

# **REFLECTIONS ON THE CSME**

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## **Introduction**

I want to begin by sketching my personal experience of integration that informs the perspective for these reflections. I was an undergraduate at Mona during the time of the WI Federation and was one of several students and staff members who campaigned in support of Federation in the Jamaica referendum of 1961. I consider myself to have been a diehard regionalist ever since.

In 1967/68 I was a member of the UWI/ISER team that worked on the original “Integration Studies”, the same project that produced the famous Brewster-Thomas study. My study was on the Caribbean Bauxite Industry. In the late 1970s I was director of planning in the government of Jamaica under Michael Manley, at a time when there were a lot of differences and divisions within Caricom. I believe the Heads didn’t meet for several years and some of them were not speaking to one another. I saw these things from the inside and from the Jamaican standpoint.

The next opportunity to visit the integration question came in 1992 when along with Wendell Samuel, formerly of the ECCB, I prepared a study for

the Caricom Secretariat on the scope for production integration within Caricom. This was in the context of the Grand Anse declaration and the decision to adopt the CSME. Then from February 2000 until last month I was head of the ACS Secretariat, which gave me a broader view on Caricom as part of the Greater Caribbean region.

### **From Chaguaramas to Grand Anse**

In the study that Samuel and I prepared for Caricom in 1992 we talked about the “old” and the “new” paradigms of Caribbean integration. We characterised the old paradigm as state-led and inward looking and the new paradigm as market-led and outward looking. But these are better thought of as caricatures rather than as characterisations. Let me explain.

The old paradigm is represented by the original Treaty of Chaguaramas and the thinking behind it. A major element was that natural resources would be combined across the regional space to meet the requirements of the regional market and to effect transformation of the production structure. Government and state agencies would play a leading role in planning and programming regional development and in some instances in undertaking production through regional joint ventures. Import tariffs would be used to protect regional industries. Fiscal incentives would be harmonised.

To a significant degree this was in keeping with the thinking of people like Demas and McIntyre and the ideas in the UWI Integration studies. However it would be wrong to think of this model as statist or autarchic. It assumed that the bulk of investment and production would be continue to be

undertaken by the private sector; and it spoke to cooperation in industries catering to international markets as well as to regional import substitution.

The new paradigm is represented by the Grand Anse Declaration and the thinking behind the CSME. This initiative is an expression of what is generally known as “Open Regionalism”: the liberalisation of internal markets for goods, services and factors of production is combined with opening up the region to the rest of the world. Production and trade is market led and driven by the private sector.

But the new paradigm still requires an active role of the state in bringing the CSME into effect and in the formulation and execution of sectoral policies. And it envisages that the integrated regional market will be the platform for production for international markets. So the differences are really as much in emphasis and orientation as of substance. A key difference was the Common External Tariff; which was high and protectionist before and steeply reduced after. That aside, the new paradigm evolved in a policy environment based on the Washington Consensus.

### **CSME – The implementation deficit**

Fast forward now to the present. The first observation is that 15 years after Grand Anse, the CSME is not yet a reality. The original target date of 1993 has been put back several times. I believe the present target date is December 31, 2005; with Jamaica, T&T and Barbados to be CSME-ready by the end of 2004.

Prime Minister Arthur of Barbados, who has responsibility for the CSME in Caricom, has reportedly described the original 1993 target as “more heroic than pragmatic”. Let us see why.

The Caricom Secretariat (CCS) lists 79 distinct action elements involved in giving effect to the CSME; grouped into nine categories (Exhibits 1-3).

### **Exhibit1. CSME ACTION ELEMENTS**

<b>SUBJECT AREA</b>	<b>NO. ACTIONS</b>
1. TREATY REVISION	5
2. NATIONAL ADMINISTRATION	3
3. ENFORCEMENT, REGULATION & SUPPORTING INSTITUTIONS	6
4. FREE MOVEMENT OF GOODS	7
5. FREE MOVEMENT OF SERVICES	2
6. FREE MOVEMENT OF PERSONS	15
7. FREE MOVEMENT OF CAPITAL	6
8. RIGHT OF ESTABLISHMENT	2
9. COMMON EXTERNAL POLICY	1
10. HARMONISATION OF LAWS	13
11. SECTORAL PROGRAMMES	6
12. COMMON SUPPORT MEASURES	12
13. PUBLIC EDUCATION	1
14. TOTAL	79

Source: Based on Caricom Secretariat, *Establishment of the Caricom Single Market and Economy: Summary of Status of Key Elements*. 10 February 2004. Sourced from Caricom Website

## Exhibit 2. CSME IMPLEMENTATION DEFICIT

**No. of actions pending or incomplete as % of total possible actions for full implementation of CSME\***

<b>SUBJECT AREA</b>	<b>DEFICIT %</b>
1. TREATY REVISION	30.0
2. NATIONAL ADMINISTRATION	n.a.
3. ENFORCEMENT, REGULATION & SUPPORTING INSTITUTIONS	31.9
4. FREE MOVEMENT OF GOODS	45.2
5. FREE MOVEMENT OF SERVICES	50.0
6. FREE MOVEMENT OF PERSONS	50.6
7. FREE MOVEMENT OF CAPITAL	40.3
8. RIGHT OF ESTABLISHMENT	50.0
9. COMMON EXTERNAL POLICY	25.0
10. HARMONISATION OF LAWS	100.0
11. SECTORAL PROGRAMMES	100.0
12. COMMON SUPPORT MEASURES	100.0
13. PUBLIC EDUCATION	n.a.
14. TOTAL	66.7

Total number of possible actions = number of action elements multiplied by number of countries. Includes 12 countries only; excludes Haiti, the Bahamas and Monsterrat.

Source: based on information in Caricom Secretariat, *Establishment of the Caricom Single Market and Economy: Summary of Status of Key Elements*. 10 February 2004.

Sourced from Caricom Website

### **Exhibit 3. IMPLEMENTATION DEFICIT - INSTITUTIONAL/ LEGAL FRAMEWORK**

- 10 COUNTRIES STILL TO ENACT REVISED TREATY INTO DOMESTIC LAW

LITTLE OR NO ACTION ON PROVISIONS REGARDING:-

- COMPETITION POLICY
- INTELLECTUAL PROPERTY RIGHTS
- COMPANY LAW
- FINANCIAL SERVICES
- CUSTOMS LAW
- GOVERNMENT PROCUREMENT
- DISPUTE SETTLEMENT (OTHER THAN THE CCJ).

Source: Based on Brewster (2003)

The vast majority of these action elements are legislative or administrative actions that each member state must take in order to give effect to the provisions of the Revised Treaty. The Secretariat publishes regular updates on the state of implementation on its website; the latest is for 10 February 2004.

Based on that information, I estimate that fully two-thirds of the actions required to give effect to the CSME are still pending or incomplete (Exhibits 4-5). I call these pending and incomplete actions the “CSME Implantation Deficit”.

#### **Exhibit 4. IMPLEMENTATION DEFICIT - SINGLE MARKET**

- FREE TRADE IN GOODS: CONTINUATION OF UNAUTHORIZED BARRIERS AND LICENSES, DISCRIMINATORY INTERNAL TAXES AND OTHER FISCAL CHARGES.
- FREE TRADE IN SERVICES: NO MEMBER STATE HAS ENACTED LEGISLATION
- FREE MOVEMENT OF CAPITAL: NO MEMBER STATE HAS ENACTED LEGISLATION
- FREE MOVEMENT OF SKILLED PERSONS: A VARIETY OF ADMINISTRATIVE IMPEDIMENTS REMAIN
- COMMON EXTERNAL PROTECTION: THE REGIONAL REGIME IS STILL INCOMPLETE

Source: Based on Brewster (2003)

#### **Exhibit 5. IMPLEMENTATION DEFICIT - SINGLE ECONOMY**

- MACROECONOMIC POLICY COORDINATION
- FISCAL POLICY COORDINATION
- MONETARY POLICY COORDINATION
- MONETARY UNION/SINGLE CURRENCY
- HARMONISED CORPORATION TAX
- COMMUNITY INVESTMENT POLICY
- SECTORAL POLICY FOR AGRICULTURE
- SECTORAL POLICY FOR INDUSTRY
- SECTORAL POLICY FOR SERVICES
- SECTORAL POLICY FOR TRANSPORT

Source: Based on Brewster (2003)

The Deficit is most pronounced in the categories of Harmonisation of Laws, Sectoral Programmes and Common Support Measures— elements related to the establishment of the Single Economy. It is also quite significant in the categories of Free Movement of Goods, Services, Capital and Persons and Right of Establishment; which are related to the establishment of the Single Market. (I have excluded the

Bahamas, Montserrat are Haiti from the count; as the first two are not signatories to the Revised Treaty of Chaguaramas and in the last institutions are at a virtual standstill.)

Exhibits 6-8 list the critical action elements in the Implementation Deficit—critical from the standpoint of giving effect to the CSME.

**Exhibit 6. CARICOM EXPORTS BY PRINCIPAL DESTINATION**

<b>US\$M</b>	<b>Caricom</b>	<b>Other ACS</b>	<b>EU</b>	<b>US</b>	<b>Other</b>	<b>Total</b>
1990	514	241	880	1815	895	4345
1995	770	352	1078	1940	930	5070
2000	1040	429	960	2291	661	5403
2001	1293	772	1445	3447	1174	8130
<b>Percent</b>						
1990	11.8	5.5	20.3	41.8	20.6	100.0
1995	15.2	6.9	21.3	38.3	18.3	100.0
2000	19.2	7.9	17.8	42.4	12.2	99.5
2001	15.9	9.5	17.8	42.4	14.4	100.0

Source: ACS/ECLAC, Main Trends...Table 2 & 4

**Exhibit 7. SELECTED CARICOM COUNTRIES  
REVEALED COMPRATIVE ADVANTAGE IN  
COMMERCIAL SERVICES**

<b>Country</b>	<b>Global rank, 1980-2000*</b>
Belize	3
Barbados	4
Montserrat	5
Grenada	9
St. Kitts and Nevis	14
St. Lucia	15
The Bahamas	23
Antigua amd Barbuda	24
St. Vincent and the Grenadines	28
Dominica	33
Guyana	88
Suriname	95
Trinidad and Tobago	105

- Based an average index of revealed comparative advantage for 1980-2000.

Source: ECLAC, Caribbean Tourism...Oct. 2003; Table 1

**Exhibit 8. EVALUATING CSME COSTS AND  
BENEFITS**

	<b>SINGLE MARKET PROVISIONS</b>	<b>SINGLE ECONOMY PROVISIONS</b>
<b>COSTS</b>		
Studies	X	X
Meetings	X	X
Legislation	X	X
Administrative actions	X	X
New institutions	X	X
Transfer of sovereignty	X	X
<b>BENEFITS</b>		
Intra-trade	X	X
Extra-regional exports	X	X
Bargaining power/Negotiating capability	X	X
Growth	X	X

The picture corroborates the assessment made by Brewster a year ago; when he concluded that much of the legal and institutional framework required for the CSME remained to be established; that the provisions for giving effect to the Single Market were highly incomplete; and hardly anything had been done regarding the provisions for creating the Single Economy.

His assessment is shared by ECLAC in a 2003 paper, which observes that

“CARICOM is at most a Customs Union...(but) the degree to which it is full Customs Union is still debatable...(as) despite the fact that most countries have put in place the fourth phase of the Common External Tariff...the range of tariff rates exhibit a wide disparity and tariff systems are different”..(Issues, etc. 2003 p.14).

### **Intra-Caricom Trade**

Looking at the pattern of trade, we note that intra-Caricom exports doubled in value in the 1990s and in percentage terms grew from 11% of the Community’s total exports in 1990 to 19% in 2000; declining to 16% in 2001.(Exhibit 9-10). But 80% of intra-Caricom exports come from one country—Trinidad and Tobago; which is also responsible for 63% of intra-Caricom imports. Brewster points out that 75% of T&T exports to Caricom consists of mineral fuels, lubricants, chemicals and related materials “that would have taken place without the free trade regime.” (p.3).

**Exhibit 9: MAIN TRADE AGREEMENTS SIGNED BY ACS COUNTRIES**

ACS Member states	Participating countries	Date signed	Entry into force	Type of Agreement (See footnote)
<b>Group of Three</b>	Group of Three	13/6/1994	1/1/1995	fta
Colombia	CARICOM	24/7/1994		ptz
Mexico	USA and Canada		1/1/1994	NAFTA, fta
	European Union.	23/7/1997	1/7/2000	fta
	Chile	22/9/1991 <sup>a</sup>	1/8/1999	fta
	EFTA	August 2001	July-November 2001	fta
Venezuela	CARICOM	13/10/1992	1993	ptz
<b>MCCA countries</b>	MCCA	10/1993 <sup>b</sup>		c.u..
	Chile	18/10/1999 <sup>c</sup>		fta
Costa Rica	Canada	23/4/2001		fta
	CARICOM			
	Mexico	4/1994	1/1/1995	fta
El Salvador	Mexico	2000	1/1/2001	Northern Triangle. Fta, ng
Guatemala				
Honduras				
Nicaragua	Mexico	12/1997		Fta
Panama	MCCA			Fta
<b>CARICOM</b>	CARICOM	1973	1973	c.u..
	Canada	1986	1986	CARIBCAN, zcp.
Suriname	CARICOM	1993		c.u.
Haiti	CARICOM	2001	7/1997	c.u
Cuba	ALADI	26/8/1999	26/8/1999	Ptz
	CARICOM	5/7/2000	2000	Ptz
	Andean Community			Ptz
Dominican Republic	MCCA	29/4/1998	1/2/2001	fta, ng
	CARICOM	22/8/1998	1/1/1999	fta, ng, tpnc
<b>ACS</b>	ACS	24/7/1994		fc
Caribbean and Central America	Mexico and Venezuela		8/1991	San José Agreement <sup>e</sup>
	USA	1984	8/1990	CBI, ptz (24 countries)
		5/2000	2/10/2000	CBTPA <sup>f</sup> , ptz (24 countries)
CARIFORUM	EU	1975	1990 <sup>g</sup>	Lomé Agreement, zcp. Cotonou, zcp
Caribbean	EU	1975	1990 <sup>g</sup>	Lomé Convention, ptz.
<b>Andean Community</b>	Andean Community	3/1996 <sup>b</sup>		c.u.
	USA	12/1991		ptz <sup>i</sup>
	EU	1990	Until 2004	ptz, cf <sup>j</sup>
<b>Latin America and the Caribbean</b>	USA, Canada, Latin America, Caribbean	1/1/1994	1/1/2005	FTAA, fta

Source: ECLAC, Main Trends...2003; Table 10

## Exhibit 10. CARICOM'S EXPORTS TO ACS REGION 2001

US\$ MILLION

From\To	Caricom	G3	CACM	NG	Dutch/Fr	Other ACS	Total ACS
Total Caricom	1292.9	120.7	205.6	218.1	226.6	771	2063.9
Trinidad/Tobago	1021.5	110.9	148	212.8	216.4	688.1	1709.6
Barbados	59.5	0	33.2	0	1.4	34.6	94.1
Jamaica	48.3	8.6	6.1	4.4	5.5	24.6	72.9
OECS	56.6	0	0.3	0.2	0.8	1.3	57.9
Guyana	52.1	0	0.2	0	0.2	0.4	52.5
Bahamas	23.4	0	16.1	0	0	16.1	39.5
Suriname	20.5	0	0.3	0	0.5	0.8	21.3
Belize	10.9	1.2	0.5	0.7	0	2.4	13.3
Haiti	0.2	0	0.8	0	0	0.8	1

PERCENT

From\To	Caricom	G3	CACM	NG	Dutch/Fr	Other ACS	Total ACS
Total Caricom	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Trinidad/Tobago	79.0	91.9	72.0	97.6	95.5	89.2	82.8
Barbados	4.6	0.0	16.1	0.0	0.6	4.5	4.6
Jamaica	3.7	7.1	3.0	2.0	2.4	3.2	3.5
OECS	4.4	0.0	0.1	0.1	0.4	0.2	2.8
Guyana	4.0	0.0	0.1	0.0	0.1	0.1	2.5
Bahamas	1.8	0.0	7.8	0.0	0.0	2.1	1.9
Suriname	1.6	0.0	0.1	0.0	0.2	0.1	1.0
Belize	0.8	1.0	0.2	0.3	0.0	0.3	0.6
Haiti	0.0	0.0	0.4	0.0	0.0	0.1	0.0

G3 = Colombia, Mexico, Venezuela

CACM = Central American Common Market

NG = Cuba, Dominican Republic Panama

Dutch/Fr. = Netherlands Antilles, Aruba and French Departments

Source: ACS-ECLAC, Main Trade Trends, Oct 2003; Table 8

Jamaica experienced a steep decline in its regional exports in the 1990s; Barbados registered a small increase and the O.E.C.S. none at all.

So that the degree of actual market integration has been limited; and what has been accomplished has not provided a significant impulse to intra-trade and economic growth in the Community as a whole in the 1990s.

## **Reasons for the CSME Implementation Deficit**

To what should we attribute the huge shortfall in the actual implementation of the CSME? Brewster has argued in several papers, including the one cited above, that the problem lies in a fundamental contradiction between the goals and the method employed. Each member state retains maximum national sovereignty, while the CSME provisions are implemented “though a mode of discretionary intergovernmental cooperation”. In effect, most of the 79 action elements are each the subject of a separate legislative or administrative decision by every member state.

He contrasts this with the EU, where the Single European Act that creates the Single European Market provides for supranational legislative power in the form of EU Directives. The element of discretion is removed, and therefore the opportunity for politically-motivated delays. But this of course involves a degree of transfer of sovereignty.

Drawing on the EU experience, Brewster also argues that financing the array of institutions required for the SME requires an independent source of revenue, what is called “own resources”. For instance a 1% levy on Caricom GNP would yield \$300 M/year, compared to the CCS budget of \$10 m/year.

In his view, therefore, the issues of sovereignty and of financing lie at the root of the impasse in the CSME.

But why, you may ask, have the Europeans been willing to do all this in contrast to us in the Caribbean? My answer would be that there were powerful driving forces in European integration that are not present in the Caribbean. Among these were the burning desire to ensure no more wars in western Europe; the strong political and financial support provided by the United States aimed at creating an anti-Soviet bulwark in western Europe; the desire by a later generation of Europeans to use integration as a means of countering the economic power of the United States; and the strong support from the European business community for the creation of an expanded domestic market to help meet the challenge from US business.

I believe that when Caricom leaders took their decision back in 1989 they had an extreme sense of urgency because of the launching of the European Single Market. The differences in history and method, however, were to become evident from subsequent experience.

But this diagnosis leads to the questions: (1) what if Caribbean governments are not prepared to move on the required transfers of sovereignty, and (2) what if Caribbean publics are not prepared to support a Caricom tax to support Caricom institutions?

Before going further into this I want to suggest there is another dimension to the problem of non-implementation that has not, perhaps, received the amount of attention it deserves. I am referring to the degree of differentiation within the economies of Caricom's member states.

## **Differentiation**

It is often observed that Caricom contains a very diverse collection of economies. Less well appreciated is the fact that the degree of economic differentiation within the group has grown markedly in recent years.

For example in 1980 the gap between the richest and poorest Caricom member in per capita terms was about 10 to 1 whereas by 2001 it had grown to approximately 20 to 1.

Barbados, the Bahamas and most of the O.E.C.S. countries experienced rapid growth in the two decades derived from the export of high value services, mainly tourism and off-shore banking; Trinidad declined in the 1980s but recovered in the 1990s. But Jamaica, Guyana, Suriname and other O.E.C.S countries experienced slower growth or stagnation.

Services activities accounted for 45% and 68% of total GDP growth in Caricom in the 1980s and 1990s respectively. By 2000 Caricom as a whole was earning more from services than from merchandise exports. For countries in the first group I mentioned services are normally several times the value of merchandise exports<sup>1</sup>.

ECLAC terminology now distinguishes the “service-based” economies from the “resource-based” economies of Caricom. This distinction, may I suggest, may of be greater significance now than that between MDCs and LDCs enshrined in the Treaty of Chaguaramas.

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<sup>1</sup> ECLAC, Development of Services..17/01/2003, Tables 1 & 4

The widening gap between the richer and poorer member states of Caricom poses some special problems for maintaining the momentum of the CSME. To begin with, we might ask whether it does not, in and of itself, constitute a possible threat to the political durability of the Community.

There is a risk that political support for the integration process could be undermined in both the poorer and the richer states, with the former believing that they are gaining little, and the latter they have little to gain, from integration.

Note for example that the Bahamas, the richest member, has never signed the Revised Treaty. It exports virtually nothing to the rest of Caricom and is wary of any legal obligation to accept labour from the rest of the region.

Other differences impact on the speed of implementation. For example many OECS countries are lagging behind in the implementation of their import liberalisation obligations under the Single Market. Already burdened with onerous WTO obligations, there is a limit to the institutional capacities and personnel available to undertake the wide range of legislative and administrative actions required to implement the CSME.

Yet they are highly dependent on import taxes for fiscal revenue, and export very little to the CARICOM market. Their interest in implementation obligations, it seems to me, must be coloured by this reality.

O.E.C.S merchandise exports consist mainly of primary commodities destined for the EU market. The situation is different in the larger countries that export non-traditional products to regional and/or North American markets. Thus, these larger countries have a greater interest in gaining access to the US market relative to preservation of access in the EU market; and they have less to lose from tariff liberalisation.

This disjuncture most put a strain on the ability of the Community to maintain a united front in negotiations with the EU and in the FTAA; as recent developments attest.

Another consequence of the economic differentiation within Caricom is the virtually complete absence of progress in the areas of monetary convergence, a common Caricom currency, and macroeconomic coordination, which are all indispensable requirements of the Caricom Single Economy.

On the whole the service-based economies have stuck to a regime of fixed exchange rates and they have been able to maintain a high degree of exchange rate stability; while the resource-based economies have floated their currencies leading to steep devaluations, again with the exception of Trinidad and Tobago.

There is every indication that the disjuncture between the “Fixers” and the “Floaters” will continue into the foreseeable future and the coordination of fiscal, monetary and macroeconomic policies will continue to be an elusive goal.

A similar situation will obtain in any attempt to have common sectoral policies in agriculture, industry, transport and services; another feature of the Single Economy. Sectoral policies—a kind of Caricom Regional Industrial Policy—were the subject of the 1992 Report that Wendell Samuel and I prepared. It is difficult to envisage such policies in a situation where each member state is busily pursuing its own set of sectoral policies in virtual isolation from the rest.

Thus Trinidad and Tobago is promoting energy-based industries; Barbados is emphasising high-value services; the OECS is pushing tourism; Jamaica is trying with information services; and Belize, Guyana and Suriname are pinning their hopes on resource-based industries.

I would like to illustrate this by returning to the matter of services.

### **Sectoral development policy and services**

The present conventional wisdom holds that service activities offer the best prospect for diversification and accelerated development of Caricom economies; and that a regional development strategy will of necessity be service-based. The smaller Caricom economies are highly placed in the global rankings of revealed comparative advantage in commercial services (Exhibits 11-12).

Studies have been done, most recently by ECLAC, that purport to show the potential in such areas as health, sport and cultural tourism; and the export of professional services such as accounting, engineering, information services, nursing and the like.

Tourism is the principal common element of sectoral development strategies in Caricom. But in this activity regional cooperation is confined mainly to marketing, and tends to be sporadic and uneven. A case in point is the experience of devising a regional response to the fall-out from 9/11.

To have an effective service-based development policy, or any other kind of regional industrial policy, you first need to have an institutional infrastructure endowed with the legal authority and the political clout to formulate, negotiate and implement it. On present indications it seems likely that member states will guard their national sovereignty in this area very jealously.

Yet there is a close relationship between such a policy and the regional external negotiating strategy to which Caricom states are officially committed in the form of the CRNM. And its absence, it seems to me, is crippling the region's efforts in the various external negotiating theatres.

I have, in my previous incarnation, given strong and unstinting support to the efforts of the ACS's smaller economies to buttress their case for special and differential treatment in the FTAA. A team from SALISES conducted an excellent study on the subject for the ACS.

I have always wondered, however, if the absence of a clearly articulated regional policy for "sunrise" and "sunset" industries does not rob the case for SDT of much of its content and credibility.

Such a policy would enable the region's negotiators to be more specific, for instance, on desirable phase-out periods for dying industries and adjustment period for others; and on the targeting of market access niches for the region's producers.

In this way negotiating strategies and tacticts could be fine-tuned with a more careful calibration of costs and benefits of different options.

The demand for SDT might also carry more weight with adversaries, if it can be shown to be an element in a strategy of productive transformation aimed at making the region's economies capable of sustaining themselves without special supports at some time in the future.

## **Options**

Let me now return to my earlier question: will Caricom leaders and publics be willing and able to transfer sufficient national sovereignty, and money, to the integration process to make the CSME feasible?

Let me remind you that one of the features of our political systems is that parties in Opposition believe that they must oppose whatever governments are doing, no matter how intrinsically right they might think it is. They even oppose things that they themselves espoused when they were in power!

And you can be sure that moves to transfer some sovereignty to the CC and to impose any kind of Caricom tax will be opposed by many, if not most, opposition parties in the region; and will become the

subject of partisan political controversy. Just look at the whole experience of setting up the CCJ.

Perhaps it is time for a fundamental reappraisal of where we are headed with the CSME and an openness to consider other options. We might think in terms of a kind of social cost-benefit analysis of moving further on various components of the CSME, of the type set out in Exhibits 13-14.

We might wish to compare the costs in terms of money and high-level man-hours of the endless rounds of meetings for planning and negotiating, the consultants reports and the setting up and staffing of new institutions; as well as the political costs of surrendered sovereignty and the resulting political controversies; with a realistic estimate of the benefits from accelerated trade and economic growth that will flow from the CSME and from the heightened bargaining and negotiating power in international negotiations.

We might wish to consider what lesson can be drawn from the fact that what limited progress has been registered has been in the setting up of the Single Market; while the political and institutional costs are considerable in setting up of the Single Economy.

From all that I have read, the incremental cost of having the “E” after the “M” may be considerable. Will the incremental benefit of having the Single Economy be worth these costs?

Could one option be to complete the most critical elements of the Single Market; while deferring other elements, as well as most of the

paraphernalia of the Single Economy? On the other hand is it possible, realistically, to detach the Single Economy from the Single Market in the way that I am implying?

Of course there are some benefits of market integration that are enhanced by policy coordination. An example is the promotion of new industries and industrial clusters through cross-border investment and joint ventures by regional firms. But, perhaps, these could be handled by sector-specific industry protocols and programmes on which the members, or groups of members, agree.

I am here putting questions on the table, not answers. I am wondering whether a more flexible approach based on a “menu of options” might not be a more realistic way to go about the matter. To remain rigidly fixed on a course that has proven limitations carries the risk of mounting frustration and lack of credibility.

### **The ACS and the FTAA**

Let me now turn, briefly, to the wider regional and hemispheric context; specifically, the Association of Caribbean States and the FTAA.

As you may know, when the ACS was set up in July 1994 it was widely expected that its first priority would be to form a Free Trade Area for the entire Greater Caribbean region.

This did not happen. The reason is that five months later, in December 1994, the Miami Conference of the Americas was held, and the FTAA

process was launched. The majority of ACS members gave priority to the FTAA; a much larger potential market. Cuba is the only ACS country that is not part of the FTAA process.

Some ACS members proposed the creation of an ACS Caribbean Preferential Tariff to stimulate intra-ACS trade. But this, too, foundered, for very much the same reason.

The ACS has, therefore, focused its efforts in the trade area on cooperation in trade promotion, business cooperation, studies of obstacles to trade and of special and differential treatment for small economies. An extremely successful Brainstorming exercise was held late last year on SDT, based on a paper prepared by a SALISES Team, which formed an input into the meeting of the FTAA Trade Negotiating Committee held in Port of Spain.

The ACS has also carved a niche for itself in promoting functional cooperation across the entire space of the Greater Caribbean in the areas of tourism, transport and the mitigation and management of natural disasters across.

Returning to the subject of trade, a noteworthy development has been the proliferation of trade agreements at the bilateral and subregional levels within the area of the Greater Caribbean. A recent count came up with 33 such agreements signed or under negotiation in which ACS members are involved (Exhibits 15-18). In the case of Caricom, you know of the FTAs with Venezuela, Colombia, Cuba, the Dominican Republic and most recently Costa Rica.

But an analysis of Caricom's exports to the markets of the Greater Caribbean is instructive. Like intra-Caricom exports, they are dominated by Trinidad and Tobago, which accounted for 89% of the total in 2001 (Exhibits 19-20) The value of T&T's exports to these markets is already is 67% of the value of its exports to Caricom.

So that this country is the principal one—perhaps the only one—to have taken advantage of the regionalisation of markets within and outside of Caricom.

It is clear that T&T businesses are reaching out in an a big way beyond the confines of the Caricom market, which may have reached the limits of its market potential in a number of product lines. A similar process appears to be happening with T&T firms in the financial sector.

The FTAA process has to all intents and purposes come to a standstill as a result of the impasse between the United States and Brazil over the issue of agricultural market access. I don't know of anyone who believes there will an FTAA agreement by the time of the December 31, 2004 deadline.

The US in the meantime has been busily negotiating bilateral FTAs with Chile, Central America and the Dom Rep, Panama, and Colombia; soon to be followed by Peru, Equador and Bolivia. In this way it expects to put pressure on the "difficult" countries—Brazil, Argentina, Venezuela and Caricom.

To Caricom's credit, it has maintained a consistent negotiating position in defence of special and differential treatment for small economies in the FTAA. How it will respond to the growing threat of marginalisation from the US market remains to be seen.

The Community may have something of a breathing space to take stock as a result of the standstill in the FTAA and the virtual standstill in the WTO process. But the EU trade negotiations for an FTA begin in another week, so there is no let up in the pressure.

There remains, therefore, at the very least the need for a coherent, clearly articulated and consensual regional strategy of priority development industries and activities to inform these and other negotiations.

## **Conclusion**

I believe I have just about exhausted my time. I hope I have succeeded in raising some questions which hopefully, will be visited during the course of the Conference. I thank you most sincerely for your attention; and once again Dr Watson for his kind invitation.