THE CARICOM SINGLE MARKET AND ECONOMY (CSME) AND THE RISK OF ECONOMIC POLARISATION

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The CSME and the Risk of Economic Polarisation:
A theoretical and methodological framework for the investigation of spatial agglomeration effects arising from implementation of the CSME

Abstract
One of the principal concerns in economic integration schemes is that as economic, legal and political borders between states are removed economic activity may shift to ‘poles’ within the expanded economic area. This fear has long been present in the Caribbean integration movement and, for example, is reflected in the institutionalised categories of ‘most developed’ and ‘least developed’ countries (MDCs and LDCs respectively). The purpose of this paper is to investigate the potential polarisation effects that might arise from the CARICOM Single Market and Economy (CSME). The paper aims to outline a methodological approach to ascertaining how spatial agglomeration forces arising from the CSME might lead to polarisation of economic activity amongst CSME member states and as a result what geographic patterns of economic activity might evolve in the region. It further discusses the potential social, political as well as economic ramifications of polarisation within the CSME, thus laying a foundation for the exploration of national and regional policies that might be designed to alleviate any potentially negative outcomes.

SECTION I

Introduction
One of the principal fears in economic integration schemes is that as economic, legal and political borders between states are removed economic activity may shift to ‘poles’ within the expanded economic area. This concern has been present in the Caribbean integration movement since the inception of CARICOM in 1973, and is reflected in the institutionalised categories of the movement, of ‘most developed’ and ‘least developed’ countries (MDCs and LDCs respectively). Though this classification was devised when CARICOM was first launched, they have persisted though it is debatable whether the economic pecking order that existed then still holds today. However, while the economic performance of some CARICOM member states may have diverged from the pattern of the 1970s, perhaps the most relevant factor for this study and the underlying rationale of the CSME - economic development over the medium and long term - remains much the same.

As it is currently designed, the CSME will include free movement of goods, services, and factors of production (capital and labour), national treatment (including the rights of establishment), fiscal policy coordination, harmonisation of tax regimes and incentives to industry, agriculture and services, regional industrial policy and a common external tariff. However, in its current form CSME will not include monetary nor political integration. The lack of an explicit political dimension must be noted at the outset as it is likely to
have important implications in the context of regional resource sharing between member states that may be necessary to mitigate any potential polarisation effects.\footnote{\textsuperscript{1}}

The CSME is comprised of a diverse grouping of heterogeneous states, particularly from the standpoint of physical and economic size as well as natural and human resources. Given this starting point, the forces of agglomeration that are expected to result from the creation of a single economic space may create winners and losers both amongst \textit{and} within countries in the integration scheme. Further, unlike the European Union (EU) where most countries share physical borders on the European continent CSME member states are physically separated from each other on islands as well as on the Central and South American mainland (with the sole exception of Guyana and Suriname which share a long land border, though with largely undeveloped transportation links). That is, there is a lack of geographical contiguity in the member countries which makes CARICOM unique amongst global integration schemes. This suggests that polarisation could manifest itself in particularly extreme and deleterious ways not seen in other integration schemes such as the EU since in CARICOM most political borders are demarcated by physical boundaries.

Despite the focus on polarisation in this paper it should be explicitly noted that allowing for the spatial relocation of economic activity within CARICOM is one of the crucial components of a successful CSME as it allows firms to seek efficiency gains elsewhere in the region in order to increase the region’s global competitiveness. However, while the overall results of these geographic effects based on market forces are likely to be positive for the region as a whole they might also be accompanied by negative ramifications which are unevenly distributed and which might require compensatory regional policy, hence the rationale underlying this discussion. This working paper is further written in the context of the establishment of a regional development fund which can be designed to help mitigate any potentially negative effects.\footnote{\textsuperscript{2}} The use of development funds to offset such effects is well established in regional integration schemes, the EU being one of the better examples. However, this paper will argue that ideas and policy solutions are more important than financial outlays, a point which is critical in a region characterised by fiscal instability.

Thus this paper seeks to explore some of the potential agglomeration and economic relocation effects that might arise from the CSME in order to deepen our understanding of these geographic effects in the CSME context and hence inform responsive regional policy. It will very cautiously use recent mainstream economic theories on industrial location to provide a broad analytic framework, but the analysis will emphasise the unique features of CSME which may limit the applicability of the current mainstream models. Overall, the paper proposes a methodological approach to analysing polarisation

\footnote{\textsuperscript{1} It should be noted that at the most recent meeting of CARICOM heads of state in July 2003 agreement was reached to set up a Caribbean Commission which would be charged with overseeing implementation of CSME. However, it is not yet clear how much decision-making power member states would be required to cede to this central authority.}

\footnote{\textsuperscript{2} Provision for the CSME Development Fund is given in Protocol VII of the Revised Treaty of Chaguaramas.}
effects in the CSME and to designing appropriate policy responses. The rationale is that we must first have an understanding of the types of geographic effects we might see in CSME before we can start to think about designing compensatory regional policy. As such, the paper is organised as follows: section II briefly outlines the evolution of the theoretical frameworks used in mainstream economics to examine issues of spatial location of economic activity, section III reviews some of the mechanisms used in other integration schemes to counter polarisation forces, section IV then looks specifically at spatial relocation effects in the context of the CSME, and using the theoretical approaches discussed in section II as a basis for analysis suggests a methodological approach to ascertaining the geographic effects that might arise due to CSME. Section V concludes with suggestions for further research.

SECTION II

This section aims to outline a theoretical framework of analysis. It does so by reviewing the evolution of mainstream economic thought on the spatial location of economic activity. However, while the framework used in this paper uses the mainstream model as its analytical starting point, the analysis stresses the unique features of the CSME which restrict the applicability of the mainstream model. An attempt is made to limit the theoretical background on location theories to those elements that are most crucial to consideration of the issues likely to arise in the CSME. As such, only a broad outline of the advances in mainstream economic thought on location theory is given.3

Neoclassical Trade Theory

The evolution of location theory in mainstream economic thought can be categorised into three schools, neoclassical trade theory (NCT), new trade theory (NTT) and new economic geography (NEG).4 Traditional neoclassical trade theory dominated the modern discourse until the early 1980s. Based as it was on the Heckscher-Ohlin model with its assumptions of perfect competition, zero trade costs, homogenous products and non-increasing returns to scale, NCT predicted economic integration (i.e. ‘free’ uninhibited trade and factor mobility) would lead to convergence, or according to Jovanovic (2001:7), “would result in a uniform geographic distribution of people, skills, and economic activity, equalising factor earnings and standards of living in all regions. Poorer regions would converge upon richer ones.” In this view, inter-industry specialisation dominates and patterns of economic activity are distributed according to the exogenously given spatial distributions of natural endowments, technologies, infrastructure and other factors of production. That is, comparative advantage is the key-determining factor of industrial location in the NCT. As trade costs are increasingly endogenised spatial dispersion of economic activity does shift according to trade costs


4 It is worth stressing that these theories are drawn from mainstream economic thought. There are other theories from other schools even within economics, such as those of the early development economists, as well as from outside economics, primarily from geographers.
and demand patterns. (Brulhart 1998:777) However, a major weakness of the neoclassical model is the assumption that adjustment costs arising from shifts in production from unprofitable to profitable activities are instantaneous and costless. While the short run effects of increased efficiency may be positive there are (social) adjustment costs in the medium-to-long term that require time and government intervention. (Jovanovic 2001:38) Further, Puga (2002:382) argues that the NCT prediction that economic integration leads to regional specialisation according to comparative advantage provides a weak explanation for the remarkable spatial concentration of economic activity that we can observe in today’s global economy. Consideration of increasing returns to scale (IRS) becomes necessary in order to explain the uneven geographical distribution of economic activities across areas with similar endowments.

New Trade Theory
With the relatively recent incorporation of IRS into mainstream economics the NCT predictions came under challenge from within the mainstream in the form of the ‘new’ trade theory (NTT).\(^5\) NTT came to prominence in mainstream economics via a number of seminal papers written in the 1980s such as Krugman (1979) and Helpman (1981,1984). NTT endogenised all the previously exogenous factors in NCT except market size, which was held to be determined by the size of the domestic labour force which was immobile across national borders. The NTT models allowed imperfect competition, non-homogenous products and perhaps most importantly IRS. Further, this model is based on inter-industry specialisation and dynamic phenomena like learning by doing, but also is critically dependent on intra-industry trade.\(^6\) From the standpoint of spatial location, NTT suggested that as trade costs fell to zero economic activity characterised by IRS would concentrate near the core market and intra-industry trade between the core and the periphery would disappear. (Brulhart 1998:777) These assumptions of IRS and the importance of intra-industry trade carry over to the new economic geography and are critical in the discussion on location of economic activity in the CSME.

New Economic Geography
The most recent advance in mainstream economic location theory is the ‘new’ economic geography (NEG).\(^7\) According to Puga (2002:374), the central thesis of the NEG arises

\(^5\) It should be noted that the acceptance of IRS in the mainstream model was due solely to analytical developments which allowed economists to mathematically model increasing returns rather than any new theoretical developments (see for example Krugman, 1990:4). IRS had long been a feature in the early development economics literature, and can be traced back to classic political economy, particularly the works of John Stuart Mill.

\(^6\) It’s worth noting as Maneschi (2000:7) points out that in the NTT “factor endowments are still recognised as the chief explanation of trade in primary and natural-resource intensive commodities. The new trade theory is primarily meant to explain trade in manufactures subject to increasing returns. Some of its models combine intra-industry trade in manufactures with inter-industry trade based on factor endowments, so that comparative advantage remains a subsidiary but essential explanation of trade flows.”

from the observation that firms produce more efficiently and workers enjoy higher welfare by being close to large markets, and that large markets are in turn where more firms and workers locate, thereby creating a cumulative causation process that tends to increase regional differences. Neary (2001:536) argues that the key contribution of the NEG is a single analytic framework in which the standard choice-theoretic tools of mainstream economics can be used to model the trade-off between dispersal and agglomeration, thus providing a basis for ascertaining the propensity to agglomerate. Puga (2002:374) concurs, adding that while development economists and geographers have long described these mechanisms, the NEG allows economists to explicitly weigh convergence and divergence forces unleashed by integration and study the trade-off between the economic advantages of the clustering of activity and the inequalities that it may bring. He argues that recent location theories can assist in understanding the evolution of regional inequalities during economic integration, and critically, particularly in the context of this paper, think about the role of regional policy.

Factor mobility is perhaps the most crucial factor that distinguishes NTT from NEG, and international economics from regional economics more generally. This is worth noting explicitly as factor mobility is a critical element of the CSME. In the NEG model location is fully endogenised, and agglomeration is explained by market size and input-output linkages (which it should be noted are conceptually the same as Hirschman’s classic backward and forwards linkages); in fact, even market size is explained. However, the predictions of the NEG models are characterised by multiple equilibria and hence do not necessarily predict a simple centre-periphery outcome. It is important to note, as Brulhart (1998:779) shows in his review of the empirical literature on the NEG, that one of the consequences is that NEG models are notoriously difficult to test empirically. For this reason and because of the policy orientation of this paper it is important to exercise caution when interpreting the predictions of the NEG model and the extent of its applicability to the CSME. Jovanovic (2001:xv) astutely concludes that the analysis of the interaction between regional economic integration and geography of production is more suggestive than conclusive, thus highlighting the importance of rigorous context-specific analysis. However, the NEG may still provide a useful framework for analysis that if carefully applied to the Caribbean context could provide a useful tool in modelling potential effects of deeper integration and designing appropriate policy responses.

8 Hence, even based on the NEG framework, one cannot simply assume that economic activity in the CSME will shift to the larger ‘more developed’ economies in the grouping, and even if it does, it also cannot be assumed that a static outcome might prevail, meaning activity could shift back to the initially polarised economies. This point is extremely critical given potential negative popular reactions to the prospect of spatial shifts in economic activity and the deleterious (for the success of CSME) political responses it might elicit. These dynamics are explored in greater detail in the forthcoming sections.
SECTION III

Review of Mechanisms in other integration schemes aimed at offsetting polarisation effects

This section aims to review mechanisms adopted in other integration schemes that seek to offset the negative effects of the spatial relocation of economic activity. However, the breadth of this investigation is severely limited by the little-known fact that few integration schemes are as advanced as the CSME, the EU being the major exception. For example, groupings such as the Association of East Asian Nations (ASEAN), MERCOSUR, the Southern African Development Community (SADC) and the Central American Common Market (CACM) are currently discussing deeper integration that goes beyond regional free trade but thus far little has been decided, while in CARICOM moves towards ‘deep’ integration have long been agreed (Grande Anse Agreement in 1989) though relatively little has been implemented to date. As such, mechanisms addressing regional disparities have only been established in the most advanced integration scheme, the EU. This state of affairs also limits the depth of the analysis, not least because there are inherent similarities between developing country integration schemes and differences between those and advanced country schemes, which affects the extent to which they are comparable. For example, whereas the principal objectives in the creation of the EU included prevention of future wars between members, increasing the ability to compete with the US both economically and politically, etc developing country regional integration initiatives such as CARICOM’s CSME and ASEAN’s AFTA (Asian Free Trade Area) were developed to help their respective member countries to “navigate through what would appear to be the increasingly hostile waters of international competition.” (Plummer 1996:3) That is, they are aimed at increasing member-states’ productivity and competitiveness and ultimately, further their economic and social development. Thus integration for these countries is primarily an economic development strategy, suggesting quite a different focus from integration movements among the advanced industrialised countries (AICs). Further, like CARICOM, ASEAN is comprised of a heterogeneous group of developing countries, most of which are located on non-contiguous landmasses or islands. However, as noted at the beginning of the sector many of these developing country integration initiatives have not reached the stage where they are actively pursuing regional distribution policy. Thus due to these constraints the analysis in this section is unfortunately limited to the EU, though it is hoped that it can be expanded to include other integration schemes in subsequent drafts.

The European Union (EU)

Though regional policy was initially neglected in Europe, it has been an essential element of economic integration since the first round of expansion in 1973, not only for economic but also political reasons. According to Jovanovic (2001:272), the evolution of European regional policy can be divided into four broad phases. At the outset of European integration, regional policy was ‘practically non-existent’ with the only major regional

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9 A SADC commission has been established to investigate the potential effects of polarisation in Southern Africa that could result from deeper integration. This commission’s report was due to be completed in mid-2003 but has not as yet been released to the public. Upon its release, however, it should prove very useful in considering polarisation effects and potential remedies in the Caribbean.
concern being for the underdeveloped southern portion of Italy (the Mezzogiorno). However, with the entry of Britain, Denmark and Ireland in 1973 regional policy became much more important in Europe, with Britain being particularly interested in the inclusion of regional issues. During this second phase regional policy was implemented via the European Regional Development Fund (ERDF), which was expanded to cover new entrants Greece in 1981 and Spain and Portugal in 1986. The third phase began in 1988 with reform of regional policy and the ERDF and the fourth phase is linked to the creation of European Monetary Union (EMU) and the forthcoming eastern enlargement of the EU.

Political support for regional policy in Europe is clear. One of the primary goals of the EU is to reduce differences in living standards between member states and between regions (which may lie within or between individual states). In fact, the Single European Act (1987) explicitly links economic and social cohesion to achieving monetary and economic union. It was decided that for the single market to work, the least prosperous member states would have to invest heavily in the effort to increase their growth capacity and catch up with their more developed neighbours.

Regional Policy Mechanisms

European regional policy has been operationalised via a number of mechanisms such as the ERDF, all of which are supported by the EU budget. The ERDF was established in 1975 with expenditure allocated to member states in fixed quotas as compensation to members that contributed more than average to the EU budget. These national quotas were set according to the following criteria (Jovanovic, 2001:276):

- The national average GDP has to be below the EU average;
- The assisted region has to have an above-average dependence on farming or a declining industry;
- There has to be structural unemployment in and/or emigration from the region;
- EU policies (such as free internal trade) must have had a detrimental impact on the region.

10 The original six members of what is now the EU were the Benelux countries, Belgium, The Netherlands and Luxembourg, and France Germany and Italy. This first economic integration group was formed by the Treaty of Paris in 1951 as the European Coal and Steel Community (ECSC). In 1957 the Treaty of Rome created a common market, the European Economic Community (EEC), and an atomic energy community, Euratom, both of which existed in parallel with the ECSC until they merged in 1967. The first wave of enlargement included members of the European Free Trade Association (EFTA), a looser grouping formed in 1960 of countries that excluded themselves from the EEC but were still fearful of its potentially increased competitiveness. EFTA members included Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the UK. EFTA soon began to break down as the UK applied for membership in the EEC forcing other members to do the same. Negotiations took over a decade but by 1973 most (but not all) members including the UK acceded to the EEC. (Winters, 1997)

11 Jovanovic (2001:272) notes that the ERDF favoured EU-rim or ‘peripheral’ countries (Britain, Greece, Ireland, Italy, Portugal and Spain) similar to how the EU’s Common Agricultural Policy (CAP) favours ‘northern’ or ‘core’ countries (such as France and Germany).

12 This section is based on information from official EU documents. See www.europa.eu.it/com/regional_policy
Further, expenditures are directed towards regional projects locally designed by national governments, not by the European Commission. Thus to access EU funds the burden of policy design is placed firmly on member-states. In 1985 the ERDF was reformed to encourage a greater number of project proposals and hence increased competition for regional funds and, in expectation of the entry of Spain and Portugal in 1986, the Integrated Mediterranean Programme (IMP) was created. The IMP was designed to help Mediterranean regions of the EU (Greece and southern regions of France and Italy) to adjust to competition from Spain and Portugal. The program aimed at assisting in adjustment in agriculture (wine, olive oil, fruits and vegetables) creating alternative employment for lost agricultural jobs in services (tourism) and SMEs.

The main objective of the ‘third phase’ of reform in 1988 was to improve the coordination of the various structural funds in support of deeper economic integration and the Single Market. It saw the introduction of six basic principles and six priority objectives, which were:

- Objective 1: promotion of the development of the backward regions;
- Objective 2: economic adjustment and the conversion of the production structure of in the regions that were affected by a large-scale industrial decline;
- Objective 3: a fight against structural employment;
- Objective 4: the promotion of youth employment;
- Objective 5a: structural adjustment in agriculture, in particular in the regions affected by the reform of the Common Agricultural Policy and fisheries;
- Objective 5b: promotion of development of in rural areas.

The objectives provide the guidelines for regional expenditure. In addition, the reforms included a doubling of the resources of the structural funds from EUR6.3 billion in 1987 to EUR14.1 billion in 1993. In 1993 further, though minor, reforms were executed including streamlining the rather bureaucratic decision-making process and extending the planning period for the operation of the structural funds to six years; resources for the period 1994-99 now totalled EUR144.5 billion.

The current medium term plan (2000-06) aims to prepare the EU for eastward expansion. The new plan merges the earlier objectives of the structural funds into two region-specific objectives and one pan-EU objective:

- Objective 1: backward regions with per capita GDP of 75 per cent of the EU average or below (this covers about 20% of the EU population);
- Objective 2: rural and urban reconversion regions. Economic and social restructuring in areas undergoing economic change in manufacturing and services,

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13 This represents an important measure to decentralise what might otherwise seem to be a very bureaucratic process carried out in Brussels. It also has potentially important political merit as well, as it implies strong ‘ownership’ of the process by recipient member-states.

14 The European policy of facilitating a shift in employment from declining agricultural sectors towards the service sector, particularly tourism, and the emphasis on SMEs is very relevant to the Caribbean context and is an area where direct lessons from European experience might be learned.
declining rural areas, urban areas in difficulty and crisis-hit areas depending on fisheries (this covers about 18% of the EU population);

3. Objective 3: development of human resources in regions not covered by Objective 1 or 2 – this supports training, education and employment.

During this period (2000-06) one-third of the EC budget (EUR213 billion) has been allocated for transfers to less prosperous regions and social groups. The high proportion of the EU’s total budget reflects the importance of regional policy and the political will which underlies European commitment to its peripheral and less developed regions. Of total EUR213 billion, EUR195 billion is divided among four structural funds – the European Regional Development Fund, the European Social Fund, the Financial Instrument for Fisheries Guidance and the Guidance Section of the European Guidance and Guarantee Fund while the remaining EUR18 billion is allocated to the Cohesion Fund.

Objective 1 captures the main priority of EU cohesion policy as stated in the Treaty, which is “to promote harmonious development [and] narrow the gap between the development levels of the various regions.” More than EUR135 billion (over 2/3) of the Structural Funds are allocated to objective 1 activities. As previously stated Objective 1 regions have GDPs which are less than 75% of the EU average, and are characterised by indicators such as low levels of investment, above average unemployment, poor basic infrastructure and lack of services for individuals and businesses. In total, 114 programmes are being implemented in 13 member states under Objective 1, covering 50 regions which are home to 33% of the EU population. These programmes are designed by national and regional authorities and focus on three areas aimed at generating sustained endogenous growth: infrastructure (28% of funds, of which roughly half goes to transportation infrastructure); human resources (30% of funds, with priority given to employment policies and education and training systems); and aid to the productive sectors (42%).

The second element of Objective 1 is the Cohesion Fund, to which all Objective 1 regions with a GDP below 90% of the EU average are eligible. By focussing on the environment and transportation infrastructure, the former which accounts for more than 10% of total Objective 1 allocations, the Cohesion Fund aims to contribute to sustainable development in its member states and cohesion within the EU.

Similarities and Differences between the EU and the CSME
While the similarities between these EU institutional mechanisms and mechanisms supported by a potential CSME development fund may seem straightforward, it is important to note some of the crucial structural differences between the poorer peripheral

15 It should be noted that regions in the context of the EU do not necessarily correspond to national borders – they may lie within a given country or extend or across national borders. Examples are the Mezzogiorno region of Southern Italy or the region shared between Spain and Portugal. It should be further noted that these less-developed regions are not limited to the poorer countries, as regions in the UK, France, Sweden and Germany are also beneficiaries of Objective 1 funds.

16 It is interesting to note the EU aid to the productive sectors via regional policy cleverly bypasses WTO rules on direct sectoral support. This occurs since support is directed towards regions and not specific sectors and hence does not contravene WTO rules. This provides an important potential lesson which can be emulated to facilitate CSME regional and industrial policy.
EU economies and those of the ‘core’ in light of structural differences which exist between CSME member-states. For example, there were clear market gains to be made for the (cheap) labour-intensive manufactured goods and agricultural products from poorer European economies with access to the richer core markets, especially given the external protection that the EC’s common external tariff provided (see for example Winters, 1992). Based on this, the corresponding assumption is that upgrading transportation infrastructure, human resources and supporting productive sector development would allow these lagging regions to catch up with the more advanced areas by way of increased intra-regional trade. But one must ask whether a similar assumption would hold in CARICOM, where the economic rationale is based on outward export orientation i.e. helping the region to transform itself into a higher-productivity area for goods and services aimed at the world market, more so than intra-regional trade development. In the case of CSME it is not clear that there would be similarly attractive potential market gains for ‘peripheral’ economies, as many of the ‘core’ economies enjoy lower productions costs e.g. the current domination of the regional manufactured goods market by products from Trinidad and Tobago.

Finally, it should be clearly stated that the CSME development fund, in whatever form it might take, should not be seen as a panacea for any regional disequilibria that may arise. As Puga (2002:400) notes from EU experience, “Despite large regional policy expenditures, regional inequalities in Europe have not narrowed substantially over the last two decades, and by some measures have even widened.” Puga goes on to note that regional (though not national) inequalities have risen and unemployment has become increasingly polarised. This should be taken as a warning to be very cautious in designing CSME regional policies, particularly since given the fiscal positions of even the larger CARICOM economies, the region cannot afford to commit resources without the highest possible confidence of success. Thus rigorous analysis of where the potential for polarisation lies is crucial in order to ensure the design of appropriate and efficient polices to guard against this eventuality.

SECTION IV

Proposed methodological approach to assessing the risk of polarisation in the CSME

As we have seen in the previous section reviewing mechanisms aimed at countering polarisation in the EU, regional policy is often premised on the idea that poorer, less developed countries are integrating with richer, more developed ones. Since, for example, in the view of the EU the infrastructure gap between its member states is one of the main causes of regional inequalities it follows that what is needed is physical infrastructure and human resource development in order to set the groundwork to bring the poorer, less developed regions up to the level of their richer, more developed counterparts (note however that income increases in the EU are really targeted via productive sector support, i.e. industrial policy). This premise is reflected in the design of European regional policy and the structural funds. This basic scenario is similar in some developing country integration schemes as well, such as SADC, with South Africa (and to a less extent

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17 It should be noted though there were long transition periods for some sensitive areas such as some agricultural products and implementation of free movement of labour
Zimbabwe and Botswana) being the richer more developed ‘core’ countries while the other poorer less developed members lie on the ‘periphery’ (such as Malawi and Lesotho). But is this the case in the CSME? First, comparisons of basic economic indicators between different member states in different integration schemes such as the EU and SADC with the CARICOM show that the differences between member states within each of these schemes follow a different pattern than in CARICOM. In most other integration schemes core countries are characterised by higher per capita incomes; however, this is not always the case in CARICOM, where the ‘peripheral’ economies are often characterised more by their economic development prospects than lower levels of income or human development. It is this disparity in intra-regional development prospects more so than the disparities in intra-regional incomes that forms the basis of concerns of economic polarisation within CSME and thus is the primary assumption of this analysis.

Since mechanisms aimed at countering polarisation effects in schemes outside of the Caribbean are premised on many of these aforementioned structural differences such as infrastructure quality and skill levels, as well as other factors such as production for large captive domestic markets in the EU or NAFTA versus production for international markets in CSME, its stands to reason that in the CSME agglomeration forces may manifest themselves in completely different ways, and hence may require a different set of compensatory mechanisms based on radically different assumptions. As such, the methodology for exploring some of the potential geographic effects that might occur in the CSME is explored below.

The methodology suggested in this paper employs three spheres of analysis, the productive sector (i.e. the firm, broadly defined), the state, and the social sector (the latter is intended to broadly encompass the household, the individual, etc; it is meant to capture the potential effects on people in the purest sense). The order in which they are examined is based on an assumption of the direction of linkages which might be expected to play out with the implementation of CSME i.e. first effects of industrial relocation may first be observed at the level of the firm, and then have effects on the state and the social sector. However, this approach does not in any way aim to suggest that this is the only direction of causation that might be observed. Indeed, in reality the effects will almost certainly occur in a very organic manner, simultaneously affecting different sectors in complex interlinked ways. However, in the interest of analytic simplicity this particular approach is employed.

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18 One plausible example might be found in a comparison between Jamaica and Antigua and Barbuda. In Jamaica, per capita incomes are low by regional standards, but Jamaica is generally expected to be a ‘winner’ in CSME, attracting productive sector activity in manufacturing, services and agriculture (based on a number of factors such as relatively large internal market size, low labour costs, specific natural resources, etc). On the other hand Antigua and Barbuda currently enjoys relatively high per capita incomes but concerns about potential polarisation abound due to underlying structural constraints characterised by its relatively narrow productive base.

19 In fact, I would strongly encourage other analyses that use radically different assumptions, for example, using the social sector focal point in more sophisticated ways.
Overall, the aim of this analysis is to determine where economic activity might locate given the full implementation of the CSME and whether spatial relocation might induce convergence or divergence of incomes and development in CSME member states. Further, it endeavours to critically address the political-economy question of which member-states’ societies might benefit and lose from changes in the economic geography of CSME and how such a process might manifest.

The Productive Sector
As mentioned above, the analysis begins by examining potential agglomeration effects from the perspective of the productive sector in the CSME, based on the assumption that this is the primary area that economic activity is centred.\(^{20}\) Again it’s worth stressing that profit-maximising firms are only expected to relocate in search of efficiency gains, so overall spatial relocation is positive for the region. The theoretical frameworks outlined in section 2 suggest that economic activity (and hence some firms) may relocate geographically with increased economic integration, but this immediately begs the question of which types of firms may move and why?

Jovanovic (2001:6) reminds us that geographic location of firms is an imperfect markets issue, since the zero transport cost assumption of perfect markets means that firms could be located anywhere and be of any size while operating in any market with no cost disadvantage. Since firms in imperfect (i.e. real-world) markets attempt to maximise profit while simultaneously minimising costs, several factors become crucial, such as:

- availability, substitutability and prices of inputs (raw materials, energy and labour);
- cost of market access (trade cost);
- returns to scale;
- input-output production links;
- competition and market structure;
- location decisions of other competing or supplying firms;
- earlier sunk costs in other locations (not yet depreciated);
- externalities;
- technology and the speed of its change;
- local R&D resources and capabilities;
- brain drain (and brain gain);
- utility costs;
- infrastructure;
- government policy ([dis]incentives: taxes, subsidies, public procurement);
- transport costs of inputs and outputs;
- cost of the project;
- availability of investment funds;
- retirement patterns (Ibid).

\(^{20}\) It should be noted explicitly though that in the Caribbean the state sector accounts for a very high proportion of economic activity and so the usual assumption of the private sector being synonymous with the productive sector and dominating the economic landscape might not hold. As such, state involvement in the productive sector is also discussed in this subsection.
In order to examine this issue, an understanding of which types of economic activity may relocate, where in CSME they might relocate to and why is essential. For example, a common expectation is that many manufacturing firms may relocate to Trinidad and Tobago. But even if this is so what might such a decision to relocate be based upon? Simple comparisons of factor costs, utility costs (electricity, water), availability, quality and cost of industrial space in CARICOM member states can begin to give some insights into this question, though it is an issue that requires deep examination. Further, consideration must be given to whether growth and failure might be concentrated spatially i.e. take place in the same country or region within a country. In order to facilitate this analysis, some of the potential effects on the three main productive sectors, manufacturing, services and agriculture are explored below.

Manufacturing Sector
This is perhaps the area most analysts and pundits think of first when considering spatial agglomeration effects, not just in the Caribbean but in other integrations schemes as well. For example, prior to the implementation of NAFTA labour groups in the United States and Canada were extremely concerned about potentially massive losses of manufacturing jobs as production moved south to Mexico to take advantage of drastically lower labour costs. These fears may not have been completely unfounded as there is evidence that some relocation has occurred, for example with the creation of new industrial complexes directly across the Mexican-US border (no doubt to limit shipping costs to the lucrative northern markets). However, it is also the case that NAFTA has not led to the destruction of manufacturing industries in the US or Canada on the scale suggested by Ross Perot’s infamous ‘sucking sound’ prediction made during the 1992 US Presidential Campaign.

What has proven to be important in integration schemes such as NAFTA and the EU, and will prove similarly critical in CSME, is specifically determining what types of manufacturing activities are most likely to relocate. For instance, the NEG framework suggests that IRS industries are most likely to be subject to agglomeration forces, so that provides a useful starting point. As discussed in section II, it is IRS, not comparative advantage, which is the driving force of spatial concentration of economic activity in the

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21 An area which might serve as a guide in examining this question is cross-border mergers and acquisitions which have already been taking place ahead of implementation of CSME. Determining questions such as what factors have spurred this M&A activity? What industries have been most greatly affected? What firms have been the purchasers and what firms the have been bought out? Where are these firms located? What have been the outcomes i.e. have firms been closed or incorporated into bigger operations? These might provide insight to questions of patterns of location and which firms may fail and which may grow as a result of CSME (see for example Farrell (2003)).

22 An important assumption of this analysis is that IRS activities might not just limited to the manufacturing sector, as is often the common assumption, but might include services (for example this is becoming more and more apparent in the rapidly consolidating financial sector, even in the Caribbean) and in some cases even the agricultural sector, though this has traditionally and perhaps simplistically been considered a constant returns to scale sector even though clearly there are efficiency gains to be made in large-scale agriculture, depending on the crop (an example might be the sugar industry, which is particularly important in the CARICOM context and relevant given the current issues with international competitiveness of many national producers).
NEG model. As such, based on the NEG assumptions, it is primarily industries that exhibit IRS that will be affected.\textsuperscript{23} But specifically which industries are these? Empirical work by Midelfart-Knarvik, et al (2000) suggests that manufacturing industries such as industrial chemicals, petroleum, textiles, plastics, iron and steel, machinery and transport equipment are most prone to IRS. Their findings are backed by Amiti’s (1998) findings regarding firms that have relocated within the EU (see also EU (1998)). The question then becomes which of these types of industries exist in the region and where are they located now, as this of course must form the basis of any prediction regarding the CSME.

Further, it is important to consider other industries and sectors which are critical to the CSME, both from the standpoint of income (measured by contribution to GDP) as well as employment, and by extension social stability. Critical amongst these are state-owned enterprises, small and medium sized enterprises (SMMEs), micro enterprises and the informal economy. As with most developing countries these are critical to the overall health and functioning of national economies. Though many of the imported frameworks such as the NEG do not solely focus on large scale enterprises (Krugman’s (1991a) discussion of clustering in Silicon Valley as well as the well-known specialisation example of rug-making in Michigan are good examples), incorporating state enterprises and the informal sector may pose a greater challenge. Innovative and CSME-relevant analytic techniques will be necessary to incorporate them into the analysis, particularly given the data limitations that abound.

Finally, it is imperative that context is also added to the potential influence of the factors listed above. For example, while free movement of capital might equalise capital costs across the region fairly quickly and smoothly,\textsuperscript{24} labour costs will doubtless be much more rigid, particularly semi- and unskilled labour, and hence adjustment will certainly be more messy. However, as outlined above simple comparisons of the factors such as labour costs, utility prices, and rental of workspace across the region could assist in determining where economic activity might be centred.\textsuperscript{25} Consideration of other aforementioned factors such as levels of technology and value-added will likely also important not only when considering the effects of agglomeration forces but also critical from the standpoint of devising regional industrial policy.

\textit{Service Sector}
For most CSME member-states, services, primarily tourism, is the most important sector in terms of contribution to GDP (though not necessarily in terms of employment or social stability). Whereas it might be difficult to envision CSME-related agglomeration effects in tourism based on the assumption that it is a natural resource based industry, this might

\textsuperscript{23} However, this is \textit{not} to say that only IRS industries will be subject to agglomeration forces, or further, may relocate for other reasons. One quick example can be found in industries which support IRS industries which may relocate due to clustering effects i.e. suppliers might make strategic decisions to relocate based on factors unique to their own business.

\textsuperscript{24} Of course, exchange rate and other country-specific risk factors will come into play in determining real interest rates.

\textsuperscript{25} Much of this data is available from the ILO, national labour ministries as well as a number of studies which have been carried out in the region.
not hold for other services such as financial services, wholesale and retail trade, transportation, information and communication technologies (ICT) and where scale economies clearly exist. Individual analysis of these areas within the CSME is necessary in order to make a more definitive prediction. For example, given the importance of the financial sector to the region and the increased consolidation and cross-border mergers and acquisitions within the industry that has been occurring both regionally and globally, it will be important to ascertain what types of effects are occurring, why and how. The increasing use of technology in the industry and its contribution to regional financial sector transformation is also critical, particularly when considering the benefits of increased efficiency along with the potential costs of lower employment.\(^{26}\)

Agglomeration of financial sector activity was a large concern in the EU with many fearing the lure of London and Frankfurt as financial poles. It is not unforeseeable that similar concerns might arise in the CSME, depending on specific developments such as the potential creation of a single regional stock exchange. Wholesale and retail trade and transportation are also large contributors to income of CARICOM member states and could certainly be deeply affected by CSME and agglomeration forces that may arise. Particularly given the contribution to employment of these sectors and the political implications that follow, it is critical that rigorous and specific analysis be employed in these sectors as well to determine the potential geographic effects that might arise.

Concern must also be given to new industries which are critical to the diversification of production in the region such as ICT, though of course the novelty and promise of electronic industries for developing countries is that it allows information to be “unbundled from its physical carrier” (Clarke, 2003:1) thus potentially lowering barriers to entry for poorer nations, with implications for the spatial location of information-based activities. However, while this allows much for much greater scope in the location of such activities as compared to more ‘traditional’ activities based on physical production factors it does not mean that for the so called ‘knowledge economy’ geography no longer matters. Spatial agglomeration in these areas may well be determined as much by industrial policy (due to the heavy capital and technology requirements) as by ‘natural’ clustering based on efficiency gains and technology spillovers (the development of the DigiPark in Montego-Bay, Jamaica and the active pursuit of foreign investors to occupy it is a good regional example; Silicon Valley in the US and Hyderabad in India are excellent global examples from both an industrialised and developing country). With ICT activities the real goal for developing countries such as those in the CSME is to ensure a constant progression up the value-added chain to avoid being permanently trapped in low-value, low-return activities based on cheap labour such as call centres. This is a challenge that will be difficult to overcome without savvy industrial policies.

\(^{26}\) The introduction of internet banking and its effect on employment in the commercial banking sector which dominated the regional financial services sector is a good example. The effects on the industry are already known from experience in the United States, and can currently be observed in some parts of the region Jamaica and Barbados with the introduction of the service by several local commercial banks.
Agricultural Sector

As previously mentioned, just as the manufacturing sector is perhaps the area where most attention regarding polarisation has been concentrated, the agricultural sector is the area that tends to receive the least consideration. In fact, oftentimes it is completely ignored, mostly because of the standard assumption of constant returns to scale (CRS). However, this analysis recognises that regional economic integration has also has potential implications for the agricultural sector, many of which concern spatial relocation, and as such this sector merits examination.

Land is the most important factor of production in agriculture and is obviously immobile. However, in the context of free movement of labour and capital as well as the rights of establishment and national treatment, and given the fact that traditional agricultural production in most regional member states is no longer globally competitive, it seems possible that cross-border shifts in the location of large-scale production of some agricultural products could occur. For example, sugar production in most CARICOM countries is hardly competitive within the ACP, much less compared with the more efficient producers in Australia, Brazil, Cuba and India.\(^{27}\) CARICOM sugar production costs average US$335/ton versus US$340/ton in Africa and US$266/ton in the Pacific. However, CARICOM production costs are not evenly distributed, for example Guyana and perhaps Belize have the potential to achieve international competitiveness in sugar.\(^{28}\) (McIntyre, 2001:4)

Given this situation it is not inconceivable that geographical shifts in agricultural production might occur, with capital and even labour (skilled and unskilled) from sugar operations in decline elsewhere in the region moving to areas in the region where international competitiveness can be maintained. Certainly there is a long history of this type of labour movement in the region, and one would think it could only become easier with the appropriate policy and institutional support. In fact, there is some evidence that this has already been occurring in the region. This might not necessarily spell the end of major agricultural production in the less competitive CARICOM countries, but rather may simply spur a shift into new areas of production, especially if directed by shrewd regional agricultural policy. Given the political sensitivity of agriculture in most CARICOM countries, particularly large employers such as sugar and bananas, it is critical that a feasible long-term solution is found. Again, this is an area that requires significant study and analysis to predict potential effects and design appropriate policy responses.

Closing note on the productive sector

Finally, as a closing note to the consideration of spatial agglomeration effects arising in the productive sector, it is absolutely imperative to note that no CSME analysis can be

\(^{27}\) It is worth noting though that sugar production in some other countries does benefit from government subsidies, though they might be indirect, such as subsidies to the Brazilian sugar industry to support ethanol production.

\(^{28}\) Note however that this weakness appears to be confined only to traditional crops and not to the industry as a whole. For example, new investments in bananas as well as non-traditional crops such as citrus and aquaculture have seen Belize return to positive total factor productivity growth in the 1990s (McIntyre, 2001:4).
conducted in isolation from consideration of economic globalisation in general, and FTAA, ACP-EU and WTO processes specifically. This is to say that geographic effects are coming out of the ongoing process of global economic integration that the entire region is being affected by. While CARICOM member states have been deeply integrated into the global economy since the beginning of their modern economic history the specific influences that will affect them given the recent rapid increase in the pace of global economic integration must be explicitly incorporated in a CSME analysis.

The State
The effects of spatial relocation of economic activity on the state can perhaps be divided into two broad areas – impacts on inflows to the state such as taxes, fees and other government charges, and the impact on outflows from the state i.e. the government’s ability to finance its own expenditure. Continuing with the methodology outlined at the beginning of this section, the most immediate and direct implication of the relocation of firms might have on the state may involve the tax implications of ‘departing’ and ‘arriving’ firms. The possibility for a massive loss of corporate tax revenue could pose a serious challenge for some member states, though of course a loss to one state is a concurrent gain to another, so the overall tax effect is at minimum neutral across the region. This potential impact can however be estimated by ascertaining which firms are most likely to be influenced by agglomeration forces and then determining their level of contribution to total state tax revenue. Since this information should be available at a national level the execution of such analysis should not pose an insurmountable challenge. There are other direct tax implications of relocating firms, however, such as loss of import taxes, particularly from firms that depend heavily on imported inputs such as raw materials and machinery, as well as loss of VAT revenue on goods and services used by the firm, including inputs such as energy and other utilities.

A secondary tax revenue impact stems from the loss of employment if firms relocate, whether employees are laid off or whether some relocate with the firm. The state suffers a loss of personal income tax revenue as well as loss of VAT on goods and services purchased by ex-employees as purchasing power declines amongst those who remain in the country but are unemployed, as well as from those who leave the country altogether. There are also implications for import taxes on personal goods that these persons import as well though these will likely be much less significant than those associated with the firms’ imports. Again, data should be available at the national level making it possible to estimate these effects and determine empirically how great a concern they pose.

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29 In this analysis geographical effects on state enterprises are discussed in the section on the productive sector. For analytic clarity and simplicity the ‘tax and spend’ aspect of the state is considered in this and the following sections, with the states’ ability to employ policy and participate productively in the economy being discussed in the earlier section.

30 This impact could be tempered by the fact that some CSME member-states do not currently enforce corporate taxation. Further, the to the extent that firms relocate as they seek greater efficiency and profits, overall tax intakes by regional governments may well increase.

31 It should be noted that the analysis has explicitly focussed on the ‘loser’ countries without detailed consideration of potential effects on ‘winners’. Whereas this is in line with the paper’s focus on polarisation it should be noted that while this analysis recognises that many firms could potentially relocate outside of the CSME as part of the wider process of global economic integration (some firms already have
A third level of tax effects might concern property taxes, perhaps not so much from declining property tax revenue as firms and individuals depart or lose their source of income, but rather from a decline or collapse in property values (with implications for the financial sector, and then by extension the state in its role of ensuring financial stability such as FINSAC in Jamaica). This effect will likely be much more difficult to disentangle and is also likely to be far less immediate, however, it has potential long-term ramifications for state income.32

Finally, all of these potential effects would be occurring within the context of a general decline in trade tax revenue as tariffs are reduced in accordance with CARICOM, FTAA and WTO schedules. This is critical given the heavy trade tax dependence of almost all CARICOM member states, especially the OECS, and the effect this has already been having on member states’ fiscal positions. The most important ramification of these potential fiscal difficulties is of course on the ability of the state to maintain its expenditure, particularly in order to satisfy its social obligations, a critical issue which is examined in greater detail below.

The Social Sphere

This is, of course, the most important area of all, for in the final analysis what we are most concerned about are the effects polarisation might have on CARICOM citizens. Given the organisation of the analysis thus far which began with potential impacts on firms, the employment effects of the agglomeration of economic activity perhaps provide the most logical starting point when considering potential effects on the social sector.

As mentioned in the previous section on the state, the relocation of firms due to CSME will likely have serious employment consequences. Whereas some employees will certainly move with their firm, particularly those who are most integral to the firm’s operational success, it is unlikely that all would be required to, or may even want to. This has two implications: perhaps the most immediate concerns those who may become unemployed and the impact this will have on their lives and on the lives of their dependents. In an environment where other firms may be relocating and hence employment opportunities within the country may be shrinking their situation could become critical. Note that this may well be occurring at a time when the state’s ability to provide social protection for its affected citizenry as well as infrastructure to attract new firms may be weakened by the erosion of its own revenue base. With all these compounding factors in mind it is easy to see how the situation could become critical. Of course, if it’s the case that the economy is creating new jobs at similar pace to losing them then this concern might well be allayed.

production bases in Latin America, for example), since this paper focuses on the geographical effects generated by CSME it is assumed that these effects are largely confined to the economic grouping and so the employment and tax benefits that they provide are still captured within CARICOM.

32 It is worth noting that if this type of effect were to occur there are other implications, such as impact on financial sector strength if property values fall, given the link between property values and most financial institutions’ asset base.
The second implication is for employees who might move with their firm. Whereas they might be deemed fortunate for keeping their job there are clear and potentially serious social implications of their relocation to what essentially would be a foreign country, even though they are remaining within the region. There are issues that they will have to deal with as individuals in acclimatising to their new social environment as well as implications for their families, who may either remain in country away from the family member who has departed or who might relocate as well and so face the same challenged stemming from being uprooted from their home country. Further, it is likely that issues might arise in the host country amongst its own citizenry regarding the influx of new migrants and how they are perceived and treated. From a policy standpoint innovative measures will certainly have to be devised to manage such as process and assist with any social dislocation that may arise both in countries affected by departing firms as well as those which become new hosts.  

In order to design adequate policy responses it will become necessary to ascertain precisely which people are most likely to be affected and how. It will almost certainly become necessary to incorporate social factors such as class and gender into the analysis in order to most accurately make these determinations. For example, in considering which employees are likely to move with their firm and which are likely to stay skill levels will undoubtedly play a key role. Assuming a link between class and skill levels gives insight to what effects might occur. This might be exacerbated by the current rules of CSME which only provide allowance for the free movement of skilled labour. Though there will undoubtedly be movement of unskilled labour as well, whether sanctioned by CSME or not, these distinctions are certain to prove critical in analysis of potential effects and design of accommodating policies. These issues underline the need for accurate and up-to-date of labour force data in the Caribbean and the need for a regional database. Indeed, as the implementation of CSME continues the need to accurately determine whom and where the skilled and unskilled persons are will certainly prove to be indispensable to policymakers.

Gender differences provide another critical element of the analysis. In a more traditional analysis where men are assumed to be the primary income generators in the household one might assume that men would be more likely to migrate along with firms. In this view women and children would be more likely to be left behind or if they accompanied the male breadwinner to be doing so purely because of his employment situation. However, such a view is clearly outdated in modern Caribbean society where women fully participate at all levels of the workforce. Further, given the fact that girls appear to

33 While it seem easy to dismiss these concerns given the long history of intra-regional migration in the Caribbean and the similar cultural heritage, there is cause for special concern given the rapid changes that are likely to take place in a relatively short period of time as well as the challenges which may be posed by culturally and linguistically different members such as Suriname and Haiti. Policymakers will have to be alert to the possibility of xenophobic reactions to movement of persons in CSME and the social and political threats it poses to the success of CSME. One reaction already being heard in public forums concerns pressure new immigrants might place on the host countries social services. However, many of these fears are largely unfounded since, for example, presumably these new immigrants would be working and paying taxes to the host government hence paying for whatever social services (health, education, etc) they or their families might access.
have been outperforming boys in the classroom at all levels of education in the Caribbean for some time now, it is likely that this pattern will continue in the workforce. Hence it becomes necessary to consider the implications of women relocating with their firms and male partners being left behind, as it were, perhaps with the children. Or, if the entire family moves with the female breadwinner, the potential social implications of unemployed men moving with children and searching for employment in the new host country require thorough thought and analysis. Finally, so far we have assumed a nuclear two-parent family but clearly in the Caribbean context these scenarios have to be addressed in the cases of single-parent and extended family households, where either the male of female head of household may need to relocate. Further consideration must be given to situations a single household earner relocates and leaves her/his children (and other dependents) behind, for example with grandparents (often specifically grandmothers) or other relatives to be supported via remittances. The social implications of other dependents that might be left behind such as the sick or the elderly who require care also merits analysis. This situation drives home the need for detailed examination on the gender implications of polarisation, and indeed of regional integration more broadly. It also similarly underscores the need for adequate gender disaggregated data in order to support such analysis and ensure effective policy creation.

There even more issues to be addressed. For instance the overall implications of increased brain gain/drain that is likely to result from such intra-regional migratory flows must be considered in light of the long-term development of the affected member-states (though again in this CSME analysis we assume that the region’s overall human resources levels are maintained). Alongside this issue must also be considered the social implications of higher unemployment and the attendant social ills that might follow, including various forms of violent crime and increased drug trafficking, particularly given the increased importance of most CSME member states as links in the global narcotics trade. Again this must be viewed in the context of a state which might be increasingly weakened by the loss of tax revenue as discussed in the previous section meaning unemployment in ‘polarised’ countries may rise while the state simultaneously loses its ability to provide social services and social protection.

Finally, there may be serious HIV/AIDS implications of this expected increase in intra-regional migration both for core and peripheral countries. The Caribbean has the 2\textsuperscript{nd} highest prevalence rate in the world after Sub-Saharan Africa, and HIV/AIDS has spread outside of high-risk groups to the general population in Barbados, the Bahamas, Guyana and Haiti. Global experience such as that from Southern Africa regarding the importance of migratory flows in the spread of the virus presents a stark warning to the Caribbean. The HIV/AIDS implications cannot be viewed as being limited to either core or peripheral countries, but must be viewed as a regional issue. Again, there are serious gender implications as well as the spread of HIV/AIDS is not gender blind – women are biologically more vulnerable to the virus and social realities increase this vulnerability based on gendered power imbalances. Concerns cannot merely be limited to the spread

\[^{34}\text{Of course there is already a strong and long-established culture of this in the Caribbean with male and female migration especially to the US, Canada, and UK but also intra-regional migration particularly to Barbados and Trinidad and Tobago.}\]
of the virus, but also to the care and treatment of persons living with HIV/AIDS both from the standpoint of the social cost of such care (family members staying home to treat sick relatives) as well as the cost to the state of declining national and regional productivity and the increased burden on the health care sector.

SECTION V

Conclusions
This paper has attempted to discuss some of the issues surrounding the polarisation of economic activity that could potentially arise in CARICOM with the implementation of CSME. As noted at the outset, it is intended to be a first step in encouraging discussion of this critical issue and attempts to identify specific areas where deeper research and analysis is needed. Perhaps the most important conclusions from this working paper must assess the question of prioritisation. That is, in what order the various issues outlined above (as well as the many others which are sure to arise) should be addressed in the context of limited financial resources and human capacity, especially in the most vulnerable member countries, as well as often-shaky political will and commitment. A number of these areas have been pointed out in the paper that might provide a guide in continuing the research that has been outlined. The next steps involve more data compilation to determine whether the assumptions upon which the analysis thus far has been based are sound and then to use this data to conduct deeper, more rigorous analysis in the many areas that it are required. Ultimately however, sound, clever and imaginative policies which are implementable and which will ensure egalitarian outcomes from the CSME for all CARICOM citizens.
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