



University of West Indies
Graduate Institute of
International Relations
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

Final Report

Norman Girvan
Denyse Dookie

University of the West Indies

This presentation was prepared to be presented at the Regional Seminar at the UWI campus, Trinidad & Tobago on occasion of the celebration of INTAL 40th Anniversary. The opinions expressed herein are those of the authors and do not necessarily reflect the official position of the IDB/INTAL. This presentation should be cited indicating the name of the author and the source:

http://www.iadb.org/intal/aplicaciones/uploads/ponencias/Foro_INTAL_2005_14_Girvan-Dookie.pdf

TABLE OF CONTENTS

SUMMARY OF PROCEEDINGS AND DISCUSSION	1
OPENING REMARKS	1
I. PRESENTATION OF INTAL’S CARICOM REPORT NO. 2: THE STATE OF CARIBBEAN REGIONAL INTEGRATION Anneke Jessen, Operations Specialist, IDB/INT/ITD	3
II. GOVERNANCE, IMPLEMENTATION AND SEQUENCING ISSUES IN THE CSME Norman Girvan, Professorial Research Fellow, UWI/IIR	09
III. CSME AND EXTERNAL NEGOTIATIONS Ramesh Chaitoo, Services Analyst, Caribbean Regional Negotiating Machinery	15
IV. PRIORITIES FOR RATIONALISATION OF REGIONAL AGRICULTURAL PRODUCTION AND TRADE IN THE CSME Vincent Atkins, Senior Research Professional, CRNM	21
V. REGIONAL DEVELOPMENT FUND Bernard LaCorbiniere, Consultant	25
VI. CLOSING OBSERVATIONS Vaughan Lewis, UWI/IIR and William Robinson, IDB Representative	28

PowerPoint Presentations delivered at Seminar

Written Papers presented at Seminar

Final List of Participants

LIST OF ABBREVIATIONS

CAFTA	Central American Free Trade Agreement
CAHFSA	Caricom Animal Health and Food Safety Agency
CAI	Caribbean Agreement on Investment
CARICOM	Caribbean Community
Cariforum	Caribbean Forum of African, Caribbean and Pacific States
CCS	Caribbean Community Secretariat
CET	Common External Tariff
COFAP	Council for Finance and Planning (CARICOM)
COTED	Council for Trade and Economic Development (CARICOM)
CRNM	Caribbean Regional Negotiating Machinery
CSME	Caribbean Single Market and Economy
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IDB	Inter-American Development Bank
IIR	Institute of International Relations (UWI)
INT/ITD	The Integration, Trade and Hemispheric Issues Division (IDB)
INTAL	Institute for the Integration of Latin America and the Caribbean (IDB)
NGO	Non-governmental Organisation
OECS	Organisation of Eastern Caribbean States
PPT	PowerPoint (presentation)
RDF	Regional Development Fund
UNCTAD	United Nations Conference on Trade and Development
UWI	University of the West Indies
WTO	World Trade Organisation

SUMMARY OF PROCEEDINGS AND DISCUSSION

OPENING REMARKS

Norman Girvan, Seminar Chair

Vaughan Lewis, Professor of International Relations, UWI/IIR

William Robinson, IDB Representative

Ricardo Carciofi, Director, IDB/INTAL

In his opening remarks, the Seminar Chair explained that its purpose was to dialogue in as free and open a manner as possible the current status of the CSME, with a view to exchanging ideas on priorities and sequencing in its implementation. The meeting was completely unofficial as regards the status of its deliberations and results. However, the hope was that it would form a useful input into the processes of deliberation and decision-making at the official level. The Seminar was targeted at three categories of persons (i) senior regional and international officials dealing with the CSME; (ii) key representatives of civil society, the private sector and the labour movement and NGOs having an interest in the CSME; and (iii) members of the academic community.

The Professor of International Relations at the UWI Graduate Institute of International Relations delivered remarks prepared for the occasion by Institute's Director, who was unavoidably absent. It was noted that both institutes – INTAL and the IIR – witnessed the formation of the Caribbean Free Trade Area and its transformation into CARICOM (hereinafter referred to as CARICOM), and an array of other regional institutions. The subject matter of the Seminar was seen as of pre-eminent importance for this region; having deep salience in the thinking and working of policy-makers, politicians and academics. It was important to make great effort to get the implementation of the CSME right, so that it finds justification and legitimacy within the populations which will have the task of actual implementation.

The IDB Representative in Trinidad and Tobago started by recognising that the event is important not only for the light it will shed on the CSME process but also as part of INTAL's 40th anniversary celebrations as a forward-thinking, dynamic research institution in the hemisphere. It provided an opportunity for stocktaking of the status of the CSME process and should also illuminate new opportunities, imperatives and priorities that can serve to accelerate the integration of Caribbean markets and economies. This seminar was dedicated to an exchange between experts of what has been accomplished and what is to be done, but what will largely determine the success of Caribbean integration and competitive participation in the global marketplace is the readiness of the public to support the process. This will be achieved when there is understanding and participation in the integration process at the business, political and social levels; and when it is perceived that it serves the interest of the common citizen. The Representative challenged participants to illuminate the way forward in economic, political and institutional terms; but also to ensure that the public joins in building the CSME as a social reality as well as an economic one. This requires reconciliation of large differences within and between populations in individual Caribbean states. He believed that cooperation would need to be built based on a sound understanding of the issues and priorities that must be addressed and the potentials of the various mechanisms available to do so.

The Director of INTAL, noting that it was 40 years since its creation, pointed to the continuing relevance of the Institute. The need to make integration a reality was recognised in several quarters, but not everyone attached the same meaning to this. He explained that INTAL was

created as a unit of IDB for several reasons. The Bank needed an integration unit, and from the outset supported infrastructure linked to integration. Traditional financial instruments have limitations for the promotion of regional public goods since lending is shaped by the demands of individual countries. To work effectively for integration required 'soft agenda' – training and research related to policy, outreach and technical support to build up institutional capabilities and expertise. The Institute was deliberately located in the South of the continent to ensure that its effect is felt all over the hemisphere. In sponsoring this seminar, INTAL was giving real content to its original mandate of providing resources to mobilise intellectual capital for promoting and contributing to the process of integration amongst members of the sub-region and in doing so linking the economies more fruitfully to the world economy.

I. PRESENTATION OF INTAL'S CARICOM REPORT NO. 2: THE STATE OF CARIBBEAN REGIONAL INTEGRATION

Anneke Jessen,¹ Operations Specialist, IDB/INT/ITD

The Operations Specialist of IDB/INT/ITD made a PowerPoint Presentation of INTAL's *CARICOM Report No. 2* (August 2005). The presentation summarised the main findings of the Report, highlighting certain details. She began by noting that the Report responds to the Bank's desire to support awareness building and debate on regional integration among the regional public and also among IDB staff. It reviews CARICOM regional integration as a whole and focuses on the three pillars of regional integration: economic integration; foreign policy coordination; and functional cooperation. It begins with a chapter on the determinants of integration – what drives the process and what slows it down. It goes on to analyse the implementation of the CARICOM Single Market and then the Single Economy. It discusses the institutional aspects of integration: governing structure, decision-making and enforcement of community decisions; institutional reform efforts and the proliferation of regional institutions. It addresses the external dimension of CARICOM, including the legal framework and the coordination of negotiating machinery. It reviews successes and shortfalls in functional cooperation, concluding that critical success factors are (i) a sense of need for the service within the region, (ii) political support, leading to financial support; and (iii) effective institutional structures for implementation.

In introducing Chapter 1 of the Report, she identified the main drivers of Caribbean integration as small size, a sense of shared identity and external influences. Integration is seen as a means of overcoming the constraints of small size by helping to achieve international competitiveness through economies of scale; these constraints have become stronger in recent years as the world moves towards reciprocity in its trading relations. Other perceived advantages are matchmaking in the labour market, better access to capital, and economies in the conduct of foreign policy together with a stronger voice in trade negotiations. She observed that although a sense of identity and shared cultural heritage exists, this may not be strong enough to drive a process of political integration.

Regarding external developments, she pointed to the influence of the EU in promoting linkages between CARICOM and the Dominican Republic through the EPA negotiations; the effect of the FTAA negotiations in providing an incentive for Caribbean countries to cooperate; and the participation of Guyana and Suriname in South American integration schemes. More attention should be paid to how these external forces are shaping Caribbean regional integration.

Turning to the obstacles to integration, the presenter pointed to the complexity of the process, resource constraints, the cautionary effect of past experiences in the Caribbean and of experiences elsewhere, and to economic disparities within CARICOM. Examples of the last factor are that Trinidad and Tobago's share of CARICOM's GDP is 30 percent while that of the six OECS countries combined is 8 percent; and that the ratio of the richest to the poorest country in per capita GDP is 35:1 – excluding the Bahamas and Haiti the ratio is still 11:1. The latter is the ratio within the EU, but two years ago, before the accession of East European countries, the EU ratio was much lower at 4:1, which is the same as in MERCOSUR and the Andean Community. Growth performance in per capita income has diverged widely, as Trinidad and Tobago has grown 5 times as much as St. Lucia in the last decade, Suriname has grown twice as much as Belize in the same period, while Jamaica has hardly grown at all. Production and export structures are very different as some

¹ Anneke Jessen is an Operational Specialist within the Integration and Regional Programs Department of the Inter-American Development Bank in Washington DC.

specialise in services, others in minerals, manufactured products, and agriculture. These factors make it difficult to agree on a common development strategy and external trade policy.

For some countries, principally Trinidad and Tobago, the regional market is much more important than for others. The less developed countries feel very vulnerable to global integration and intra-regional liberalisation and have doubts about the benefits of integration. These countries are seeking compensatory measures in the form of special and differential treatment or the establishment of a regional development fund. However, there is the question of who will stand the financial costs of the Fund.

The importance of politics, participation and information in the integration process was highlighted. Issues of partisan politics have influenced the process. Furthermore, regional integration so far has been a top-down process with little broad regional consultation. This is now changing as different actors are trying to secure greater private sector and public involvement. There is also the question of sovereignty. Although many countries would argue that pooling sovereignty at the regional level might help to counter the loss of sovereignty at the global level, governments have to weigh the immediate costs of regional integration against potential future benefits, which are not always guaranteed. Many are reluctant to give up their economic policymaking to supranational entities. This is not a major problem in functional cooperation, which may be why this aspect of integration has been more successful. Few regional institutions have supranational authority of any kind – the only two being the Caribbean Court of Justice (CCJ) and the East Caribbean Central Bank (ECCB). The view was expressed that regional integration cannot be deepened without addressing the issues of governance and sovereignty.

Turning to CSME implementation, the presenter noted that the Revised Treaty of Chaguaramas has been signed by 13 countries, ratified by 12, and enacted into domestic law by seven. Monitoring the status of integration is a very important issue. One can examine this by chapters of the Revised Treaty, or thematically, such as the Single Market, Single Economy, etc; but more work needs to be done in this area. The language used can also be a problem: for example what are the 'core issues' of the Single Market, and what exactly is the 'Single Economy'? In the free movement of goods, several issues are still outstanding. Government Procurement has not yet been brought within the single market; and this accounts for 10-15% of GDP in CARICOM, or even 25% of GDP in some countries. Its inclusion could make the regional market quite dynamic.

The Common External Tariff (CET) has not yet been fully implemented by all countries. There is a high level of tariff dispersion, which makes for difficulties in trade negotiations with third countries and raises transaction costs because of complicated rules of origin to avoid deflection of trade; hence reducing transparency and some market access. Work needs to be done on the CET to make it fit with CSME objectives of creating a dynamic regional market. High tariffs are still prevalent on manufactures and agricultural goods, which is not conducive to the development of competitive local industries. CET tariffs are also very uneven across countries and there are wide differences in average applied tariffs across the region.

The presenter pointed to the Report's findings on intra-regional merchandise trade flows. Intra-regional trade has grown but it is doubtful that this could be attributed to the regional integration process. The possible impact of integration would be a result of (i) the elimination of intra-regional tariffs that took place in the 70s and 80s; (ii) elimination of non-tariff barriers, which is ongoing; and (iii) implementation and reduction of the CET from an average of about 20 percent to 10 percent. The trade data show that intra-regional exports have grown faster than extra-regional

exports over the past decade. Although Trinidad and Tobago accounts for a great deal of this, the trend holds when this country is excluded. For OECS countries, intra-regional exports have grown very slowly but extra-regional exports (merchandise trade only) have deteriorated. Intra-regional imports have also grown faster than those from extra-regional sources.

Nonetheless, the Report concludes that much of this growth would have occurred without intra-regional trade liberalisation and external protection through the CET. Most of the trade originates in Trinidad and Tobago and most of that country's exports to CARICOM consist of mineral fuels, lubricants and chemicals, all of which do not enjoy much external protection in the CARICOM market. The Report analysed data on products which CARICOM imports from both intra-regional and extra-regional sources and found that:

- There are approximately 1,175 products from both sources for the surveyed period
- Of these, for 600 products intra-regional imports grew faster than extra-regional imports
- Many intra-regional imports products that increased their share in overall CARICOM imports enjoy a very low level of tariff protection
- Products with low external tariffs grew by 10 percent a year on average in the last 5 years; while products with high tariff protection from extra-regional sources grew at a much slower rate. Dynamic growth in intra-regional trade was due to factors other than external protection.
- There has been little change in the sectoral composition of trade. Excluding Trinidad and Tobago, much of intra-regional trade is in food and manufactures.
- The product composition of trade has become more concentrated over the past 10 years, with the top 20 intra-regional export products accounting for more than 50 percent of total intra-regional trade. The trend also holds when Trinidad and Tobago is excluded.
- The share of medium and high technology products in intra-regional trade has not grown; and has declined when Trinidad and Tobago is excluded.

Further growth in IR trade in goods could follow full liberalisation in areas such as government procurement and the free circulation of goods. On the other hand it will be limited by the small size of the economies; and in any case is not the main objective is the CSME, which is rather to increase the region's international competitiveness and global market integration.

Liberalisation of the movement of services and factors of production is underway in CARICOM although several restrictions are still to be removed. Intra-regional trade in services has considerable growth potential but statistics to allow this element to be tracked are limited. Similarly, there is limited information on how far people are moving to set up businesses within the region, on the movement of skills, and on illegal movements of unskilled labour.

In addressing the Single Economy, the presenter pointed to the debate as to what exactly is involved in its implementation. Insofar as it means macroeconomic coordination and convergence, it is not certain that member states are making progress towards this goal or have an active programme for its attainment. At present monetary union is not an explicit commitment, but a single economy with nine currencies could be a contradiction. Alternatives to monetary union would be a fixed exchange rate for all countries in the whole region, and dollarisation, but such options do not appear to be under serious debate. In fiscal policy, investment policy, and harmonisation of sectoral policies, progress has been limited because of scarce resources, large agendas and unclear definitions. The 2008 goal for the Single Economy is not clear, and the issue of transfer of sovereignty arises if such deep levels of integration are to be realised.

Finally, three main challenges for the full implementation were highlighted: to make it popular; to make it operational; and to make it dynamic. Regarding the first, there is need for more awareness of its potential benefits and for clearer identification of the costs and how these can be mitigated. For some governments, mechanisms such as the Regional Development Fund (RDF) or other special treatment would be needed to make the CSME more palatable. Making the CSME operational involves implementation of commitments already made, strengthening CSME units in each member state, and reform of governance. Making it dynamic involves domestic reforms, improvements in transport and other infrastructure, trade facilitation, improvements in customs administration and other areas directly linked to CSME; especially the movement of labour, the CET, common external trade policy, tariff regulations and rules of origin that now hamper transparency within the regional market. The three areas also need to be made compatible with each other.

Discussion

The presentation elicited intense discussion, with most participants commending the Report for the usefulness of the information and analysis provided. On the whole, discussion focused on the issues highlighted of making the CSME popular, operational and dynamic.

Participants emphasised the importance of making the CSME popular, greater public education, the support of non-state actors and of providing a political dimension to the CSME. Some reported that the CSME is generally seen as elite-oriented, designed for the business community and not for the ordinary person. In Trinidad and Tobago, the CSME Unit spends most of its budget on the public education programme. Persons in the business sector are encouraged to do their own studies of potential benefits and issues that may affect them, but the Unit has to maintain a neutral position and focus on the provision of factual information. In Jamaica the CSME unit is small, with only two professionals and is often overwhelmed by speaking requests.

A representative of civil society spoke at length on the question of popular support for the CSME, which he saw as a constraint on the degree of political will and political innovation evinced by governments in implementing their CSME commitments. His impression was that there is an absence of broad based mass support for CSME among both government and opposition political parties. The problem is not just resources but also priorities. He asked the question that if millions of dollars could be found to spend on the Cricket World Cup in 2007 but very little on CSME education and institutions, which will have a lifetime of impact on the region, how serious is the commitment to the CSME? He noted that the region is moving into the single market phase before finishing the common market phase; using as examples the remaining tariff and non tariff barriers, and the statement by Prime Minister Arthur regarding possible incompatibility of the Venezuela oil agreement with the terms of the CARICOM Treaty.

The civil society representative further observed that the FTAA and other multilateral agreements will place additional burdens on CARICOM countries, especially those of the OECS and the LDCs, and posed the question as to who is costing these commitments and who is communicating to the countries on the process. Linked to this is the matter of free movement of persons (see below). He suggested the need to disaggregate per capita income data to be taken into account when the political leadership is communicating with different economic classes and groups in selling the CSME. He appealed for honesty in communication, for challenges to be clearly presented, for people to know the impact and fallout and the gains and costs of integration. Once this is done, the political support will grow and this will foster the political will necessary to do further implementation.

Another much discussed issue, which was linked to the need to make the CSME popular, was that of free movement of persons. Public and private sector participants from Jamaica and Guyana reported great interest in this in their countries and stressed the importance of extension of the categories of free movement; although some noted that this should be carefully phased. It was observed that much movement had already been taking place and that the provisions are formalising an existing reality. The civil society representative reported on a survey of attitudes to free movement in the OECS countries, Barbados and Jamaica; which found that 60 percent of those supporting free movement were people working at the lower end of the occupational scale. The most vigorous opposition to free movement came from the professional class.

Several participants commented on the problems of securing greater private sector interest and involvement in the CSME. A representative of the Trinidad and Tobago private sector spoke of the difficulty of getting business involvement in the government's TT\$100 million Trade Support Facility set up to assist non-Trinidad and Tobago firms to export to the local market. A government official, however, pointed out that this fund can offer support independently of the private sector and can finance specific professional consultants, both local and foreign, to help firms to improve and diversify their production.

A private sector participant from Jamaica identified the type of language used by official agencies as contributing to the difficulty of promoting the CSME. He also said that 'actions speak louder than words', pointing to the damaging effects of the dispute between Barbados and St. Vincent over the importation of drugs and between Jamaica and Trinidad and Tobago over the grant of work permits to Jamaican nationals in a business firm. A Jamaican official spoke of the scepticism of the private sector of the benefits of the CSME, noting that high interest rates and energy costs made it difficult for Jamaican firms to compete. On the other hand there is a tendency for the private sector to look more North than South. He pointed to government procurement and services as areas where Jamaica should be able to make a strong contribution. From Guyana, a government official observed that the private sector needs greater awareness of the competitive environment that the CSME will bring, and will require transitional assistance to adjust. There is apprehension about possible takeovers by CARICOM firms and a need to understand the potential benefits of the CSME.

Several comments were made on the subject of making the CSME operational. An official from Guyana noted that a Prime Ministerial Subcommittee of the Heads of Government had prepared a report on governance, financing and the rationalisation of regional institutions, which was under consideration. A representative from the CSME Unit in Trinidad and Tobago noted that operationalisation was a serious challenge for a unit with a staff of five technical persons and six support staff. It was necessary to put procedures and operations in place and for the CARICOM Secretariat to develop a work programme to go along with the policy. Trinidad and Tobago has been encouraging this development along with other National CSME Focal Points.

A private sector participant from Jamaica requested that the presentation should be made available to a private sector grouping in that country. He stressed the importance of addressing non-tariff restrictions on trade and of liberalising government procurement. He asked for specific information on the products that are doing well in intra-regional trade in spite of low external protection. He also coincided with the request for data on the distribution of per capita GDP across socio-economic groupings in the different countries, with analysis of how this distribution affects perceptions of the CSME. A government official from Jamaica also requested information on the particular products and tariff lines where intra-regional exports grew at a low rate and extra-

regional imports grew at a high rate, in spite of high external protection. A University researcher also requested further information as to the reasons for the growth of IR trade in these products.

A participant from the OECS spoke at length on the Report. He suggested that it was essentially a partial analysis of the status of the integration process; and supported its scope as covering CARICOM as a whole and not just the CSME. He called for specific treatment of the impact of the integration process on the OECS countries, noting that there was great consonance between the Report and work done at the OECS. Further work should take into account the conclusions of a 2005 study of the impact of the CSME on the OECS. He hoped that the Conference would result in a research agenda which can be undertaken by the relevant institutions within the region, for example, by the University of the West Indies; as there was a dearth of critical analysis of the integration process.

The OECS participant agreed that there is a significant degree of anxiety with respect to what the CSME portends from the largest to the smallest countries; and looked forward to the results of Prime Minister Arthur's recent political and public consultations throughout the region. On the matter of sovereignty, he invited participants to consider a recent OECS initiative to establish a new treaty providing for the automatic application of collective decision-making in the legislation of member states in certain prescribed areas. This process may be useful in demonstrating the possibilities of advancing integration and the CSME.

One participant noted with concern that there had been no mention of Haiti in the discussion. There is a need to discuss how Haiti will be integrated into the CSME once the political situation is resolved. For instance, there is the matter of freedom of movement: Haiti has signed the Revised Treaty and is yet to ratify it, but many Haitians still need visas to come into other CARICOM countries. This issue needs to be addressed as it will be a real challenge.

In responding to the comments, the IDB Operations Specialist started by stating that she would be happy to make presentations of the Report wherever this is requested. She explained the difficulties of getting data on GDP disparities within countries: the IDB had made a great deal of effort in this area in light of the Millennium Development Goals, but it is not available for all the countries and is not up to date. Regarding products which face high tariffs: these are mainly agricultural and some manufactured products, but only raw, unpublished data are available. She explained that more use was not made of the OECS report because many of its conclusions were based on trade in goods, and there is need to get better data on services. The Report did not study the factors responsible for the growth of inter-regional trade in goods other than protection and more research needs to be done on this.

II. GOVERNANCE, IMPLEMENTATION AND SEQUENCING ISSUES IN THE CSME

Norman Girvan, Professorial Research Fellow, UWI/IIR

The author presented his paper "The CARICOM Single Market and Economy: A View on Status, Priorities and Opportunities", which is reproduced in Annex I of this Report. He stressed that its main aim was to provoke discussion around priorities and sequencing in further implementation of the CSME. He recalled that the purpose of CSME is to establish a single economic space throughout the participating member states in order to heighten international competitiveness and become a platform for a new, growth-enhancing insertion of the region into the global economy. However, the CSME is still a work in progress. He stated that while the legal framework and organs of governance are largely in place; much remains to be done to establish the substantive conditions of the single market, and even more so those of the single economy. Although media reports give the impression that the CSME will be established on January 1, 2006; he believed that this was another example of the communication problem, since this refers to the establishment of the single market component only; and even that target is in doubt, as it is not certain that the OECS countries will be able to meet it. His general assessment is that the region is still far from a situation where economic agents can operate as in a single economic space, nor is it certain at what point in time in the future this situation will obtain.

On the other hand, he argued, it was highly significant that the governments' commitment to the CSME had been sustained over the 16 years since the Grand Anse Declaration, in spite of the frustrations of delayed implementation, and political changes. He attributed this to the persistent sense of vulnerability and marginalisation among countries in the region, a sense which has grown in recent years. There has also been a growth in CSME awareness within the private sector and among other key stakeholders. It was important, therefore, for the momentum to be maintained, and if possible accelerated.

Turning to governance, the author suggested that the structure set up by the Revised Treaty of Chaguaramas is multi-layered and complex. While having the advantage of wide stakeholder involvement from national ministries, it has the disadvantage of complicating the tasks of decision-making, implementation and follow up; a problem that is exacerbated by CARICOM's character as a Community of Sovereign States. He argued that this feature of the Community lay at the root of the failure of several initiatives taken over the years to resolve the implementation deficit. With respect to monitoring, he observed that this takes place through meetings of the organs and through the national focal points CSME units in member states, which liaise with national sector ministries on the one hand and with the CARICOM Secretariat on the other hand.

The author discussed the implementation problem in the Community at some length. He identified the major factors as absence of a mechanism by which Community decisions are automatically translated into national law, the discretionary character of decision-implementation, the wide economic differentiation among members, the scarcity of resources for implementation in some members and the lack of automatic financing for regional institutions, which could amount to as many as 17 for CSME implementation. He concluded that underlying all these factors is the sovereignty issue. Although the issues are interrelated, there was the risk that the problems could become more intractable as the Single Market is completed and the Single Economy is initiated, leading to a loss of enthusiasm and of momentum in the integration process.

As a consequence, the author questioned the advisability of attempting simultaneous implementation of all aspects of the Single Economy, or a sequence that is legally and institutionally driven, as in the past. As an alternative, he proposed a phased sequencing of implementation informed by a medium to long term strategy; with priorities determined by criteria set out in the paper. Six issues and clusters of activities were proposed as Phase 1 priorities: (i) special and differential treatment for disadvantaged members, (ii) rationalisation of the regional sugar industry (iii) a regional development policy for domestic agriculture (iv) tourism and air transport (v) the regional financial services agreement and Community Investment Policy, and (vi) a regional policy for the services sector. He suggested that one could envisage a series of sector-specific agreements or protocols in which interested and willing members participate, for example in sugar and rice. He concluded by suggesting that successful completion of these initiatives could open the way for a Phase 2 addressing coordination of other sectoral policies and of macroeconomic and fiscal exchange rate policies, which are cornerstones of the Single Economy.

Discussion

The discussion on this paper was wide-ranging, covering issues of sovereignty, sequencing, sector-specific agreements, financing, targets and time-lines, implementation, institutional rationalisation; and the importance of trade facilitation, of the movement of persons and of trade in agriculture. Responses of author, where relevant, are integrated into the account below.

In relation to *sovereignty*, one participant questioned the notion of 'discretionary implementation' from the viewpoint of treaty law. His understanding was that a treaty that imposes obligations leaves no element of discretion. This applies not only to the CSME but also to other arrangements, such as the WTO. Hence sovereignty is inevitably affected by trade agreements of this kind, and therefore that CARICOM countries cannot expect to enjoy the same degree of policy space as they had prior to the Treaty. Part of the problem is the separation of national law and international law in CARICOM legal systems. This has created implementation problems since when a treaty is concluded it does not become part of national law – this requires the enactment of domestic legislation. But this comes up against a capacity problem, because a great number of laws need to be changed to give effect to the CSME. He suggested the concept of 'community law' as a way out of the dilemma. This is an intermediate category between national and international law, consisting of the Treaty and the decisions of the important organs of the Community, which would be brought within the domestic legal system.

Another participant drew attention to the written comment made by Havelock Brewster on the Rose Hall Declaration of Governance suggesting that there was a conceptual contradiction between the notion of CARICOM as a 'Community of sovereign states' on the one hand and the deepening of the integration process on the other hand (Brewster [2003]). He agreed that sovereignty might constitute a roadblock to furtherance of the integration process and the completion of the CSME. The issue was also present at the level of the OECS grouping and has led to ideas about the need to revise the Treaty of Basse-Terre in the direction of OECS member states ceding some sovereignty to the Organisation as a whole.

In response, the author argued that an examination of the powers and functions of the Heads of Government as set out in the Revised Treaty of Chaguaramas shows no provision that their decisions shall have a binding or obligatory effect on member states. He also made reference to the text of the Rose Hall Declaration on Governance of 2003 and of the Report of the Prime Ministerial

Sub-Committee on Governance of 2005. In both cases the Heads of Government had reaffirmed that reform of governance would take account of the character of the Community as one of sovereign states. However, the latter report had introduced the concepts of 'community law', 'single CARICOM act', 'instruments of implementation', and 'collective exercise of national sovereignty'. He questioned how far these proposals were different from what presently obtains. He argued that the political will to make decisions on the ceding or pooling of sovereignty will only come about when there is a supportive climate of public opinion; which is why it is important to consider how the priorities and sequencing of integration can be worked out to create successes in agreed areas of common action.

In this connection, one participant welcomed the introduction of what he termed '*the political economy of sequencing*' into the discussion. The issues concerned methodology, distribution of costs and benefits, and selection of priorities as the basis of further advances in integration. He pointed out that was also an issue in other integration schemes, notably the European Union and MERCOSUR. There was the case of Paraguay in MERCOSUR, which stood to lose considerable tax revenues from eliminating tariffs from the other trading partners. This problem had been resolved by establishing a fund, originally proposed at \$800 million but eventually established at \$100 million. But the manner of sequencing proposed in the paper had to be carefully evaluated. He did not think it was feasible to postpone macroeconomic coordination and in particular harmonisation of exchange rate policy, as the paper proposed; since exchange rate stability is crucial for intra-regional trade. MERCOSUR had experienced a serious trade war because of the incompatibility of exchange rate arrangements. So that while sequencing may a useful way to proceed, this specific incompatibility would need to be addressed at an early stage.

Linked to sequencing was the paper's proposal for sector-specific agreements among sub-groups within the CSME. Some participants questioned the legal feasibility and political desirability of such an arrangement. One expressed the view that the CSME should be treated as a 'Single Undertaking', and allowing member states to pick and choose which elements they would agree runs the risk of undermining its integrity. Another pointed out that the Treaty contains basic clauses that commit all member states to dealing with certain sectors in particular ways. Member states are required to give effect to those clauses by having 'pull-out' sections in the form for example of a financial services agreement and an investment agreement. On the other hand, one participant supported the idea and pointed to the existence of sector-specific agreements among private producers outside of the formal CSME arrangements. For example, there was the Caribbean Poultry Association and the Caribbean Pig Breeders/Producers Association. These were instances where the industries themselves are agreeing on how to facilitate integration and cooperation: this is more durable than imposed integration. For his part, the author appealed for thinking 'outside of the box', and asked the question whether there was anything in the Treaty to prevent, for instance, a Caribbean Sugar Protocol or Rice Protocol to which some but not all member states were a Party.

There was considerable discussion of the question of the financing of regional institutions. One participant spoke of 'major cracks in the organs and the functioning of the Community' and expressed shame at the failure of the Council for Finance and Planning – COFAP – to hold regular meetings. This had led to delays in the taking of decisions of great importance to the CSME, such as the financing of regional institutions and the proposed investment code, the latter having been on the agenda for the past ten year. He characterised the dilemma as a 'ping-pong' situation in which matters are bounced back and forth between the Community Council and other community organs while financing is pending. However, he saw a difficulty in getting agreement on the automaticity of financing of regional institutions from member states. In the last 6-7 years member

states have moved from relatively comfortable fiscal situations into very uncomfortable fiscal situations; and they are driven by national priorities in the allocation of resources, regional needs being put on the backburner.

This assessment was supported by another participant with reference to the OECS. He reported that after great effort, that organisation had convened a meeting of Financial Secretaries of member states, with a mandate from the OECS Heads of Government to consider the question of automatic financing of for the OECS Secretariat. But the idea was completely rejected by the meeting. If it was difficult to get agreement at the sub-regional level it would be more so at the regional level. His view was that COFAP would have to take up the matter 'in a definitive way'. In reinforcing the point, the author referred to the decision in the Rose Hall Declaration of 2003 to adopt a system of automatic financing for regional institutions. The subject had been referred to the Prime Ministerial Sub-Committee on Governance to make recommendations on putting it into practice; and over two years later no agreement had been reached.

Another dimension of financing that was a topic of discussion is *relations with international donor agencies*. One participant expressed the view that because member states have been unable to take a firm decision on the funding of Community Organs; the CARICOM Secretariat has been allowed to assume a virtually 'sovereign' role in relating to funding agencies. The role of the Secretariat in the CSME needs to be clearly defined. In a number of cross-sectoral issues the Secretariat is involved at a very detailed and technical level and there are concerns as to how effectively it can manage the overall process. The Treaty specified various priorities and the Secretariat is responsible to put these into operation, but it is also responsible to secure funding and reliance is being placed on external donors. This participant was unsure whether the objectives being pursued by the Secretariat are not merely a reflection of the funding agency in many cases, and whether donor influence is so strong that member states were losing their sovereignty even while they were quibbling about it, as long as the issue of funding goes unresolved.

This point was supported by another participant, speaking from the perspective of funding agency. When grant funding is provided there are the institutional objectives and strategies of donors, particularly bilateral donors. There is an effort to match donor objectives with the needs of partners but some amount of matchmaking is necessary. However there is also another problem: the lack of coordination by governments of regional agencies, which leads to regional agencies competing for donor funds. Examples were given of different regional agencies approaching the same funding agency; unlike the system at the national level where national programming processes are in place and the donor agency discusses the funding programme with the Minister of Finance. This participant wondered why CARICOM does not designate a single interlocutor and why couldn't governments take charge of the process. Given the reality of reliance on donor funding in the short-term, even if automaticity of financing is eventually established, couldn't governments take charge of coordinating the funding from donors to the regional agencies by creating a committee or some other mechanism, so that donors have one point of interaction in deciding on funding priorities.

A variety of views were expressed with regard to the merit of precise definition of *targets and time-lines*. One participant agreed with the paper that the indicative timeline of 2008 for the Single Economy may be understood to be 'cast in stone' and that this has caused expectations to far exceed capacity. The notion of a Single Economy should really be seen as a theoretical construct and at any given time different indicators could be used to determine the extent to which a Single Economy is evolving. In the view of this participant Single Economy is an elusive and subjective term, capable of different definitions, the process is an evolutionary one and 'at no time will we be able to say that it is

in existence'. This has impacted on the ability of national governments to keep the public onboard with the initiative because the people genuinely expect it to 'happen on a particular day'. This brings up the problem of 'CSME fatigue', for example at the Cabinet level. Inter-Ministerial Cabinet Committees were set up to facilitate the changing of legislation, but many Committees took it as their sole responsibility to investigate the restrictions and changed the legislation; neglecting the on-going work that needs to be done and the need for political guidance in the process.

Another participant agreed that the CSME should be seen as a process rather than as an event. He pointed to the experience of the OECS countries, which have been pressing for the operationalisation of the Regional Development Fund, and noted that the new idea of a Regional Development Agency had been placed on the table by the Prime Minister of Barbados and the CARICOM Secretary General. The RDA would have the responsibility for the implementation of Chapter 7 of the Treaty on Treatment of Disadvantaged Countries, Sectors and Regions, including the Development Fund. This has raised a number of concerns that can only be addressed in an-going manner.

Other participants saw merit in the fixing of specific time-lines for certain things to happen: for example the Europeans stated that the Single Market process would commence in 1986 and would be completed in 1992. This view held that it is difficult to get the public on board or to conceptualise the change without having a specific date when the change will be in effect. From a business perspective, the absence of concrete content of the change and a time-line would be 'a catastrophe in terms of strategic planning', particularly as the CSME is intended to strengthen firms to do 'further battles at the hemispheric and global levels'. Furthermore there are external pressures on the region arising out of trade agreements, all with time-lines, and it was surprising the amount of actions that still remained for completion of the CSME.

One participant wanted to see reference to the *manual for implementation* that had been produced by the CARICOM Secretariat which sets out in great detail the administrative and institutional steps and arrangements necessary to give effect to the CSME. It would be useful to evaluate the extent to which this has the possibility of impacting the process of implementation. This participant expressed surprise that many persons engaged in implementation are unaware of the existence of procedural manual.

Some participants spoke to the issue of *institutional rationalisation*. They were astonished that as many as 17 regional institutions could be required by the CSME and enquired how many of these were additional to those that already existed. They were of the view that such a number was totally unrealistic, that some amount of rationalization would be necessary with elimination of bodies duplicated at the national level, and that this should be at the top of the agenda of priorities. One suggested consideration of 'groups of companies' do carry out the tasks required without setting up new institutions. In response, the author estimated that only six of the 17 exist in some form. He reiterated the necessity of deciding on institutional priorities based on initiatives that are most urgent, have the greatest pay-offs, are easiest to secure governmental commitment for financing.

Another participant emphasised the critical importance of *trade facilitation* in effective completion of the CSME. He suggested that timelines for implementation should be directly linked to improvements in this area. At a recent UNCTAD meeting involving high-ranking customs officials from throughout the region, the private sector had been severely critical of at the customs administration in Trinidad and Tobago, and it became clear that the customs department is a major non-tariff barrier to that market. There was frustration when governments tell the private sector of the need to implement the CSME in order to prepare for competition at the hemispheric level and

the global level, but the implementation necessary to support that thrust is not happening. At the level of regional associations there is a sense of frustration with the lack of movement at the CARICOM level: they may attend meetings of COTED and of technical working groups and afterwards at their own meetings express total amazement that the same issues could be on a table for several years without being resolved. One result is a high turnover rate of people entering and leaving the system and of people just leaving the region. The question came up: is this the way the world operates or is it only us? The answer was that it is not the way the world operates, so that CARICOM countries had better understand and come to terms with it.

Another participant noted that that the presentation had not mentioned the need to address the issue of *free movement of persons*². This was important because until the CSME and the governments provide for the equitable movement of persons regardless of their level of education, then the average person in the region is not going to take the CSME seriously. If it deals with business firms alone, most people are going to perceive it as being implemented in a divisive manner.

Finally, one participant argued strongly that supporting *trade in agricultural products* should be a regional priority, given its significance to the region in countries such as St. Lucia, Grenada, Dominica, Jamaica, Suriname and Guyana. He believed that its importance was grossly underestimated and that of services was highly overstated. His view was that services will not, at any time in the near future, generate the kind of equity, employment, opportunities for economic upliftment and the socio-economic stability that is needed. It was critical to pay attention to improving the intra-regional trading system in food and agricultural products, if significant national and regional disasters are to be avoided in the future.

² *Editor's note*: the subject was included in Girvan's paper but was not mentioned in the verbal presentation.

III. CSME AND EXTERNAL NEGOTIATIONS

RAMESH CHAITOO,³ SERVICES ANALYST, CARIBBEAN REGIONAL NEGOTIATING MACHINERY
[on behalf of Richard Bernal, Director General, CRNM]

The Services Analyst of the Caribbean Regional Negotiating Machinery (CRNM), Mr. Ramesh Chaitoo, made a PowerPoint presentation on behalf of the organisation's Director-General, Ambassador Richard Bernal. His presentation was titled "Convergence Issues between CSME and External Trade/Investment Objectives in CARICOM", and focused on some of the key points made in Ambassador Bernal's prepared paper, which was distributed to participants. Mr. Chaitoo's presentation is reproduced in Section II and Dr. Bernal's paper in Section III.

The presenter began by listing the region's current negotiations, noting that the multilateral process was the one occupying the most time. The ongoing WTO Doha process included some new issues and others of lesser importance, a few of which were not on the CSME agenda. However, perhaps the more important negotiation is that between CARIFORUM – CARICOM and the Dominican Republic – and the EU towards an Economic Partnership Agreement (EPA), due to be concluded by the end of 2007. He mentioned a mandate to negotiate with Canada and referred to the FTAA process, which should resume after the Doha agenda is completed.

Mr. Chaitoo said that the external negotiations which have particular objectives to increase market access, exports, economic opportunities, growth and employment is driving much of the trade agenda. They are also conditioned by the regional integration process which is supposed to be the top priority for the region at this time. He noted that many of the issues in the WTO process have to do with agriculture, which is also a problem area at the hemispheric (FTAA) level. He presented a Venn diagram designed by the CARICOM Secretariat showing the different integration theatres of the region, showing that the CSME was the most important. The diagram showed that within the region the OECS was further advanced than CARICOM in its integration, for example in its long-established monetary system. As one moves outwards from the OECS and CARICOM at the core, the level of obligations involved in the integration scheme diminishes in terms of depth or intensity. The CSME process then has to inform negotiating positions externally in terms of timing, kinds of issues that are negotiated, and the kinds of market access that is given. Any slowdown on the CSME side or the kinds of issues that it deals with, whether they are rule-making or market-access oriented, affects the external rhythm.

With regard to timelines, the scheduled conclusion of the EPA in 2007 is tied to a WTO waiver for the Cotonou agreement. This is stricter than some regional timelines, which can be quite loose. Referring to the previous discussion about 'flicking a switch', he observed that when the Europeans introduced the Euro, they did flick a switch and although there were many problems and difficulties with it, such as price gouging, the Euro it came into effect on a specific date. In other words, deadlines have to be set for making decisions and moving forward so as to expedite the process.

Mr Chaitoo observed that the RNM finds itself, in many negotiations, having to take a 'holding position' on some issues because the CARICOM Single Market process has to be completed before a position in external negotiations can be taken. These areas include government procurement; competition policy; some areas of services, notably financial services and infrastructural services; and increasingly from the non-trade side which is of great interest to civil society and NGOs/non-

³ Ramesh Chaitoo is the Caribbean Regional Negotiating Machinery's Services Trade Specialist based in Barbados.

state actors, particularly the environment; labour; and human rights. These may not be on the multilateral agenda, but are in some form or another on the bilateral agenda. The overarching position of the region in external negotiations is one of *two principles*: special and differential treatment; and non-reciprocity or asymmetry in terms of the commitments that are made to address the differences in size and levels of development within CARICOM as a group.

The problem is that longer it takes to finalise arrangements within CARICOM in any given area, the less credible is the region's position in external negotiations. In services for instance, a major demand of the region in external negotiations is increased market access for lesser/lower skilled categories of people. The response from many parties in the FTAA negotiations was that in the CARICOM Single Market access is limited mainly to university graduates, which is largely elitist.

A similar problem arises with respect to bilateral relations between CARICOM and the Dominican Republic. The CARICOM-Dominican Republic free trade agreement, which was negotiated in 1998, has not yet been extended to services, pending complete services liberalisation within the CARICOM Single Market. Negotiations with the European Union on the EPA started in 2005, and these include market access negotiations in services. If the Single Market in services is not in place in 2006, the region could find itself the odd situation of trading concessions in services with the EU that do yet exist among CARICOM members or between CARICOM and the Dominican Republic. On the other hand, externally-driven processes things can force the acceleration of the domestic process, for example as in the CAFTA negotiations between the United States and Central America.

An area of concern to the private sector is that of *government procurement*. The official position is that government procurement is outside of the Single Market. Transparency is the limit that government will tolerate in external negotiations, and this may also be the case in the single market at this stage. However several regional firms have expressed interest in procurement in US, Canadian and intra-CARICOM markets. It was important for the CSME process to result in an all-encompassing agreement to allow tradeoffs and dynamic gains across various sectors, because if procurement is left out this will exclude a huge part of some domestic economies. Utilities have also been put on hold— this includes power generation (mentioned as a large input cost into most facilities around the region), telecommunications, water, and transport; all of which are significant elements in manufacturing costs in all economic activities. This makes it difficult to have much movement on the external front in these sectors.

Regarding *telecommunications*, it was pointed out that all CARICOM states except two have liberalised unilaterally at the multilateral level and that most states were willing to bind the market access they have been granted in telecommunications in the WTO, which he believed was a mistake because of its significant worth in the economy. However, he noted that in the CSME process, telecommunications is not subject to liberalisation perhaps because of the exemption of monopolies within such regional agreements. Questioning this approach, he stated that the region could not develop a Single Market or Single Economy without having a common telecommunications space for several reasons, including the general way the whole world is changing in terms of convergence of technologies and the *media de jure*. His view was that on the external front, telecommunications is an area where government will want to liberalise.

Turning to *competition policy*, the Revised Treaty of Chaguaramas provides for competition rules to be developed, but so far only a few countries have established competition regimes (Jamaica, Trinidad and Tobago and Barbados). Negotiations with the EU on an EPA cannot but deal with competition for reasons that are germane to the Europeans in their tradition, but also in terms of

the larger issues of ensuring that collusive practices and large firms do not crowd out true competition from small entities and new market entrants. Here again, the region has to adopt a holding pattern in external negotiations because of the slow movement intra-regionally.

In *intellectual property*, the CARICOM position is to deal with the TRIPs agreement as the baseline. However, there are some countries in CARICOM such as Guyana and Jamaica which could benefit from new areas of intellectual property protection such as Geographical Indications; for example in respect of Demerara sugar and rum in Guyana and Jamaican Blue Mountain Coffee. In the latter case Jamaica has had treat Blue Mountain Coffee as a trademark and protect in every single jurisdiction around the world. This is not an area covered by the Single Market and hence external initiatives are constrained in this area.

The speaker pointed out that the objective of the Single Market and Economy was not only to increase market size and benefit from economies of scale, but also to benefit from the availability of a wide range of human and natural resources from South America through Jamaica and Central America. This is a tremendously endowed 'economy'. However, even amongst the business community and officials, there is a lot of trepidation and there and much talk about segmentation. Much of this discussion is misinformed with regard to alleged losses on the private sector side/business side, neglecting to consider the efficiency gains and the welfare gains to consumers of integration.

The second biggest advantage of integration as the *attraction of investment*, whether domestic or foreign. Most CARICOM states, including Trinidad and Tobago, depend on foreign capital for replacing investment and for new net investment. A Single Market should attract market-seeking investment, and resource-seeking investment, given CARICOM's extensive resources; as well as efficiency-seeking investment. With this in mind, he believed that the treatment of investment in the CSME could discourage foreign investment. The problem originated with the Treaty of Chaguaramas in 1973; which might have appropriate in the 1970s but he believes is counterproductive in the current context.

As a background, he pointed to the fact that most CARICOM economies have been running fiscal and trade deficits for the past 10 years, even where service exports have expanded, as in the OECS region, the surplus on services has not been sufficient to compensate for the deficit on merchandise trade. As a result, foreign borrowing and external indebtedness has grown. The region needs to export more, manufacturing industry is not competitive, and tourism, although thriving in many countries, was declining in some as it is becoming less competitive. Further services diversification is necessary, for example in business services which is one of the fastest growing areas. Foreign investment is necessary to finance the current account deficits and substantial new capital is needed to exploit the natural resource endowments countries such as Guyana, Belize, Suriname, and Trinidad and Tobago.

Data were presented to show the heavy reliance on foreign direct investment of most CARICOM countries (see Table 2 in Mr. Chaitoo's PPT presentation). To some degree, the smaller the territory, the greater is the importance of stock of FDI to GDP. In the OECS, that ratio was more than 100 percent on average over 1998-2004. Suriname has had negative FDI for several years. In Trinidad and Tobago the average ratio of stock of FDI to GDP was 87 percent for 1998/2004. In Guyana the trend in inward FDI flows over 1997-2003 was flat, while in Antigua and Barbuda it has been rising. Haiti is badly in need of investment. He argued that attracting foreign investment should be an important goal of the Single Market, that the investment regime should be carefully thought out and that small states cannot afford to have disincentives to investment.

However, the definitions of a CARICOM investor used in the Revised Treaty and in the draft CARICOM Agreement on Investment excludes majority-owned foreign firms that invest in CARICOM from the benefits of the Single Market. This is a major disincentive to investment in the region for two reasons. First, because foreign investors will not want to get involved in a series of segmented markets. European investors are market-seeking investors, by comparison to others; Japanese tend to be natural resource-seeking and efficiency-seeking; and Americans are a mix of all. By excluding foreign investors from the privileges of the Single Market, there is a reduced chance of attracting investors, and creates problems for investors already in the region that are not majority-owned by CARICOM nationals.

The second reason is the complexity of an investment regime within which there is a CARICOM Investment Agreement as well as an investment code dealing with third country investors. He referred to a compromise in which COFAP and/or COTED could grant CARICOM status to foreign firms already established in the region, but believed this to sub-optimal because it opens the door to political interference and other factors.

There were two related issues. The first had to do with the different definitions of an investor within CARICOM and the Dominican Republic. In the Dominican Republic-CARICOM bilateral FTA, there is reciprocity of national treatment for investors. The Dominican Republic defines an investor as anyone who incorporates in its territory, which means that a foreign investor based in that country could access the CARICOM market more easily than a foreign investor that is CARICOM-based. This problem would have to be solved before the CAI comes into being.

The second related issue is that CARICOM has entered in trade agreements with other countries partly to attract foreign investment for export to third countries. An agreement that treats foreign investors differently from domestic investors could constitute a disincentive, for example to Japanese, Chinese and other Asian investors which are showing an interest in exporting to North America and European markets from third country locations. In positioning the region to attract such investment the Single Market regime in this area should be modern, understandable, efficient and attractive.

Discussion

The Seminar Chair listed the main issues arising out of the presentation as related to (i) timelines; (ii) services; (iii) freedom of movement of low-skilled labour; (iv) government procurement; (v) telecommunications and ICTs; (vi) competition policy; (vii) intellectual property and (viii) FDI and the CAI. All of these had been identified as lying at the interface between the CSME and the external negotiating imperatives of the Community. The ensuing discussion ranged over several of the above issues.

One participant asked for clarification on the treatment of public utilities and telecommunications in the evolving CSME regime. He pointed out the OECS had made significant progress in establishing a common telecommunications policy. The sub-region had recently taken a decision to liberalise the broadband supply, agreeing to the introduction of a new cable supplier. He further pointed out that a review of the Revised Treaty is due in 2007, as required by Article 240 Paragraph 3. There was a need to start thinking about what directions this should take, so that the review team would have concluded its work by the time indicated.

In response, the Mr. Chaitoo explained that he was referring to the exclusion of utilities from the CSME process, rather than to liberalisation of utilities on the external front. This, together with exclusion of government procurement, would mean foregoing one of the potential benefits of integration, which is achieving reduced cost of business. With respect to telecommunications, liberalisation was needed in the provision of value-added activities including broad-band and/or WiMAX. This discouraged internet-based and intranet-based economic activities. Only a few countries had liberalised fixed lines and networks which enabled a lower cost of internet access, a factor deterring its use by small businesses. Although the telecommunications situation is complicated, the benefits of liberalisation had not been realised because of the way in which it has been undertaken. In Europe and the US, the first areas to be liberalised were packet switching and data transfer, followed by voice services; but in the Caribbean the reverse was the case.

On the matter of investment, one participant wanted to know if the comments on the CAI related to what was already in place or what was proposed. Another asked for clarification in light of the investments being made throughout the region by several foreign companies, such as Digicel, Nestle and Kraft; as he was not aware of complaints about disadvantages from these or other companies. The presenter explained that the absence of complaints, however, did not necessarily mean that the existing scheme is best for the region. In his view a single market is supposed to create a seamless environment for economic activity and this was not the case at present. He explained that a process is in train to create the CARICOM agreement on investment and the CARICOM investment code, first being for intra-CARICOM investors and the second for third-country investors. Another process is the creation of a financial services agreement, which may codify the status quo, although this may not be the best arrangement.

Here the presenter took the opportunity to point to the need for some convergence of the approach to tax regimes and tax incentives. Issues of sovereignty made this discussion difficult, but a seamless economic space requires harmonisation of incentives; because unless an investor is not resource-seeking, they will go where corporate taxes are lowest. On this point, one participant noted that this was one instance where differentiation within the region becomes an obstacle. A country like Trinidad and Tobago with huge revenues from the energy sector could more easily cut corporate taxes down to the level which is regarded as acceptable than a country like Guyana, and some countries whose fiscal revenues are import-based have a difficulty cutting tariffs. There needs to be focus on the different fiscal situations of member states and attempts to devise solutions. Another participant stressed the need to consider the effective rate of corporate taxation as opposed to only the nominal; taking into account what allowances are being granted in relation to what the nominal rates to arrive at the effective rates of taxation, for purposes of rationalisation.

There was considerable discussion around the subject of the existing role and future potential of services. One participant thought that the potential was overstated in regional discussions and in connection with external negotiations. Services are often low-paying, and in any case generate relatively little employment, which may suffice in countries such as Montserrat, Antigua, and St. Kitts; whereas in others such as Grenada, St. Lucia, and Jamaica, the level of socio-economic benefits necessary for social stability would not obtain without very large investments in services. Such benefits could not be derived from tourism and ICT investment since these did not require as many people, and the linkages were simply absent.

The presenter argued that in CARICOM states in aggregate, services accounted for about 62 percent of employment, and about 70 percent in the OECS countries. In most CARICOM countries the share of services in the GDP and in export earnings has been rising. He cited the example of

Luxembourg as contradicting the notion that services could not generate much employment. On the other hand, another participant argued that much of the services employment figures in CARICOM included non-tradable services, such as public sector employment and personal services. It was not clear that services could absorb those being displaced by preference erosion in industries such as bananas and sugar and manufacturing workers made unemployed by import liberalisation. For him, the point was that goods production should not be neglected.

The presenter conceded that although there were instances of low-paid service occupations, wages and conditions of work in some agricultural occupations could be much more demeaning. This is why many people prefer to work in the tourism sector rather than in the manufacturing or agricultural sectors. He was not arguing for the neglect of goods; but in experience was that it was difficult to get member states to focus on services, which in his view is where the greatest potential lies. He could not foresee OECS countries and small states becoming competitive in manufacturing, because of the high input costs, low productivity of labour, and imported resources. It may not make sense to fight for possibilities in manufacturing for most CARICOM states, when in reality it may be better to focus on the preferences and concessions that might be obtained in the area of services.

Another question related to the CRNM view on CARICOM Rules of Origin and the possible negative impact on the region in attracting investment. Here, the presenter explained that the definitions used stem from the Treaty, but in principle, there are instances in which it may be necessary to review a provision and waive it by means of a legal instrument. One participant wanted to know if these concerns had been reflected in the draft model legislation that the CCS was providing by way of assistance to Member States; but the speaker explained that these were merely concerns that had been raised with him in the course of his consultations.

One participant requested clarification regarding the depth of commitments within the integration schemes. He referred to the case of Jamaica, where it was found that commitments made under the WTO were more binding than those routinely entered into with the CARICOM neighbours. Another asked for further information on a new objective of the EU within the planning its new round of financing for 2007-2011, which was a cross border trans-national and interregional cooperation involving a new direction in the establishment of relationships in the EU and countries on its borders. Although the focus was primarily to be on Eastern Europe and countries south of this, the inclusion of Martinique, Guadeloupe and French Guiana made it feasible for this to be extended to these 'outer-most' regions, perhaps leading to significant opportunities in the Caribbean and potential foreign investment.

IV. PRIORITIES FOR RATIONALISATION OF REGIONAL AGRICULTURAL PRODUCTION AND TRADE IN THE CSME

Vincent Atkins,⁴ Senior Research Professional, Caribbean Regional Negotiating Machinery

Mr. Atkins's paper and PowerPoint presentation are reproduced in this volume. He began by noting that participants would have benefited from the discussions in the previous session on the contribution of agriculture to the region's economies and the performance of agricultural trade. He noted that despite the decline in the overall contribution of agriculture in CARICOM economies, the sector was likely to continue to be important in several member states as a significant contributor to food security, rural employment and development and livelihood security. Agriculture is covered under Article 56 of the Revised Treaty which deals with the common agricultural policy. There have also been several regional initiatives including a "Regional Transformation Programme" (RTP) for Agriculture and in recent times "The Jagdeo Initiative" which is aimed at addressing key constraints to the development of the sector. Mr Atkins noted that it is 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.

The speaker referred to the "new" agriculture, envisaged in the Revised Treaty, which advocates a business-oriented approach entailing efficiency in resource use and competitiveness in production and trade. Agricultural production and trade in member states have been severely constrained by several factors, including changes in domestic economic policies arising from the implementation of structural adjustment and economic stabilisation programmes and from trade liberalisation under bilateral and multilateral trade arrangements. The sustainability of the sector, therefore, depends on the transformation of agricultural enterprise into profitable, efficient and competitive businesses, and such a transformation requires a rationalisation of both production and trade within the context of the CSME.

Several external factors influence agricultural policy and the future of the sector, including the multilateral trade negotiations within the WTO; domestic policy reforms in the EU; and bilateral/regional free trade arrangements such as the proposed EU-CARIFORUM Economic Partnership Agreement (EPA). These affect the sector mainly through erosion of trade preferences for agricultural exports. The speaker emphasised the importance of the WTO negotiations on agriculture, especially the special concerns of CARICOM and the development aspects of the "Doha Development Agenda"; the EU Common Agricultural Policy (CAP) reforms and their effects on prices; and the Economic Partnership Agreements (EPAs) which will constitute the new trading arrangement between the EU and CARIFORUM countries from January 2008.

Six key areas were identified as priorities for the rationalisation of regional agricultural production and trade in the CSME: policy coherence; productivity enhancement; a favourable legislative and regulatory framework; a supportive investment and entrepreneurial environment; infrastructural and institutional support; and good governance. Each was briefly discussed in the limited time available for the presentation. In summing up, the speaker stressed the importance of coherence among sector-specific policies as CARICOM countries sought to diversify their economies and encourage investments in other sectors, mainly the services sector, partly as a reaction to the decline in the performance of the agricultural sector. The fostering of linkages between agriculture

⁴ Vincent Atkins is a Senior Research Professional in the Agricultural Trade Negotiating Programme of the Barbados-based Caribbean Regional Negotiating Machinery.

and the services sector through mutually supportive policies was considered necessary to avoid further decline in the performance of the agricultural sector. Productivity growth in agriculture was also highlighted as an important condition for growth of the agricultural sector as a whole. His paper concluded by reiterating that regional agricultural development programmes, such as the Regional Transformation for Agriculture (RTP) and the Jagdeo Initiative, would have to address the priorities discussed in his paper along with other constraints facing agriculture if the full potential of the sector to regional economic growth is to be realised.

Discussion

Several participants referred to the Jagdeo Initiative as an overarching theme for the rationalisation and development of the sector. However, a major topic of discussion was the experience with different initiatives throughout the region which have focused on agriculture and on overcoming the traditional challenges to the sector. These included initiatives to enhance the competitiveness of small-scale agricultural producers, to foster diversification, and to tap into markets, sometimes through backward linkages and issues and challenges in meeting global standards.

One participant gave several examples of small companies throughout the Caribbean which – despite constant repetition *ad nauseam* that “we can’t compete”, very high production costs causing difficulties in supplying US markets, and challenges of sanitary, phytosanitary and other standards – recently found market niches that are willing to pay the price for their goods, so that cost was not an issue in terms of their competition. He also commented on a Business Recovery Programme which was transforming business, agriculture, craft, fisheries and poultry by focusing on rural livelihoods, through technology transformation approaches and otherwise to tap into US markets, at prices even below those coming out of Mexico, Israel and Colombia. He further mentioned programmes which focused on diversification, devising strategies which moved people out of sugar production into non-sugar agriculture, high value-added and other areas linked to the traditional sugar industry, including tourism and other sectors. He also referred to a programme which improved economic competitiveness of a range of sectors through a focus on clusters. He believed that although there have been some examples of investment in agriculture, and companies’ markets and profitability were growing, what was needed were clear rules and more transparent application of measures relating to market access, non-tariff barriers, SPS. He added that several firms have significant backward linkages into rural communities that impact the livelihood of the average person.

One participant referred to a disconnect between small farmers and the hotel industry arising mainly from difficulties related to payments and cash flow requirements. However, another participant spoke of the collaboration with OXFAM, Great Britain, to develop and institute a project linking hoteliers with small commodity producers in St. Lucia. The business model utilised created a marketing company to act as an intermediary between these two so that small farmers could be paid immediately for their produce rather than having to await payment later. Furthermore, the project aimed to help farmers with issues of standards, already described as a major challenge, by encouraging and training these farmers meet both the standards required by the hotels as well as standards required for exports of the produce. Another participant pointed to the history of the Windward Islands banana industry as an example of the value of cooperation and collaboration on a sub-regional level. It was important to create the environment for people and agricultural businesses across the region to get together.

In response to these success stories, the comment was made that it was necessary to document these cases since much of what was said was not recorded and that it was a good idea to have good examples of what can happen when the right conditions exist for agriculture with respect to both the intra-regional and export markets.

Other areas of concern for participants arising from this presentation were the issue of limited investment in agriculture and financing options available to the agricultural sector across the region. One participant questioned whether this was a result of the policy environment or the signals that governments send or whether it was as a result of the scale of the economies. He referred to the example of Guyana, which was perhaps where the most significant agricultural production currently is, but where there is also limited foreign investment in agriculture. Also focusing on Guyana, one person suggested looking at the agriculture modernisation fund to be a window of the Regional Development Fund (RDF) which would aim at relieving the financial constraints on the development and performance of the sector.

However, it was revealed that with respect to the issue of financing, the CDB is interested and has been increasingly becoming more involved in the financing of agriculture initiatives. Most recently the Bank has been active in Guyana, with the funding of a Sugar Modernisation Project and the view was that not only can the production be made more efficient, but also that Guyana can become more competitive in the world sugar market. Moving away from preferences was the rationale for that model/project.

Throughout the discussions, there were several comments in reference to the specific challenge of standards. One person stressed that further development of the agriculture sector in CARICOM depended on more attention being paid to the issue of standards in the Caribbean. She urged participants to examine the work of CROSQ and its relevance in developing the necessary standards for agriculture.

Other issues which informed the discussions included the issue of compensation for losses incurred from policy reforms in external markets. One participant questioned whether the Caribbean had any leverage in extracting the kinds of compensation which is commensurate with the losses incurred, citing the case of sugar where compensation being offered by the EU to ACP sugar producers of 40 million in one year, which was 1/10 of the losses. However, a question was raised later by another participant on how exactly was the amount of compensation to be calculated and whether that would be confined to consumers or include losses incurred by consumers as well.

There was some debate over the role of the Caribbean Community Secretariat and CARDI with respect to agricultural development, as this was considered important in the context of strengthening regional organisations. One participant was of the view that CARDI represented the institutional capacity that had already been developed and that CARDI was capable through its association with UWI and other universities and external organisations to conduct the research and development that is required.

One participant outlined several issues which she thought were critical to the development of the region's agriculture, stemming out of the Jagdeo Initiative, and which should be kept in mind, including the effect on agriculture of transportation, natural disasters, regional markets for specific agricultural products (such as perhaps a regional sugar protocol), and necessary distribution and warehousing facilities. Another participant added that underscoring all these issues has to be the

important notion of services in support of agriculture and it was necessary to make that important linkage so that the various sectors could be mutually reinforcing.

The last question raised was in relation to the issue of sequencing and priorities arising directly out of the paper. The need to establish clear, immediate and urgent priorities for action both at the regional and national levels for vitalising regional agricultural development was considered.

One participant commented on the fact that attention was being given to agricultural issues at the CARICOM level. She applauded the fact that at least once every year there is a dedicated meeting of the COTED which addresses purely agricultural issues, in which everything from CARDI to the Jagdeo Initiative is discussed. Furthermore, present at that meeting are officials from both government and the private sector organisations which was commendable.

In a brief reaction to some of the comments made, Mr. Atkins re-stated the importance which he attributes to the policy environment and that stakeholders or those which engage in agri-business must be aware of that environment. Once the environment has been created and once opportunities are evident, people would take advantage of it, and so the policy environment must be clear and evident to the persons involved, and the opportunities must be there for them to take advantage of it. With respect to the idea of cooperation and collaboration, he declared joint undertakings are still very much important for the success of agriculture. Calling attention to the suggestion to address the regional level constraints of standards, the placement of the Caribbean Animal Health and Food Safety Agency (CAHFSA) within CARDI yields cost advantages, although there must be synergies among the institutions for these advantages to be realised. He ceded that the presentation perhaps raised more questions, and generally the comments made pointed to the kinds of issues which must be addressed.

V. REGIONAL DEVELOPMENT FUND

Bernard LaCorbiniere,⁵ Consultant

The final presentation was made by an independent consultant, Dr. Bernard LaCorbiniere. It examined issues and options for the proposed Regional Development Fund (RDF), in the context of the objectives outlined for the fund set out in the Revised Treaty of Chaguaramas. His presentation and paper are reproduced in sections II and III respectively. The issues were considered under five broad headings: purpose and objectives; suggested criteria for an effective fund; eligibility; size, funding and sustainability; and location, governance and management.

The rationale for the Fund derives from recognition that a number of factors may compromise the ability of some member states to participate effectively in the deepening of the integration process and of achieving sustained development in an increasingly competitive global economy,. These include deficiencies related to: resource endowments; size; economic development; economic structure; and vulnerability. Hence, the integration process could bring about economic dislocation and make some countries or areas relatively worse off or exacerbate existing economic differences. For this reason, a regime for Disadvantaged Countries, Regions and Sectors was enshrined in the Revised Treaty. Within this regime, the Development Fund was conceived as one of the instruments to help facilitate that process, by providing financial and technical assistance

There were certain principles by which a development fund should be operated, and which should underpin a well-functioning fund designed to achieve the purposes set out in the Revised Treaty. Dr. LaCorbiniere listed a minimum ten, which included clear eligibility criteria for receiving assistance from the Fund; independence/autonomy of the Fund and other criteria relating to its sustainability, ownership, management and flexibility of access to its resources.

He cited Articles (1), (2), (4) and (5) of the Revised Treaty which looked at the eligibility to resources and which defined disadvantaged countries, regions and sectors and provided the means (in general terms), for modifying the status of a disadvantaged country. In both his paper and presentation, he discussed some of the definitional issues that one may consider when focusing on the countries, regions and sectors which are able to benefit from the Fund.

He focused on several items which would affect the size, funding and sustainability, and started with the instance that size would be related to the: functions of Fund; critical mass/sufficient resources; method of financing (whether (public, private, grant/loan, etc.); cost; and fiscal constraints. In looking at the issue of sustaining the Fund over time, this might suggest that a significant proportion of the inflows (including replenishments), should be automatic through grants, loans, or both. He explained the value and use of a levy, but also included a variety of complementary methods other than a levy which could finance the Fund. Concessionary loans from various sources as well as a host of different types of contributions added to this list.

In the essence of time, he briefly discussed the various options for the location, governance and management of such a Fund, each with their own merits and demerits, including issues of duplication. The Fund could be located within an appropriate existing institution (either a special window or a separate legal entity managed by the institution), as well as it could exist entirely on its own as a separate legal entity.

⁵ Bernard LaCorbiniere is currently an independent consultant, having held several senior positions within various St. Lucian Ministries.

The presenter summed up by stating the following key points: the Fund must be large enough to make an impact on the financing of adjustment in the disadvantaged countries, its own resources must be sustainable, the Region must have real ownership of the Fund which in turn must be governed/operated to achieve the objectives set out in the Revised Treaty.

Discussion

The presenter received and responded to questions and comments referenced here under several themes.

One participant asked about possible duplication of functions between the RDF and the CDB, and the implications of this on the Fund's location, among other issues. Considering that the main purpose for which the CDB was set-up was to accelerate the development of the less developed members of the Caribbean Community and further upon noting the terms of reference of the RDF as set out in the Revised Treaty, he wondered whether the term 'Regional Development Fund' was not a misnomer. On examining the purposes of the Fund in the text of the Revised Treaty, which refers to economic dislocation and to special support measures which are of transitional or temporary nature, there remains the question whether the Fund is not really a compensatory mechanism or an adjustment mechanism towards the CSME. He reasoned that once the terms of reference expand to include any kind of developmental activity such as infrastructure, the question arises as to the difference between that and the functions and objectives of the CDB. The author explained that the Revised Treaty used the term 'Development' Fund,' but the term 'regional' had come into general use over the years.

Another participant opined that although the Revised Treaty has defined the purposes of the Fund and related issues of access and scope of operation, a problem then arose of appropriately defining and managing the role of the CDB and other entities. He noted that it is still to be determined if the Fund ought to be located within the CDB, perhaps its own governance board, rather than setting up a new institution. The Fund's support should be clearly linked to positioning the stated beneficiary countries to directly participate in the CSME. Another agreed that the stated purposes of the Fund would make it logical to locate it within the CDB; but felt that further research might be useful in establishing whether it would not be more effective for the Fund to target assistance to sectors and firms within countries to enable a transition to more competitive industries. On this point, the author reported that while no decision had yet been taken, the current thinking is to locate the RDF within the CDB. His view was that ideally, the Fund should be set-up as a legal entity under the management of the CDB; rather than as a window within the CDB, as this would make for greater ownership by CARICOM and not connect it to CDB's wider objectives.

Another issue discussed was the definition of criteria of eligibility of access to the Fund. One contributor argued that the private sector should have access to the Fund for stated developmental initiatives such as R&D and other projects that not be of a purely commercial nature. Another suggested that resources could be provided to sectors within countries which individual firms could then access on an agreed basis, to support firm rehabilitation made necessary by adjustment shocks. One participant asked for a precise definition of 'disadvantaged'. Does it apply only to disadvantaged areas that are within disadvantaged countries, or might not there be disadvantaged areas that are within countries not classified as disadvantaged? In addition, the very term "LDC" in categorising countries could be seen as outdated.

The author for his part responded that his paper proposed private sector accession to funds, though not for directly commercial activities. The Revised Treaty have defined the objectives of the Fund in some detail, but he was aware that in the up-coming discussions within COFAP (the Council on Finance and Planning), all the options set out in his paper were on the table. As far as the categorisation of LDC was concerned, this was based not only on per capita GDP figures but also on others factors, especially size and vulnerability and size. He believed that the Fund should focus on Disadvantaged Countries and it was the job of the CDB to address disadvantaged regions within countries not classified as disadvantaged.

A major subject of discussion was the source of funds for the RDF. The Structural Funds of the EU had been relatively successful because of the ability and willingness of a few countries, such as France, Germany and UK to provide resources for the less developed regions or countries. In the Caribbean, the only country which could play this role was Trinidad and Tobago, which is already making provisions with the Trade Support Facility and the Petroleum Stabilisation Fund. Could not these funds be regarded as seed money or initial capital contributions for the RDF? Another participant agreed, but commented that there might be structural difficulties with the administration of those funds. He also reported on an initiative to secure EU resources as seed money for the Fund in the framework of the discussions for the Economic Partnership Agreements and the changes to the sugar and banana agreements. The author indicated that both issues were under discussion with the relevant parties.

With regard to the size of the fund, a figure of US\$200 million had been floated by Prime Minister Arthur. While one person reported that other, 'more bankable' figures were under consideration, another thought that this amount was too small to sustainable, and suggested that it should be double that amount, given the focus on the transitioning of economies in the long run. There was now the question whether the OECS countries would be motivated to complete their CSME requirements in the absence of the Development Fund, and contrasted the delay in setting up the Fund with the political will shown in setting up the CCJ Trust Fund. The author responded by pointing to the need for balance between the desirable and the attainable.

VI. CLOSING OBSERVATIONS

VAUGHAN LEWIS, UWI/IIR

William Robinson, IDB Representative

Professor Lewis noted that it had been a long but very stimulating day; and that the UWI Graduate Institute of International Relations had been happy to collaborate with IDB-INTAL as the intellectual hosts for this diverse group of persons and to facilitate 'conversation' around the Seminar themes. His observations placed the subject matter of the Seminar in historical perspective and ranged over a wide area: loss of preferences; the imperative of economic diversification; distinguishing between compensation for loss of markets due to preference elimination on the one hand and adjustment funds to meet the demands of global liberalisation on the other hand; the role of the Caribbean Development Bank; the issue of free movement of persons; the implications for agriculture including food security, quality and standards and technology and its linkages with tourism; applying the principle of economic diversity inherent in the CARICOM arrangements within the wider framework of international economic liberalisation; the incorporation of adjustment funds within the EPAs; and the need for active diplomacy with Brazil on the matter of compensation funds. Professor Lewis's observations are reproduced in full as a paper in Part III of this volume.

Mr. William Robinson, IDB Representative in Trinidad and Tobago, made his short closing observations around four points. He first thanked the participants for contributing and sharing their knowledge so generously in the discussions. Second, he stressed the value of purposeful cooperation among the various stakeholders in pulling together the various elements identified so as to drive the regional integration agenda. Third, the Seminar had highlighted the compelling need for transformation and adjustment; given the slowing trend in growth in per capita GDP and the widening of fiscal and trade deficits; and the challenge to continue improving the quality of life in the region. Finally, he emphasised the vital role of awareness-building among the wider public in helping to provide political support for the CSME process, economic transformation and securing a different kind of integration into the global economy. He believed that groups such as the one attending the Seminar, which have the knowledge and information; need to find ways to disseminate the information and place the issues on the public agenda in the region.

BIBLIOGRAPHY

BREWSTER, HAVELOCK. *Mature Regionalism and the Rose Hall Declaration on Regional Governance*. Paper delivered at the CARICOM 30th Anniversary Conference on Regional Governance and Integrated Development, University of the West Indies, Mona Campus, October 2003.