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### Priorities for the Rationalisation of Regional Agricultural Production and Trade in the CSME

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## I. INTRODUCTION

Notwithstanding widespread concerns about the implications of global trade liberalisation, preference erosion resulting from the proliferation of regional free trade arrangements, the apparent decline in both the relative and absolute performance of the Region's major export crops, the limited success of national agricultural production and trade diversification programmes and increased re-allocation of limited resources - human, physical and capital - away from agriculture towards non-agriculture, the development of agriculture in the Region is considered to be a key component of the development of the Caribbean Community (CARICOM). The Revised Treaty of Chaguaramas establishing the Caribbean Community including the CARICOM Single Market and Economy [2001], (hereinafter referred to as The Revised Treaty) specifies a common agricultural policy for the integrated development of agriculture in the Region and identifies specific measures for achieving the stated policy objectives.

In some CARICOM Member States, such as Belize, Guyana and Suriname, which depend heavily on the exports of key primary agricultural commodities, the performance of the agricultural sector is virtually synonymous with overall economic performance. In these countries the contribution of agriculture to Gross Domestic Product (GDP), employment, exchange earnings and balance of payments stability generally exceeds that of all other economic sectors. In other CARICOM countries with a more diversified export base, such as Jamaica and Trinidad and Tobago, the relative share of agriculture to GDP and export earnings tends to obscure the contribution of the sector to employment, rural income and livelihood security, and national food and nutrition security, in these countries. In the case of the smaller, and predictably more vulnerable, economies within CARICOM, which, arguably, have experienced the brunt of the effects of global trade liberalisation on agricultural export performance, and which have more vigorously diversified their economic base to embrace non-agricultural, primarily service activities, agriculture remains critical to overall economic, social and political stability.

This paper seeks to identify the key priorities for CARICOM in rationalising agricultural production and trade in the CSME within the context of its external negotiating agenda, the deepening of trade liberalisation at the regional, hemispheric and global levels and the need to ensure food and nutrition security and sustainable rural livelihoods. The paper briefly reviews the main provisions on agriculture contained in The Revised Treaty, examines some of the main external factors impinging on regional agricultural production and trade and identifies some of the issues which should be addressed in order to enhance and sustain the contribution of agriculture to regional economic welfare, growth and development.

## II. AGRICULTURE IN THE CSME

The preamble to the Revised Treaty [2001] states that CARICOM Member States, in recognition of *"the need to promote in the Community the highest level of efficiency in the production of goods and services, especially with a view to maximizing foreign-exchange on the basis of international competitiveness, attaining food security, achieving structural development and improving the standard of living of their peoples"* and being aware that *"optimal production by economic enterprises in the Community requires the structured integration of production in the Region"* agree to, *inter alia*, a common agricultural policy outlined in Article 56 of the Revised Treaty and which has as its goal: (a) the fundamental transformation of the agricultural sector towards market oriented, internationally competitive and environmentally sound production of agricultural products (b) improved income and employment opportunities, food and nutrition security, and poverty alleviation in the Community (c) the efficient cultivation and production of traditional and non-traditional primary agricultural products (d) increased production and diversification of processed agricultural products (e) enlarged share of world markets for primary processed and agricultural products; and (f) the efficient management and sustainable exploitation of the Region's natural resources, including its forests and the living resources of the exclusive economic zone. The attainment of this goal is to be pursued taking into account the differences in resource endowment and economic development of the Member States.

Although Article 57 of the Revised Treaty specifies the means through which the goal of the Community agricultural policy would be achieved, the extent to which Member States have implemented a comprehensive programme of agricultural sector transformation is debatable. Several initiatives, including a "Regional Transformation Programme" (RTP) for Agriculture and more recently "The Jagdeo Initiative" which is aimed at addressing key constraints to the development of the sector, have been discussed but it is difficult, or perhaps too early, to identify meaningful results in the form of increased agricultural output and incomes or greater co-ordination in regional agricultural production, processing, marketing and distribution, which can be attributed to these regional efforts. Of course, agricultural enterprise, no less than the industrial goods or services sectors, would depend on all the elements of the CSME in order to attain the sector's transformation envisaged under the CSME. As such, the provisions on the rights of establishment, free movement of the factors of production (capital, labour and enterprise) and the trade, transportation and support policies are as critical to integrated regional agricultural development as they are to industry and services development and trade. Whether the formal implementation of the CSME in January 2006 will spur the desired transformation of the sector depends, in part, on whether the CSME effectively addresses both policy and structural constraints which inhibit agricultural activities on a regional basis.

The common agricultural policy articulated in the Revised Treaty is significant for the emphasis which it places on the transformation of the agricultural sector. Prior to the advent of globalization and its related trade liberalisation and structural adjustment processes, agricultural production and trade in CARICOM were largely public sector driven and operated in an environment characterised by significant government support to agriculture both directly through the grant of subsidies and indirectly through heavy investments in infrastructure, research, extension and marketing; highly protective tariffs in both the domestic and export markets; proliferation of non-tariff barriers including quantitative restrictions administered through import licensing regimes; relative absence or insignificance of standards, technical regulations, and regulations pertaining to sanitary and phyto-sanitary for regional trade. Generally, there were hardly any incentives for efficiency in resource use and profligacy in the use of subsidised inputs was not infrequent.

### III. THE "NEW" AGRICULTURE

The Revised Treaty recognises the need for a paradigm shift in agricultural development and advocates a business oriented approach to agricultural development which entails efficiency in resource use and competitiveness in production and trade. Such a policy stance recognises the significance and implications of a more liberalized production and trading environment for agriculture and the diminishing role of preferences in securing domestic agricultural enterprise and export markets. Increases in efficiency and competitiveness are contingent on improvements in the productivity of the agricultural sector which, in itself, is a function of several factors including, investments in research, human capital development in agriculture and the adoption of appropriate technologies.

The common agricultural policy also recognises the increasing significance of information and communication technology (ICT) in the performance of the agricultural sector and that a viable approach to regional agricultural development would have to address the issues of human resource development, research and development geared at generating or adapting appropriate technologies and the establishment of effective information and intelligence services for agriculture. Recognition of these issues, however, must be translated into effective mechanisms for their realization.

Equally important to the effectiveness of a regional approach to agricultural production and trade are the creation and adoption of appropriate standards and food safety regulations, sanitary and phyto-sanitary measures which would facilitate cross- country movement of agricultural raw material and finished products, policies conducive to investment in agriculture and public sector investments in the infra-structure required for agricultural production, processing and trade, including drainage, irrigation, access roads and post harvest handling and marketing facilities.

CARICOM Ministers of Agriculture at the meeting of "The Alliance", during the 5<sup>th</sup> Caribbean Week in May 2005, defined a vision for the future of agriculture in CARICOM. They spoke of a "new agriculture" which was described as agricultural enterprise responsive to market signals, streamlined and therefore more cost efficient, competitive, and less reliant on special market preferences. The "new" agriculture would embrace new and advanced technologies, operate strictly on business principles, attract new investors and youth, yield remunerative levels of income and sustain viable rural communities. While such a vision is laudable and not unrealistic, it is cast against the background of a seemingly unchanging policy, institutional and structural environment which is not necessarily conducive to the advances envisaged by the "new" agriculture. For example, the infrastructural requirements of an agricultural sector which would attract new investments and youth or be responsive to new opportunities resulting from the CSME, include investments in drainage and irrigation, transportation and port facilities, laboratories and packing houses. The policy environment may require changes in fiscal policies which create biases against the sector and which favour the transfer of resources away from the sector. Constraints related to credit and financing of agriculture would have to be addressed. Unless these and other binding constraints are dealt with, comprehensively, the vision of a new agriculture would be futile. The CSME provides a framework for a regional approach to addressing these constraints.

#### IV. EXTERNAL TRADE NEGOTIATIONS- IMPLICATIONS FOR AGRICULTURE IN CARICOM

Among the external factors influencing agricultural policy and the future of the agricultural sector in CARICOM are (i) multilateral trade negotiations within the WTO (ii) domestic policy reforms in the EU (iii) bilateral/regional free trade arrangements such as the proposed EU-CARIFORUM Economic Partnership Agreement (EPA). These undertakings affect agricultural trade performance mainly through their effects on trade preferences which CARICOM countries enjoyed for their agricultural exports. These preferences are considered to be “a useful tool to make up for the inherent obstacles to competitiveness faced by ACP countries” (CTA [2005]). While trade preferences can promote dependency they may also serve as a catalyst for structural development of economic sectors, as in the case of the beef sector in Namibia, or as a platform for economic diversification, as in the case of Mauritius. The potential for economic diversification based on sugar, rice and banana production in CARICOM may be realized through opportunities presented by the CSME.

*WTO Negotiations on Agriculture* - The ongoing negotiations on agriculture in the WTO are geared at achieving three principal objectives arising from the 2001 Doha Ministerial Declaration on Agriculture, issued by WTO Trade Ministers. These objectives are (a) substantial improvement in market access for agricultural products (which essentially means further reduction in tariffs beyond the Uruguay Round levels) (b) substantial and effective reduction in trade distorting domestic support to agriculture (c) reduction, with a view to phasing out, of export subsidies and imposition of disciplines on other forms of export competition including export credits, monopoly powers of state trading enterprises and food aid.

While the Doha development Agenda was touted to be a development round, developing countries maintain that the round has been far from developmental in its emphasis and that developed countries are more concerned about extracting concessions in the form of increased access to the markets of developing countries, while they continue to retain high tariffs on several products of export potential for developing countries and support their domestic agriculture through the grant of huge amounts of subsidies.

CARICOM countries press for provisions on market access, domestic support and export competition which take into account the peculiarities of small developing and vulnerable economies. As such, special and differential treatment to that group of countries is a primary demand of CARICOM which finds expressions in the positions tabled by groups such as the G33 and the ACP and in proposals expressing the positions of small economies. Some of the issues most critical to CARICOM are provisions relating to special products in agriculture – which addresses concerns of food security, rural development and rural livelihood; the use of a special safeguard mechanism which would guard against the negative effects of import surges; and commitments on tariff reduction which are less onerous than which is required of developed countries. In addition, along with its ACP counterparts, the Region is adamant in its call for meaningful consideration of the issue of preference erosion and longstanding preferences proposed in paragraph 44 of the “July 2004 Framework”. It is obvious that, regardless of the exceptions to the general rules which CARICOM may benefit from, the trade negotiations will result in a level of trade liberalisation which will significantly test the competitiveness of CARICOM’s agricultural products in both domestic and export markets.

*CAP Reform* - The impact of trade liberalisation arising from the WTO negotiations on the agricultural sector of CARICOM countries is compounded by domestic policy reforms under the Common Agricultural Policy (CAP) of the EU. Reform of the CAP is significant since it directly reduces the prices obtained on the EU market, as in the case of bananas, sugar and rice. For example the proposed reforms to the internal market for sugar in the EU will result in a 39% decline in the price of sugar and will, in turn, lead to significant reduction in export earnings from sugar by CARICOM suppliers. The CAP reform also serves as the basis for EU proposals on agriculture tariff reduction in both the multilateral (WTO) and bilateral (EPA) negotiations in which the EU is engaged. These tariff reductions, which are a logical outcome of the reduction in the differential between domestic EU prices of agricultural products and world prices of similar products, generated by the CAP reform, give rise to increased competition on the EU market and are likely to adversely affect the exports of CARICOM countries, even in the face of preferential treatment. While tariff reduction under the WTO reduces the **margins** of preferences which CARICOM countries enjoy, the CAP reform reduces the **value** of these preferences.

*EPA Negotiations* - The Economic Partnership Agreement which will constitute the new trading arrangement between the EU and CARIFORUM countries from January 2008 may do little to stem the decline in the value and margins of preferences which results from the CAP reform and WTO negotiations discussed above. Moreover, the new arrangement, characterized by "the progressive abolition of obstacles to trade between the parties, in accordance with WTO rules" (European Commission [2000]) must meet the tests of WTO compatibility which includes reciprocity in trade and must satisfy Article XXIV of the General Agreement on Tariffs and Trade (GATT) which requires free trade arrangements between countries to cover "substantially all trade".

With respect to agriculture, the concerns of CARICOM include the treatment of the various protocol products contained in the Cotonou Agreement. Of course the benefits of these protocols to CARICOM have already been undermined by CAP reform and the outcome of multilateral trade and bilateral trade negotiations between the EU and other countries. CARICOM may focus on the development dimension of the EPA and on the way in which technical and financial support may be secured to redress the adverse effects of price reduction and loss of preferences for these products. The merit of negotiating the protocol products in the context of the EPA as opposed to negotiations at the all –ACP level is an important consideration which CARIFORUM would also need to address. Other key issues pertinent to the negotiations on agriculture in the EPA are market access for non-preferential products, (particularly value-added products), tariff escalation, non tariff and technical barriers to trade, sanitary and phyto-sanitary measures, standards, and food safety regulations.

## V. RATIONALISATION OF AGRICULTURE IN THE CSME – PRIORITIES

Against the background of the vision for agriculture in the CSME and the external trade issues discussed in the previous sections of this paper, this section examines some of the priorities for the rationalisation of agricultural production and trade in the CSME. Several references have already been made to requirements for a viable agricultural sector which is responsive to the current trading environment. This section discusses six priorities (not in any particular order) which may be considered as conditions for a viable agricultural sector in the CSME. These are:

- (i) Policy Coherence
- (ii) Productivity Enhancement
- (iii) Conducive Regulatory and Legislative Framework
- (iv) Supportive Investment and Entrepreneurial Environment
- (v) Infrastructural and Institutional Support
- (vi) Good Governance

*1. Policy Coherence* - Policy Coherence may be defined as “the systematic promotion of mutually reinforcing policy actions across government departments and agencies creating synergies towards achieving agreed objectives” (OECD [2003]). Policy coherence in the context of the agricultural sector implies that CARICOM countries, in pursuing domestic objectives, should avoid negative spillovers which would adversely affect the performance of the agriculturally sector, domestically or on regional and extra-regional markets. Instead, Member States should seek to exploit the potential for positive spillovers in the way in which they pursue domestic, regional or extra-regional objectives.

Several studies, including Krueger *et al.* [1991] have demonstrated, conclusively, that when general economic policies, including macro-economic (fiscal and monetary/exchange rate) policies, are biased against the agricultural sector, growth in the sector is stymied. Similarly, inconsistencies in sector specific policies, both within and across economic sectors, create similar biases against agriculture and may result in the re-allocation of resources away from the sector. Singh [1995] observed that a policy of heavy protection of the agricultural sector in India operated to the disadvantage of the agricultural sector when industrial prices were raised relative to world prices and thus profitability of industry was raised relative to agriculture. This led to a shift of resources from agriculture to the industrial sector.

Within the last few decades economic diversification of CARICOM countries has led to the emergence of new sectors, the expansion of previously existing sectors and in some cases, including agriculture, the relative diminution of the other sectors. Over that period CARICOM Member States have placed particular emphasis on the development of their services sector. The Revised Treaty creating the CSME contains a chapter on free trade in services as a key element of the CSME, to complement free trade in goods which was at the core of the pre-CSME arrangements. Trade in services is also high on the agenda of the external trade negotiations in which CARICOM is involved.

The services sector, along with other economic sectors, competes with agriculture for both labour and non-labour resources. Regional governments tend to provide incentives, directly or indirectly, for the development of these new sectors sometimes at the expense of the agricultural sector. In other words, the agricultural sector may be taxed, directly or indirectly, to promote non-agricultural development. Trended increases in budgetary allocations to these new sectors are generally accompanied by a downward trend in expenditure on agriculture, including expenditure on

research and development, human resource development for agriculture and supportive infrastructure for agriculture.

The need for policy coherence suggests that within the CSME general economic policies should be consistent with the objectives of the common agricultural policy which the Community has adopted. Moreover, sector specific policies in industry or services and agriculture should be mutually reinforcing and should create linkages for the integrated development of all sectors. The relationship between policies geared towards developing the Tourism/Hospitality sector and agriculture sector policies is particularly significant given that several CARICOM countries have embraced the development of the Tourism sector almost as an alternative to the development of the agricultural sector. The agro-tourism dynamic rests heavily on the degree of coherence in agriculture specific and tourism specific policies.

Economic and trade policies pursued by other countries also have a significant impact on the performance of domestic agriculture in CARICOM and on the competitiveness of CARICOM's agricultural products on external markets. Matthews [2005] observes that both the domestic agricultural policies (market price support, domestic subsidies, export subsidies, income support) and non-agricultural policies (food safety regulations, intellectual property regulations, technical barriers to trade) pursued by developed countries tend to be biased against the agricultural sector of developing countries and significantly constrain overall development in these countries<sup>1</sup>. Policy coherence is therefore an objective to be pursued by CARICOM in the context of the bilateral and multilateral negotiations in which it is involved.

*II. Enhancement of Agricultural Productivity* – Increases in total factor productivity<sup>2</sup> is critical to agricultural sector growth in CARICOM. Growth in productivity is inevitable if the (absolute) decline in the share of agriculture in GDP is to be reversed. Productivity growth also forms the basis for improvement in real income and welfare of developing countries (Mahadevan [2003]. Von Braun [2003] points out that agricultural productivity growth is relevant because of its strong connection to jobs, incomes, prices, long-term food security, and health and nutrition. High relative productivity growth of primary agriculture is also important in maintaining and fostering export growth and competitiveness of CARICOM products. Productivity growth benefits consumers by putting downward pressure on the prices of both primary and processed products and benefit food processors as it lowers the price of raw material inputs.

Various studies, including Shane *et. al.* [1998], reveal that an increase in total factor productivity is largely dependent on investments in research and development, infrastructure and human and physical capital. When the level of government spending on these areas decreases the tendency is for agricultural productivity and agricultural output growth to decline.<sup>3</sup> Krugman [1996] points out that "productivity growth represents increase in output per unit of input; such increase may result from better management or better economic policy, but in the long run are due to increases in knowledge". The increases in knowledge which Krugman refers to are embodied in new technologies and management know-how.

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<sup>1</sup> See Atkins [2004] for an assessment of the impact of the US Farm Bill of 2002 on CARICOM's agricultural exports.

<sup>2</sup> Economists distinguish between partial productivity, which is the change in output resulting from a unit change in a specific input, such as labour, and total factor productivity (or the level of technology) which is the change in total output resulting from the change in input use. It is the later measure which is used to indicate growth in the productivity of the agricultural sector.

<sup>3</sup> A decline in agricultural productivity growth, however, is not the only factor contributing to decline in the growth of agricultural output. When the agriculture terms of trade (ratio of an index of agricultural prices relative to a general price index) falls, suggesting a slower growth in agricultural prices relative to the general price level, agricultural output may decline even in the face of constant or rising levels of productivity.

A cursory observation of government expenditure on agriculture in CARICOM suggests that there has been a general decline in the level of public expenditure (and no corresponding increase in private sector expenditure) on most of the factors credited for contributing to increases in agricultural productivity and growth in agricultural output. Given the nexus between these investments and agricultural productivity and output growth, a review of spending policies with respect to agriculture may very well be a priority in generating growth in CARICOM's agricultural sector.<sup>4</sup>

Agriculture sector growth in CARICOM is also important for achieving the goal of eradicating extreme poverty and hunger, which is the first of the Millennium Development Goals. While it is debatable whether extreme poverty and hunger is pervasive throughout CARICOM, it is clear that significant pockets of poverty exists in several CARICOM countries, particularly in rural areas but also in many urban settlements. Moreover, all CARICOM countries aim to reduce their levels of poverty (extreme or other wise) and increase their levels of food and nutrition security as well as to sustain or enhance rural development and livelihood security. These objectives are currently being pursued in the context of the ongoing negotiations on agriculture, specifically with respect to the treatment to be accorded to "Special Products" in the agriculture trade negotiations. Matthews [2005] makes reference to substantial cross- country evidence which shows that agricultural growth is important in reducing poverty. He notes that agricultural growth impacts directly on farm incomes, which accounts for a large share of all incomes in poor economies, it creates rural economy linkages and spreads its benefits widely and it has positive impacts at the national level when rapid agricultural growth leads to lower food prices and thus raise the incomes of the urban poor. Careful analysis of the factors which drive agricultural productivity growth in CARICOM must be undertaken in order to guide public and private expenditure in the relevant areas.

*III. Conducive Regulatory and Legislative Framework* - The role of a regulatory and legislative framework conducive to agricultural production and trade at the domestic and regional levels complements the coherent policy environment discussed above. The legislative and regulatory framework creates certainty and ensures consistency within the CSME.

Among the key regulatory and legislative requirements are common standards and technical regulations, sanitary and phyto-sanitary measures; and food safety regulations. Increasingly, legislation and/or regulations pertaining to intellectual property or use of genetically modified organisms, and the preservation of bio-diversity are likely to become more significant. Also, environmental laws and legislation pertaining to watershed preservation and management, and sustainable resource use are critical.

*IV. Supportive Investment and Entrepreneurial Environment* – To successfully compete with other economic sectors, agriculture must, at the least, be as attractive to potential investors as any other sector. Policy distortions aside, the sector needs to be perceived as a viable, remunerative sector in the same way that the services or industrial sector may be perceived. Traditionally, the agricultural sector in CARICOM countries has not been perceived as attractive as other sectors. This is partly as a result of the heavy influence of exogenous factors such as the weather on agricultural output and returns. High variability in farm income serves as a disincentive to investments in agriculture. In the absence of facilities and policies (such as drainage and irrigation, pest control, crop insurance, access roads) to reverse or reduce variability in farm income, the inherent risks associated to production will continue to put the agricultural sector at a disadvantage relative to other sectors.

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<sup>4</sup> There is, however, a considerable lag between investments in R&D and the productivity increases which is generated. Estimates for the U.S. economy suggest a lag of 15 years (Shane *et. al.* [1998]).

One area in which the high risk nature of agriculture is reflected is in the lending policies of commercial banks. Commercial lending institutions tend to be hesitant to provide funding to primary agricultural production<sup>5</sup> and when they do it is often at a cost which far exceeds the lending rate to non-agriculture. The anti-agriculture bias is therefore reflected in the lending policies of commercial lending institutions. At the same time income generated from the agricultural sector forms a significant share of the capital base of these institutions which is used to fund non-agricultural investments – again reflecting the taxation of the agricultural sector to fund non agricultural activities.

A priority for enhanced agricultural production and trade would be to address the constraints faced by potential investors in agriculture, including the difficulty of limited availability and high costs of credit to agriculture. CARICOM governments have in the past subsidised the cost of credit to agriculture, primarily through the operations of agricultural development banks. These institutions are a dying species in the face of globalization and its attendant features-privatization and financial market liberalisation. However, while there is an aversion to the inefficiencies which could arise from poor administration of subsidised credit, unless other means of providing credit to agriculture are developed, public sector support to financing agriculture remains critical, particularly in low income rural areas.

*V. Infrastructural and Institutional Support* – Reference has already been made to the significance of investments in infrastructure to the growth of agricultural productivity which, in turn, is largely responsible for agricultural sector growth. Similarly, the existence of supportive institutions, ranging from the Ministries of Agriculture to regional producer and agri-business associations, contribute to the performance of the sector and the success of regional initiatives such as the Regional Transformation Programme for Agriculture or the Jagdeo Initiative. The CARICOM Secretariat is the premier policy coordinating body at the regional level. As such, the capacity of such a body to fulfill that role with respect to agriculture is an important consideration in seeking to establish priorities for agricultural sector rationalisation in the CSME. Equally important is the need to ensure the adequate funding and efficient operations of supportive institutions such as research organisations, the University of the West Indies and its Faculty of Agriculture, producer organisations, transport/shipping organisations.

*VI. Good Governance* - Arguably, good governance is the linchpin for successful economic performance, including advances in agricultural sector performance. Stability in government and predictability in government policies contribute to the policy and investment climate discussed earlier. The role of government as facilitator has superseded the direct role which it played, historically, in economic activity and particularly in agricultural production and trade. Governments are now expected to provide the framework (legislative, regulatory, policy) within which the private sector, as main actors in production and trade, would operate. The actions of government in creating that framework is crucial to generate private sector response and may best be performed in the context of a democratic environment in which governments are responsive to the demands of the private sector while being sensitive to the concerns of wider civil society. Issues such as political and social stability, sustainable development, gender equity, poverty alleviation, environmental protection, labour laws are of paramount importance in the process of good governance and impact directly or indirectly on the performance of economic sectors such as agriculture.

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<sup>5</sup> The food processing sector is treated differently and is more likely to be considered part of industry rather than part of agriculture – a phenomenon which undermines the true contribution of agriculture to the economy.

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