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FOUR QUESTIONS FOR REGIONAL INTEGRATION II- THE COMPLETION OF THE SINGLE ECONOMY

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This week, I will take a look at the work that needs to be done on the completion of the Single Economy. There is no point in pretending it will be easy, or simply a matter of political will. For example, the Financial Services Agreement and the Investment Agreement, which are meant to create a single financial and investment space, exist in draft form but are not yet in effect. There is still no agreement on the regional stock exchange. Still outstanding are the harmonisation of fiscal, monetary and exchange policies and the proposed monetary union. Technical work on the harmonisation of company taxation, company law, and the like is still in its infancy. Common policies and support measures for productive activity/production integration have yet to be identified. All these things are required to create the single economic space.

2015 is the now official target date for all these things to be done so as to complete the CSME. The cynic would say that it is easy for governments to adopt a target date that is both non-binding and beyond the term of office of present administrations. A huge effort will be required to meet even this extended deadline. It seems unlikely that it can be met without incorporating a much greater degree of supranationality than presently exists in the CARICOM arrangements.

The question also arises as to how much we can expect from an economic integration that relies primarily on market mechanisms, that is on 'Open Regionalism' and a passive state. We have already seen where intra-regional trade in goods is highly concentrated, with Trinidad and Tobago alone responsible for over 80 percent; and where the other members, with the qualified exceptions of Guyana and Barbados, export little to regional markets and have limited prospects to do so. When account is taken of service exports the relative insignificance of the regional market to most member states is even more striking. To put it another way, CARICOM

economies are marginal to CARICOM economies. It is even questionable how much of the growth of Trinidad and Tobago's exports to the region is attributable to the existence of the Community. Two recent reports prepared by researchers at the IDB have concluded that the expansion of intra-regional trade resulting from the CSM has been very small and is likely to remain small in the future.

Table I. CARICOM intra-regional exports

	<i>US\$ Million</i>		<i>Percent Total</i>		<i>AAGR</i>
	1993	2003	1993	2003	%
OECS	72	85	12	6	1.6
The Bahamas
Barbados	71	103	11	7	3.7
Belize	5	18	1	1	13.9
Guyana	35	99	6	7	11.1
Haiti	0	0.2	0	0	..
Jamaica	62	63	10	4	0
Suriname	8	40	1	3	17.5
Trinidad & Tobago	370	1059	59	72	11.1
Total Caricom	624	1467	100	100	8.9
Caricom ex. T&T	254	408			4.9

Table 2. Share of CARICOM market in total exports, 2003

	Intra-regional exports	
	% XG	% XGS
OECS	38.2	7.8
The Bahamas	0.4	0.1
Barbados	43.6	8.5
Belize	17.2	10.8
Guyana	18.8	13.9
Haiti	0.1	0.1
Jamaica	4.8	1.9
Suriname	6.3	5.7
Trinidad & Tobago	20.8	18.1

Note also that apart from T&T, manufacturing is insignificant in the CARICOM economies and it is this sector that is normally expected to be the chief beneficiary of integrated markets. In fact of the ten largest Pan-Caribbean firms only one is primarily engaged in manufacturing while four are primarily engaged in financial services. (It is possible to entertain ideas of firms like these becoming global financial powerhouses but I rather doubt it. The much more likely scenario is for the most successful to be acquired by global firms and this is already happening. The idea that off-shore financial centres in the Caribbean are actually exporting financial services in any way other than the semantic sense is, I would argue, mistaken.)

Note next that although the region continues to have vast agricultural potential that sector has been practically stagnant in the last two decades while regional food imports have sky-rocketed. There is no evidence of an impending rush of investment in agriculture to take advantage of the CSME. Finally note that the majority of CARICOM economies derive the bulk of their export earnings from services, especially tourism and this sector will not derive significant stimulus from the CSME in and of itself.

All these factors point to the necessity for a more pro-active approach by governments in the identification and support of particular activities for extra-regional exports. The Single Development Vision identified several such activities that are called 'drivers' for regional economic growth and transformation. A driver is an industry, sector, or cluster of activities with the potential to drive economic growth in the Community as a whole by satisfying one or more of the following criteria

- (a) sustained growth of exports to international markets, or
- (b) significant growth in intra-regional exports, or
- (c) significant growth in supplies, at low real cost, of a key input that is important to the achievement of international competitiveness in other activities.

The main drivers are clusters of goods and services industries centred on

- (i) the energy sector;
- (ii) agriculture, forestry and fishing;

- (iii) manufacturing;
- (iv) sustainable tourism;
- (v) other export services.

The Vision speaks of an enabling environment in foreign trade; human resource utilisation; fiscal and monetary policies, incentives; transport; investment; financial services and capital market integration and a regional quality infrastructure; among others. This agenda was the result of a wide process of stakeholder consultation backed by technical studies.

What does this imply about the role of market vs. state? The Report talks about the entrepreneurial state, a dynamic public-private sector partnership, and about common policies for the economic drivers and the enabling environment. What these policies will consist of will be defined by further stakeholder involvement backed by technical studies. The logic of this is to move economic integration beyond reliance primarily on market mechanisms with a relatively passive state. On the other hand it falls short of the 'developmental state' because the degree of intervention is not yet clearly defined, is likely to be relatively limited, and a CARICOM state does not now exist.

What is emerging is a hybrid, a kind of 'developmental regionalism' in which there is selective development of regional clusters by negotiation. But developmental regionalism has implications for foreign trade agreements in the WTO, the EPA and bilateral trade agreements. To the extent that it involves selective tariff protection, subsidises of one kind or discrimination in favour of regional firms and the like, it involves departure from the evolving rules of the game in the multilateral trade environment. So the region will need to seek to maximise the policy space it secures for trade agreements while taking into account the parameters established by these agreements. This has important implications for the impending Economic Partnership Agreement (EPA) with the EU.

Of course, developmental regionalism of the kind we have been talking about will take time to implement and to bear fruit. Hence the sequencing of implementation needs to be crafted so as to give priority to measures and projects that have the prospect of yielding an early harvest. One such measure is the accelerated implementation of administrative arrangements for the free

movement of skill categories and service providers; and putting in place of the Financial Services and Investment Agreements.

In my next article, I will discuss limitations to integration especially the economic aspect of integration.

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