operation of the CSME would assist exporters in the transition to competing in the global market place by providing an arena and an intermediate period of exporting in a regional market with competition from firms of similar size and capability. Exporters trading in the regional market can gain valuable experience, which will enable them to compete more effectively in a hemispheric market and in the global economy.

In many instances formal arrangements for regional integration have been driven by and preceded by a period of corporate integration, e.g., between Brazil and Argentina before the MERCOSUR was established and between the southern United States and northern Mexico, before the conclusion of NAFTA. In other cases corporate integration occurs after formal economic integration, e.g., the merger and take-over process, which has led to the integration and consolidation of the European business sector. In CARICOM corporate integration has neither preceded nor been facilitated by formal integration arrangements. Such a process could be very helpful to CARICOM firms, which are all small by global standards, by increasing their size through mergers and strategic corporate alliances. This process has occurred unevenly across sectors being most pronounced in distribution, banking and insurance and has been impelled by motivation only partially related to regional integration. However, there has been a recent surge in corporate reorganization¹⁸ in anticipation of progress in the CSME and the possible conclusion of external negotiations in the FTAA and WTO.

3. Provide Positions in External Trade Negotiations

The CSME should provide the foundation for a common approach to the external trade negotiations. The Revised Treaty in Article 6 (g) and (h) establishes as objectives "the achievement of a greater measure of economic leverage and effectiveness" in external relations and "enhanced coordination of Member States' foreign and (foreign) economic policies."¹⁹ The Revised Treaty does explicitly link the CSME to the external trade negotiations, by constraining Member States in bilateral agreements to not prejudice their obligations under the Treaty.²⁰ This reference could reasonably be interpreted to mean that the same restriction applies to agreements entered into by CARICOM as a collective. There is no language explicitly forbidding CARICOM from negotiating and signing trade agreements, which entail obligations in areas which have not been completed in the CSME process.

D. STATUS OF THE CSME

There is an important distinction between the Single Market and the Single Economy. The concept of a single economy extends beyond that of a regional market free of barriers to the movement of goods, services, capital and certain types of labour to encompass common policies and common instruments. A CARICOM single economy would involve coordination of macroeconomic and monetary policies, harmonization of fiscal policies and a common currency. These are issues that have been discussed since the time of the West Indies

Federation and are long-term goals, but which are not being actively contemplated or have been abandoned.²¹ The existence of a single economy is not a necessary condition for generating common positions for the purpose of external trade negotiations. However, the single market can provide the basis for common positions in external trade negotiations.

Nearly 15 years after the inception the CSME substantially all of intra-regional trade is unimpeded by barriers²² but the CSME is not yet a reality. A considerable amount of work remains to be completed, as there are roughly 350 restrictions on capital mobility, movement of labour, provision of services and the rights of establishment of enterprises.²³ In addition, the necessary harmonization of legislation would affect as many as 75 instruments.²⁴ Girvan has estimated what he calls the "implementation deficit" at 40–50 per cent in attaining free movement of goods, services, persons and capital and at 100 per cent for the harmonization of laws.²⁵

It is proposed that Barbados, Jamaica and Trinidad and Tobago will be CSME compliant by the end of 2004 with the latest revision of the schedule of implementation having a completion date of December 31, 2005. However, some regard these targets as optimistic or even unattainable, e.g., the Leader of the Opposition in Jamaica has pronounced the target as "absolutely, completely and totally impossible."²⁶ The recent damage by hurricanes to several Member States is likely to require another postponement of the date for completion. Prime Minister Arthur has publicly advised that the Special Meeting of CARICOM Heads of Government scheduled for November, 2004 will consider proposals "with a view to having the main aspects of the Single Economy in place by 2008."²⁷

E. POSSIBLE DISJUNCTION BETWEEN CSME AND EXTERNAL NEGOTIATIONS

A disjuncture between the CSME and the external trade negotiations could develop if coverage of the external trade agreements being negotiated differs from that of the CSME and/or there is a divergence between the schedules of implementation of the CSME and the schedule of completion of the external trade negotiations.

1. Divergence of Schedules

A disjuncture between the schedules of completion of the CSME and external trade agreements is a distinct possibility if the current schedule for concluding the negotiations of the FTAA and the Doha Development Agenda of the WTO are accomplished. The negotiations of the Doha Development Agenda of the WTO are scheduled to be completed at the end of 2005 and that for the FTAA slated to be completed at the end of 2004. The FTAA schedule is no longer possible but the revised schedule is not likely to extend the date of completion beyond 2005. The realization of the Doha Development Agenda, whether accomplished on schedule or with a delay will increase the liberalization of multilateral trade and may extend the ambit of the aspects of trade covered by the WTO. Whenever the FTAA negotiations are completed the mandated objective is to produce an agreement, which is WTO-Plus, both in the issues brought under rules and disciplines and the extent of liberalization.

Negotiations for an EPA with the EC began in April 2004 and are scheduled for completion in 2007 after evolving through four phases. The second phase, which started in September 2004 and continues until September 2005 concentrates on strengthening regional integration in the CARIFORUM region. The Dominican Republic and the CARICOM together constitute CARIFORUM for the purpose of negotiating an EPA with the EC. The framework for cooperation is provided by the CARICOM-Dominican Republic Free Trade Agreement, which was signed in August, 1998 and entered into force in December, 2001. The agreement focuses on trade in goods but makes provision for the subsequent incorporation of services, investment, government procurement and intellectual property rights once CARICOM has adopted an internal regime in these disciplines. However, by

nothing has been done to upgrade the agreement as the committees and expert groups to prepare for negotiations have not been established. They could not be constituted because these aspects of the CSME have not been accomplished. Even if the CSME process does not complete regimes in the stipulated areas to consummate the CARICOM-Dominican Republic FTA enough has to be achieved in the CSME to enable the CARIFORUM to make meaningful submissions on the specifics of strengthening integration in the CARIFORUM region.

The coverage and pace of external trade negotiations could require CARICOM to engage in negotiations on a wide range of important issues before these issues have been resolved in the regional integration process. This dilemma must be resolved because lags in the completion of the pertinent aspects of the CSME could be detrimental to the external trade negotiations as it would result in delays, or worse, prevent CARICOM making proposals and proposals in several critical subject areas. The recent experience of the Central American countries is a graphic reminder of what can happen. These countries did not have regional regimes for services and government procurement prior to entering into negotiations with the United States for a free trade agreement. Consequently, the provisions on services and government procurement in the US-Central American Free Trade Agreement (US-CAFTA) have become the de facto national regimes.

Differences in Coverage

The external trade negotiations encompass the gamut of international economic transactions and raise many issues, many of which have not yet been resolved within the internal integration process represented by the CSME. As the external trade negotiations evolve the subject matter, particularly in new issues or where negotiations are at a preliminary stage, issues could arise, which are not covered or contemplated in the CSME. There is a clear and present danger that the external negotiations could advance ahead of the CSME process in subjects as services, government procurement, and competition policy. This dilemma has occurred in the recent past and it is a distinct possibility that it could happen again. For example, in the CARICOM-Dominican Republic Free Trade Agreement provision is made to postpone the negotiations on the liberalization of services until the CARICOM internal regime is in place. As a result, there has undoubtedly been lost opportunities for CARICOM services exports to the Dominican Republic market. A similar situation could arise in the FTAA depending on what is included in the final complement of the services chapter.

Possible areas of divergence include:

(a) Services

Despite the importance of services exports to the actual and future economic development of many CARICOM countries there are a number of important areas where limited progress in the CSME is affecting the negotiation of services in external trade agreements. These include:

1. The lack of a clearly defined common external policy on services and differences in WTO commitments among Member States is hampering a common approach to services offers and requests in the GATS and the FTAA.
2. There has been little discussion on a CARICOM definition of tourism services in the CSME context. This is a prerequisite for articulating a CARICOM concept and approach to tourism in the WTO and FTAA.
3. Work on telecommunications in the CSME process has not progressed in large measure because of the dominance of monopolies. Some liberalization of certain services has taken place but this has been in individual Member States and in the absence of a regional strategy on telecommunications for both intra-regional trade and as regards external trade negotiations.

4. Several important issues relating to the liberalization of financial services have not yet finalized in the CSME and work on air and maritime transport has not started. Negotiations on financial services cannot be ruled out in the FTAA, in bilateral trade agreements such as the proposed CARICOM-Canada Enhanced Trade Agreement and if CARICOM decides to seek a free trade agreement with the United States.

(b) Government Procurement

The uneven and underdeveloped state of CARICOM's government procurement systems and the consequent anticipated costs of compliance with international regimes, even those that are limited to only transparency provisions have necessitated a cautious approach to government procurement in external trade negotiations. In accordance with the single undertaking concept of the FTAA negotiations, CARICOM countries found themselves having to commit to negotiating government procurement including transparency, non-discrimination and due process. This took place ahead of development of the internal regime, which is currently in the first phase of preparatory work. Further, the EU has stated strong interest in negotiating a full government procurement agreement as an integral part of its EPA with CARIFORUM countries. In the absence of the guidance of internal concessions, particularly with regard to the scope of reciprocal market access commitments, CARICOM runs significant risk of granting to third countries wider and deeper market access than that which will become preserved in the CSME regime. With the advent of the two-tiered approach to FTAA negotiations, CARICOM is fortunate to have managed to avoid the brunt of the potential risk as regards market access. However, considerable risk remains in respect of scope and coverage of binding rules on procedural transparency, including the anticipated very high costs of compliance.

(c) Competition Policy

Competition policy is subject to negotiation in the FTAA and in the CARIFORUM-EU Economic Partnership Agreement. Article 45 of the Cotonou Agreement²⁸ commits the parties to "ensure the elimination of distortions to sound competition" and "undertake to implement national or regional rules". The article provides for cooperation between national competition agencies with a view to formulating and implementing effective competition policies. However, only Barbados and Jamaica have national competition laws and national competition authorities. The other Member States of CARICOM are studying a draft model law and examining the feasibility of establishing and operating national competition agencies. It is difficult to predict with any certainty when all Member States will have both laws and authorities and hence the stance in external trade negotiations postpone tackling this area.

(d) Intellectual Property Rights.

The Member States of CARICOM are focused on the full implementation of the WTO Trade Related Intellectual Property Rights (TRIPS) and are reluctant to engage in negotiations of intellectual property rights, which would go beyond TRIPS. This is the position, which has been consistently articulated in the WTO, FTAA and the EPA between CARIFORUM and the European Union. However, there are issues of interest to the region, which may be included in any or all the major negotiations in which the region is involved. Greater protection for Geographical Indications and treatment of Genetically Modified Organisms are issues, which CARICOM must give careful attention to ensure that its concerns and objectives are adequately addressed. Unfortunately neither the provisions nor vision of the CSME provide any guidance.

The CARICOM Single Market and Economy can and should provide a common negotiating platform in extra-regional negotiations thereby strengthening the region's position in external trade negotiations. This will allow the region to have coherent positions on most of the issues currently being negotiated or contemplated

for inclusion in the negotiations. Given the schedule of the major external trade negotiations and the experience of implementing the CSME there is a real danger that negotiations could outpace the establishment of the CSME. The foregoing examples highlight some of the areas in which the region's negotiating positions could be compromised by the disjuncture between the external trade negotiations and the CSME. Such a situation would weaken CARICOM's negotiating position by depriving the region of a common platform on several important issues and could force the postponement or avoidance of negotiations in certain critical areas.

3. Credibility of Negotiating Stance

Delay in completing the CSME will not only force CARICOM into a reactive mode because it will be formulating its negotiating stance and strategy in response to external factors rather than the logic and state of its integration process. It also seriously undermines the credibility of the arguments in favour of special and differential treatment (S&DT) in the form of asymmetrical implementation schedules and long phase-in periods. It places the CARICOM negotiators in the invidious position that the rationale for this type of S&DT is that the extra time allowed would be used for adjustment when the reality is that the long delayed CSME is viewed as the lack of commitment to adjustment and liberalization. Is it credible or reasonable to make strong demands for liberalization of Modes 3 (commercial presence) and 4 (temporary movement) of services supply when the free movement of skills and persons among CARICOM Member States is so comprehensively enumbered with restrictions?

This dilemma limited the efficacy of CARICOM's advocacy at the UK/CARICOM Ministerial Forum in May 2004. David Jessop commented:

While reference was made to the need for adequate time for transition to newer industries, little was said at the London conference about what this would be used for, or how the process would be managedUnfortunately many of the remarks made at the forum on these important issues failed to be prefaced by any indication of where the Caribbean is trying to reach ultimately....there was little discussion on whether the region or individual nations had clear plans.²⁹

F. OUTLOOK FOR COMPLETING THE CSME

The complementation of the CSME on schedule faces a number of difficulties:

1. Diversity in the Structure and Policies of Member States

The Member States of CARICOM differ in size, economic structure, rates of economic growth,³⁰ levels of development, economic policy and institutional capacity. GDP per capita ranges from range US\$460 in Haiti to US\$16,691 in the Bahamas while the population of St. Kitts is 42,000 and that of Haiti is 8.1 million.³¹ These substantial and growing divergences have prompted one of the advocates of regional integration to wonder if these pronounced differences constitute such severe difficulties that they will undermine the momentum of the CSME process and possibly threaten the political durability of the Caribbean Community.³² A more likely scenario is that these differences will complicate and delay the implementation of the CSME. In addition there are serious differences in the degree to which Member States are participating in the existing integration process and the extent to which new members can catch up with the process, in particular Haiti and Suriname.³³

These differences make the formulation of common positions in external trade negotiations more difficult. Ideally the region's external trade policy and approach to external trade negotiations should be a derivative of a regional economic development strategy.³⁴ In the absence of a regional development strategy a concerted effort is needed to ensure that national development strategies are consistent with the framework of the CSME.

2. Acceleration of Implementation

Existing institutional arrangements may not be the most conducive for the rapid and efficacious implementation of the CSME. Critical weaknesses include lack of legal effectiveness of decisions and lack of implementation/enforcement capacity.³⁵ Brewster has argued that the current institutional arrangements vest the locus of decision-making in the governments of the individual nation states. This constitutes intergovernmental cooperation in which there is very limited transfer of sovereignty to supranational regional institutions and bodies. Implementation is at the discretion of governments and the record demonstrates that it has been very difficult to accomplish the actions required to achieve implementation. The existing arrangements and practices do not encourage the Member States to yield sovereignty, which is in contrast to the EU where the institutional arrangements provide for supranational decision-making and legislative authority.³⁶

Thirty years ago Demas pointed out the "paradox of sovereignty" in which a "greater degree of effective sovereignty is attainable by each Caribbean country only through some surrender to the sovereignty to the regional collectivity of some of its formal sovereignty."³⁷ Belatedly the inadequacies of the current institutional arrangements have been recognized by the CARICOM Heads of Government and it is proposed that decisions on a new structure will be made in the immediate future based on the recommendations of the Prime Ministerial Expert Group on Regional Governance.

In implementing and operating several aspects of the CSME there may be parallel bureaucracies at the national and regional levels, for example, in competition policy. How the overlapping and/or shared responsibilities will be handled and where exactly the line of demarcation will be drawn in each of these areas will vary and evolve from practice. The extent to which the duplication of institutions at the national and regional levels can be avoided will reduce the costs of establishing and operating the CSME.

3. Cost of Implementation

The cost of implementing the CSME will be considerable in a context where the costs of regional decision making and operations of a plethora of regional institutions already place a considerable strain on Member States, especially the smallest ones. The costs of accomplishing the multiplicity of tasks involved in the implementation of the CSME during the fiscal years 2004–2005 are estimated to be US\$26.83 million³⁸ and US\$72 million over the next ten years.³⁹ Financing the implementation costs will depend on both the resources of Member States of CARICOM and development assistance from extra-regional sources.

It will be difficult for Member States to meet these demands given the large fiscal deficits and high level of indebtedness of many governments. Seven of the ten most indebted emerging market countries are CARICOM Member States.⁴⁰ This is compounded by the horrendous damage⁴¹ caused by hurricanes to several Member States in particular Grenada, Haiti, Jamaica and the Bahamas, which will make financing the cost of implementation even more challenging. The damage is so severe in Grenada that it may have to be granted a special derogation.

Many aspects of implementation, in both regional institutions and in Member States are dependent to a considerable extent on funding from bilateral development agencies and multilateral financial institutions. There is the risk that prolonged delays in implementation could cause 'donor fatigue' among funding institutions which have been involved over long periods and discern little evidence of a transition to reliance on funding from CARICOM sources.

4. Public Awareness and Support

There is a widespread lack of awareness among the public. For example, the inadequate awareness about the importance of implementing the CSME is evident in the fact that 65 per cent of Jamaicans have never heard of the CSME and only 10 per cent could identify any component of the CSME.⁴² This has been a persistent problem since the inception of the regional integration process and is in part due to focusing on involving

the groups while neglecting the so-called 'mass level'.⁴³ Prime Minister of St. Lucia, Dr. Kenny Anthony has recognized the need to "shorten the distance between the hallowed halls of regionalism and the fallow footprints of popular aspiration."⁴⁴

Many in the business sector, who will be most directly and immediately affected, do not evince the type of resolute commitment to the CSME that might energize the process of implementation. A survey of CEOs of Caribbean companies revealed that 91% felt that their companies were ready for competition in the CSME and 65% expected benefits including a larger regional market, a bigger pool of skilled labour and capital, increased efficiency from economies of scale and higher levels of growth. However, only one in ten CEOs expected increased global competitiveness to be one of the benefits forthcoming from the completion of the CSME.⁴⁵ This is disturbing because one of the objectives of the CSME is to improve competitiveness to the point where Caribbean firms can survive and thrive in the global market place. Boxill's survey of Jamaica and St. Lucia reveals that the "economic elite demonstrates the weakest regional sentiment, and the least positive attitudes toward regionalism."⁴⁶ Attitudes of the business sector towards the CSME relate to the wider societal and cultural milieu, for example, the disposition of the business sector in Jamaica towards exporting to the CARICOM market in part reflects attitudes and mindsets toward exporting in general.⁴⁷

Public support for the CSME should not be taken for granted simply because of the commonality of location, small size, culture and historical experience. The collapse of the West Indies Federation under the weight of nationalism and parochialism should be a salutary lesson. The fear that the free movement of labour will lead migrants from Guyana, Haiti, Jamaica and Grenada to overrun the more prosperous domains of the Bahamas, Barbados and Trinidad is palpable. The deeply felt concern about the movement of labour has been repeatedly and openly expressed by a wide cross-section of society including teachers in Jamaica⁴⁸ and trade unionists in Barbados.⁴⁹ The concern is evident even among the very political leadership charged with creating the CSME. Said Musa, Prime Minister of Belize stated that "the major constraint, as I see it, is not the free movement of goods or services or capital but rather the free movement of people."⁵⁰ Such strong sentiments should not be dismissed as mere insularity⁵¹ as they represent entrenched views of national interest.

Ironically many of the problems, which the CSME is intended to solve did not exist in the colonial period but sprang up after political independence was attained. Governments erected barriers to trade, ownership and the movement of Caribbean nationals, capital and goods, which are now proving extremely difficult to remove. Caribbean people for decades moved among the various territories without the difficulties and hostility, which emerged when national governments decide to help. Blackman laments that:

With the coming of independence these patterns of regional intercourse have been drastically altered. National sentiment operated not only against the former colonial powers, but often with greater intensity against other West Indians, who became subject to entry and work permits.⁵²

5. Limited Corporate Impetus

In many instances of successful economic integration the driving force, after the initial conception by governments, is the business sector. In Western Europe the impetus to deepen the integration process to the creation of a common market and on towards an economic union including a common currency, emanated from the desire of firms for a larger market and the free movement of factors of production. Similar impulses lay behind the establishment of the North American Free Trade Area (NAFTA) and the MERCOSUR. In the EU and NAFTA it was changes in business organization, the expanded size of firms, and the pursuit of economies of scale and scope which propelled governments to strive to create as quickly as possible a single economic space. However,

in the case of CARICOM it was governments that envisioned the regional market and have endeavoured to deepen regional integration in the hope of spurring a transformation of the size.

However, in the case of CARICOM it was governments that envisioned the regional market and have endeavoured to deepen regional integration in the hope of spurring a transformation of the size, structure and operations of locally owned firms. In the CARICOM integration process corporate integration through strategic alliances, mergers and takeovers is a recent and nascent development.⁵³

Locally owned firms in CARICOM countries, including those that have region-wide operations, are micro-enterprises by global standards⁵⁴ and their natural survival instinct has driven them to demand protection from competition with larger external firms. This response is logical given the substantial cost disadvantages they confront in competing with larger firms.⁵⁵ The situation is compounded where small firms operate in small national markets, which do not provide the stimulus for improved efficiency, product development, technological updating and innovation, which emanate from competition.⁵⁶ The protectionist policies that these firms have been able to induce governments to entrench are aimed not only at foreign owned firms, in particular multinational corporations, but just as virulently at firms from other CARICOM Member States. Small firms survive by control of their national markets and maintain economic rents through protectionist trade barriers and discriminatory investment regimes. This risk-averting behaviour does not encourage innovation and international competitiveness and puts up formidable resistance to trade liberalization and removal of barriers to entry by firms from outside, including those from other CARICOM states. Misplaced nationalism, economic xenophobia about ownership and the assumption that locally owned firms have a higher propensity to reinvest their profits in their domicile have stymied the free movement of capital and labour thereby depriving firms of means of improving their efficiency.

Firms which have expanded their operations on a region-wide scale are either (a) foreign owned multinational corporations that have rationalized their CARICOM or Caribbean operations as part of the logic of their global operations or (b) Caribbean firms which are nationally owned but which have regionalized their operations, e.g., Grace Kennedy of Jamaica, Sagikor of Barbados, Royal Bank of Trinidad and Tobago. On closer examination many of the new firms with region-wide operations did not emerge in response to the existence of or prospect of a regional market but rather to the advantages of diversification of operations and the economies of scale to be derived from operations spread across several markets or production locations, e.g., Sandals of Jamaica. Most of the early region-wide entities are government-owned or have substantial government involvement with The University of the West Indies being an example of the former type of institution and the airlines Air Jamaica and BWIA an illustration of the latter. This reality also prevails at the sub-regional level with LIAT being a case in point.

G. SYNCHRONIZATION OF THE CSME AND EXTERNAL TRADE NEGOTIATIONS

The CSME will not be completed by the end of 2005 and a new schedule of completion may extend as far as the end of 2008. The current deadlines for completing the negotiations in the WTO and FTAA, which are the end of 2004 and the end of 2005 respectively are not likely to be attained. If the WTO and FTAA were to be finished before or about the date for completing the EPA negotiations then the end of 2007 becomes a limit to the deferments of the CSME. There is the distinct possibility that there will be a disjuncture between the CSME and the external negotiations. If it is the case that the schedules in the external negotiations are to be completed before the full construction and operation of the CSME there will be harmful consequences for both the CSME and the external trade negotiations. These consequences include:

1. The demands of the external negotiations might distort the CSME process because the pressure to negotiate certain subjects could unbalance the priorities and pace of the CSME implementation process. Subjects that are urgent for the external negotiations might receive more attention than other areas, especially if development assistance is focused on those topics.

2. The ability of the CSME to promote economic development may be undermined because earlier than planned exposure to the global economy may preempt the opportunity of firms to sufficiently increase the international competitiveness of the goods and services they produce.
3. Firms would be derived of a period of transition from the national market to the unabated pressures of the competition in the global marketplace.
4. It will compromise the positions which the region can cogently articulate in the external trade negotiations or derive CARICOM from having a position in tandem with the CSME.

The probability of delays in the external trade negotiations should not cause CARICOM to lapse into complacency about the implementation schedule of the CSME. Nor should CARICOM predicate the CSME schedule on the notion expectation of further postponements in the schedule of external negotiations. CARICOM does not have the option of dropping out of the current external negotiations nor should it allow any internal development to interfere with the design and implementation of the CSME. It is therefore essential and urgent that there be a synchronization of the CSME and the external trade negotiations.

Notes

- ¹ Size is an additional but not binding constraint on economic development. See Clive Y. Thomas, *Dependence and Transformation: The Economics of Transition to Socialism* (New York: Monthly Review Press, 1974).
- ² There are four stages of progressively closer integration, namely: a free trade area, a customs union, a common market and an economic union. See Bela Belassa, *The Theory of Regional Integration* (London: George Allen and Unwin, 1962) p. 2.
- ³ The Caribbean Free Trade Association was modeled very closely on the European Free Trade Association according to Havelock Brewster, "Caribbean Economic Integration. Problems and Prospects", *Journal of Common Market Studies* IX (June 1971).
- ⁴ William Demas, *The Economics of Development in Small Countries with Special Reference to the Caribbean* (Montreal: McGill University Press, 1965).
- ⁵ A series of studies produced and published by Caribbean economists at the University of the West Indies, Mona, Jamaica, were very influential among the political leadership and policymakers. See Havelock Brewster and Clive Y. Thomas, *The Dynamics of West Indian Economic Integration* (Mona, Jamaica: Institute of Social and Economic Research, 1967; Norman Girvan, *The Caribbean Bauxite Industry* (Mona, Jamaica: Institute of Social and Economic Research, University of the West Indies, 1967), and Steve De Castro, *Problems of the Caribbean Air Transport Industry* (Mona, Jamaica: Institute of Social and Economic Research, University of the West Indies, 1967).
- ⁶ Forbes Burnham, "We Must Integrate or Perish," in *A Destiny to Mould: Selected Discourses by the Prime Minister of Guyana* (London: Longmans, 1970). In 1943 the future Prime Minister of Trinidad and Tobago, Dr. Eric Williams stated that the economic development of the West Indies "must involve a closer union of the now separated Caribbean units." See E. Franklin Frazier and Eric Williams (eds.), *The Economic Future of the Caribbean* (Washington DC: Howard University Press, 1944) p. 24.
- ⁷ The idea of a customs union was mooted as early as during the West Indies Federation of the late 1950s. For an overview of the transition from CARIFTA to CARICOM see W. Andrew Axline, *Caribbean Integration: The Politics of Regionalism* (London: Frances Pinter, 1979), Chap. 5.
- ⁸ Article 4 (a) of the Treaty Establishing the Caribbean Community, Chaguaramas, 4th July 1973 (Georgetown: Caribbean Community Secretariat, 1973), p. 4.
- ⁹ Revised Treaty of Chaguaramas Establishing the Caribbean Community including the CARICOM Single Market and Economy, Article 239.

- ¹⁰ Richard L. Bernal, "The Caribbean's Future is Not What It Was", *Social and Economic Studies*, 52 (1) March 2003: 185–217.
- ¹¹ Rt. Hon. Owen Arthur, Implementation of the CARICOM Single Market and Economy, and its Implications for US-CARICOM Economic Relations," Address to the Special Symposium by the American Business and Consulting Group, Brooklyn, New York, April 2, 2004, pp. 2–3.
- ¹² Revised Treaty Establishing the Caribbean Community including the CARICOM Single Market and Economy, Article 6, p. 8.
- ¹³ William Demas, *Essays on Caribbean Integration and Development* (Mona, Jamaica: Institute of Social and Economic Research, University of the West Indies, 1976) pp. 117–47.
- ¹⁴ Richard L. Bernal, "CARICOM Externally Vulnerable Regional Economic Integration," in *Economic Integration in the Western Hemisphere*, ed. Roberto Bouzas and Jaime Ros (Notre Dame: Notre Dame University Press, 1994), pp. 171–202.
- ¹⁵ For the structure and functions of the Caribbean Regional Negotiating Machinery see WWW. cmm.org
- ¹⁶ These factors were found to contribute to competitiveness in small developing economies. See Alvin
- ¹⁷ Alvin G. Wint, *Competitiveness in Small Developing Economies: Insights from the Caribbean* (Kingston: University of the West Indies Press, 2003).
- ¹⁸ Trevor M.A. Farrell, Caribbean Economic Integration – What is Happening, What Needs to be Done. October, 2003.
- ¹⁹ Revised Treaty Establishing the Caribbean Community including the CARICOM Single Market and Economy, Article 6, p. 8.
- ²⁰ Ibid., Article 80, p. 54.
- ²¹ Havelock Brewster, "CARICOM: From Community to Single Market and Economy," in *Governance in the Age of Globalisation: Caribbean Perspectives*, ed. Kenneth O. Hall and Denis Benn (Kingston: Ian Randle, 2003), p. 499–508.
- ²² The CARICOM Secretariat estimates the figure to be 95 per cent of intra-regional trade. Cited by Havelock R. Brewster, "The CARICOM Single Market and Economy: Is It Realistic Without Commitment to Political Unity?" *Journal of Eastern Caribbean Studies*. 28 (3), September, 2003: 4.
- ²³ Havelock Brewster, Luis Abugattas, Tom Dolan, Taimoon Stewart and Noel Watson, CARICOM Single Market and Economy: Assessment of the Region's Support Needs. Report prepared for the CARICOM Secretariat (Georgetown, June 2003) p.v.
- ²⁴ The list of laws to be harmonized in Article 74 and passim in Chapters III, IV and V of the Revised Treaty Establishing the Caribbean Community including the CARICOM Single Market and Economy.
- ²⁵ Norman Girvan, "Reflections on the CSME", *Trinidad and Tobago Review*, .26 (4), April 5, 2004:16–19.
- ²⁶ "Caribbean not ready for CSME – Seaga says regional legislation not in place", *Jamaica Daily Gleaner*, April 29, 2004.
- ²⁷ The Rt. Hon. Owen Arthur, The Role of Labour in Promoting the Caribbean Single Market and Economy. Lecture to the 15th Triennial Delegates' Congress of the Caribbean Congress of Labour, Paramaribo, Suriname, October 19, 2004.
- ²⁸ Partnership Agreement between the Members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000, p.29.
- ²⁹ David Jessop, "Transition to Uncertainty," *Trinidad and Tobago Review*, June 7, 2004, p.5.
- ³⁰ Economic Overview of Caribbean Economies, 2002–2003, United Nations Economic Commission for Latin America and the Caribbean, LC/CAR/G.766, 12 December, 2003.
- ³¹ World Bank and Economic Commission for Latin America and the Caribbean.

- ³² Norman Girvan, "Reflections on the CSME," *Trinidad and Tobago Review* 26 (4), April 5, 2004: 16–19. On rethinking traditional ideas of integration see Vaughan Lewis, "Time and Tide: Changing Orientation Towards Caribbean Integration," *Social and Economic Studies*, 48 (4), December, 1999: 83–96.
- ³³ Anneke Jessen and Andrew Katona, *Breaking from Isolation: Suriname's Participation in Regional Integration Initiatives*, INTAL-ITD-STA Occasional Paper 10 (August 2001).
- ³⁴ Richard L. Bernal, "CARICOM States and the FTAA: Adequacy of Preparation: Participation and Negotiating Structures," in *Small Caribbean States and the Challenge of International Trade Negotiations*, ed. Anthony Gonzales (Port of Spain: Institute of International Relations, The University of the West Indies, 1998).
- ³⁵ Recommendations of the Think-Tank on Options for Governance, St. Augustine Campus, The University of the West Indies, 20 February 2004.
- ³⁶ Havelock Brewster et al., *CARICOM Single Market and Economy: Assessment of the Region's Needs*, Report prepared for the CARICOM Secretariat (June, 2003).
- ³⁷ William Demas, *Essays on Integration and Development* (Institute of Social and Economic Research, University of the West Indies, 1976), p.68.
- ³⁸ Ivor Carryl, *Work Programme: To Complete Establishment of the CSME: Scope and Priorities*. Presented to the RNM-Commonwealth Secretariat Guidelines for EP A Negotiations, St. Kitts and Nevis, 7–11 June 2004.
- ³⁹ "CSME will need US\$72m", *The Gleaner*, July 8, 2004, p.1.
- ⁴⁰ Ratna Sahay, *Stabilization, Debt and Fiscal Policy in the Caribbean*, International Seminar on Development Challenges Facing the Caribbean, Port of Spain, Trinidad and Tobago, June 11–12, 2004.
- ⁴¹ Hurricane Ivan destroyed 9 out of 10 homes in Grenada and affected 300,000 in Haiti. See *The Caribbean Hurricanes*, U.S. Agency for International Development, Fact Sheet #2, Fiscal Year (FY) 2005, October, 2004.
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