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**PROGRESS MADE IN THE IMPLEMENTATION OF  
THE CARICOM SINGLE MARKET AND ECONOMY**

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## **PROGRESS MADE IN THE IMPLEMENTATION OF THE CARICOM SINGLE MARKET AND ECONOMY**

Inertia, the inclination to stay in the comfort zone is a characteristic feature of most institutions. This has been no less so for the Caribbean Community (CARICOM). The history of CARICOM from its inception in 1973 to the Grand Anse Declaration in 1989 has been one of fits and starts. Individual country commitment to the integration process has often been linked to short-term personal advantage, rather than long-term strategic vision of the gains from the arrangement. Consequently, implementation problems prevented the region from realising the potential gains from areas such as regional production integration and the coordination of external relations.

By the 1980s, stocktaking indicated that CARICOM had performed far below expectations. If the arrangement was a second best option (full political and economic integration being first best), even the second best policy commitments such as the common external tariff (CET) had not been fully implemented. The practical expression of the sub-optimal integration process was manifested in the low and undynamic nature of intraregional trade and investment and sub-optimal coordination of foreign policies.

The CARICOM Single Market and Economy (CSME) is a wide-ranging and ambitious effort at revamping and revitalising the Treaty of Chaguramas that established CARICOM. Behind the rethinking is an awareness that even though CARICOM as an integration movement is still relevant, its structure and mode of operations were outdated and needed to be reformed to accord with the realities of the twenty-first century. The reality is that development theory and practice has undergone significant change over the last three decades. Developmentalism in the tradition of Lewis, Prebisch and others, which assigned an important role to the State in promoting industrialisation and growth with equity, even through targeted industrial policies, has given way to market fundamentalism. This new orthodoxy confines the role of governments to the provision of an enabling environment for private sector activity, regulation, public goods and social safety nets. Therefore, integration based on industrial planning and programming, the use of State export subsidies and tariff protection are deemed unacceptable in this new era.

A critical issue is to what extent does the CARICOM development model represent an open acceptance of received orthodox liberal framework based on export-led growth. Although many economists, especially in the United States and parts of Europe were quite enthusiastic about the potential of this model to lift developing countries out of poverty and underdevelopment, this orthodoxy has been questioned by many in the wake of the Asian crisis.

The evolution of CARICOM reflects continuing response to external developments. In the early period of the integration agreement, countries adopted the import substitution industrialisation model with the hope of developing a viable industrial base to absorb the surplus labour in rural agriculture and small-scale activity. But the reality was that this was driven not so much by Caribbean intellectual thought, but by the received wisdom of the day. By the 1980s, it was clear that import substitution industrialisation had failed to catalyse growth, employment and development as a whole. Protected industries were for the most part inefficient with low productivity growth, high economic rents and a vested interest in monopoly type market arrangements. More importantly, the pendulum in world economic thought had swung in favour of free markets, the roll-back of the State and liberalisation and structural adjustment programmes as vehicles for the transformation of developing countries. In the wake of these changes, CARICOM countries adopted 'open regionalism' as a framework for beneficially inserting themselves in the globalised world. Open regionalism is based on the balancing act of deepening and strengthening the regional integration framework, while simultaneously preparing for the global liberalisation process through improved competitiveness of production and exchange. This is, indeed, one of the major dilemmas confronting small island developing States (SIDS), such as those in the Caribbean.

The watershed for the new integration framework came in the 1989 Grande Anse Declaration, when the Heads of Government pledged to revitalise CARICOM by deepening and widening the integration agreement. The Grande Anse accord and the reforms that it spawned could be viewed in the context of structure, process and stage analysis. Heads of Government acknowledged that in many respects structural bottlenecks prevented the arrangement from meeting expectations. Further, the integration process was plagued by a number of weaknesses, not the least being the will and capacity to implement decisions. Finally, the stage of the integration both in terms of the progress and results of trade and functional cooperation and the institutional arrangements for galvanising the process needed to be reviewed. The Grande Anse Declaration led to the West Indian Commission, which carried out some of the most far-reaching consultations with people in the Caribbean Community on the way forward for the integration process. The Report of the Commission entitled "Time for Action" provided the blue print for revamping and revitalising the Caribbean integration process. However, a key recommendation for establishment of a Caribbean Commission as a supranational body to move the integration process forward was not adopted by Heads of Government.

This paper examines the progress in the implementation of the CSME and what this has meant for the core (trade, investment, etc.) and functional aspects (foreign policy coordination, education, health and social development, etc.) of integration. Moreover, a tentative assessment is made of the relevance of the current mode of integration in light of the opportunities and constraints of the international environment. The paper is divided into three sections. Section one provides a critical assessment of the implementation of the protocols and other aspects of the CSME. Section two evaluates the practical achievements of the integration process in terms of trade, investment and functional cooperation. The final section views the whole integration process through critical lenses to assess its relevance to the region at this juncture in its development and also in light of attempts to join other regional groupings such as the Free Trade Area of the Americas (FTAA) and World Trade Organization (WTO) obligations. In effect, does the integration process conflict with the obligations of the other processes?

## **Adjusting the CARICOM framework -The revised treaty and protocols**

The wide scope of the Revised Treaty of Chaguramas and the nine protocols attest to two problems faced by Caribbean economies' underperformance at home and vulnerability in the international environment. The revised treaty covers core technical areas and institutional requirements. These include rights of establishment, provision of services and movement of capital, movement of persons, transport policy, trade policy, competition policy and disputes settlement. The built-in agenda provides a mechanism for dealing with 'new' issues such as government procurement, electronic commerce, free zones, free circulation and rights of free movement. At the broad level, therefore, the new treaty seeks to resuscitate the older, conventional aspects of integration and to incorporate new instruments that are critical to the region's competitiveness and adjustment in the global economy, particularly areas relating to the region's vital services sector.

In assessing the progress in the implementation of the protocols, it is important to evaluate whether countries are giving effect to both the letter and the spirit of the legislation. Twelve member countries have ratified the revised treaty and only Montserrat is yet to sign. The nine protocols are in force in almost all of the countries, with Montserrat and Belize yet to sign a few. With respect to the free movement of goods, a fully liberalised regime is in place, with a few exceptions. Belize has implemented a revenue replacement duty on gasoline to offset the increased costs of fuel imports, while Guyana and Grenada have put in place an environmental levy on used vehicles and Saint Vincent and the Grenadines maintains some import licences. All these measures point to the fiscal constraints that these countries face. Therefore, although the CET has been signed into law in all countries, a number of countries, including Antigua and Barbuda, Suriname and St. Kitts and Nevis are yet to implement the fourth and final phase. These countries are particularly concerned with the adverse revenue impact of the CET given their heavy reliance on import taxes.

A critical area for the region is Protocol II on the liberalisation of trade in services. Intraregional liberalisation can be used as a springboard for developing high quality competitive services that can hold their own in the international market. Liberalisation within the CSME, therefore, provides an opportunity for learning the tricks of the trade in exporting and the development of larger, more efficient companies that can withstand foreign competition.

Importantly, CARICOM has adopted a negative list approach, similar to that proposed for the FTAA. The top down negative list regime means that countries are required to indicate which sectors and activities are excluded from coverage in the integration framework. Activities not listed are assumed a priori as included in the coverage. The advantage of the negative list approach in an integration grouping is that it allows countries at different levels of development to make commitments based on their particular needs. However, activities that are not specifically excluded are included in the list for liberalisation, and this saves time and resources in negotiating and deciphering whether these activities have been opened up. The WTO, meanwhile, has adopted a positive list approach countries which indicate what commitments they intend to make, and only these are offered up in the liberalisation process. There is therefore no a priori assumption that any sector has been liberalised. Of necessity, the negative list framework is less flexible and tends to lock in commitments. What is essential is that the framework used by CARICOM is not used as a precedent in negotiating the FTAA. Although

the negative list approach helps to lock in liberalisation in the small CARICOM economies, in the wider FTAA it might lead to CARICOM countries liberalising sectors and activities too quickly. This could prevent the region from taking a reasonable adjustment period for developing competitive niches in some of these activities.

Although the services regime has been progressively liberalised a number of restrictions remain in place. Restrictions have been removed in a number of areas including advertising services, market research and opinion polling, packaging services and environmental protection services. However, work permit requirements are still in place for persons providing these services. In relation to the General Agreement on Services (GATS), CARICOM is required to notify the WTO on the harmonised programme for the removal of restrictions to the delivery of services. The different modes of delivery face various constraints.

Protocol II has further promoted the right of establishment of companies and businesses through schedules for the removal of restrictive business practices and ensuring national treatment<sup>1</sup> for regional businesses in most countries. One failing of the right of establishment process is the lack of a regional system of company registration to facilitate harmonisation of regulation and oversight. This is now being addressed belatedly through feasibility studies. Member States are to enact model legislation governing the treatment of monopolies. In the context of creating a single financial space across the region and promoting the development of regional multinational firms, cross border companies are encouraged. Already there are 40 companies, 16 of which are from Trinidad and Tobago, the major player in the CARICOM market.

### ***Macroeconomic stability and monetary integration***

If economic growth is a cornerstone of economic development, equity and social progress, macroeconomic stability is a crucial pillar of economic growth. Caribbean governments have, in their budgets and other policy documents, underscored the vital weight that they attach to macroeconomic stability as a platform for economic growth. Also, macroeconomic coordination could bring pressure to bear on countries to maintain prudent macroeconomic policies. The CSME is also aimed at synchronising policy coordination in the macroeconomic sphere.

Macroeconomic coordination is advanced as an explicit policy goal by articles 44 and 70 of the Revised Treaty. They provide for the harmonisation of fiscal and monetary policies and ensuring a sound macroeconomic environment conducive to stable growth. The Council for Finance and Planning (COFAP) has highlighted the importance of macroeconomic coordination in regional policy-making. On the fiscal side, tax structures in the region have become more convergent over time, but there is still need for greater effort at harmonisation. Also, administration and collection procedures need to be strengthened across the region.

The Caribbean Centre for Monetary Studies (CCMS) has been attempting to assess progress towards macroeconomic convergence by monitoring core variables, including economic

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<sup>1</sup> National treatment means that a member State must accord to businesses of other member States the same treatment that it gives to its own domestic businesses.

growth, inflation and interest rates, fiscal balances and international reserves. Economic indicators point to some degree of convergence on average with respect to GDP growth rates, inflation rates and accumulation of gross international reserves, but significant divergence remains in the critical areas of exchange rates and the fiscal balances to GDP ratios. The varied exchange rate regimes across the region with countries such as Jamaica, Guyana and Trinidad and Tobago pursuing flexible regimes and the Organisation of Eastern Caribbean States (OECS), Barbados and Belize fixed mechanisms create differential exchange rate risks and transactions costs in trade across the region.

The CCMS continues to monitor the convergence process using the convergence criteria as a barometer of progress. But it is fair to say that the economic weather conditions have not been all that favourable for some countries. The eligibility criterion for monetary union, modelled on the European example, stipulates a 3-12-36-15 rule. That is, member countries are expected to maintain three months of import cover for 12 months, a stable exchange rate (within a band of 1.5% for floating regime countries) for 36 months and a debt service ratio not in excess of 15% of exports of goods and factor services. However, reflecting different structural impediments and macroeconomic management constraints, countries have varied experiences in achieving the convergence targets. Generally, countries have improved their performance in achieving the import cover and debt service criterion, but have had less success with the exchange rate criterion.

In 2001 for example, Guyana, Jamaica and Suriname failed to meet the exchange stability criterion, their exchange rates floating outside the 1.5% band. However, the average import cover of goods and non-factor services strengthened from 4.5 months in 2000 to 6.0 months in 2001. Meanwhile, the debt service obligations of the community shifted upwards by 2.0% to 9.7%, with only Guyana and Jamaica unable to meet the debt service criterion.

### ***Free movement of labour***

Free movement of labour is a sticking point in even the most advanced integration arrangements such as the European Union (EU). More developed countries in an integration grouping often fear that free labour migration would undermine the gains they have made in employment and the quality of jobs. Free movement is often seen as creating a “race to the bottom”, where lower skilled jobs are competed away from nationals leading to increased unemployment among nationals. Free movement of labour in CARICOM has been plagued by similar fears compounded by lack of systems for transferring social security, health insurance, pension and other such benefits.

Currently, free movement for the purpose of work (without work permits) is conferred on university graduates, media workers, artistes, sports persons and musicians. Efforts are now being made to accelerate the free movement of skilled persons and the CARICOM Skilled National Bill has been enacted in 11 of the member States. Further, the removal of restrictions under Protocol II now accords free movement to self-employed service providers, entrepreneurs, technical, managerial and supervisory staff. However, legislation needs to be passed in member States to give effect to this extension of free movement. This extension is critical given the need to even out the mismatch in skilled technicians and managerial personnel across the region.

Larger countries, such as Trinidad and Tobago and Jamaica, are in a surplus position relative to smaller States such as the OECS.

Notably, a mechanism for equivalency and accreditation is being implemented. National institutions have been established in Jamaica and Trinidad and Tobago and also in St. Kitts and Nevis with limited functions. This is critical, as a harmonised accreditation system is necessary for assessing work skills and competence and for employing persons based on merit. In addition, almost all member States have ratified the agreement to transfer social security benefits. When fully implemented this would eliminate a major hurdle to free movement, particularly of blue-collar workers.

### *Free movement of capital*

Under the old regime, administrative and legislative restrictions and a lack of critical mass prevented most regional firms from establishing their presence on the regional market. With the drive to create a single financial space across the region, it was anticipated that regional capital movements would be liberated to drive production and economic growth.

Capital market liberalisation is being pushed forward with the removal of remaining restrictions on the capital flows. But member States now need to give tangible expression to their commitments by legislative and administrative changes to remove restrictions. Further, attempts are being made to create a region-wide stock exchange by creating exchanges in Belize, Guyana and Suriname and facilitating cross-border trade during the different exchanges. The stock exchange is a crucial plank of capital market development as it holds the potential for creating a pool of equity finance to fund long-term development activity. Moreover, in a region where commercial banks are focused on short term, fundable lending, equity finance from other sources is vital.

The removal of restrictions on the right of establishment is also an important plank of free movement of capital. When establishment from any given member State is accorded national treatment in other States, this will enable firms to diversify their risks and seek out productive activities across the region. This process could facilitate employment growth in countries with high levels of unemployment.

A critical area relates to the operations of transnational corporations in the region. Work is now being done to assess the role and operations of these large conglomerates. However, there is need for a clear strategy on competition within these enterprises as well as on harmful practices such as transfer pricing<sup>2</sup> and price discrimination.

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<sup>2</sup> Transfer pricing is the practice by multinational corporations of setting prices of transactions to minimise tax and tariff burdens. Overstating costs in countries where taxes on profits are high, so that profits can be shifted to countries where taxes are low often does this. This practice could deprive Caribbean governments of important tax revenue.



### ***Institutional requirements and regulation***

The role of institutions, oversight and regulation in the development process has been well addressed in the economic literature. As Economics Nobel Laureate Douglas North has noted, institutions affect economic performance by determining along with technology employed the transaction and transformation (production) costs that make up the total costs of production.

CARICOM has recognised the need to embark on a programme of institutional strengthening to meet the challenges of the CSME and hemispheric integration. However, the process also includes the creation of new institutions to deal with other areas. The restructuring process is geared towards enhancing the decision-making and implementation capacity of these institutions. In 2001, the Prime Ministerial Sub-Committee on the CSME was established. The Quasi-Cabinet accorded responsibility for selected areas to different countries, for example, services to Antigua and Barbuda and external negotiations to Jamaica.

Nonetheless, the region continues to be plagued with capacity problems, particularly the OECS countries. The shortage of technical and professional personnel in many countries derails the implementation process. Moreover, the problem is exacerbated by the continual loss of skilled persons from the region to North America and Europe.

In terms of specific institutions, the Caribbean Court of Justice is an apex institution – critical to the efficient functioning of the CSME and expected to be the final appellate court for the region, replacing the Privy Council. A number of countries are yet to ratify the agreement, which gives effect to the Court. A number of steps would be required to have the court fully operational. Crucial among these are the ratification of the agreement by at least three countries, provision of adequate and stable financing and the recruitment of judges. There is also need for a strengthened and more practical public awareness campaign to sell the benefits of the court to the people of the region.

### ***External negotiations***

Given that the CSME is a response to global and hemispheric integration, a well-developed and flexible external negotiations machinery is critical to the success of the programme. The Caribbean Regional Negotiating Machinery (RNM) has been mandated to undertake external negotiations for the region. The task of the machinery is formidable as it is required to conduct negotiations in major theatres of activity with limited financial and human resources. These include the WTO, the FTAA, and the African, Caribbean, Pacific-European Union (ACP-EU) Economic Partnership Agreements (EPAs). With respect to the WTO, the RNM is striving for greater collaboration and coordination through the streamlining of operations in overseas missions.

The FTAA negotiations present a severe demand on the resources of the region. Countries find themselves simultaneously negotiating the FTAA and the EU Economic Partnership agreements. Moreover, given the demands for reciprocity and most-favoured nation (MFN), Europe might demand similar treatment to that accorded by Caribbean countries to FTAA counterparts. This could undermine the potential benefits of the EPAs as the FTAA

obligations, which are expected to be WTO-plus, might be more stringent than the EU ones. Meanwhile, the region is patently unprepared for the ACP-EU negotiations and need to commission the requisite studies to inform its position.

There is a clear need to mobilise resources both regionally and extra-regionally where these are forthcoming to build capacity in terms of human, technical and administrative resources to meaningfully participate in negotiations.

### *Competition policy*

Monopoly and oligopolistic market tendencies have long been prevalent in some activities in the region, particularly utilities for the former and banking for the latter. In this era of globalisation and liberalisation, these tendencies might be contrary to obligations under the WTO. More importantly, monopolistic markets lead to inefficiencies from lower output and higher prices and sometimes the reluctance to engage in innovation since firms have a captive market.

Intellectual property rights have taken on a whole new force with the ratification of the Trade Related Intellectual Property Rights (TRIPS) agreement. The TRIPS has reinforced and entrenched intellectual property protection and many of its clauses seem to give unwarranted protection to areas that might be crucial to production in the Caribbean. Government procurement is now a quite important policy concern given obligations stipulated under the WTO. The Revised Treaty of Chaguramas focuses on TRIPS compliance. However, for the TRIPS to be truly beneficial to the region, there is need for a regional intellectual property bureau and systems for guaranteeing protection of those activities in which the region has a comparative advantage. Important among these are indigenous plant and animal species, especially those useful for food and medicine, culture, music, art and folklore. To do this effectively would require substantial human resource training, funding for carrying out an audit of the more important species and systems for adding value to these products. Research into generic medicine is particularly critical in this respect and the region can learn much from Cuba.

CARICOM governments are taking steps to ensure that the domestic regime with regards to these areas is compatible with international obligations. However, Chapter 8 of the Revised Treaty dealing with competition policy and consumer protection has not been implemented in all member States. Member States need to put the machinery in place to implement this chapter before they are forced to undertake similar international obligations under pressure. In particular countries need to ensure that legislation in this and other areas is compatible with FTAA obligations. Countries also need to consider implementing Merger Control Regulation (MCR), as this might be imposed on them through the back door by the FTAA. In any case, the control of mergers is an important plank of a sound competitive policy as it limits the formation of monopolies and oligopolies, which often lead to higher prices and inefficient production.

### *Dispute settlement*

The harmonisation of legislation is a core feature of successful economic integration. CARICOM has moved to harmonise legislation in the area of financial services (banking, insurance and securities), to accord with international standards outlined by the Basle Committee. However, the framework for the harmonisation and coordination of company legislation needs to be put in place. As at June 2002, only Antigua and Barbuda had implemented the customs legislation. Indeed, the legislation needs to be reviewed and revamped to take account of developments in the international arena that might impinge on customs practices.

A harmonised legislative framework is an important component of a full dispute settlement system. However, there is no commercial arbitration mechanism in place in the region. Most countries have antiquated arbitration laws dating back to the labour disputes at the dawn of regional trade unions, but updated legislation is sadly missing.

### **The CSME and trade and economic performance**

Regional integration is about regional development in the widest sense. It is therefore critical to examine the impact of the CSME on intraregional production, trade and investment, functional cooperation and other aspects of development. A singular complaint that prompted the revitalisation of the integration process was the poor performance of intraregional trade, investment and production integration. The question is, has the CSME process, after a decade led to a significant revival of trade and other areas of economic performance? The evidence must speak for itself.

Intraregional trade provides classic evidence of the failure of a critical area of the integration process. Going on three decades after the establishment of CARICOM, intraregional trade remains undynamic and lopsided. CARICOM intraregional exports<sup>3</sup> of goods registered average growth of over 6% between 1990-2000. However, this increase was from a relatively low base growth rate in the 1980s.

The skewed distribution of exports was reflected in the average decline in the share of the OECS countries by 0.5%, while the larger countries posted average growth of 15.5%. The country share of intraregional exports was quite lopsided and raises questions about the need for mechanisms for improving the benefits to disadvantaged countries and regions. Trinidad and Tobago, on account of some restructuring and improved competitiveness, garnered the lion's share of the intraregional export market with over 79% of exports in 2000. In fact, the share of Trinidad and Tobago increased progressively over the decade. On the other hand, Jamaica's share declined from 14.8% in 1990 to 3.5% in 2000.

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<sup>3</sup> CARICOM trade data suffers from incomplete series for Antigua and Barbuda, Guyana and Suriname, and issues of classification and valuation. Nevertheless, the data provided a fair assessment of intraregional flows.

**Table 1:**  
**Value of CARICOM'S Intra-regional Exports by Country 1990-2000 (EC \$ millions)**

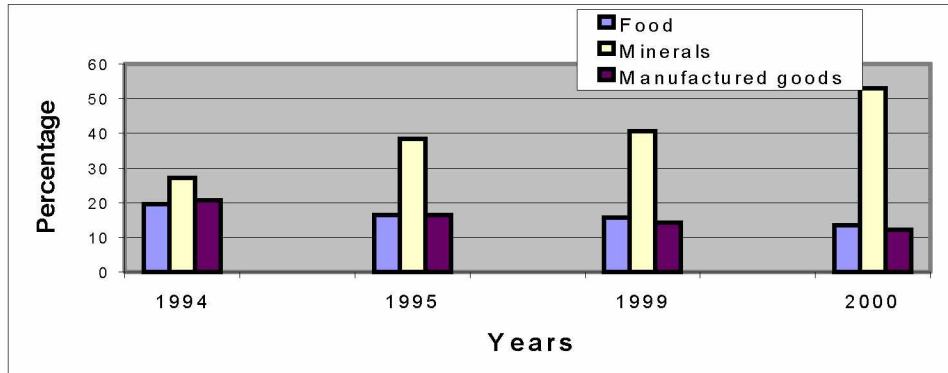
|                         | 1990          | 1991          | 1992          | 1993          | 1994          | 1995          | 1996          | 1997          | 1998          | 1999          | 2000          | Av.<br>1990-00 | Av.grth<br>1990-00 |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|--------------------|
| <b>OECS</b>             | <b>232.1</b>  | <b>217.5</b>  | <b>220.8</b>  | <b>210.2</b>  | <b>197.0</b>  | <b>198.3</b>  | <b>181.2</b>  | <b>198.4</b>  | <b>216.9</b>  | <b>240.2</b>  | <b>216.7</b>  | <b>31.6</b>    | <b>-0.5</b>        |
| Antigua & Barbuda       | 29.5          | 28.7          | 21.1          | 11.8          | 9.0           | ...           | ...           | ...           | ...           | 22.1          | ...           | 20.4           | -24.2              |
| Dominica                | 37.5          | 38.1          | 42.7          | 40.3          | 47.0          | 51.5          | 64.5          | 72.1          | 91.4          | 83.4          | 82.9          | 59.2           | 8.9                |
| Grenada                 | 18.7          | 22.4          | 16.7          | 19.0          | 16.8          | 17.1          | 15.6          | 24.0          | 27.5          | 27.7          | 32.5          | 21.6           | 7.6                |
| Montserrat              | 1.6           | 1.1           | 2.3           | 2.2           | 1.6           | 1.9           | 2.5           | ...           | ...           | 2.2           | 0.4           | 1.8            | 2.1                |
| St. Kitts/Nevis         | 9.7           | 9.2           | 8.4           | 8.9           | 7.8           | 5.8           | 2.4           | 3.8           | 3.8           | 3.1           | 7.3           | 6.4            | 7.1                |
| St. Lucia               | 58.6          | 50.2          | 42.2          | 56.0          | 39.5          | 47.0          | 28.8          | 26.6          | 28.4          | 33.0          | 31.0          | 40.1           | -3.8               |
| St. Vincent/Grenadines  | 76.5          | 67.8          | 87.4          | 72.0          | 75.3          | 75.0          | 67.4          | 71.9          | 65.8          | 68.7          | 62.6          | 71.9           | -1.2               |
|                         |               |               |               |               |               |               |               |               |               |               |               |                |                    |
| <b>Non-OECS CARICOM</b> | <b>1350.4</b> | <b>1192.4</b> | <b>1028.1</b> | <b>1237.3</b> | <b>1528.4</b> | <b>2076.7</b> | <b>2181.8</b> | <b>2437.6</b> | <b>2568.0</b> | <b>2718.7</b> | <b>3105.5</b> | <b>2076.8</b>  | <b>15.5</b>        |
| Barbados                | 178.1         | 182.9         | 176.3         | 190.7         | 172.7         | 241.4         | 271.6         | 270.3         | 296.1         | 314.8         | 318.2         | 237.6          | 6.7                |
| Belize                  | 231.1         | 194.0         | 16.4          | 13.1          | 13.5          | 14.8          | 12.7          | 20.2          | 31.1          | 26.9          | 24.3          | 54.4           | -3.9               |
| Guyan                   | 36.5          | ...           | ...           | ...           | ...           | ...           | ...           | 152.8         | 135.0         | 146.6         | ...           | 117.7          | -1.5               |
| Jamaica                 | 190.2         | 170.3         | 162.1         | 161.6         | 156.7         | 159.3         | 143.7         | 124.1         | 117.6         | 113.3         | 131.2         | 148.2          | -2.6               |
| Suriname                | ...           | ...           | ...           | ...           | ...           | 31.5          | 63.8          | 99.2          | ...           | 145.9         | ...           | 85.1           | 79.0               |
| Trinidad/Tobago         | 714.5         | 645.2         | 673.3         | 871.9         | 1185.5        | 1629.7        | 1690.0        | 1771.0        | 1988.2        | 1971.2        | 2631.8        | 1433.8         | 15.1               |
|                         |               |               |               |               |               |               |               |               |               |               |               |                |                    |
| <b>CARICOM</b>          | <b>1582.5</b> | <b>1409.9</b> | <b>1248.9</b> | <b>1447.5</b> | <b>1725.4</b> | <b>2275.0</b> | <b>2363.0</b> | <b>2636.0</b> | <b>2784.9</b> | <b>2958.9</b> | <b>3322.2</b> | <b>2108.4</b>  | <b>6.9</b>         |

The product classification of intraregional exports mirrors the same stagnant trend. Traditional products such as minerals and fuels, food products and basic manufactured goods continue to dominate commodity exports, underscoring the limited specialisation in higher value goods such as electronics and pharmaceuticals, for example. Minerals and fuels, exported by Trinidad and Tobago, almost doubled their share of the market from 27% in 1994 to 53% in 2000. The share of manufactured goods, however, has almost been halved to 12.2% of intraregional exports. This is indicative of the failure of the expectations that the regional market could be used to drive the industrialisation process in the region. Moreover, not even in the production and trade in relatively basic food products could the region hold its own, as market share in this section declined from about 19% in 1994 to 13% in 2000 (*see Figures 1 and 2 below*).

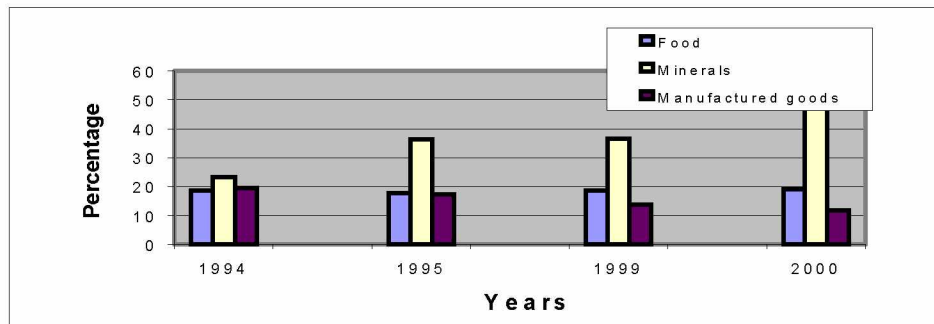
The majority of CARICOM countries seem to have their comparative advantage in services rather than goods. Indeed, in a real sense, with the exception of Trinidad and Tobago, these countries seem to have leap-frogged from the production of primary products to services. Hence, there has been a tertiarisation of the economy without any effective industrialisation in these countries. In fact, services account for roughly 60% of the GDP of CARICOM States as a whole but for the OECS countries the figure is as high as 86%. In addition, services grew on

average by 3% during the 1990s, compared with growth of 1% for the goods sector. In addition, services contribute importantly to employment in the region. The contribution for a group of countries during the 1990s, ranged from 81% of the employed population for the Bahamas to 55% for Saint Lucia.

**Figure 1: CARICOM exports by main SITC sections 1994-2000**



**Figure 2: CARICOM imports by main SITC sections 1994-2000**



In spite of this, intraregional trade in services has been quite limited. The fact is that this trade has been constrained by barriers to trade, especially commercial presence and movement of natural persons, poor incentive structures and the external orientation of the trade. Until recent years, cross-border investment in services has been marginal. However, in the latter part of the 1990s, cross-border investment posted noticeable growth with a number of mergers and acquisitions, especially in the financial services sector. But even here, there has been significant asymmetry both in terms of sectors and countries, in that financial institutions from Trinidad and Tobago have dominated the process. Moreover, there has been little activity in the high value added equity capital segment of the market that is conducive to productive activity.

Protocol II aims to accelerate intraregional trade in services by promoting the liberalisation of trade in services, the right of establishment of regional firms and the free

movement of capital. Although this protocol is now in force, with the right of establishment provision and a negative list approach to liberalisation of trade in services, there is need for harmonisation of business legislation, a well functioning payments and settlement system and better communication networks to further boost intraregional investment in services.

Apart from galvanising intraregional trade, investment and cooperation, the CSME is also aimed at providing a fillip to extraregional trade and competitiveness. Nevertheless, CARICOM's merchandise exports performance was quite weak during the 1980s. Total exports declined on average by 2.5% per year between 1981 and 1990. Weak competitiveness adversely affected exports to major markets, particularly the United States and the European Union. Exports to the United States averaged US\$1660.9 million per year and contracted by 3.7% per year over the decade. Also, exports to the European Union declined by 1% per year for the decade, in spite of the preferences accorded to sugar, bananas, rum and other products. A number of CARICOM producers were faced with the unenviable position of being unable to meet their quotas for these products, even when prices were well above world market prices.

CARICOM's total merchandise exports recovered in the 1990s to grow by over 14%. However, it must be noted that this growth was from a low base and, as such, aggregate exports still remained relatively small. Exports to the United States market registered average growth of 17%, while for the European Union exports grew by about 13%.

CARICOM's merchandise trade as a percentage of world trade averaged a mere 0.13% of total world trade. The region's exports to the world market averaged 0.12% of the world total, while total imports averaged 0.15%. The vulnerability of the region is indicated by the fact that an average of about 44% of regional exports went to the North American market alone. Additionally, the European Union accounted for an average of about 20% of CARICOM exports. Therefore the expected diversification of exports by products and markets has not materialised.

Only Trinidad and Tobago has broken the overall lack of dynamism in CARICOM's export performance to any material degree. Notably, even traditional primary products that have benefited from preferences have exhibited poor competitiveness and export market penetration. This seems to be due as much to the failure to eliminate supply side bottlenecks as to the inherent limitations of a system based on preferences such as market capture by inefficient producers.

### **A roadmap forward for the CSME**

Any strategy for the future development of the CSME must consider both what its rationale is in terms of Caribbean integration and development and potential areas of conflict or synergy with other hemispheric or international integration systems or obligations. Rethinking in this area calls for a careful assessment of roles and functions of different institutions and systems within the integration process. Institutions and processes must be streamlined and rationalised to prevent duplication of function and wastage of resources.

### *A development strategy*

The CSME framework seems to suffer from a conceptual weakness in that while the specialised components, for example, trade liberalisation and the legislative framework are relatively clearly articulated, the CSME lacks an overall indigenous development paradigm to guide the process. Such a development model would have provided an overarching framework to assess the internal consistency and progressiveness of individual policies. The region seems to have accepted the stock open-regionalism model, without any tangible modification to match its special circumstances of size, resource constraint, vulnerability and external dependence.

It seems that in its rejection of the import-substitution model and its embrace of open-regionalism based on export-led growth and liberal market policies, the region has swung from one extreme to another. There has been no clear synthesis in trying to adopt the strengths of both models of development. Whereas import-substitution placed too much faith in the domestic market and import replacement, export-led growth places too much faith in external markets as the avenue for liberating growth and employment. Practical realities point to the need to strike a balance between these two approaches.

An integrated development strategy must eliminate the imbalances in access to technology, finance, labour and other drivers of production, between output for domestic consumption and output for export. For instance, with the inordinate focus on production for export in recent times, crucial areas of production for the local market, especially in agriculture, handicrafts and small scale manufacturing has been neglected. Therefore, the region is faced with the anomaly of the bulk of its food supply and handicraft demand in the tourism sector being met by foreign imports. This in no small way undermines the potential foreign exchange and employment gains from the sector. Further, domestic food security remains a crucial issue that would be made only too evident by a major war. The CSME needs to take advantage of the growing health consciousness worldwide to liberate the production and trade in locally produced, organic foods.

Another weakness of the current development model is persistent lack of effective synergies between the sectors for domestic use and those for export. The expectation that the integration process would have promoted linkages between these sectors has not materialised in any significant way. The new integration strategy (CSME) needs to provide incentives for backward and forward linkages between the domestic, import-competing and the export based activities. Incentives could be provided through regionally arranged equity finance and training to strengthen domestic supplier networks for export-based activities and the creation of channels for mutual learning between the sectors. Indeed, in Trinidad and Tobago, some of the improvement of domestic supplier networks for the petrochemical sector has increased value added and employment. Until the integration process can replicate such clusters on a much larger scale, economic dualism, which undermines the potential for learning and intersectoral value added would continue to constrain the development process in the region.

An effective development model for the region must make the necessary exceptions from the standard open-regionalism model to create the vision for indigenous development. Critical in this area is deciding the appropriate pace of liberalisation in different sectors. Tariff

liberalisation under the CET needs to be supported by arrangements to ease the burden on the OECS and other economies that are highly dependent on import duties for public sector revenue. There is clear need for rethinking of the pace of liberalisation both in the region and at the international level. The fact is that trade and financial sector liberalisation are not ends in themselves, but means to unlocking demand constraints. As such, these processes can only be effective if they are carried out with sensitivity to the structure of domestic economies and external demand.

The received wisdom of the International Financial Institutions (IFIs) that liberalisation is inherently good must be dispensed with. In many instances, liberalisation is undertaken with the hope of generating exports without the concomitant elimination of supply side bottlenecks. As Europe has shown, integration needs to be backed by an indigenous model based on a region's conception of development. Europe, for instance, has developed more of a welfare State model, which tries to hold the balance right between growth, employment and social welfare, and flexibility and competitiveness. In fact, in a Eurobarometer survey in 1998, fighting unemployment was rated the highest priority objective with 92%. Caribbean countries confronted with a development deficit, need to modify received economic models where they conflict with major policy objectives such as the generation of high quality employment, structural transformation to promote competitiveness and reducing economic dependence on foreign multinational corporations as drivers of output and exchange.

### *Other issues*

Apart from the development issue, there is a need for a critical reevaluation of the rationale for Caribbean integration as it was originally conceptualised. Havelock Brewster has noted that first best or optimal economic integration and functional cooperation should be based on three principles. These are regional commons, regional public goods and regional resource complementarity. Regional commons relates to regional commonly shared goods or 'bads' including sea, airspace and weather. Regional public goods are characterised by non-rivalry and non-excludability in consumption and so would only be provided if provided regionally; these include regional social infrastructure such as advanced technology, transportation and social security. Finally, regional resource complementarity refers to a combination of resources that is beyond the capacity of single countries to exploit and unlikely to be exploited except at the regional level. These include regional food from arable land and diversified financial services.

The world economic environment today indicates that some aspects of the integration strategy are now outdated, such as large-scale import substitution. Other issues, including the imperative for competitiveness of regional goods and services have now taken centre stage and could be deemed a crucial regional public good. Achieving competitiveness is a multifaceted process, which involves some activities that are best implemented at the regional level. Competitiveness must be based on the structural transformation of regional systems of production and exchange to reduce costs and improve the quality of goods and services. The CSME needs to be transformed into a system for action in the sourcing of those aspects of technology and human resource development which are regional public goods. For example, regional standards bureaus and International Organization for Standardization (ISO) certification for small firms might have to be funded from public resources, and training in new Information



and Communications Technology (ICT) might have to be partly funded by the public sector. It is critical that missing markets are not allowed to constrain the development of these activities that are vital to the achievement of a competitive regional economy.

There is a clear need to redress the balance in favour of measures that are geared towards unstopping supply side bottlenecks rather than demand side liberalisation measures. Indeed, it must be asked, is it ideal to have open markets and no goods to trade in them. Although liberalisation provides benefits through cheaper and better quality products, this must be balanced by production for export – the supply aspect.

The different areas of production-traditional agriculture, manufacturing and services must have restructuring programmes that are tailored to their needs. For traditional agriculture-sugar, bananas and rice, CSME policy makers need to evaluate what the future holds for these activities, particularly in light of the plan to end EU preferences in the near future. There is a clear need for restructuring or even exit strategy from the most stagnant areas of traditional activities such as sugar and bananas. The strategy should focus on maintaining niche activities in these sectors that can be competitive, for example, organically grown bananas. Moreover, any extension of preferences should be seen as a period for strengthening productivity, efficiency and rationalising production in the niche areas.

Although production integration has met with little success, there is still need for regional planning and coordination of production in areas of potential complementarities. The regional competitiveness programme must carry out a careful diagnostic assessment of the different areas of potential comparative advantage in goods and services and come up with a strategy for advancing those areas with greatest potential. In addition, regional research and development needs to build on the work already being done at the University and technical institutes in the area of improved food varieties and the production of generic medicinal products. Also, both formal and informal channels for the sharing of experiences in the areas of product development and marketing should be strengthened, especially by using information technology. Critically, sustainable restructuring must be based on improved linkages between the State and the private sector. Neither purely market nor statist approaches are adequate for the task.

Regional manufacturing has for the most part been unsuccessful. However, manufacturing, especially the more labour-intensive activities such as apparel and furniture and production of electronic items holds the potential for reducing unemployment and improving the welfare of significant numbers of workers. This suggests the need for a refocused strategy in the CSME to catalyse manufacturing production and productivity. A regional manufacturing strategy must address a number of bottlenecks. These include limited innovation and value added in the sector on average. There is scope for improved coordination in the purchasing of technology and equipment and for sharing know-how and experiences in similar areas of production. Importantly, the regional bureaux of standard must work towards harmonised quality management in the production of similar products across the region. In effect to propel manufacturing exports, the region must develop a reputation for high quality products and good customer service.

The comparative advantage of a number of countries in the region, such as the Bahamas and some members of the OECS, lies in the area of services. Indeed, in the balance of payments of the region, the services surplus offsets the merchandise deficit. However, in spite of its substantial contribution to GDP and net exports, services have not realised their full potential. In fact, only in recent times has there been any important regional cross border services transactions, with the spate of mergers and acquisitions in the financial sector. But even here, the process has been driven largely by financial institutions from Trinidad and Tobago.<sup>4</sup> The challenge is for other countries in the CSME to develop strong and dynamic services sectors that are capable of engaging in vibrant investment in the region.

The strategy for services also needs to focus on revitalising stagnant activities such as some aspects of stay-over tourism and optimising benefits from other sectors such as information and communications technology, financial services, educational and health services. Also, service providers in the domestic distribution sector, which have been an important contributor to GDP, need to improve their efficiency and ability to compete with foreign players. Tourism, for instance, has been faced with competitiveness and product innovation problems that have led to some stagnation in the sector in a number of countries. The CSME strategy for the sector needs to posit creative ways to enhance product quality, cost efficiency and product differentiation in the sector. A region-wide strategy for creating a “Brand Caribbean” which incorporates the peculiar features of the services and culture of individual countries could be a useful marketing strategy.

With respect to the “newer services” such as information and communications technology, Caribbean policy makers have acknowledged their importance to the development process in the region. CARICOM has commissioned a number of strategic studies to assess the requirements for the progressive development of the ICT sector. The strategy involves developing relatively high value added segments of ICT including software products, hardware components and other services and using ICT as a catalyst for improved productivity and efficiency in the delivery of domestic and tradable services. In fact, it is recognised that one of the greatest possibilities of ICT is its potential for liberating productivity growth in stagnant services such as tourism, financial services and especially public services. The ICT strategy should seek to intensify the diffusion of computers and internet technologies, for example, internet usage in the Caribbean is quite low compared with North America. Also, high priority needs to be given to effective competition in telecommunications by opening up the market to competitors and human resource development through training and continuous learning.

Investment is critical to production and exchange; however, it is sensitive to economies of scale and protective barriers that raise transactions cost. Intraregional investment (both quantity and quality) has grown in recent years, but most firms are still not large enough to compete with large foreign multinational corporations (MNCs). The CSME is probably a last chance to catalyse intraregional investment and facilitate growth in the size of regional firms as a springboard for extraregional investment. The CSME should move quickly to remove the remaining technical and institutional and legislative barriers to investment. This must be supported by incentives to encourage joint undertakings by regional firms to bid for larger

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<sup>4</sup> Republic Bank of Trinidad and Tobago and Royal Bank of Trinidad and Tobago have acquired interests in banks and other financial institutions in a number of countries in the region.

projects in the region. Equity and venture capital institutions should be promoted to provide adequate term financing for larger, long-term productive activity. Regional firms need to maximise their advantage in terms of knowledge of domestic conditions to capture segments in the market for tourism, financial services, ICT and other activities. Foreign direct investment (FDI) would continue to play an important role in production and trade, but FDI is more than foreign ownership of productive entities since it has important implications for domestic control over the economy and the direction of development process. Domestic investors must be encouraged to take the leading role in the economy with FDI providing a supporting role, especially in activities that are too large or beyond the scope of domestic firms. This would require policy incentives, training and other measures to enhance entrepreneurship and to facilitate mergers in sectors where economies of scale are critical to efficient production.

Given the potential of budget deficits to constrain spending on vital infrastructure and to crowd out private sector investment, fiscal consolidation and harmonisation are essential for the region. The harmonisation of tax systems in the region is critical for removing distortions, improving transparency for businesses, thereby fostering the free movement of capital. Member countries need to move speedily to remove remaining discriminatory fiscal charges including environmental levies and inspection fees. Specifically, those countries in the OECS that have abolished personal income tax might need to reintroduce this tax since it is progressive and the CET will erode their revenue base that is built on border taxes.

The increasing movement towards supranational bodies such as the WTO means that the scope for individual countries to influence economic relations with other countries is much constrained. This underscores the importance of regional institutions to pool resources and to enhance bargaining power in international negotiations. CARICOM, to its credit has recognised the need for joint negotiations and has established the CARICOM Regional Negotiating Machinery (CRNM) to undertake the task. However, the CRNM has not been properly outfitted to effectively undertake the challenging task that it faces. In the first place, the CRNM must have the degree of autonomy in decision-making with appropriate safeguards and oversight to enable it to carry out its task efficiently. Secondly, the financial and technical resources that are available to the body are inadequate for the task. There is need for clearer priority and goal setting and allocation of resources according to these priorities and objectives. Moreover, it is imperative that performance benchmarks are instituted to assess the success of the negotiating process. Indicators of success could include the extent of the synergy between producers and information provided by the agency on market access for various products in different markets and securing greater market access for regional goods and services, generally. In this light, the CRNM needs to establish adequate information databanks and proper market research facilities. The core technical expertise also needs to be upgraded and the RNM should form better alliances with regional research institutions to carry out practical studies to inform the negotiation process.

A special note is needed on the issue of uniform external negotiations strategy. Although a common approach is imperative in critical areas that could affect trade and development in the region as a whole, in other areas such as negotiations of specific products with particular countries, a uniform approach might not be necessary. For example, Trinidad and Tobago has negotiated trade agreements with Costa Rica and other Latin American countries that reflect the peculiarities of its petrochemical-based production structure. These types of agreements do not

really detract from the critical aspects of common negotiations. In fact, they might be needed to give due weight to the different pace of development and production structures in the region.

Nonetheless, CARICOM must be mindful of signing multiple agreements that do not really foster trade and leverage in economic relations. The reality is that the resource capacity to negotiate and implement many agreements is simply lacking in the region. The reality is that different rules of origin, external tariff structures, trade and non-trade rules and obligations could make for conflict of interests in a zero sum manner. Indeed, the fact that CARICOM is negotiating a number of major agreements simultaneously puts an even greater strain on human, technical and financial resources.

With respect to specific agreements, the post-Lomé (Cotonou) process, the FTAA and the WTO processes are most important. The contours of the post-Lomé process have been largely set with the Cotonou Partnership Agreement. However, contrary to the avowed view of the EU, CARICOM needs to bargain for a united approach in dealing with ACP countries. Also, negotiations must focus on the greater importance of market access and non-reciprocity that promotes development rather than social and political governance. This is not to underestimate the importance of governance in the development process, but the EU probably focuses too much on governance. Further, the likely reduction of financing under Cotonou for productive activities means that CARICOM countries will have to use any such resources to accelerate the restructuring of agriculture, industry and services to engender competitive output.

The proposed FTAA poses a major challenge for CARICOM. The wide scope and complexity of the negotiations will present a major strain on regional resources. But more importantly, one must be concerned as to whether the present structure of the FTAA holds much real benefit for CARICOM. The real issue pertains to whether the FTAA will provide production, consumption and dynamic optimising benefits to the Caribbean countries. Clearly without measures to boost competitive production and trade, the Caribbean will only benefit in a tangible way from consumption gains in the form of cheaper and better quality goods and services. This is unacceptable.

CARICOM has been working to have the special needs and vulnerabilities of smaller economies to be recognised as grounds for derogations and technical assistance. Fortunately, the United States has now conceded that special and differential treatment is necessary for Caribbean countries to gain from the FTAA process. CARICOM needs to be proactive in designing a framework that any special and differential treatment could take. This might provide the region with some bargaining space in negotiations in this area. In this respect, the region could learn from its own experience with the lesser developed members and that of the EU special programmes for disadvantaged countries and regions. Special and differential treatment could include technical assistance and capacity building for reinvigorating systems of production, assistance with negotiations and possibly financing for some critical development activities.

The WTO process is an overarching frame of reference for the CSME since it is the usual benchmark for other trade arrangements. Therefore, integration agreements are deemed to be either WTO plus or minus, according to whether obligations exceed or are less than WTO requirements. Liberalisation under the WTO holds the potential for locking in arbitration and

dispute settlement rules to prevent unilateralism by powerful members such the United States and the EU. Nonetheless, the WTO provides no cornucopia recipe for the favourable integration of developing countries into the world economy. Given the scarcity of resources, the real question for countries, such as CARICOM, is what priority they should accord to implementing WTO obligations, compared with economic restructuring and institutional reform to accelerate development. The CSME needs to take a two-pronged approach to the WTO. In the first place, governments and the private sector in the region should prepare themselves for the further liberalisation that is a part of the process. This should entail strategic targets for liberalisation of those sectors and activities in which the region is most competitive.

Secondly, the region must prepare itself to benefit optimally from the Doha Development Round. The Doha process makes provision for capacity building, technology transfer and technical assistance. CARICOM needs to devise its own strategy position for influencing the direction of these measures that can benefit the region. Technical assistance in relation to compliance requirements in the area of GATS, TRIPS and other areas is critical. For example, estimates put the cost for a typical developing country of fully implementing the WTO agreements on customs valuation, sanitary and phytosanitary measures (SPS) and intellectual property rights at around US\$150 million. It is no surprise that this figure is beyond the means of most CARICOM countries.

## **Conclusion**

The CSME is an implicit acceptance by CARICOM governments that regional integration has not met expectations in terms of trade, investment, functional cooperation and external relations. But more than this, however, governments recognised that CARICOM in its earlier mode was fast being overtaken by changes in the global economy. Important among these changes were the intensification of liberalisation of goods, services and capital markets, the entrenchment of supranational regulatory bodies, such as the WTO, and decidedly unfavourable moves away from special and differential treatment and preferences by developed countries in the trade relations with developing countries. Of signal importance also has been the inexorable drive towards competitiveness as a major determinant of trade performance and employment in the tradable sector.

The CSME has undertaken to respond to these challenges and threats and to find opportunities by deepening and widening regional integration as a launch pad for intraregional and extraregional competitiveness. With a clear focus on reinvigorating both technical and institutional aspects of the integration framework, the Treaty of Chaguramas has been revamped; nine protocols are being implemented to give effect to both traditional and newer aspects of the integration process. Critical among these Protocols are II and IV dealing with cross-border rights of establishment of businesses, free movement of services, capital and goods and Protocols VIII and IX which deal with newer issues relating to fair competition, consumer protection and dispute settlement. Although it is not fully up to par as yet, CARICOM has strengthened its implementation mechanism and there has been progress in tariff harmonisation under the CET, free movement of factors-labour, capital, competition policy, dispute settlement, external negotiations and other areas.

It must always be remembered that regional integration is concerned with sustainable and equitable development in the region. The CSME must therefore be anchored in an integrated development strategy that strikes a balance between integration in the world economy and indigenous approaches to development that maintain a fair degree of local control of production and exchange and decision-making. This requires definite and selective interventions by governments to adapt technology and improve human resources and management to strengthen productivity in goods and services. Underdeveloped markets or even missing markets in a number of areas provide a rationale for State intervention. There is also a need for a clearer ordering of priorities within the CSME, since only some activities can be undertaken. The revitalisation and development of new activities in services needs to be given high priority, especially activities that can generate decent quality employment.

In the international arena, CARICOM should intensify efforts to get special and differential treatment that is tailored to its needs. This could include more favourable access to Organization for Economic Cooperation and Development (OECD) markets and capacity building, financing and technical assistance to implement ISO standards. Joint action with other developing countries is also required to pressure the United States and the EU to reduce export subsidies and other trade barriers under the United States Farm Bill and the EU Common Agricultural Policy (CAP).

Caribbean policy makers and peoples need to entrench the integration process under the CSME and pool negotiation resources in collaboration with other developing countries to ensure that the WTO and other institutions are more responsive to the need for individual countries to have more control over their development paths. The GATS allows OECD countries to open markets for utilities for the MNCs in developing countries, while severe restrictions remain on the movement of labour from which poorer countries can benefit from labour migration.

Generally, the CSME must be seen as a vision for Caribbean development built on a platform of strong competitiveness of production systems, vibrant and flexible supporting institutions and enhanced capacity to negotiate favourable arrangements in the international arena. This requires a clear conception of means and ends, with individual policies and strategies in harmony with the overall vision.

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