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

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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that even though CARICOM as an integration movement is still relevant, its structure and mode of operations were outdated and needed to be reformed to accord with the realities of the twenty-first century.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 treatment¹ 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

¹ 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

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