



University of West Indies
Graduate Institute of
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St. Augustine – Trinidad & Tobago



Institute for the Integration of Latin America
and the Caribbean
Integration and Regional Programs Department
Inter-American Development Bank

The CSME: Status, Issues and Priorities Regional Seminar: 40 years since the creation of INTAL

24 November 2005

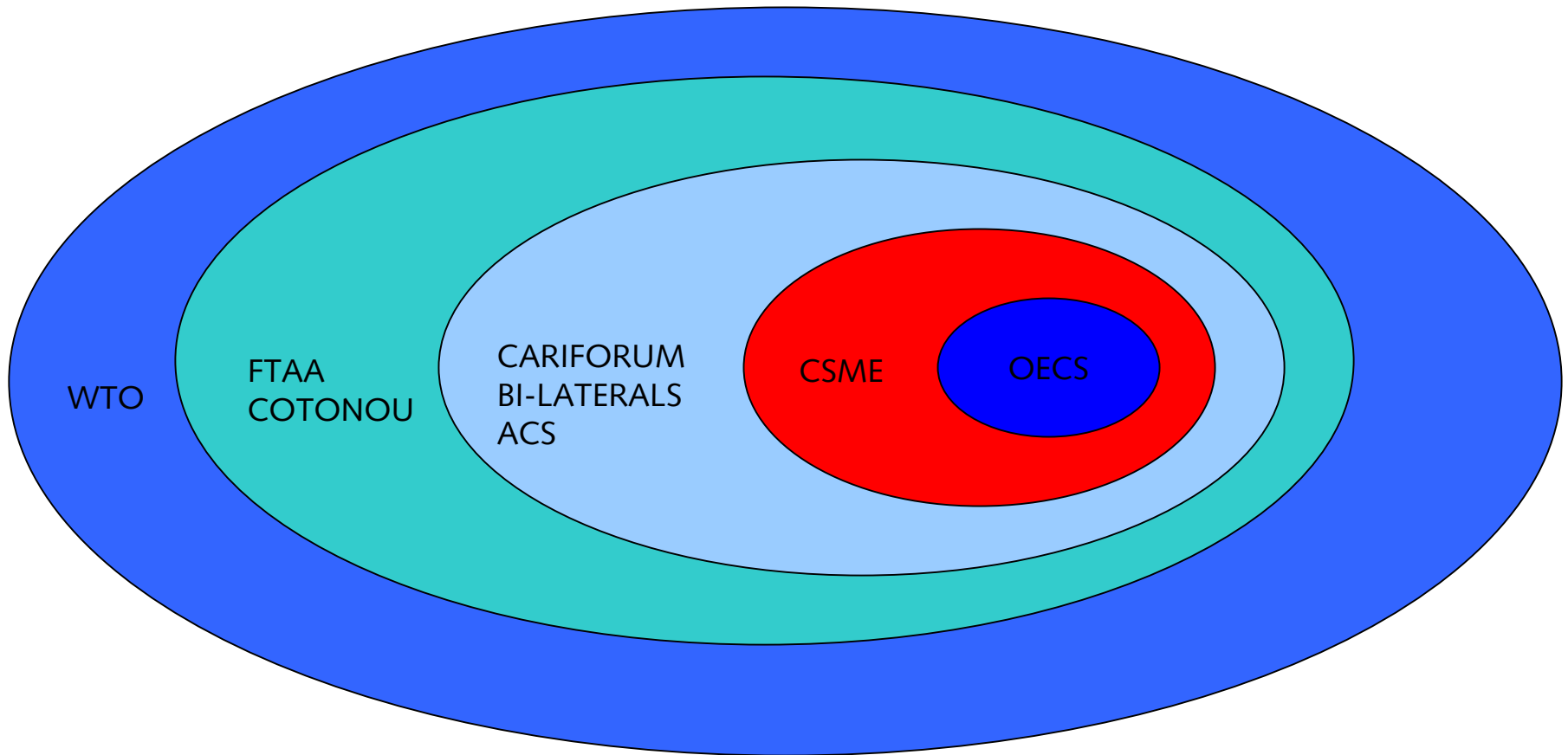
**Conference Room, UWI Graduate Institute of International Relations
UWI CAMPUS, St. Augustine – Trinidad & Tobago**

**Convergence Issues between CSME and External Trade Investment
Objectives in CARICOM**

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Current Issues/Priorities

- All countries in CARICOM except Trinidad & Tobago running overall trade deficits and most have fiscal deficits for several years
- Need to increase exports to earn foreign exchange
- In several states manufacturing is not competitive; need to diversify service exports
- Capital base in region for investment is inadequate
- MUST attract substantial new net investment in services; and significant room for growth of natural-resource based industries in Guyana, Suriname, Belize
- Foreign Direct Investment (FDI) is critical to solution of CARICOM growth & development problems
- Traditionally, many CARICOM states have relied on FDI for growth
- In several states capital stock is higher than Gross Domestic Product (GDP); esp in smaller states
- Following slide shows FDI Stock as % of GDP

FDI Stock as % of GDP

| Country | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Average |
|----------------------------------|-------|-------|-------|--------|-------|-------|-------|---------|
| Antigua and Barbuda | 93.8 | 100.3 | 108.3 | 123.6 | 132.4 | 153.7 | 139.6 | 115.9 |
| Bahamas | 32.4 | 33.4 | 36.8 | 39.2 | 41.6 | 43.8 | 39.9 | 35.8 |
| Barbados | 11.4 | 11.6 | 11.9 | 12.8 | 13.3 | 15.0 | 15.9 | 12.9 |
| Belize | 35.4 | 39.6 | 39.1 | 52.8 | 56.7 | 60.7 | 66.2 | 46.1 |
| Dominica | 93.5 | 97.5 | 101.4 | 109.9 | 119.0 | 125.0 | 130.7 | 106.8 |
| Dominican Republic | 14.5 | 19.3 | 20.8 | 22.9 | 26.2 | 37.1 | 43.5 | 23.0 |
| Grenada | 94.3 | 100.9 | 104.4 | 125.8 | 142.0 | 166.7 | 141.2 | 115.3 |
| Guyana | 89.7 | 99.6 | 106.5 | 114.5 | 115.3 | 114.5 | 120.9 | 102.0 |
| Haiti | 4.9 | 5.2 | 6.1 | 6.6 | 7.5 | 9.3 | 6.7 | 6.4 |
| Jamaica | 31.1 | 37.8 | 43.0 | 50.5 | 54.5 | 69.1 | 66.4 | 45.2 |
| Saint Kitts and Nevis | 120.7 | 133.1 | 153.5 | 173.0 | 189.4 | 199.4 | 202.9 | 155.8 |
| Saint Lucia | 108.3 | 116.0 | 122.0 | 137.3 | 141.2 | 151.9 | 162.9 | 126.4 |
| Saint Vincent and the Grenadines | 127.9 | 140.1 | 148.8 | 150.6 | 154.7 | 163.2 | 169.8 | 138.1 |
| Suriname | -63.4 | -82.1 | -92.0 | -113.1 | -99.8 | -91.8 | -86.4 | - 88.6 |
| Trinidad and Tobago | 94.1 | 92.9 | 85.8 | 86.2 | 92.7 | 95.3 | 83.3 | 87.2 |

Total Inward FDI Flows 1997-2003 (US\$M)

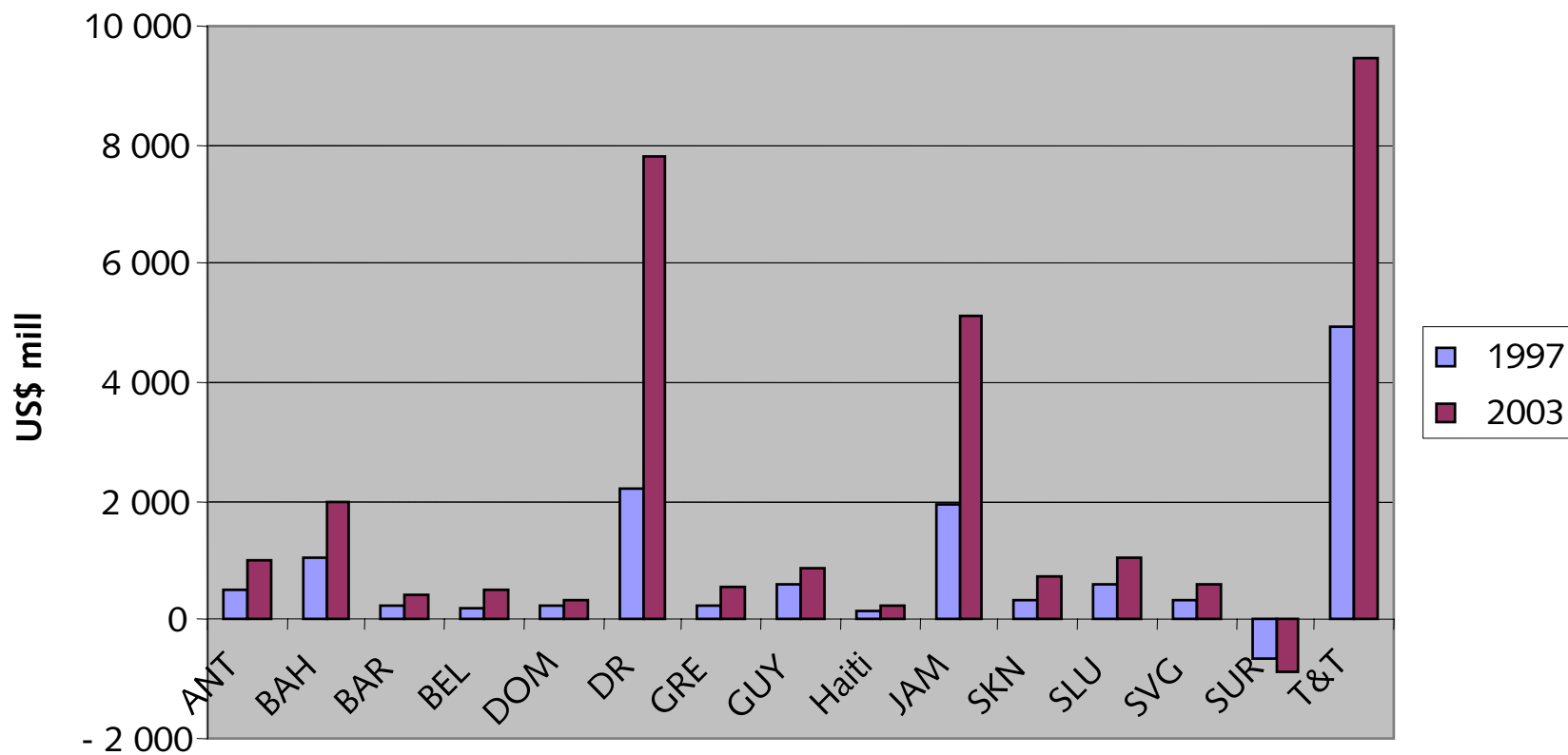
Sources: UNCTAD and ECCB

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | Average |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Antigua and Barbuda | 24 | 27 | 63 | 74 | 111 | 79 | 177 | 79 |
| Bahamas | 210 | 147 | 149 | 250 | 101 | 200 | 96 | 165 |
| Barbados | 15 | 16 | 17 | 19 | 19 | 17 | 19 | 17 |
| Belize | 12 | 19 | 60 | 30 | 60 | 25 | 38 | 35 |
| Dominica | 22 | 9 | 19 | 20 | 18 | 18 | 29 | 19 |
| Dominican Republic | 421 | 700 | 1,338 | 953 | 1,079 | 961 | 761 | 887 |
| Grenada | 36 | 49 | 43 | 39 | 60 | 61 | 90 | 54 |
| Guyana | 53 | 47 | 48 | 67 | 56 | 44 | 56 | 53 |
| Haiti | 4 | 11 | 30 | 13 | 4 | 6 | (142) | (11) |
| Jamaica | 203 | 369 | 524 | 468 | 614 | 481 | 521 | 454 |
| Saint Kitts and Nevis | 25 | 33 | 59 | 98 | 89 | 80 | 77 | 66 |
| Saint Lucia | 51 | 85 | 86 | 58 | 62 | 57 | 111 | 73 |
| Saint Vincent and the Grenadines | 92 | 88 | 56 | 37 | 21 | 34 | 55 | 55 |
| Suriname | (9) | 38 | (24) | (97) | (27) | (74) | (66) | (37) |
| Trinidad and Tobago | 999 | 730 | 643 | 680 | 835 | 737 | 125 | 678 |
| <i>TOTAL</i> | <i>2,157</i> | <i>2,367</i> | <i>3,111</i> | <i>2,708</i> | <i>3,103</i> | <i>2,725</i> | <i>1,945</i> | <i>2,588</i> |

Trend in FDI Inflows 1997-2003

| CARIFORUM Member | Trend |
|-----------------------------|----------------------------------------|
| Antigua & Barbuda | Overall rising |
| Bahamas | No clear trend |
| Barbados | Constant (low levels of FDI) |
| Belize | Generally rising but with fluctuations |
| Dominica | Quite flat |
| Dominican Republic | Generally rising but with fluctuations |
| Grenada | Generally rising |
| Guyana | Quite flat |
| Haiti | Low and declining since 1999 |
| Jamaica | Generally rising but with fluctuations |
| St Kitts & Nevis | Generally rising |
| St Lucia | Generally rising but with fluctuations |
| St Vincent & the Grenadines | Declining |
| Suriname | Negative |
| Trinidad & Tobago | Generally declining |

INWARD STOCK OF FDI IN CARIFORUM



CARICOM Revised Treaty

- Capital and Movement of Community Nationals (Arts. 30-50)
- CSME - Free movement of capital, services and labour by December 31, 2005
- Aim – to increase market size and benefit from scale economies

“CARICOM national” means a
person who:

- (a) is a citizen of a Member State; or
- (b) has a connection with a Member State of a kind which entitles that person to be regarded as belonging to or, if it be so expressed, as being a native or resident of such a Member State for the purposes of the laws thereof relating to immigration;

Draft CARICOM Agreement on Investment

- Defines CARICOM investor as “... a company or other legal entity which is 50% or more owned and effectively controlled by a CARICOM national with the power to name a majority of its directors or otherwise legally direct its actions”
- This will be a serious disincentive to investment in CARICOM region if it remains in the CARICOM Agreement on Investment and becomes enshrined in the Single Market

Compromise

- Separate draft “CARICOM Investment Code: Core Principles and Harmonized Policies Towards Third Parties” that is being discussed. This document is a basic set of principles dealing with investment such as national treatment, investor rights, transparency, etc.
- Compromise - COFAP and/or Council for Trade and Economic Development (COTED) can grant CARICOM status on foreign firms established in the region.

Investment regime in Dominican Republic

- DR investment regime is very open, liberal and foreign firms enjoy national treatment once they incorporate
- CARICOM-DR FTA Investment chapter provides for access into each Party's market (with sectoral exceptions) as long as they meet requirements in the respective jurisdiction

Investment in CARICOM-DR FTA

- One of the perverse consequences of the onerous nationality requirement under the CARICOM “origin” issue could be that foreign investors established in the DR who satisfy the definition of investor for the purposes of the CARICOM-DR agreement, can gain access to the CARICOM market, and be treated more favourably than long-term foreign investors established in one of the CARICOM member states, through the national treatment principle in the bilateral Free Trade Agreement (FTA).

Investment regime in EU

- European Union (EU) does not have an Investment regime *per se*. Approach is based on an open economy. Companies, once they meet the domestic requirements, gain benefits of the EU regime. So, United States firms incorporated in the EU are considered European for the purposes of market access, national treatment, etc.

Rome Treaty - 1957

- Under Article 43 any natural or legal person having the nationality of, or being incorporated in a Member State has the right to make an investment in any Member State. This is what is referred to as “freedom of establishment.

European Treaty – Art. 48

- “Companies or firms formed in accordance with the law of an MS and having their registered office, central administration or principal place of business within the Community shall ...be treated in the same way as natural persons who are nationals of MS.
- This means that all investors, including established foreign firms are granted national treatment.

Negatives of the “CARICOM Origin” conditionality

- Foreign firms that might want to invest in CARICOM to benefit from regional market but also supply markets in the US or Canada (to benefit from trade agreements) will be turned off.
- In current regime, they will have to settle for only national jurisdictions in CARICOM

% Share of Total Exports, 2002

| | GOODS | SERVICES |
|------------------------|-------|----------|
| CARICOM | 52.8 | 47.2 |
| CARICOM (minus T&T) | 38.3 | 61.7 |
| OECS | 20.3 | 79.7 |
| Trinidad | 87.2 | 12.8 |
| Antigua | 8.8 | 91.2 |
| Suriname | 90.6 | 9.4 |
