



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



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

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### **The CSME: Status, Issues and Priorities: Concluding Observations**

*Vaughan A. Lewis*  
University of the West Indies

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## I. INTERNAL AND EXTERNAL INTEGRATION

The present process of implementation of the Caribbean Single Market and Economy (CSME) reflects another stage in economic integration of the mainly Anglophone Caribbean countries, marked by periodic hesitations within a broad forward movement.

On this occasion, however, the process is taking place not simply as an adjustment of countries to each other and to the requirements of the persistently liberalizing regime of international economic relations (WTO), but in anticipation of an impending adjustment to a major change in a regime of preferences which has defined the processes of economic growth for many of the states. We refer to the extensive change in the EU-ACP preferential regime, which in various forms of imperial preference, Commonwealth preference and then Lome/Cotonou preference, has constituted an important frame for CARICOM countries participation in international trade and production.

The simultaneity of the two sets of adjustments has created extensive concern on the part of CARICOM governments as to the prospects of success. And it is little wonder then, that now as in earlier challenges of adjustments, there is resistance to, and protest against decisively moving on with the undertakings. Echoes of past fears and resistances resonate in today's Caribbean regional and international diplomacy.

For example, as we listen to claims made by the OECS countries that the nature of the adjustment that they are required to make in adhering to the CSME, necessitates not only phasing of tariff arrangements but substantial adjustment assistance, we recall the similar claims made, in the first half of the 1970's, by the then so-called LDC's, and insisted upon by Antigua and Montserrat for a prolonged period, of the need for similar considerations in order for them to accommodate to the implementation of the Caribbean Common Market (the Treaty of Chaguaramas). The "Montserrat paper" of the negotiations of that time, Axline<sup>1</sup> recalls, "contained the most comprehensive statement of the need for compensatory and corrective mechanisms", a call eventually satisfied by the now defunct Caribbean Investment Corporation (CIC); just as today, the Head of the CSME Unit of Trinidad and Tobago is quoted as observing that "in terms of a compensatory and or corrective mechanism, the CSME had made provisions for the establishment of a Development Fund(...)" for disadvantaged states and regions.<sup>2</sup> Thirty years on, therefore, the promoters of the CSME are met with the same response for coping with inequity and structural diversity within the system.

As we have observed, the quest for a Single Market and Economy, which can be interpreted as both a response to, and an eventual requirement of, the structural adjustment processes which many of the larger states in particular undertook in the 1980's and 90's, has come up against the wider issue of adjustment to the effective (though time-framed) breakdown of the European preference regime.

But this "crisis" in CARICOM-European relations has been anticipated in the Caribbean for nearly forty years. For as we hear the Caribbean political directorate and diplomats make the case for more liberal phasing of the tariff regime for their agricultural commodities, for compensation for losses due to tariff reductions, and for adjustment assistance for economic diversification to cope with the liberalized European Union regime on which the WTO insists, we can recall then Prime Minister Dr Eric Williams' assertions in 1967/68 first, that Commonwealth preferences were "on their way out

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<sup>1</sup> See the discussion in AXLINE [1979]

<sup>2</sup> Ambassador Jerry Narace, quoted in *Trinidad Daily Express*. 2005

and our concern is more with the compensation we might be provided with in return for preferences we are to lose"; and secondly, that in the light of President De Gaulle's initial rejection of the British application to join the EEC, there was "an opportunity for us to reduce our dependence on Britain either by lowering our costs of production or by judicious forms of economic diversification".<sup>3</sup>

As we survey country and regional responses to the CSME process, and to the European liberalization-WTO processes, certain things are noticeable. First, The LDCs/OECS call for compensation and adjustment within the CARICOM system now becomes a CARICOM-wide call within the wider international environment.

Secondly, the CSME process is itself subject to wider processes in the Hemisphere, in particular the FTAA and the bilateral FTAs, which will have a determining effect on the speed with which countries complete the Single Market operation. In other words, in spite of the CARICOM-owned nature of the CSME process, the time-line for its effective implementation is not solely within the hands (the decision-making sphere) of CARICOM. With the evolution of various liberalization free trade area) processes in the Hemisphere itself, to which CARICOM countries have committed themselves to adhere, or which will limit tendencies to "exceptionalism" on the part of CARICOM, the time-horizon for coping with CARICOM single market implementation (which then in effect becomes a sub-set of wider free trade area implementation) becomes narrower and more constraining.

This environmental circumstance creates a substantial difference – a constraining difference-between the mode of negotiating CARICOM integration in 1972-3, and the mode of negotiating the CSME today; and it limits the scope for hesitations in the process of negotiation/implementation. Further it limits the scope for "variable geometry" options in which countries may choose aspects of the enterprise to which they wish to adhere, since the degree of concordance that there will necessarily be, between the CSME and the wider hemispheric integration processes, tends to inhibit this (as the current US-DR-CAFTA negotiation/implementation processes are demonstrating).

Thirdly, as the situation of the OECS countries indicates, while compensatory mechanisms (in 1973, inter alia, the Caribbean Investment Corporation mechanism, and in 2005 the Regional Fund) are important, it is becoming obvious that the claim for assistance to cope with the CSME must be negotiated alongside the necessity for adjustment resources within the framework of the EU-Caribbean Economic Partnership Agreement negotiations. This is because what the new EU internal liberalization programme implies is not simply the need to cope with CSME-type adjustments, but a *structural adjustment* related to the demise of the central growth-promoting activities of many of the economies, together with the institutional arrangements that have underpinned them. *We therefore cannot any longer separate the CSME adjustment requirements from the global liberalization adjustment requirements faced by the CARICOM economies.*

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<sup>3</sup> Both quotations from Dr. Eric Williams in PREISWERK. [1970]

## II. ISSUES ARISING IN THE CSME NEGOTIATION/IMPLEMENTATION PROCESS

### Integration for What and For Whom?

The discussions at this Seminar have, as I have observed them, thrown up a variety of issues relating to the objectives, evolution, conditions of, and constraints on the CSME negotiating/implementation process.

First, as the process has itself evolved and particularly in the implementation stage, questions have arisen as to (a) the objectives of this further stage of CARICOM integration and (b) who are the intended beneficiaries of the new system – integration for what and for whom? In a sense this debate has been initiated, as indicated above, by some of the OECS countries. Difficulties which they further had in CARICOM discussions during 1992, in accepting the need to adjust tariff levels at the insistence of the MDC's who were doing this as part of their structural adjustment exercises, put them on the alert, especially as promised assistance for facilitating the adjustment did not subsequently materialize.

But discussion over the implications of inequities between countries in a common market system are expected, though in our CARICOM case the tendency has been to seek agreement on the formal integration system and then deal with the issue of adjustment afterwards.

The issue of "integration for whom" has also become a significant issue *within* countries (as distinct from between different sub-sets of countries of the Region), as the implications for them of potential competitive advantages, the loss of manufacturing industry, and of free movement of persons become clearer. There really has not been much prior discussion of how free movement can become a mechanism facilitating competitiveness (as in orthodox theory) and when it can result in being some form of "burden" on the social facilities of particular states and thus to be resisted). CARICOM countries have sought to fudge this issue by limiting movement to "free movement of skills" – but there is some sentiment that the categorization of the needed skills is unduly narrow, leaving out the wider regional workforce, and giving the integration movement an "elitist" character.

This issue is often posed in terms of the necessity, in the current era, for movement of agricultural workers to areas where that particular work force is limited, or where indeed labour costs are deemed "too high"; and in terms of the need for varieties of construction skills. And all this raises in turn, the issue of the role of trade unions in protecting their workers from devices apparently aimed at lowering the price of labour in the internationally competitive environment. And in the view of some of the less industrialized countries, it raises the question of whether free movement ought not to be a form of compensation for the spread of other regional countries' industry and commercial activity into their states. A more extensive discussion of this issue is necessary, involving all stakeholders.

### Implementation Mechanisms as They Affect or Facilitate the Evolution

A related issue then emerges, which might be defined as the pace of the deepening of the single market process in order to accommodate to the notion of a single economic space with therefore, a "single" labour force, mobile irrespective of geographical jurisdiction. (This is based on the assumption that a CSME existing for a prolonged period without the single space, and therefore

with rigidity of labour mobility, would most probably deepen inequities in the less developed economies). This has raised the question of the prioritizing of elements of implementation, or in Girvan's phrase "the political economy of sequencing", and the types of instruments needed, or available, to assist balanced adjustment. And it would, naturally, be of specific concern to the smaller entities of the CARICOM system.

Here is raised also the issue of the legal requirements for effective mechanisms for ensuring the implementation of the provisions of the CSME. This is indicated in the continuing discussion as to whether a single legislative instrument applicable to all participating states should be adopted by them that would permit decisions taken by Heads of Government/State to have the direct force of law in each state, with consequent authority given to the Executive of the CSME Secretariat to ensure the effectiveness of other national instruments needed for practical implementation. It has been felt, as indicated in work by Brewster [2004], that the definition of the Caribbean Community as a "Community of Sovereign States" inhibits this approach, and therefore the effectiveness of the whole implementation process. And it has apparently not been noticed in CARICOM decision-making circles that, in spite of the arrangements made for collective governance in the EU, its member countries remain formal sovereign states in the international community.

It might be noted that the process of FTA negotiation between the United States and other countries – witness the US-DR-CAFTA process – requires extensive legislative changes in the adhering countries which would, in the view of the United States, ensure proper adherence to, and implementation of, rules and decisions. The question arises therefore of whether any "looser" regulatory system at the CSME level would eventually inhibit the coherence of the CSME integration space, leading perhaps to differential responses by countries to external initiatives, and leading therefore also to inability to act, particularly in international negotiations. It is sometimes argued that there are alternative ways of implementing decisions in customs union/common market systems, for example in Mercosur, but relative equality of weights between the two major players in that system, creates situations for bargaining and side-payments that would not exist in smaller systems.

Finally, it should be noted that the issue of migration has a particular salience in the Northern Antilles sphere (Haiti-Jamaica-Bahamas) of the CARICOM system (though Bahamas has not committed to the CSME). There, it is likely that to the extent that the single economy deepens, bringing in its train more extensive mobility of labour, a deliberate decision would be taken to lag the participation of that triangle of countries to the extent that it applies to their sphere.

### **The Influence of and Reaction to External Liberalisation Processes**

This leads us into the issue of what might be called the defining dynamic of the external environment and its influence on the evolution and nature of the integration process, in an era of "open regionalism". The fact is that, in the contemporary era, transnational processes operating in relatively small areas, tend to "fix" economies/countries into particular multinational corporation frames which can lead to a certain segmentation of the economic space of the single market and economy system. This fixing, and the directions in which it positions a particular country or countries, could lead to initiatives for arrangements with third countries ahead of other members states of the integration system. This has been the case both the initiatives of Trinidad and Tobago in favour of free trade area arrangements with Costa Rica and the Dominican Republic, the earlier disposition of Jamaica and Trinidad and Tobago towards adherence of NAFTA, and in the case of the Dominican Republic raises

questions of the implications for collective Cariforum agreement on an EPA with the European Union, that country having moved ahead towards an FTA with the United States.

In this regard, small developing countries should take cognizance of the fact that the sphere of external economic negotiation was one of those in which the European states took an early decision on collective negotiation and, in effect political fusion involving in some measure of subordination or collectivization of sovereignty. The maintenance of this system has not been without difficulty, but it tends to inhibit that "variable geometry", in international economic negotiations, that is permitted in other spheres over which the EU states have more autochthonous control.

All this is another way of saying that the process of globalisation can drive countries in the same region in different directions, depending on the significance of their products in international markets, and therefore affecting the way in which these countries relate to the formal single economy of which they are ostensibly a part, and the coherence of that system. The need is to avoid the segmentation of the economic space as far as SME decision-making is concerned.

### **The Conditions Under Which Agriculture Can Be Viable**

It has been noted that the Windward Islands, for the purpose export of bananas to the United Kingdom under the preferential regime, constituted in effect a single economic space created in response to demands from the UK market and to the mechanisms of control and quality-maintenance required by that market and regulated from a center there. In addition, the major portions of the financial returns from banana exports and those from the growing tourism industry in the OECS as a whole, entered the monetary system at different times of the calendar year, and gave the OECS monetary system a particular stability. But the system of protection has gradually deteriorated in its stringency since about 1994; the single (banana economy) space has virtually lost its coherence, and in turn affected the structural underpinnings of the sub-region's financial system.

This as we have suggested above, affects the economic fundamentals of that particular OECS economic growth orientation, and therefore requires a structural adjustment (not simply compensatory finance), under the aegis of both the CSME and the proposed EPA.

In this regard substantial preparatory work is needed on the extent to which alternative, viable agricultural economic spaces can be found on which new integrated agricultural industries can be created. The issue of the linkage between agricultural and tourism – exporting agriculture "through" tourism as it were, suggests one avenue. But this needs in the future to be pursued within the framework of what is possible in terms of the tariff regimes that are created for agriculture and agro-industrial products, not only within the CSME, but equally importantly within the wider hemispheric FTAs being created.

And finally, the issue of human resource development in agriculture and related industries towards international competitiveness, raises the issue of the institutional framework in which such activities are undertaken. Will the multinational corporation, seeking to meet demand for particular products, create the quality requirements and therefore the quality of skills working in a particular industry, as in some measure was done by Geest Industries in the Windward Islands, and by multinationals in the mineral industries? Can regional multinationals be induced, under specific tariff regimes, to find alternative markets for sugar and its derivatives within the CSME market, as is suggested by recent developments in the Guyana sugar industry?

Finally, the place of the sugar industry in both regional and international (European) markets raises the question of a simultaneous search for new allies in dealing with the diplomacy of sugar in the conditions of the WTO regime. Put starkly, is there some stance that needs to be elaborated in Guyana-Brazil relations that would not disadvantage Guyana as Brazil pursues its negotiations about protection with the United States? And should not the search for meaningful structural adjustment assistance under those circumstances, involve not simply the EU, but countries (especially neighbouring countries like Brazil)?

### **Aid, Trade and Development (Structural Adjustment)**

In its evaluation of the various Lome Conventions, the European Union indicated disappointment with the results of its aid programmes in terms of enhancing the capacity of the ACP countries to access the EC-EU market for non-agricultural commodities and for foreign direct investment.

Secondly the European Union has asserted that a particular objective of a new relationship with the Cariforum countries is to enhance the possibilities of increasingly coherent integration of the sub-region.

There is, further no reason to suggest that a purely indigenous Regional Development Fund will meet the requirements of CARICOM countries' structural adjustment under the combined parameters of the CSME and the EPA (not to speak of future hemispheric regimes).

The issue then arising for CARICOM is to elaborate, as an essential ingredient of the new EPA, the broad requirements for the construction of a CARICOM economic space defined as the CSME. Presumably this would involve:

- (i) the kinds of physical (trans-region) structural projects that could underpin economic activities based on the particular economic spaces of participating states, creating a so-called "seamless web" to ensure the scale economies that would make for regional and international competitiveness. For example the creation of effective transportation systems continue to pose a problem in this regard; and there is arising the issue of how to ensure cost-effective regional energy systems to serve the relatively small CARICOM markets;
- (ii) facilitating what might be called effective structural operations or networks across the economic space, and ensuring effective linkages into wider hemispheric-international networks - particularly for example, in the sphere of communications, and in the creation of connected research and development systems germane to the economic activities being undertaken;
- (iii) Mapping out the requirements for a substantial human resource development push in the CSME area appropriate to the need to find new types of economic activities and to remedy the situation of relatively low-level educational facilities; and
- (iv) Facilitating cross-region joint multinational ventures including productive CSME private sector stakeholder participation, so as to ensure long-term legitimacy for the economic transactions undertaken in the area.

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