



The World Today

Caribbean Adjustment To The External Environment

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

On this occasion, however, the process reflects not simply the simultaneous adjustment of countries to each other and to WTO requirements, but also anticipation of major change in a preference regime (Imperial, Commonwealth and Lomé/Cotonou) which has defined the nature of economic growth for many of our states.

It is little wonder that as in earlier challenges of adjustment, 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, the OECS countries claim that the nature of the adjustment that they are required to make in adhering to the CSME necessitates substantial adjustment assistance, in order to phase out tariff arrangements. Similar claims were made by the LDC's (especially Antigua and Montserrat) before agreeing to the Treaty of Chaguaramas, and full participation in CARICOM.

The "Montserrat paper" on the negotiations of that time, "*contained the most comprehensive statement of the need for compensatory and corrective mechanisms*", as Andrew Axline recalls, a call eventually satisfied by the now defunct Caribbean Investment Corporation (CIC); just as today, the Head of Trinidad's CSME Unit recently observed that the CSME had made provisions for the establishment of a compensatory Development Fund for disadvantaged states and regions.

Today, we hear Caribbean ministers and diplomats argue for more liberal phasing out of agricultural commodity tariff regimes, compensation for losses due to tariff reduction, and adjustment assistance for economic diversification to cope with the liberalized EU regime on which the WTO insists. This echoes then Prime Minister Dr Eric Williams' in 1967/68: that Commonwealth preferences were "*on their way out and our concern is more with the compensation we might be provided with in return for preferences we are to lose*"; and 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*".

As we survey country and regional responses to the CSME process, and to the European liberalization-WTO processes, certain things are noticeable. First, The LDC/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, particularly the bilateral FTA negotiations, which will have a determining effect on the speed with which countries complete the Single Market operation. In other words, the time-line for effective CSME implementation is not solely within the hands of CARICOM. With the evolution of various liberalization processes in the hemisphere itself, to which CARICOM countries have committed themselves, or which will limit tendencies to “*exceptionalism*” (special treatment) on the part of CARICOM, the time-horizon becomes narrower and more constraining.

This environment creates a substantial difference between the mode of negotiating CARICOM integration in 1972-3, and the mode of negotiating the CSME today. It limits the scope for hesitations in the process of negotiation/implementation, and for “variable geometry” options in which countries may choose aspects of the enterprise to which they wish to adhere, since the degree of necessary concordance between the CSME and the wider hemispheric integration processes, tends to inhibit this - as evidenced by the current US-DR-CAFTA negotiation process.

While compensatory mechanisms (in 1968-73, the CDB, 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 external 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, preferentially protected, growth-promoting activities of many of our economies, together with the institutional arrangements that have underpinned them. *We therefore cannot any longer separate the CSME integration/ adjustment requirements from the global liberalization adjustment requirements faced by the CARICOM economies.*

In its evaluation of the various Lomé 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 private investment.

The EU 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. The EU also appears favourable to encouraging a degree of structural integration between its own member-states’ territories in the Eastern Caribbean and the countries of OECS arena.

There seems no reason to believe that a purely indigenous Regional Development Fund will meet the requirements of CARICOM countries' structural adjustment in respect of the combined parameters of the CSME and the EPA adjustment - not to speak of future hemispheric regimes.

CARICOM needs to (i) take the Europeans' view on integration at their word, (ii) make, in our negotiating brief, the direct connection between structural integration and successful international adjustment, and (iii) elaborate, as an essential ingredient of the new EU-CARIFORUM Economic Partnership Agreement, the broad requirements for the construction of a regional economic space defined as the CSME (or indeed perhaps CARIFORUM) and in some measure involving the metropolitan jurisdictions. This would involve:

- (i) Elaborating structural projects that could underpin economic activities based on the collective economic space of participating states, to ensure the scale economies that would make for regional and international competitiveness. For example, the creation of effective transportation systems continues to pose a problem; as with the issue of how to ensure cost-effective regional energy systems to serve relatively small regional markets;
- (ii) Elaborating networks across the economic space, and ensuring effective linkages into the wider hemisphere - 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 for new types of economic activities, and to remedy the relatively low-level educational facilities and capabilities existing; and
- (iv) Establishing arrangements facilitating cross-region joint multinational ventures involving productive CSME private sector stakeholder participation, capable of attracting direct private foreign investment

All this implies that our own Caribbean Development Bank must be made an integral part of our preparation, and negotiation for, in this case, a meaningful Economic Partnership with Europe. Plans for structural adjustment must go together with negotiating of new trading arrangements.

The Government of Mauritius has reportedly planned and costed this kind of structural adjustment, with the Minister of Finance indicating that his Government was "*seeking commitments from European partners and international agencies to assist it through a 10-year transition period.*"

This kind of specificity is needed in our case as well. We must move on with it.