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The CARICOM Single Market and Economy A View on Status and Priorities

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http://www.iadb.org/intal/aplicaciones/uploads/ponencias/Foro_INTAL_2005_14_Girvan1.pdf

I. STATUS OVERVIEW

The aim of the CARICOM Single Market and Economy (CSME) is to create a single economic space within which factors of production will move freely and common economic policies will apply. The CSME is a case of Open Regionalism, that is, the regional arrangements embody lowering trade and other barriers to the rest of the world simultaneously with integration. The objective is to heighten international competitiveness, increase attractiveness to foreign investment, facilitate the formation of regional firms with extra-regional export and investment capabilities, and in general become a platform for a new, growth-enhancing insertion of the region into the global economy.¹

16 years after it was officially adopted as a goal, the CSME is still a work in progress. A legal framework has been established in the form of the Revised Treaty of Chaguaramas, which is now being provisionally applied. The organs of governance of the Revised Treaty have been functioning for several years. The Caribbean Court of Justice has been inaugurated, which will interpret the Revised Treaty and adjudicate disputes arising out of its implementation.

Nonetheless a great deal remains to be done in establishing the substantive conditions of a Single Market, and even more so those of a Single Economy. The Single Market is well advanced with respect to the three largest economies and with respect to trade in goods. It is less advanced with regard to the smaller economies and with regard to trade in services, the movement of labour and capital and the right of establishment. Several restrictions and obstacles to intra-regional trade in goods also remain.² The official time-table calls for completion of the Single Market by December 2005. Doubts have arisen as to whether the members of the O.E.C.S are willing or able to meet this deadline (CARICOM [2006]).³ With regard to the Single Economy, little implementation has so far been attempted, let alone accomplished, in the substantive areas of policy coordination and harmonization of company and labour laws. An indicative target of 2008 for establishment of the Single Economy has been declared, but there is as yet no time-table for completion of its various components.

To summarise, we are still far from a situation in which economic agents can operate as freely as they do within the borders of a nation-state, that is, within a common economic, legal and policy environment; the necessary condition for the CSME to achieve its economic objectives. Nor is it known at what point in time in the future this situation will be obtained, so that economic agents can factor this into their decisions and plans.

Analysts of the status of the CSME experience the dilemma of having to choose between emphasising what has been achieved on the one hand and what remains to be done on the other hand. This note tries to circumvent the dilemma by analyzing obstacles and issues that have arisen on the path to the CSME; and suggesting a road map for the future. The fact that the CSME has attracted the sustained commitment of CARICOM's political leaders over a period of 16 years is in itself highly significant. Most of the Heads of Government who subscribed to the Grand Anse

¹ See The Revised Treaty of Chaguaramas (CARICOM [2002]) especially the Preamble, paras. 2, 3, 5, and 6.

² See Table 1 to this paper, also CARICOM Report [2005], Girvan [2005a]; and reports published regularly on the website of the CCS (CARICOM Secretariat) www.caricom.org

³ On 30 January, 2006, the Heads of Government of Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago and Suriname signed a Declaration marking the coming into being of the CARICOM Single Market; while the six member states of the Organisation of East Caribbean States (O.E.C.S.) declared their intention to join the CARICOM Single Market by the end of June, 2006.

Declaration in 1989 are no longer in office; and many problems and tensions have occurred along the way. Yet the succeeding generation of leaders has continued to work towards the goal. Also notable is the growth of CSME awareness and support within the private sector and other key constituencies in civil society in recent years.

The enduring support for the CSME project is a testament to the sense of vulnerability and marginalization experienced by CARICOM states in the age of globalization; a sense that has probably grown since 1989. Preference erosion in the key industries of textiles, garments, bananas and sugar; and the demands of simultaneous negotiations in several external theatres; have added urgency to the imperative of domestic adjustment and diversification and that of negotiating on the basis that CARICOM is in fact a single economic space. For these reasons it is important for the CSME momentum to be maintained, and, if possible, accelerated.

The remainder of this note summarises the situation relative to governance and monitoring of the CSME and obstacles and issues in implementation, and sets out a proposal for priorities and sequencing of the Single Economy.

II. GOVERNANCE AND MONITORING

The structure of governance set up by the Revised Treaty is shown in Figure 1. It is a multi-layered and complex structure. It provides for involvement in formal decision-making by a wide variety of governmental stakeholders, while also allowing for inputs from non-governmental actors. It has the merit of fostering ownership of CARICOM decisions at various levels of national governance structures. This is a useful mechanism for the development of a sense of regional governance amongst national actors which might otherwise withdraw their cooperation from the process of regionalism. At the same time, it suffers from the disadvantage of making decision-making and follow-up subject to delays and even confusing to the actors themselves, as officials seek to ensure that all the relevant organs have given approval to a proposal before it assumes the status of a decision.

CARICOM defines itself as a Community of Sovereign States. Decisions by Heads of Government are not applied automatically; they require actions by each member state, acting separately and individually, to put them into effect.⁴ From time to time initiatives have been taken to address the recurrent problem of the 'implementation gap' in CARICOM decisions and declarations. A CARICOM Commission as an Executive Mechanism was proposed in 1992 and again in 2003 (WICOM [1992]; CARICOM [2003]); but this has not been put into effect due to failure to agree on the legal authority of such a body. A Bureau and a 'quasi-Cabinet' were set up after 1992; but there is general dissatisfaction with the effectiveness of these arrangements in improving implementation (Brewster [2003], Girvan [2005a]).

The Revised Treaty does not explicitly provide for the monitoring of decisions taken by CARICOM organs. Monitoring takes place through the reports of the Secretariat to the various organs and by the meetings of the organs themselves, which review implementation of decisions taken at previous meetings. Additionally, each member state has now designated a unit in the ministry responsible for CARICOM affairs, with responsibility to monitor the implementation of the CSME by government ministries and agencies and to liaise with business and labour representatives. These monitoring units make regular reports to the CSME Implementation Unit of the CARICOM Secretariat located in Barbados. They lack legal authority or financial leverage to influence the pace of implementation by ministries and agencies in the respective member states. In the smaller member states, the monitoring unit usually consists of one person only, who often has to divide their time between the CSME and other responsibilities.

Nonetheless the system has resulted in an improved flow of information to the Secretariat and from the Secretariat to CARICOM organs. It has served as a source of pressure on member states to maintain their commitments and as a means of identifying needs for technical assistance of member states in furthering implementation (Girvan [2005b]).

⁴ Provided for under Article 240 (1) of the Revised Treaty.

III. OBSTACLES AND ISSUES

CARICOM's character as a Community of Sovereign States, and the resulting discretionary character of decision implementation by its members, lie at the root of the slow pace of implementation of the CSME. But this has to be seen in the context of features of the grouping: wide economic differentiation, resource scarcities, and the problem of financing. Although the CSME was to some extent inspired by, and modelled on, the European single market and single economy; it differs from the EU arrangements in that there is no mechanism by which decisions taken by the heads of Government are automatically (or are obliged to be) translated into national law.⁵

Differentiation refers to differences in levels of development and economic structures. The gap in *per capita* income between CARICOM's richest and poorest members is wider than in several other integration groups, and has been widening, even without taking Haiti into account⁶. This has complicated the task of securing agreement on the freedom of movement of labour, and, in the case of one member (the Bahamas) it has prevented accession to the CSME itself. Less developed members also stand to lose from competition from industrial goods produced by more developed members. Differentiation also relates to the shift into services by many of CARICOM's smaller members. Relatively speaking, they export little to the regional market; but, with fiscal systems that are largely import tariff-based, they stand to lose fiscal revenues by tariff elimination on intra-regional imports. Differentiation constitutes a disincentive to implementation where the latter is discretionary and perceived costs are great relative to perceived benefits for particular member states or groups of member states.

Second, there are the direct costs of the legislative, administrative and institutional measures of implementation. Prime Minister Owen Arthur, who has responsibility for the CSME in the CARICOM quasi-Cabinet, has remarked that the region chose the most difficult method of implementation of the CSME, requiring changes to over 400 legal and administrative instruments in member states. Our own estimate of the total number of actions required by all member states and other agencies to implement the Work Programme for the CSME is 774 (Table 1). The costs are not only monetary (budgetary) but also the opportunity costs of the time devoted to CSME matters by politicians and officials. In the smaller states the availability of technical personnel for legislative drafting, implementation and monitoring, is a severe problem.

The financing issue relates to the cost of the array of regional institutions needed to operate the CSME. Note that the one major new institution set up, the Caribbean Court of Justice, is being financed by a Trust Fund set up through the CDB. Several others are necessary, but CARICOM has yet to agree on a secure and independent method of financing CSME institutions. By one account, as many as 17 new regional institutions may be required (Box 1). The estimated cost of CSME implementation over 2004-2010 has been put at \$72 million (Carryl [2004]), but financing is still to be arranged.

There is a sense in which the sovereignty issue underlies these other issues. Were the CSME arrangements to embody a degree of supranationality, this would remove the discretionary element

⁵ See especially Brewster *et al.* [2002] for a comparison between CARICOM and the EU in this area.

⁶ See CARICOM Report [2005], pp. 8-9. The *per capita* income gap in CARICOM is 35:1, excluding the Bahamas and Haiti it is 11:1. This compares to 11:1 in the EU after enlargement, 4:1 in the EU before enlargement, 6:1 in Central America; 4:1 in Mercosur and 4:1 in the Andean Community.

from implementation and the necessity of separate measures taken by each individual member. Supranationality would also require a method of financing regional institutions that is independent of national contributions. However, the question arises: is the sovereignty dilemma cause or effect? In other words, to what extent is the reluctance of members to give up some sovereignty due to the consequences of differentiation? Among these consequences are the perception that the interests of some will be prejudiced by the adoption of common regional positions, the belief that some will derive less direct benefits from the CSME than others, and a reluctance to be burdened with the additional costs of mandatory financial contributions.

Clearly, these issues are closely inter-related. The risk is that they could become more acute, and the associated problems more intractable, as the Single Market comes closer to completion and the Single Economy is initiated. This could be because the question of the distribution of costs and benefits, and the possible contradictions between national interests and regional policies, are more strongly posed. Failure to address these issues could lead to a loss of enthusiasm for, and momentum in, the integration effort.

IV. PRIORITIES AND SEQUENCING

Here the question arises, is it practical to implement, more or less simultaneously, all aspects of the implementation of the Single Economy in some kind of a "Great Leap Forward?" Surely all the issues mentioned—institutions, financing, national vs. regional contradictions—would be posed at the same time, when the benefits of the arrangement have yet to be clearly manifested. In this respect, one may question the implicit sequence that flows from the approach so far taken to establishing the CSME; which has tended to be legally and institutionally driven. Without gainsaying the importance of having the legal and institutional infrastructure in place, one may suggest the possibility of distinguishing between the *minimum needed* and the *maximum required*, for instance, in terms of institutions. In other words, what may now be called for is a determination of priorities and sequencing informed by a medium to long-term strategy. In Phase I, one would start with issues and initiatives that are:

- (i) most immediate;
- (ii) have the highest pay-offs, in terms of the potential benefits or of the costs of failure to take action;
- (iii) generate the widest distribution of benefits among members;
- (iv) raise the least problems in terms of contradictions between national and regional interests;
- (v) avoid potentially divisive issues of national sovereignty;
- (vi) are relatively easily financed; and,
- (vii) may become a platform for further initiatives.

Below is set out an illustrative list:

1. *Special and differential treatment for disadvantaged members.* This is provided for under the Revised Treaty in Chapter 7. It is of immediate importance to the O.E.C.S. members, which see their full implementation of the Single Market as tied to the availability of funding from the proposed Regional Development Fund and to derogations from Single Market obligations to take account of their fiscal revenue dependence on import tariffs and their sensitive industries. This subject is already a priority and is being addressed by a special working group.
2. *Sugar.* The regional industry is now facing the prospect of severe contraction and resulting employment and income losses due to proposed changes in the EU. The rationalisation of the industry within a regional framework is an obvious priority candidate for a regional sectoral policy as provided for by the Revised Treaty.
3. *Domestic agriculture, starting with rice.* The development of domestic agriculture within a regional framework could be a priority given the social and economic importance of this activity, the huge regional import bill for food, considerations of food security, and the on-going World Trade Organization (WTO) negotiations on agriculture. Rice is an obvious candidate to start with as it is the principal domestic agricultural commodity in actual or potential intra-regional trade.
4. *Tourism and air transport.* This is the principal foreign exchange earner in the majority of CARICOM member states and the non-tourism economies have expansion plans, for

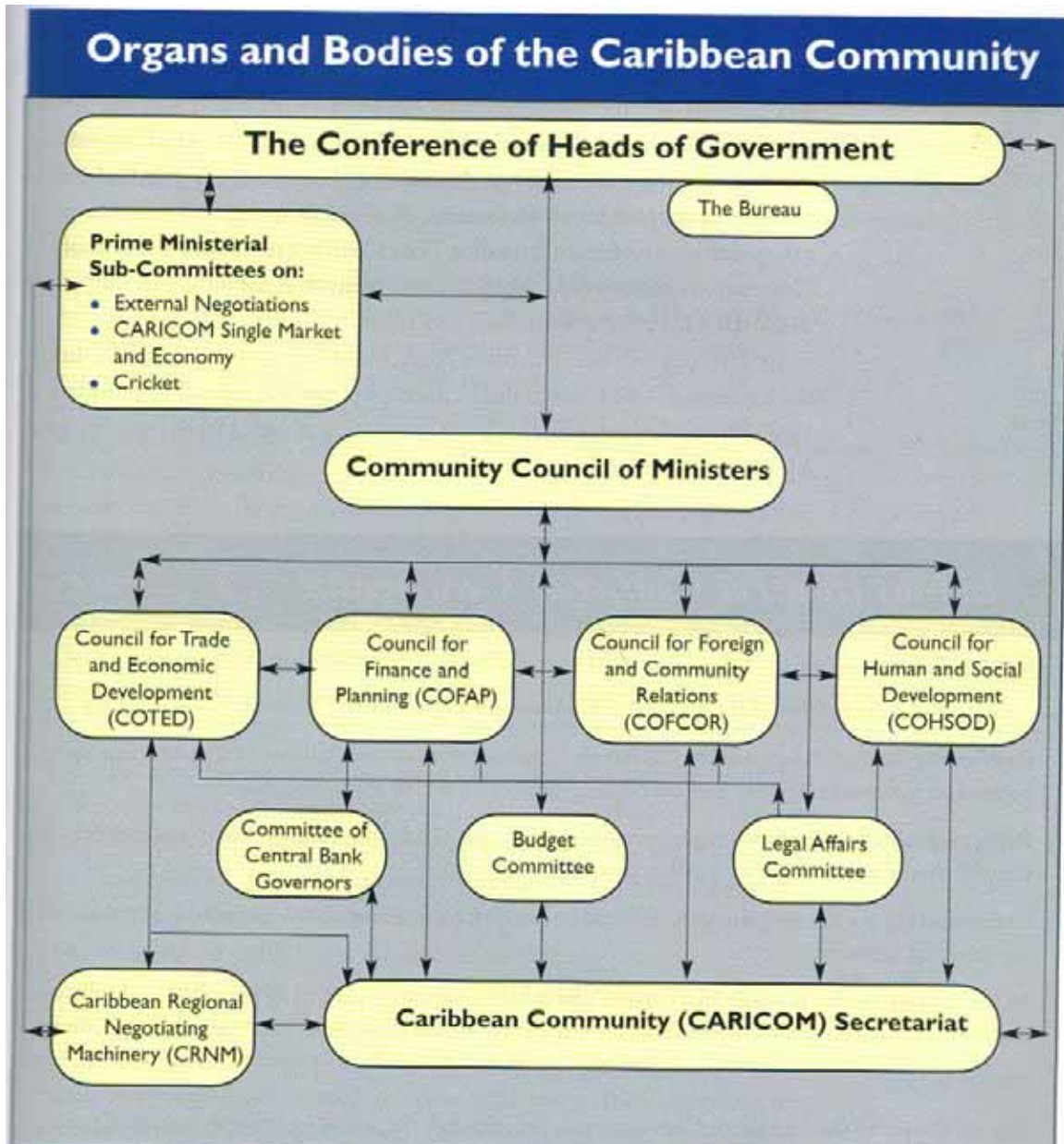
example in eco-tourism. There is a consensus on the need to move out of 'commodity tourism' in 'niche tourism' such as entertainment, cultural, ecological, adventure, and health tourism by means of enhanced regional cooperation and to increase linkages with other sectors and community participation. Tourism is also a subject in the services (GATS) negotiations in the WTO. With regard to air transport, all of the national carriers in the region are financially stressed, the two largest have been privatised and recently re-nationalised. There is an obvious case for regional cooperation in this sector.

5. *The services sector.* Insofar as the majority of CARICOM members export few goods to the regional market and are largely service-oriented, the development of the services sector other than tourism within a regional framework should be a priority, with the aim of promoting intra-regional trade in services and enhancing extra-regional export capabilities. CARICOM negotiations on GATS in the WTO also require the creation of a single services regime within the Community.
6. *Financial services and investment.* Cross-border investment in the financial sector and the formation of regional financial firms have become important. There is a potential for extra-regional exports and investment in this sector due to the existence of a large and economically important Caribbean Diaspora in the metropolitan centres.

These six issues and clusters of activities proposed for Phase 1 are of self-evident economic and political importance and most are of intra-regional as well as extra-regional significance. One can envisage a series of sector-specific agreements (or Protocols) in which interested and willing member states participate. This need not be *all* member states in every instance, or alternatively, member states with special reasons for non-participation may seek derogations from the regional agreement for that issue or sector.

If it were possible to generate some successes from such initiatives, the way could perhaps be opened for a Phase 2, consisting of wider agreement on coordination of other sectoral policies and on macroeconomic, fiscal, monetary and exchange rate policies; and constituting a further step towards making the Single Economy a reality.

Figure 1
 ORGANS AND BODIES OF THE CARIBBEAN COMMUNITY



Source: "CARICOM, Our Caribbean Community", produced by the CARICOM Secretariat. pp. 233. 2005

Table 1
CARICOM WORK PROGRAMME FOR CSME IMPLEMENTATION: STATUS ANALYSIS

CATEGORY		# of action elements	Total required actions ¹	# completed	% completed
A.	<i>Legal & Institutional Infrastructure</i>	15	168	145	86.3
1.	<i>Treaty Revision</i>	5	60	57	95.0
2.	<i>National Administration</i> ²	3	24	24	100.0
3.	<i>Enforcement, Regulation and Supporting Institutions</i>	7	84	64	76.2
	3.1 Caribbean Court of Justice	3	36	35	97.2
	3.2 CROSO (Standards & Quality)	2	24	15	62.5
	3.3 National Standards Bodies	1	11	12	91.7
	3.4 National Competition Authorities	1	12	3	25.0
B.	<i>Single Market</i>	29	336	215	64.0
4.	<i>Free Movements of Goods</i>	2	24	14	58.3
5.	<i>Free Movement of Services</i>	1	12	12	100.0
6.	<i>Free Movement of Persons</i>	14	156	94	60.3
	6.1 Free Movement of Skills	5	60	45	75.0
	6.2 Contingent Rights	1	n/a ³		
	6.3 Facilitation of Travel	4	48	12	25.0
	6.4 Mechanism for Accreditation & Equivalency	2	24	15	62.5
	6.5 Transfer Soc. Sec. Benefits	2	24	22	91.7
7	<i>Free Movement of Capital</i>	6	72	46	63.9
	7.1 Removal of Restrictions	2	24	12	50.0
	7.2 Capital Market Integration	2	24	14	58.3
	7.3 Double Taxation Agreement	2	24	20	83.3
8.	<i>Right of Establishment</i>	2	24	13	54.2
C.	<i>Single Economy</i>	35	222	17	7.7
9.	<i>Common External Policy</i>	3	36	14	38.9
10.	<i>Harmonisation of Laws</i>	14	168	2	1.2
11.	<i>Sectoral Programmes & Enabling Environment</i>	6	6	1	16.7
12.	<i>Common Support Measures</i>	12	12	0	0.0
Total		75	678	341	50.3

Notes: ¹Number of identified action elements multiplied by the number of entities (countries or agencies) required to take each element. Only 12 countries are counted. Rows 6.1, 11 and 12 relate to actions by a single CARICOM organ identified in the source document.

²Three action elements are listed, but implementation information is not available for element 2.2.

³A protocol is being prepared. When negotiated, this will require signature and ratification by all member states.

Source: Author, with the assistance of Denyse Dookie. Compiled from document *Establishment of the CARICOM Single Market and Economy: Summary of Status of Key Elements*. Dated as at August, 2005; Sourced from CARICOM website September, 2005.

Box 1
POSSIBLE CSME INSTITUTIONS

1. Caribbean Court of Justice
2. Standards Organization
3. Competition Commission
4. Regional Property Rights Office
5. Phyto-Sanitary Organization
6. Regional Fisheries Organization
7. Regional Securities Commission
8. Conciliation Commission
9. Regional Development Fund
10. CARICOM Commission
11. Revenue Authority
12. Court of Auditors
13. Caribbean Assembly of Parliamentarians (Upgraded)
14. Caribbean Central Bank
15. Economic and Social Committee
16. Ombudsman Office
17. Regional Environmental Organization

Source: Author's compilation.

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