

Caribbean Perspectives on Trade, Regional Integration and Strategic Global Repositioning

Final report

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List of abbreviations

ACP	African, Caribbean, Pacific (states)
ACS	Association of Caribbean States
CAIC	Caribbean Association of Industry and Commerce
CARIBCAN	Caribbean Canada trade agreement
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CARTAC	Caribbean Regional Technical Assistance Centre
CBI	Caribbean Basin Agreement
CBTPA	Caribbean Basin Trade Partnership Act
CCJ	Caribbean Court of Justice
CCM	Caribbean Co-ordinating Mechanism
CCPD	CARICOM Capacity Development Programme
CDB	Caribbean Development Bank
CDE	Centre for the Development of Enterprise
CEF	Caribbean Employers Federation
CET	Common External Tariff
CHTA	Caribbean Hotel and Tourist Association
CIDA	Canadian International Development Agency
CMO	Caribbean Maritime Organisation
COTED	Council for Trade and Economic Development
COFCOR	Council for Foreign Trade and Community Relations
COFAP	Council for Finance and Planning
COHSOD	Council for Human and Social Development
CPEC	Caribbean Regional HRD Programme for Export Competitiveness
CROSQ	Caribbean Regional Organisation for Standards and Quality
CRSS	Caribbean Regional Support Strategy
CSME	Caribbean Single Market and Economy
CTO	Caribbean Tourist Organisation
DFID	Department for International Development
DR	Dominican Republic
EBA	Everything But Arms
FDI	Foreign Direct Investment
EBAS	EU/ACP Business Assistance Scheme
EC	European Commission
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
ECTEL	Eastern Caribbean Telecommunication Authority

FTA	Free Trade Agreement
FTAA	Free Trade Agreement of the Americas
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HACCP	Hazard Analysis Critical Control Point
HIV/AIDS	Human Immuno Deficiency Virus/Acquired Immuno Deficiency Syndrome
HDI	Human Development Index
HOG	Heads of Governments
IDB	Inter American Development Bank
ILO	International labour Organisation
IMF	International Monetary Fund
IT	Information Technology
LDC	Less Developed Country
MFN	Most Favoured Nation
NAFTA	North American Free Trade Area
NAO	National Authorising Officer
NG	Negotiation Group
NGO	Non Government Organisation
NTB	Non Trade Barrier
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
OTC	Overseas Community Territory
RNM	Regional Negotiation Machinery
SDT	Special and Differential Treatment
SME	Small and Medium Enterprises
SPS	Sanitary and Phyto-Sanitary
TBT	Technical Barrier to Trade
TNC	Trade negotiation Committees
TRIMS	Trade Related Investment Measures
TRIPS	Trade Related Intellectual Property rights
UG	University of Guyana
UNDP	United Nations Development Programme
UNECLAC	United Nations Economic Commission for Latin America and the Caribbean
UWI	University of the West Indies
VAT	Value Added Tax
WIRSPA	West Indian Rum and Spirits Producers Association
WTO	World Trade Organisation

Executive summary

External Trade Negotiations

The Caribbean region is committed to participate fully in the worldwide globalisation and trade liberalisation process. In this context, the region is involved in a number of trade negotiations, the three largest being those for the Doha Development Round in the context of the WTO, the negotiations for a Free Trade Agreement of the Americas (FTAA) and the negotiations for an Economic Partnership Agreement (EPA) with the EU. The greatest effort is now going into the FTAA negotiations, mainly because these negotiations are already in progress and are very demanding in terms of meetings and preparatory work. In addition, most trade of the region is with the Americas, and therefore a focus on the FTAA negotiations seems logical.

The negotiations cover a broad range of issues: trade in goods, trade in services, intellectual property rights, and also some new issues like competition law, investment, government procurement, and labour and environmental standards in trade. The Caribbean is concentrating on increasing market access in services, because the gains the region can make in this area will be the principal source of future development (see the part on global repositioning). Furthermore, the Caribbean negotiators aim at getting recognition for their particular problems through longer transition periods to allow for repositioning and adjustment. These transition periods are essential for the region because of its historical dependence on a few products (bananas, sugar, rice and now also tourism) and its high dependency on tariff revenues. Time and financial resources are fundamental requirements for diversifying production and exports and restructuring the fiscal system.

Strategy

Clearly, the Caribbean countries would benefit from an overarching trade policy that would inform all their trade negotiations, maintain consistency between negotiating strategies in different fora, and, ultimately, provide the best trade regime obtainable in light of its development goals. There is no such agreed development plan at present, however, it is recommended that this should be taken up in the near future.

Given the small size and economic importance of the region and its component states, it is important that the Caribbean countries speak with one voice at the negotiations and form strategic alliances with other countries to strengthen their bargaining position. This will allow the region to make some trade-offs, notably by offering reciprocal trade liberalisation and agreeing to rules in new areas in return for development assistance directed towards new or emerging export sectors and extended transition periods for full liberalisation of selected

imports. These alliances can vary by subject and by negotiating forum. As there are many different options, the kind of alliances and trade-offs are difficult to foresee.

In the FTAA negotiations the region focuses on forming strategic alliances with like-minded groups in Latin America. On issues relating to small countries, the region will clearly look for support from Central American countries. The Caribbean and Central American countries, except Cuba, all receive preferences under the Caribbean Basin Initiative (CBI) from the US. The current beneficiaries of this group could therefore argue that on the grounds of “differences in size and level of development”, they should have Special and Differential Treatment (SDT) in the form of easier rules of origin, longer transition periods, technical assistance, and so on. Regarding rules on new issues, they will look for support from Central America and other developing countries. Furthermore, individual countries in the region will try to form alliances with countries with common interests over particular issues as they come up, for example an alliance of developing country oil-producers (Mexico, Venezuela and Trinidad), or simply because one country or group is prepared to support the Caribbean over, say, competition, in return for the Caribbean supporting it over, say, labour standards. The FTAA negotiations are all-or-nothing negotiations, and small countries start from a weak bargaining position. Their markets are often too small to be of great significance to other players. To a large extent they have to depend on the good will and desire for inclusiveness of the United States and Canada. Their only serious, but implicit, counter-threat is that they will become even more worrying as a key element in the illegal drugs trade.

In the EU-ACP negotiations, the region will in the first instance want a period of all ACP-EU negotiations covering cross-cutting issues (phase 1) and probably opt for an all ACP-EU EPA (phase 2) if that is negotiable, thus forming a pan-ACP alliance. If an all ACP-EU EPA were not feasible, because other ACP regions did not want to pursue it, or if it was recognised that all or some Cotonou objectives can be better achieved at regional level, the region should negotiate an EPA with the EU. An attractive aspect of the EPA is that it includes development finance- an important difference with the FTAA. The region will therefore aim for an important development component and support for promising sectors. Trade relations with the EU are likely to remain limited in comparison to those with the rest of the Western Hemisphere. The region will try to obtain trade preferences for goods and temporary derogations in the case of services and new issues, in return for gradually introducing reciprocity in the trade relations. As the EPAs are to be WTO-compatible as agreed in the Cotonou Agreement, “substantially all the trade” between partners should be liberalised under article XXIV of the GATT 1994, implying reciprocal preferences on a wide range of products. It should however be mentioned that the degree of liberalisation should not be the same on both sides, so that the special needs of the Caribbean can be taken into account. In contrast to the FTAA negotiations, the ACP-EU negotiations are not all-or-nothing negotiations. The Cotonou Agreement provides for the possibility for the EC, in 2004, to assess the situation of countries which, after consultations with the EC, decide that they are not in a position to enter into EPAs. All alternative possibilities will then be examined. The only alternative which has been mooted so far is the Generalised System of Preference (GSP) of the EU, but this includes all of Caribbean’s developing-country competitors. The GSP may hardly present an attractive package itself.

In the WTO, alliances will also be formed, depending on the issue discussed and the practicability. There is already an active Caribbean group in Geneva pursuing SDT for small vulnerable states. The ACP countries will have a role to play as a group in the clarification and improvement of article XXIV of the WTO. They may seek, in particular, to require that liberalisation is broadly inclusive so that, in an EPA, the EU cannot effectively seal off most of its agricultural and processed food sectors from competition from its partners. Developing countries as a group could address such issues as longer transition periods for reducing export subsidies, and remaining implementation issues from the last round such as TRIPS and the elimination of quotas on clothing.

The sequencing of the different negotiations is an important issue for the Caribbean. The Cotonou agreement between the EU and ACP countries requires that all preferential market access arrangements given to another developed country by an ACP State must also be given to the EU. Therefore, by the time that the second phase of the ACP-EU negotiations start, the Caribbean countries may have committed themselves to a detailed timetable on various negotiating issues with the FTAA. A suggestion made to circumvent this problem is that the region asks their FTAA partners for a moratorium on the opening up of markets to Canada and the United States to obviate their simultaneous opening to the EU.

Institutional issues

There are a number of weaknesses on the institutional side. The RNM was set up to coordinate the negotiating process, but at this moment the accountability question of the RNM does not seem to be fully resolved. The RNM lacks the capacity to report to COTED as often as might be wished. The RNM also suffers from the lack of formal input –in the form of detailed negotiating mandates- of national governments, which do not have the resources to frequently attend or provide inputs to COTED meetings or those of its technical committees. As a result, the precise source and details of negotiating positions are hard to pin down.

Serious consideration should be given to making the RNM the sole negotiator for the region. This would provide a possibility for pooling expertise and resources. In addition, this would force member states to take the reporting and mandating system seriously. It would help to solve the accountability question of the RNM.

Capacity building is very important, both at the regional and national level. Capacity building has to take place in three areas: in the area of research in order to develop an informed negotiating position (including data collection), in the area of negotiating techniques, and in the area of implementation of trade agreements. Until this capacity building has taken place, the region should hire researchers, advisors and even negotiators with technical expertise from outside the region. It is of utmost urgency to build up the strength of the RNM from its complement of about ten persons in advance of the opening of the EU-ACP negotiations.

While the importance of dialogue with the private sector is fully accepted by all parties, the implementation of this dialogue is far from straightforward. The private sector should be regularly represented at part of COTED's regular, and hopefully more frequent, meetings with the RNM. In general, information to the public (private sector, NGOs and the wider

public) about the trade agenda should be improved. The public is currently often unaware of what is happening in the area of trade and of how this will affect them.

Regional integration in the Caribbean: the CSME

The Caribbean Single Market and Economy (CSME), established in 1992, was conceived as an instrument geared towards enhancing economic development of CARICOM member states. It was anticipated that through the CSME, CARICOM would be better positioned to increase both intra and extra regional trade, to attract investment and to negotiate critical external trade and investment agreements in an increasingly competitive global economy.

Currently, views among both private and public sector officials in the region range from significant enthusiastic support for the CSME as a mechanism for improving the ability and readiness of the region to integrate into the global economy, to indifference on the grounds that when the region joins the FTAA, CSME will arrived at by default.

It is clear that there are significant advantages to actively pursue the implementation of the CSME in anticipation of entering in wider integration arrangements. Notwithstanding that intra-regional trade has remained modest, the CSME has resulted in an increase of this trade. The CSME is also contributing to increased cross-border investments by companies in the region. Furthermore, the FTAA negotiations are unlikely to result in free movement of services and labour to the same extent as envisaged under the CSME. Achieving free movement of services and labour under the CSME is also important, because it could be difficult for the region to negotiate with the other FTAA members or the EU in favour of greater labour mobility under mode 4 of the GATS if highly qualified individuals from one Caribbean state are prevented from working in another. In general, the liberalisation and harmonisation efforts achieved under the CSME can provide the region with a stronger bargaining position in external negotiations and facilitate the adjustments needed in implementing the requirements of external trade agreements. Therefore, rather than pursuing the default option with respect to the CSME it is desirable to establish priorities with respect to implementing policy reforms in legislation and the establishment of regional institutions in the context of wider liberalisation. Based on these aims the following priority areas for CSME implementation can be identified:

- completion of the common market, with free movement of goods, services, people and capital within a common external tariff;
- elaboration of national and sectoral policy planning frameworks in support of productive transformation to ensure competitiveness based on comparative advantage and optimal use of the internal market;
- support to the private sector through institutional strengthening, entrepreneurship development and appropriate frameworks for investment incentives.
- The establishment of the CCJ;
- legislation concerning competition policy, consumer rights, commercial arbitration, intellectual property rights, standards, and government procurement;

Important issues in the area of trade in goods are to phase out remaining quantitative restrictions, and improve efficiency in the implementation of agreed customs rules and procedures. In services, timely implementation of the agreed phasing out of restrictions needs to be pursued. Regarding the free movement of capital, major constraints are the existing alien land holding legislation and differences in exchange regimes. Other important issues to be addressed include free circulation, e-commerce and government procurement. With respect to new regional institutions being planned, such as the standards bureau and a competition authority, financing issues need to be addressed, as well as relations with similar institutions at national level and the commitment at national level to submit to rulings by these institutions. The establishment of the CCJ as a regional dispute settlement mechanism is important. An assessment is needed of the demand for its services in order to determine its size and financing requirements.

In order to augment the advantages of regional integration CARICOM has recently been seeking to expand regional economic integration within the Caribbean by adding Haiti as a member of CARICOM and concluding free trade agreements with the Dominican Republic (DR) and Cuba. These agreements deal not only with trade in goods, but also cover services and investment. Through these arrangements, the regional free trade market has expanded significantly. In particular, the FTA with DR offers considerable scope for expanding trade and investment with CARICOM countries and also offers a conduit for Caribbean investors to target the Central and Latin American market with which the DR has FTAs. With respect to both Haiti and Cuba, there is especially scope for increasing revenue from tourism (multiple destinations), and for exchanges in technology.

Global repositioning in the Caribbean: outlook and support measures

While economic theory explains that a country as a whole will gain from liberalisation in the long run, in the short term adjustment and economic restructuring will be necessary: sectors that are heavily protected are likely to contract, and sectors in which countries in the region have a comparative advantage will expand. These challenges posed by liberalisation cannot only be addressed by conventional economic policy. Rather, countries need a development strategy aimed at strategic global repositioning. An integral part of global repositioning is export diversification and continuous adjustments in product mixes. In the Caribbean, the focus of a global repositioning strategy should be on knowledge based business development, with particular emphasis on service sectors. The agriculture and manufacturing sectors will be most threatened by increased international competition and will need substantial restructuring in order to become competitive.

Global repositioning at the sectoral level

Agriculture

In agriculture, the region has relied on special agricultural regimes for bananas, sugar, rum and rice from the EU. However, most of the earlier tariff-quota preferences or guaranteed price-quotas have been or will be wound down. For bananas, there will soon be tariff-only preferences for the ACP countries, and the special regime for rice is already limited to a tariff-preference. However, preferential access for bananas and rice –vis-à-vis non-ACP

producers- could be continued through an FTA agreement with the EU. Since tariffs in agriculture are expected to be reduced across the board in the Doha Development Round, however, the margins are likely to decrease. The region is at present not internationally competitive in these traditional products and contraction needs to be expected. However, the implementation of ongoing and planned restructuring programmes holds some promise for improving competitiveness and sustaining part of production. These structural transformation efforts should address issues related to improving production and processing efficiencies, developing specialty products, and active marketing programmes. For example, Belize has the potential of becoming internationally competitive in bananas and sugar, and Guyana and some estates in Jamaica may be able to compete in sugar on the world market. In rice, there are opportunities to sustain exports through specialisation in certain varieties, e.g. the export of organic rice to the EU, and through diversifying markets.

Food processing industries may gain from liberalisation, because they will have access to cheaper inputs. In the past these industries have faced negative effective protection through the relatively high cost of local raw materials as a result of preferences at export markets for traditional agricultural products and high protection at local markets for other products (e.g. fruits and vegetables). Opportunities may therefore arise in the production of commodities like banana chips, beverages using local sugar, or in the processing of fruits and vegetables.

Other opportunities may lie in finding niche markets. In recent years, for example, the fisheries sector has increased in importance in several Caribbean countries, and this sector has a strong export orientation. There is also scope for expanding the export of coffee in Jamaica and fruits like tangerines, other citrus products, mangoes and papayas. Also some countries have been successful in diversifying into selected root crops for ethnic markets in the USA, Canada and Europe. Effective marketing is required to strengthen the competitive position of the Caribbean in agriculture, both in terms of market diversification and branding. A successful case of Caribbean branding is that of rum.

Manufacturing

Manufacturing is only important for a few countries in the Caribbean region. Within CARICOM, Trinidad and Jamaica account for the major part of manufacturing exports, mainly resource based products (petrochemicals and alumina), garments, agro-based products, as well as some consumer goods and packaging products. The Dominican Republic is also an important exporter of garments. In the other countries in the region, the share of manufacturing in exports is relatively low. The problems in manufacturing are similar to those in agriculture. In the case of garments, preferences in the US are likely to be eroded when the enhanced CBI comes to an end in 2005. Already Jamaica's garments exports have been declining over the past few years and also in the Dominican Republic garment export growth is tapering off. In addition, the region is often not able to reap economies of scale, labour costs in most countries are too high to compete in labour intensive products, and it cannot yet compete with the developed world in high-tech products. As in agriculture, most opportunities from further liberalisation in manufacturing will therefore lie in finding niche markets and in effective marketing of Caribbean products.

Services

As indicated, the Caribbean should focus on the opportunities in knowledge-based sectors in its global repositioning strategy, notably in services. The region has a core educated labour force, and it has the advantages of geographical proximity to the large markets of North America, as well as shared language and cultural affinity. The tourism and financial sectors are currently the most important service sectors in the region. While tourism was declining even before 11 September, it is believed that the sector still has considerable potential to recover and expand, notably through expanding the client base to countries other than the US and the UK, more effective Caribbean branding, moving upscale by offering more attractions (golf, water sports and other facilities), further developing eco-tourism, and capturing more benefits from the rapidly expanding cruise ship tourism. In financial services, the prospects for increasing exports after liberalisation are not clear. The prospects for the sector seem to have deteriorated with the current tightening of international standards. Offshore financial centres are now often associated with money laundering or other illegal activities. An established reputation will become a determining factor of success.

Important new areas in services are entertainment (notably music, but also film locations), and health care (retirement homes, short-term treatment, etc.) and possibly education and training (offering university courses). There may also be opportunities in the area of ICT (call centre development at the low end and software contracting) and other professional and business services.

While the service sector seems to provide the best opportunities, the capacity to produce service exports needs to be further developed, and quality and reputation should be enhanced to become internationally competitive. In addition, there are still many restrictions on international trade in services, in particular in mode 4. Restrictions in the right of establishment also need to be addressed, especially aimed at facilitating the setting up of small to medium sized businesses by foreigners. In general, the service sector will also benefit from trade liberalisation by improving its competitiveness. A more detailed study on the opportunities for trade in services, taking into account the productive capacity of the region, external trade barriers and international demand for services, is desirable.

Fiscal implications of liberalisation

Most Caribbean countries are highly dependent on tariff revenues. OECS countries are most dependent on tariff revenues, with the situation of Antigua and Barbuda where the share of taxes on international trade in total tax revenues amounts to 66.1 percent, being the most extreme. Lowering of tariffs in the liberalisation process will have a significant effect on tax revenues. Restructuring of the tax system is therefore crucial, also because fiscal revenues need to play an important role in financing the adjustment process.

The most-cited option is to introduce or increase a Value-Added Tax (VAT). This would not need to change tax revenue collection methods, as in many countries VAT is levied at the point of entry and most goods consumed by the economy are imported. In Guyana, Barbados, Jamaica and Trinidad and Tobago, a VAT has already proven to be a successful alternative tax resource. For the OECS countries, it has been estimated that import duties amount to 16 percent of GDP, which illustrates the feasibility of replacing import duties by a VAT. The

problem therefore seems more political than economic: as tax restructuring will have some redistributive effects, not all options will be politically feasible. Given the amount of restructuring that is needed, technical assistance in this field is required.

The role of governments in the repositioning process

Governments need to play an important role in the global repositioning process and the development of a knowledge-driven economy through promoting structural transformation. On the one hand, they must provide a well-functioning and efficient infrastructure, which affects all sectors in the economy. Infrastructure in this context does not only refer to roads and railways, etc., but comprises transport, information and communication technology and education and training. In addition, governments can provide specific support to the private sector to assist them to adjust and become internationally competitive. This support can consist of stimulating co-operation between businesses, providing business support services, etc.

Infrastructure

The costs of both **transport and communication** are relatively high in the region. This is an important impediment for trade. Reducing costs of communication is especially important. A competitive ICT sector is a necessary requirement for the development of service industries, facilitating marketing and sales in tourism, attracting foreign SMEs in services, strengthening links with the diaspora, reducing costs of education through distance learning, reducing costs in a wide range of trading activities, and of course facilitating the development of IT sectors. Regulatory reform (eliminating monopoly positions of national telecommunication companies), regional co-ordination and skill development are needed to increase efficiency in the ICT sector.

The costs of transport also need to be brought down to facilitate trade. As illustration, the maritime freight costs are estimated to be as high as 30 percent of exports in some part of the region, as compared to 4 percent for exports from larger countries like Brazil and the US. The location advantages of the region for maritime transport should be more effectively exploited by strengthening co-operation in the establishment of regional transshipment ports. A regional master plan study could assist in assessing the most optimal locations for such hubs. Maritime transport costs can be reduced by improving the efficiency of port operations and of customs procedures. In air transport open sky policies need to be pursued and co-operation between regional airlines needs to be strengthened.

As the region wants to develop a knowledge-based economy, **human resource development** is an essential development priority. The quality of primary education must be enhanced, and both quality and enrolment rates need to be increased at secondary and tertiary level. In addition, an appropriate balance should be sought between general and technical and vocational training. The relation between the general education system and the requirements at the labour market also needs to be enhanced, for example by including periods of gaining practical work experiences in the educational programmes, particularly at tertiary levels. The quality of the workforce can also be enhanced by increasing opportunities for lifelong learning. Both governments and individual firms can play a role in this process. To facilitate integration in the region more attention needs to be paid to language training including

Spanish, French and Portuguese. In addition, attention should be paid to developing ICT skills, as these become increasingly important in almost every sector of the economy. There is a need to formulate ICT strategies at both national and regional levels.

Another increasingly important phenomenon in the Caribbean is the incidence of **crime**, mostly drug-related. Crime has become a major deterrent to development in some countries, because it affects domestic production and export of both goods and services. A high incidence of crime deters tourists from the region, and limits trade in services provided under mode 2 (consumption abroad). The garment and agro-processing industries in Jamaica are currently facing security costs of up to five percent of the value of export sales. This problem should be addressed at both national and regional levels.

Private sector support

An important element in supporting the private sector should be the stimulation of **cluster development** and co-operation between businesses. The attainment of competitive advantage is more likely to occur through stronger regional networking of companies in the value added chain, which are connected through vertical and horizontal relationships in the form of clusters. A group of firms having access to world-class suppliers, inputs of up-to-date technologies and appropriately skilled workers will have a better chance to compete at the international level. Access to business consultancy services in areas like logistics, marketing and quality control is also crucial for improving efficiency.

Although co-operation and cluster development should be market-driven, it can be supported through facilitating contacts between firms in and outside the region in the form of providing information and organising business forums. Developing effective networks and promoting co-operation between companies is a key element in cluster development. An important first step for the governments would therefore be to increase awareness in the region of the possibilities for and advantages of clustering. They can also support the conducting of strategic planning exercises to assess constraints in strengthening linkages between firms in a cluster, the scope for innovation and the need for skill development and research. As soon as the private sector becomes aware of the opportunities, they will ask for further support from the government: support for training and research initiatives, support to attract investment in key activities in the cluster, and investment in infrastructure. Governments should also monitor progress in cluster development and its effectiveness in increasing productivity.

To date, clusters have not really developed in the Caribbean. However, there is scope for clustering in a number of areas, such as in agro-processing, tourism, and possibly IT. In tourism, for example, a cluster could involve the local hotel industry, cruise shipping lines, tour operators, airlines, restaurants, suppliers of food, furniture, and cleaning materials, representatives of the entertainment industry, craft shops, local tourist transport companies, hospitality training institutes, national tourism promotion organisations, and representatives of local communities.

Beyond networking between companies in clusters, businesses can conclude stronger forms of co-operation, for example through engaging in **strategic corporate alliances, mergers and acquisitions**. Even large companies in the Caribbean are small to medium scale by

global standards, and this kind of co-operation can help companies to overcome the limitations of size and to compete more effectively with larger firms. Strategic alliances seem to be particularly attractive for Caribbean firms, as these can be concluded without sacrificing ownership. There is also scope for establishing strategic alliances with firms outside the region, which could supply technology and facilitate marketing. The establishment of strategic alliances and engaging in mergers has been rare in the Caribbean so far, however, although the number of acquisitions in the region has increased over recent years. Again, government can support the process by facilitating contacts between firms in and outside the region in the form of providing information and organising business forums. The current initiative by the CAIC to develop a regional private sector strategy could be used to introduce and promote the concepts of knowledge business development, cluster development and the establishment of strategic alliances between firms.

Access to **finance** at reasonable cost is of key importance in the restructuring and expansion of business in the region. At present, small scale and inefficiencies in the banking sector in the region have resulted in relatively high costs of finance. The financial sector can be made more efficient by sustaining stable macroeconomic policies, improving the regulatory environment for the financial system, better credit risk assessment and increasing scale by expansion in the region. Effective micro-credit programmes should be introduced to meet credit requirements of micro-enterprises. Another avenue for raising corporate finance is on stock markets. Further regional integration and expansion of regional capital markets therefore needs to be promoted.

At regional level, governments should co-operate in providing **business support** to companies that address internal constraints faced by companies in the region. These constraints relate to market information, technology, packaging and product design. Business support programmes should be based on a broader strategy, supporting knowledge-based business development, strengthening of clusters and promoting strategic alliances between companies in the region, as described above. The support programmes should be developed and implemented in close co-operation with private sector bodies in the region. It is important that the effectiveness of these programmes is assessed regularly in terms of outreach and the impact on sales, exports and profitability.

Governments in the region should also facilitate the meeting of **standards**, as these are becoming increasingly important in trade. Within the WTO, the Agreement on Sanitary and PhytoSanitary (SPS) measures and the Agreement on Technical Barriers to Trade (TBT) set the context. SPS measures have been developed to protect human, animal and plant health and to ensure food safety, and are often mandatory in developed countries. This affects in particular the agricultural and food exports of the Caribbean. Technical standards are mostly voluntary, but some have been made mandatory by governments such as the Hazard Analysis Critical Control Point (HACCP). The Caribbean has difficulties in complying with standards because it is faced with weak controlling institutions at national level, lack of trained staff and underdeveloped laboratory infrastructure for testing and certification. Boosting the role of regional institutions would allow efficiencies of scale and the pooling of human and financial resources. Next to solving these problems, providing information and support to business is important.

Finally, governments need to stimulate **research and development** to support knowledge-based business development. They can create an environment conducive for technological innovation, through human resource development, removing obstacles to technology imports, facilitating foreign investment and providing incentives to firms for research and development. There is considerable scope for organising support to research at the national and regional levels, as well as for regulating and harmonising intellectual property rights to protect the findings of research and development activities.

1 Introduction

Context

The Caribbean region¹ has experienced some positive developments over the last decades. Human development indicators have overall improved considerably and several Caribbean states have achieved middle-income status. On the other hand, the small economic size of the Caribbean states has often led to a lack of diversification, which makes them vulnerable to economic shocks. Their small size makes it necessary to have an outward-looking strategy. Over the next years, the region faces an unprecedented set of trade negotiations: negotiations for the Doha Development Round in the WTO, the FTAA negotiations, negotiations for an EPA with the EU, and a number of smaller regional and bilateral negotiations. In addition, CARICOM is still in the process of completing the Caribbean Single Market and Economy (CSME). Given the broad range of issues covered in the negotiations and the integration process, and the interplay between them, the outcome of the negotiations will shape the context for development of the region to an important extent. The Caribbean countries will need to restructure their economies to reposition their countries in the global economy.

Objective

The objective of the study is to describe and assess the opportunities and risks for the Caribbean of the trade and integration initiatives in which the region is involved. More specifically, the study aims to identify options and priorities in the negotiations, to assess progress and importance of completion of the CSME, and to identify development opportunities arising from integration and liberalisation, as well as emerging areas of competitiveness, and how the process of global repositioning can be nurtured. Thus, the study wants to analyse and suggest new options, rather than to describe the current situation.

Approach

The research for this study was undertaken by Huib Poot (team leader), Michael Davenport, Claremont Kirton and Nora Plaisier. The analysis is undertaken on the basis of desk study, supplemented by field visits to relevant organisations, private sector representatives, universities and other relevant individuals in Jamaica, St. Lucia, Trinidad, Barbados, Guyana and Washington. An overview of the meetings is presented in Annex 2. Reports of the meetings can be found in Annex 3.

¹ In this report, the Caribbean is defined as the 15 Caribbean ACP States that have special ties with the European Union.

Report

The report contains five chapters. After the introduction, the second chapter examines the external trade policy of the region. It identifies priorities and policy options among the different set of negotiations, taking the issue of sequencing into account. In addition, it analyses the institutional framework for the negotiations. Capacity building is an important issue in this context.

Chapter 3 deals with the role of the CSME in the context of the external trade negotiations and the repositioning process. It addresses the progress in implementing liberalisation of the movement of goods, services, labour and capital and assesses progress on macroeconomic convergence². Finally, opportunities provided by the trade and co-operation agreements with other countries in the region are examined, notably with Haiti, the Dominican Republic, Cuba, Venezuela, Colombia, the OCTs and DOMs and with Latin America.

Chapter 4 examines the impact of liberalisation and resulting restructuring and policy options, referred to as the process of strategic global repositioning. It analyses which sectors are likely to loose and which sectors may gain from liberalisation. In addition, it identifies the options for policy makers for stimulating a supply response. These policy options cover macroeconomic issues, like human resource development, transport and communication infrastructure, improving access to finance and stimulating knowledge driven sectors, but also private sector support through the promotion of co-operation and clustering between businesses, and through providing business support services.

The final chapter concludes and provides recommendations for strategy and policy and identifies the areas that need to be strengthened.

² It should be noted that a more in-depth review of CSME implementation has been prepared by a team headed by Havelock R. Brewster, "Implementation of the Caribbean Single market and Economy", which is funded by DFID.

2 Issues and Policies relating to External Trade Negotiations

2.1 Introduction

For the small Caribbean countries, trade is an important driver of economic growth. Over the past decades, these countries have tried to expand trade by concluding trade agreements. First, they have made progress in regional integration through the creation of the Caribbean Community, of which 15 Caribbean countries are member, and in addition there is the Organization of Eastern Caribbean States (OECS), consisting of seven small Caribbean states. A wider forum of Caribbean countries, CARIFORUM includes the CARICOM countries and the Dominican Republic. The process of regional integration was deepened through the establishment of the Caribbean Single Market and Economy (CSME) within CARICOM and the establishment of a monetary union of the OECS countries. While the CARICOM countries in the first two decades emphasized the deepening of the integration process among its members, in recent years they have recognized the implications of an increasingly global economic environment and initiated the process of widening the grouping by admitting new members (Suriname and Haiti), as well as by negotiating free trade agreements with Latin American neighbours. CARICOM has concluded trade agreements with the Dominican Republic, Venezuela, Colombia and Cuba. It is now also aiming to conclude a free trade agreement with the Central American Common Market (CACM).

Regarding external trade of the region, Caribbean exports have benefited from preferential trading arrangements in the markets of the EU, the US and Canada. However, within the context of the WTO, preferential access is being eroded and more reciprocity will be introduced in the trade agreements with other countries and regions. The Caribbean context will therefore face negotiations for new trade agreements with the EU, US and Canada. With the EU, negotiations for establishing an Economic Partnership Agreement The realisation that the protocol is likely to expire with the present Waiver and the potential gains to be secured through an FTA with the EU will change the nature of the negotiations (EPA) have started in September 2002 within the framework of the Cotonou agreement. There will be negotiations for a “more mature relationship” between CARICOM and Canada. In addition, the region is involved in the preparation for the Free Trade Area of the Americas (FTAA), the negotiations for which should be concluded by 2005. On a multilateral level, the region is involved in negotiations in the WTO in the context of the Doha Development Agenda. The region thus faces an unprecedented set of trade negotiations.

2.2 Establishing priorities

As described in the previous section, the Caribbean countries are facing critical trade negotiations vis-à-vis the FTAA, the EU and the WTO, as well as ongoing bilateral negotiations with a number of countries in the region. Clearly, these countries would benefit from an overarching trade policy that would inform all their trade negotiations, maintain consistency between negotiating strategies in different fora, and, ultimately, provide the best trade regime obtainable in light of its development goals. There is no such agreed development plan at present, however, nor does such plan appear likely to be developed in the near future.

At present the greatest effort is going into the FTAA negotiations. This is a matter of exigency rather than strategy;

- the FTAA negotiations are already in progress. Other negotiations within the hemisphere are ongoing and the increasing number of trade agreements being negotiated could leave the Caribbean countries at a disadvantage in their principal markets. The threat of vulnerability and marginalisation is aggravated by constant new or reinvigorated trade schemes: for example, the recent US ‘fast track’ trade legislation contains provisions renewing tariff cuts to four Andean nations, Colombia, Bolivia, Peru and Ecuador. Recently the US has agreed to enter FTA negotiations with the CACM countries. A new meeting has been arranged to discuss trade with Brazil. There is concern about whether there might be an effective axis between the US and Mercosur;
- the FTAA negotiations are extremely demanding in terms of meetings and preparatory work. The resources of the RNM and national negotiators are being stretched to their limits both in terms of personnel and funds;
- the greater part of Caribbean trade is with the Western hemisphere and that share appears to be rising (see Annex 1, Table 6);
- the principal competitors to Caribbean exports of goods and services are Latin American countries. In a number of sectors the Caribbean is currently losing markets to Mexico and to other FTAA countries.

These points should not give the impression that the Caribbean countries are wildly enthusiastic about the FTAA. They see it as lacking a development dimension and concentrating solely on reducing trade barriers and harmonising regulations with little concern about development or economic or political security.³

The former head of the RNM, Sir Shridath Ramphal, recently argued that the Caribbean countries should negotiate with the EU in advance of the FTAA countries. This is simply not practical, since, were the Caribbean countries to opt out of the FTAA negotiations now, it is not at all clear that they would be able to accede later. Certainly their already limited bargaining power would be entirely squandered. It is not clear that they could even retain existing CBI status: certainly the countries of Central America would argue against it. With

³ For a Caribbean perspective, see Gonzales (2002).

their principal trade links and trade competitors in the Western Hemisphere, their presence at the FTAA negotiating table is paramount.

Nor could the Caribbean countries seriously consider forgoing the FTAA option entirely in favour of the European option. Firstly, as has been pointed out, most of their merchandise trade is with the Americas (see table 6A in the appendix).⁴ The same is true of trade in services. Secondly, to the extent that there is a common currency, it is the US dollar and those countries that have tied their currencies have done so to the dollar. Thirdly, most of their expatriate workers are in North America. This is a critical factor. Guyana receives more in remittances than it does from sugar exports. The Temporary Movement of Natural Persons (TMNP) under Mode 4 of the GATS will likely not be subject to a major breakthrough in the FTAA negotiations. Nevertheless close trade relations with the US and Canada are critical to an expansion of TMNP, which will be a necessary source of foreign earnings over the next decades. Europe has not been encouraging on this score. Fourthly, the cultural affinities and family ties of the greater part of the people of the region are now more closely bound up with North America than with Europe.

In general terms the negotiators for the Caribbean countries in the FTAA, the EU-ACP and the WTO are likely to concentrate on:

- The importance of the Caribbean countries speaking with a single voice in regional negotiations. However, when it comes to the EU-ACP negotiations the Caribbean countries will do nothing to undermine ACP unity. In the WTO they will continue to support the interests of the developing countries in general, but with particular regard to those of the small economies.
- While accepting the principle of reciprocity, obtaining flexibility in the process of adjustment to new trading arrangements for small economies, probably through longer transition periods in the liberalisation process, but also through special safeguard clause(s), freedom from antidumping and other contingent protection, easier rules of origin and technical assistance programmes.
- On the gains the region can make in trade in services since that will be the principal source of future development (see chapter 4). The earlier special regimes provided by the EU for protocol products (sugar, rice, bananas and rum) are or will be eroded and, but for limited exceptions, the region will not be competitive in these products on world markets; manufacturing sectors are small and most manufactured exports derive from outward-processing activities and are based on CBI preferences (see Annex 1, Table 3).
- Within services, the focus will be on business and professional services supplied in the exporting countries, or in the importing countries under Mode 4.
- The Caribbean governments and the RNM know that in negotiating any trading agreement obtaining concessions from partners is no more important than locking in reforms within the Caribbean countries. That itself can hasten progress towards the

⁴ The year 1999 gives a somewhat distorted picture of the evolution of EU-Caribbean trade. According to Eurostat data, between 1999 and 2001 the value of EU imports from the Caribbean increased by almost 50 per cent with the greater part of that increase being accounted for by non-agricultural products including apparel and processed foods. Global figures for Caribbean exports are not available beyond 1999 but there is no doubt that the Western Hemisphere still accounts for by far the greater part of exports.

- implementation of the CSME through speeding the elimination of non-tariff barriers, restrictions on establishment and restrictions on the free movement of capital (about which more below). As Finger *et al* (1998) put it ‘resort to the negative side of special and differential treatment for the smaller economies would be a missed opportunity by the smaller economies to advance their own interests through internationally supported reforms of their own policies. It would also be a failure by the larger economies to use in a constructive way their inevitable control over the negotiating agenda’.
- In general the Caribbean countries must take care to nurture their alliances; solidarity with the other ACP States in the EU-ACP negotiations, with other small states from the Caribbean region in the FTAA negotiations, and with varying coalitions of countries with common agenda in Geneva.

Of these bullet points two in particular need further elaboration: those concerning special flexibilities for small economies and strategic alliances.

Flexibility for small economies

After decades of protection from international markets through commodity protocols and preferences as well as through protection of domestic markets by tariff- and non-tariff barriers, the Caribbean countries are uncompetitive producers both in their traditional commodities, and in manufactures and services. Both preferential treatment and protection will diminish as a result of introducing reciprocal trade liberalisation. The adjustment to a more liberal trading environment will take time as well as investment. These countries may ask for a 20-year transition period, but at least in the FTAA, transition periods will be given selectively in different sectors.

It is unlikely that the Caribbean negotiators will make a strong plea for permanent derogation from reciprocal tariff elimination. Firstly, they appreciate that attempts to stop the clock as regards existing economic structures are ultimately self-defeating, and, in the short term reduce the incentive to develop new products and/or new markets. Secondly, such derogations might well be threatened by the clarification of Article XXIV of the GATT 1994 on the conditions that must be met in establishing a FTA or CU. Thirdly, they would have little chance of being accepted.

Still there are several reasons why the pace of liberalisation should not be overly hurried:

- Dependency on tariff revenues: The situation in the Organisation of Eastern Caribbean States (OECS) countries is arguably most serious. In 2000, the OECS derived an average of 57.4 per cent of tax revenue from taxes on international trade.⁵ Some are already engaged in steps to reduce this dependence – for example, St Lucia has been gradually replacing import taxes by consumption taxes and a Tax Commission involving all the OECS member states has been established to study and coordinate the process – but the challenge is still daunting, bearing in mind that the implementation of the FTAA is due to start in 2005. These revenue losses contribute to the case for time-limited asymmetry in

⁵ Individually these percentages were 66.1 for Antigua and Barbuda, 52.3 for Dominica, 61.2 for Grenada, 50.7 for St. Kitts and Nevis, 55.4 for St. Lucia and 50.2 for St. Vincent and the Grenadines. See WTO (2001).

the liberalisation commitments of the EU and the ACP. However, the problem is more political than economic. Most of the goods consumed in these ‘microstates’ are imported. Therefore the incidence of a revenue structure based on a consumption tax or a VAT need not be much different from that of one based on tariffs. Moreover, as Finger *et al.* have pointed out, there could be major steps to liberalisation without any impact – or even a positive one – on tariff revenues since much of the protection takes the form of quantitative restraints (Finger *et al.* (1998)).

- There is also the argument for residual protection in certain key sector on traditional ‘infant industry’ grounds. These areas are limited – processed foods is a clear example (see Chapter 4) – and the arguments will be more powerful if progress towards the CSME is already leading to some rationalisation of these activities across the region (see below). It is a question of balancing the arguments for the positive impact of liberalisation on ‘repositioning’ a country’s role in international markets through lower imports costs and the positive effects of competition from abroad vis-à-vis the threat that potential export ‘winners’ are stifled by such competition before they reach the required level of productivity.
- The weakness of competition even in those areas where the Caribbean countries might ultimately develop a comparative advantage (see chapter 4 of this report). Protection in the Caribbean, as elsewhere, has created and is now supported by vested interests that have to be identified and separated from the developmental interests of the countries and the region as a whole.

Asking for special terms for small economies is not a confession of defeatism. Indeed some assistance with repositioning is essential. The diminishing of preferential market access, on which the Caribbean states, particularly the OECS countries, Guyana, Suriname and Belize, have relied for so long, with EU support, including the special agricultural regimes for bananas, sugar, rice and rum, will be substantial. Of these preferences that for bananas will soon become a tariff-only preference for the ACP countries, while that for rice is already limited to a tariff-preference. MFN tariffs on most rum in the EU or US are zero, though the region still has a small preference margin in the EU on some varieties. That and the banana and rice preferences could be continued through a FTA arrangement with the EU though the margins are likely to be eroded by across-the-board tariff cuts negotiated in the Doha Development Round. That for sugar, where volumes and to some extent prices are guaranteed by the Protocol, is unlikely to survive the end of the waiver in 2008. Even with tariff preferences in rice and bananas only the most efficient producers, Guyana and Belize respectfully, will survive. In sugar there may some scope for niche products, but for mass production of cane sugar, only Guyana and perhaps one or two (private sector) plantations in Jamaica could be competitive in the world market – even assuming world prices rise with further cuts in producer support in the EU and the US. Reducing protection will be an important element of the trade agreements the Caribbean is participating in, but is also needed to promote restructuring of their economies and to develop competitiveness in new areas of economic activity. However, time is needed to facilitate adjustments in protected sectors and in the fiscal regimes. The amount of economic diversification that has already taken place is limited. Further analysis of the implications of liberalization is presented in chapter 4. Still it is not fully appreciated the strides these countries have already made in reducing tariff- and non-tariff barriers in recent years. Table 7 in Annex 1 shows that the average tariff has come

down between 25 and 40 per cent since 1987 while quantitative restrictions have been largely eliminated.

But quite apart from the argument that the Caribbean countries need time to diversify out of ‘protocol’ commodities, there is a strong case to be made that, no matter how enlightened are the policies of small states and how freed they are from corruption or damaging vested interests, the lack of sizeable domestic markets and absence of economies of scale and of scope, together with the extra costs of transport and communication and limited administrative and technical capacity, mean that some may never be able to compete in world goods markets on their own.⁶ In addition Caribbean countries are particularly vulnerable owing to a high degree of trade openness, concentration of exports in a few products and markets and a susceptibility to natural disasters.⁷

This does not imply that the Caribbean countries cannot in the medium term develop comparative advantages in services sectors. Such possibilities are discussed in Section 4.3.3 below. It does mean, however, that in the process of repositioning from dependency on commodity exports with largely guaranteed markets – and in some cases prices – to competitive service exports to the world market, some measure of special treatment is appropriate. The Caribbean and Central American countries, except Cuba, all receive preferences under the Caribbean Basin Initiative (CBI) from the US. The current beneficiaries of this group could therefore argue in the FTAA negotiations that on the grounds of “differences in size and level of development”, there should be appropriate flexibility in the form of easier rules of origin, longer transition periods, particularly in the introduction of reciprocity, technical assistance, and so on. The same rationale justifies some measure of flexibility in the phasing in of disciplines in an EPA with the EU.

It must be noted that within the region there are divergent views on the need for special and differential treatment (SDT). While most people interviewed for this study were convinced of the necessity of SDT, some people also pointed out that the argument of SDT was overplayed, or that SDT is not really necessary, because there are also small countries that have realised significant economic growth without SDT, for example Singapore.⁸

In the meantime Caribbean countries have been successful in negotiating special and differential treatment in a number of negotiations. In recent FTAA negotiations CARICOM has been successful in obtaining concessions amounting to “additional flexibility for sensitive products”. At WTO level, most Caribbean countries were included in an “early harvest” list of 19 developing countries that could qualify for an extension to maintain their export subsidy programmes under Article 27.4 of the Subsidies and Countervailing Measures (SCM)

⁶ There is now a large literature on the economic problems faced by small states. See for example Read (2000), Grynberg (2001) and Bernal (2001)

⁷ See Briguglio (1995), World Bank (2002).

⁸ People interviewed with a sceptical view on SDT include Marie Freckleton (UWI), Badrul Haque (IADB), Chris Wilson (USTR) and people from the OAS said less emphasis should be put on SDT. Advocates of SDT include Peter King, Randolphe Cato (OECS), and representatives of RNM.

Agreement. This move was made at a special (negotiating) session of the WTO Committee on SCM on 19 September, 2002.⁹

Strategic alliances

In the FTAA negotiations the region will focus on forming strategic alliances with like-minded groups in Latin America. For example, regarding rules on new issues such as competition policy, labour standards and trade and the environment, they will look for support from Central America and other developing countries. Similarly, in some areas, the region may ally with the USA in exchange for trade offs. Furthermore, individual countries in the region will try to form alliances with countries with common interests over particular issues as they come up, for example an alliance of developing country oil-producers (Mexico, Venezuela and Trinidad), or simply because one country or group is prepared to support the Caribbean over, say, competition, in return for the Caribbean supporting it over, say, labour standards. The FTAA negotiations are all-or-nothing negotiations, and small countries start from a weak bargaining position. Their markets are often too small to be of great significance to other players. To a large extent they have to depend on the good will and desire for inclusiveness of the United States and Canada. Their only serious, but implicit, counter-threat is that they will become even more worrying as a key element in the illegal drugs trade.

As regards trade negotiations with other countries in the hemisphere - Cuba, the Central American Common Market, the Andean Pact (which might subsume further negotiations with Colombia and Venezuela), these have been to some extent put 'on the back burner', given the intensity of the existing negotiating commitments (which will intensify further) and the limited resources available. This is not only true of the Caribbean countries but also of the negotiating partners. Canada remains something of an exception since the Caribbean countries see Canada, with its traditional trade ties to the region and continued support through CARIBCAN, as an important ally in the FTAA negotiations.¹⁰

There is also concern at the implications of the competition, the environmental and the labour standards clauses in the Cotonou Agreement. However the Caribbean countries could find more problems in this respect with the FTAA. Among these issues, in its discussions of new trading arrangements the Cotonou Agreement only mentions 'measures to enhance competitiveness' and the Caribbean countries could even benefit from technical assistance in this area without being forced into erecting an unwieldy and inappropriate legal superstructure. Similarly under both agreements technical assistance, and possibly finance, to protect the environment from damage arising from the restructuring of the economy – or indeed the existing structure – could be welcome. In the FTAA the Caribbean countries could negotiate reductions in the marine damage caused by the dumping of sewage by cruise ships and the threat from the maritime transport of radioactive materials. Problems of labour standards are certainly minor in the Caribbean countries compared with many other parts of

⁹ The Caribbean countries include: Antigua and Barbuda, Barbados, Belize, Dominica, Dominican Republic, Jamaica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent & Grenadines. The other countries included Colombia, Costa Rica, El Salvador, Guatemala, Jordan, Mauritius, Panama, Papua New Guinea, and Uruguay.

¹⁰ Starting in the 19th Century, there was a weekly cargo and passenger service from Montreal through the Caribbean islands and back. There was no such service from any US port.

the world, but, nonetheless, such standards should not be used for protectionist trade purposes. Here the unity of the ACP States on the one hand and the Latin American and Caribbean countries on the other is the best, and only, defence. Furthermore, through the incorporation of the Dominican Republic as a member of CARIFORUM, the Caribbean region can strengthen co-operation and common negotiation positions with Central American countries. The founding of the Association of Caribbean States which links the Caribbean countries with those Central and South American countries bordering on the Caribbean Sea also supplies a forum and source of solidarity, both of which are essential for effectively arguing a joint position.

2.2.1 Strategy in FTAA negotiations

The FTAA negotiations have to date been discussing modalities. The hard decisions and tradeoffs have not yet been addressed. In the Market Access Group, serious negotiations on trade barriers etc. were to have started on 15 May, 2002, but certain disagreements on negotiating methods, for example whether bound or applied tariff rates are to serve as the base, have held these up. Before and when the negotiations start in earnest, the Caribbean negotiators will be looking to form strategic alliances with like-minded groups from Latin America.

In the FTAA negotiations a Consultative Group on Small Economies has been established to examine special treatment for these states. The guidelines formulated by the FTAA Consultative Group make clear that the individual negotiating groups in the FTAA negotiations will make proposals identifying for which countries special treatment to deal with problems of size is appropriate as well as what that special treatment should be. In other words there may be no overriding definition of what constitutes a small state.¹¹ This could be

¹¹ In this context it may be useful to note the Guidelines for the Treatment of Differences in Size and Level of Development of Economies in the FTAA. They are

1. The treatment of differences in size and level of development of economies must provide a flexible framework to respond to the characteristics and needs of each of the countries participating in the FTAA negotiations.
2. The measures agreed concerning the treatment of differences in size and level of development of economies must be transparent, simple and easy to apply, recognizing the degree of heterogeneity in the economies of the FTAA.
3. The treatment of differences in size and level of development of economies must be determined in each of the Negotiation Groups. However, when this treatment is related to subjects not linked to the negotiating groups, it must be determined in other relevant FTAA entities.
4. The treatment of differences in size and level of development of economies must be determined based on a case-by-case analysis (sector by sector, subject by subject, country by country and when appropriate, [by country grouping] [groups of countries])
5. [In some negotiation groups, a number of categories of countries can be established to facilitate differential treatment.]
6. The treatment of differences in size and level of development of economies can include transition measures, which must be specific and justified, and can be linked to technical cooperation programmes.
7. [Provisions on the treatment of differences in size and level of development of economies can be temporary or permanent.]
8. The treatment of differences in size and level of development of economies must be compatible with the rules and disciplines of the WTO and must go beyond and improve them, whenever possible and appropriate.
9. The treatment of differences in size and level of development of economies must take into account existing preferential treatment among countries of the hemisphere and, whenever possible, should go beyond or improve them.
10. The treatment of differences in size and level of development of economies can consider longer periods for fulfilling obligations.
11. [Negotiators requesting transition measures must provide their negotiating groups with clear plans of action, including technical assistance and associated cooperation needs for full satisfaction of the FTAA obligations in a specified time

used to advantage by the Caribbean negotiators; clearly the MDCs (Barbados, Jamaica, Guyana, Suriname and Trinidad and Tobago) do not require special treatment over as many areas as do the LDCs (Belize and the OECS countries). Indeed in regional trade agreements with Colombia, Cuba and Venezuela the principle of distinguishing between the MDCs, which have agreed reciprocal market opening, and the LDCs, who have been granted non-reciprocal access, is now well established. It implies that the Caribbean negotiators can display a 'reasonable' and discriminating approach, while pressing hard for broad and deep special treatment where they can make an economically sound case (for which more studies are required). In this they will have the support of the Central American countries.

In the Market Access Group the Caribbean will seek to preserve as many of the special preferences of the CBI, including the rules of origin which are less demanding than those of NAFTA which could be the model for the FTAA rules.¹² This could also be a strategy for obtaining special provisions for small economies in terms of market access. All Caribbean and Central American countries are beneficiaries of the CBI except Cuba, so that the current beneficiaries as a group could argue that on the grounds of 'differences in size and level of development of economies' they should have easier rules of origin, longer transition periods, technical assistance and so on. Indeed it might be easier to sell the concept of special arrangements for small economies to the larger FTAA members on the grounds that an existing preferential system was being extended, albeit modified through extending duty-free access for the small states to all FTAA members. Canada already offers a preferential system to the Caribbean countries under CARIBCAN and might well support such an initiative.

The FTAA membership clearly includes, at least, three groups of countries, developed, large developing and small developing, though they may be defined differently in different negotiating groups. Thus special provisions need not simply be time-limited derogations from the market-opening process and from agreed rules on trade-related policies. There are a number of permutations available. For example, the developed countries could accelerate their tariff cuts towards the small developing in advance of their cuts towards the large

frame.]

12. [A hemispheric cooperation plan will be structure to favour competitiveness of developing economies, and ensure full participation in the FTAA.]

Note: The paragraphs between square brackets indicate that agreement was not reached.

¹² The CBI provides for duty-free access to the United States market for a wide range of goods. However, there are exclusions, namely textiles and clothing, footwear, leather goods, canned tuna, and petroleum and petroleum products. To qualify for duty free access, a minimum 35 per cent of the value has to be locally added (of which 15 per cent may be of US origin). A revised CBI (CBI II) came into effect in August 1990. Trade improvements included a 20 per cent tariff reduction on certain leather goods and expanded duty free treatment to include 28 additional tariff categories. The Caribbean Basin Trade Partnership Act (CBTPA) extends preferential treatment to apparel, largely through duty-free treatment ad quota of apparel made from US fabrics formed from US yarns, and NAFTA equivalent tariff treatment for certain items previously excluded from duty-free treatment, for example, footwear, canned tuna, petroleum products, watches and watch parts. According to the 2001 ITC report on the CBI, imports of goods with preferential treatment under the original CBERA have been limited and this access has not contributed significantly to investment or growth in the beneficiary countries. However the situation is different under the more recent CBPTA, which has led to major gains in investment and output by the beneficiary countries. However, these gains have been significantly diluted by the freeing of trade under NAFTA (USITC 2001).

developed. The exact sequences will have to be worked out in the individual negotiating groups, along with the lists of countries in each group.

2.2.2 Strategy for EU-ACP negotiations

At present there is openness to the idea of a REPA with the EU, though of course all will depend on how the perceived interests of the region are safeguarded in the negotiations. Any FTA can be welfare reducing through trade diversion to higher cost suppliers. This is itself a good reason for the Caribbean countries to enter an FTA with the EU even after an FTAA agreement has been signed. In recent years the Caribbean countries have been particularly concerned about the future of the Sugar Protocol and whether their EU markets for sugar will be seriously eroded by free access – by 2009 - for all least developed countries under the EBA. The realisation of the challenges to the Sugar Protocol and the potential gains to be secured through an FTA with the EU will change the nature of the negotiations.¹³

As in the FTAA negotiations the Caribbean countries will seek flexibility through extended time-periods for opening up their markets to tariff-free access to EU exports and a degree of asymmetry in the proportion of actual exports liberalised in the long run. Whether they will identify the LDCs (Belize and the OECS countries) as a group which merits special treatment throughout, or follow the FTAA practice of allowing the individual negotiating groups to decide on the merits of special flexibilities depending on the particular issues at stake, will be a tactical issue, probably to be decided when and if serious negotiations on a EU-Caribbean EPA are under way.

The Caribbean negotiators will seek much greater openness by the EU in agricultural goods and in processed food than is now available under the Cotonou Agreement. Diversification of agricultural production and the expansion of the processed food industry will remain critical elements in the development and negotiating strategy of Caribbean states.¹⁴

The Caribbean countries will clearly want significant preference margins for rice and bananas through any EPA but there is little that they can do to secure such margins. They will seek free access to EU markets for these but the preference margins will depend on the tariffs faced by competitors. The preference margins could be seriously eroded by across-the-board tariff cuts coming from the Doha Development Round. From 2009 Caribbean rice producers will also have to face tariff-free access to the EU from the least developed countries such as Cambodia. Banana producers will likely face competition on the EU market from tariff-free fruit from African ACP states such as Cote d'Ivoire and Cameroon. Thus the benefits of tariff-free access to the EU will only accrue to the most competitive producers of these

¹³ It should be noted that neither the Commission nor the Council has given any commitment either way about the future of the Sugar Protocol. See Article 36:4 Cotonou.

¹⁴ Of the 5369 HS 6-digit tariff lines, the Cotonou Agreement provides tariff- and quota-free access to ACP countries on 3319 or 71.8 per cent. Those chapters with the highest proportion of lines still subject to tariff- and non-tariff barriers are fats and oils (96.3 per cent of lines), beverages (95.7 per cent), oil seeds (95.6 per cent) and organic chemicals (93.9 per cent). A number of these are of interest to the Caribbean countries, as are processed vegetables and fruit (71.1 per cent), vegetables (56.1 per cent) and fruit and nuts (54.2 per cent). For further details see Davenport (forthcoming, 2002).

products. Banana exports from Belize and rice exports from Guyana could benefit from an EPA – and the respective industries in those two countries could be sustained – but other traditional producers may find that they cannot compete in world markets even with tariff-free access to the EU.

Potential gains from an EPA with the EU can be realised in services. Liberalisation, if well managed, could not only encourage further the development of the tourism sector, but also help to improve the operating environment for business, e.g. in the telecommunications and finance sectors. For example, the very high interest rates that businesses must pay in some eastern Caribbean countries is largely due to inefficiencies in the banking sector which could be tackled by introducing greater competition. The role that EPAs can play in the consolidation and strengthening of regional integration in the Caribbean is also of great significance. Gains can be maximised by development finance and technical assistance. Under Cotonou “*development strategies and economic and trade cooperation shall be interlinked and complementary*” as formulated in Article 18 of the Cotonou Agreement. Provisions for development finance and technical assistance are less present in the FTAA. Even if the trade gains and losses of an FTA appeared marginal – which they certainly would be if significant preference margins for rice and bananas were not included – this aspect of an EPA would clearly be attractive.

As regards the GSP option which all ACP countries will have as an alternative to an EPA with the EU, unless the access to the EU market were improved radically in the new GSP scheme to be implemented from 2004 onwards, this would not appear to be an attractive alternative. Moreover the scale of improvements relative to the present GSP is going to be limited by the EU’s commitment to offer better access to countries that enter EPAs. The Caribbean countries export relatively little to the EU in the form of goods subject to MFN tariffs. Through an EPA they can expect to have higher margins of preference and, where relevant, possibly better rules of origin on these products than under the GSP.¹⁵

There is concern among some in the Caribbean, however, about the EU’s priorities, in particular, the efforts to enter into FTAs with major competitor countries in Latin America, including Mercosur and the Central American Common Market. The Caribbean countries are worried that they might be squeezed into accepting similar treatment to, say, Mercosur or nothing at all.

There is also concern at the implications of the competition, the environmental and the labour standards clauses in the Cotonou Agreement. However, as noted earlier, the Caribbean countries could find more problems in this respect with the FTAA.

¹⁵ We do not discuss here a complete revamping of the EU’s relations with the developing countries so that the proposed EPAs are replaced by a revised GSP scheme, carefully crafted so that no country is worse off than at present. (See Stevens and Kennan, 2000).

2.2.3 Strategy for WTO negotiations

The Caribbean countries have been participating with joint positions in the pre-Doha ‘built in agenda’ at the WTO, mainly in agriculture and services, emphasising the need for time in adjustment to a more efficient and diversified production as regards the former, and retention of the existing architecture of the GATS, and in particular flexibility for developing countries, as regards the latter. In particular in the agriculture negotiations they have been active in pursuing the interests of small economies, particularly with regard to special safeguards, the abolition of tariff peaks and tariff escalation as well as the establishment of a ‘development box’. Their priorities are not likely to change in these respects (Caribbean Trade and Adjustment Group (2001)).

Some of the Caribbean countries – only four have permanent representation at the WTO – are active in pursuing the SDT for Small Economies agenda.

The Caribbean countries are also concerned about the proposed ‘clarification and improvement’ to Article XXIV and probably also to Article V of the GATS. They are concerned about the introduction of provisions on trade and competition, trade and the environment, labour standards and public procurement, into the conditions for the establishment of FTAs or CUs. However it does not seem probable that such rules would go beyond what is already included in the Cotonou Agreement or likely to be in the FTAA Agreement. To do so would go beyond ‘clarification and improvement’.

The Caribbean countries will certainly be pushing for a liberal reading of the 10-year time limit for full liberalisation in the Understanding on the Interpretation of Article XXIV except ‘in exceptional circumstances’. However the Caribbean countries, together with other ACP States, and perhaps with some other developing countries, could make a strong case for the modification of Article XXIV.8 concerning the requirement that in a preferential trading arrangement (PTA) ‘substantially all the trade’ is freed of tariff- and non-tariff barriers. The current EU interpretation of this paragraph – that it requires that at least 90 per cent of total trade among partners is fully liberalised, as well as that a number of qualitative criteria and other relevant Article XXIV requirements are to be met – has been applied as an informal benchmark in the absence of definitive legal clarification in GATT/WTO on the definition of “substantially all the trade”. Other WTO Members would wish to place a higher benchmark, according to the reasoning that if ‘prohibitive’ barriers are already in place on ‘sensitive’ imports, then there will be virtually no such imports and the liberalised share of actual trade under an RTA can more easily reach 90 per cent. Therefore, according to some (non-EU) WTO Members, a more meaningful criterion would be a percentage, say 90 per cent for the imports of any developed countries in a PTA, of 6-digit *tariff lines* in each 2-digit chapter. This could give a significant boost to ACP exports of agricultural goods and processed foods to the EU, where currently under Cotonou, in a number of chapters including vegetables (Ch. 07), fruit and nuts (08), cereals (10), meat (02), malt, starches etc. (11) and cereal preparations (19), less than 60 per cent of lines are liberalised and most have substantial barriers even within tariff-quotas. Of course a tighter quantitative criterion would also have implications for liberalisation on the ACP side, since the EPAs will be based on two-way liberalisation, even if market opening is less than fully reciprocal (i.e. there will be some

asymmetry in favour of the ACP countries since EU markets will be opened to a greater extent).

2.3 Sequencing issues

The Caribbean negotiators support the ACP proposal for the first round of the EPA negotiations, to be implemented on an all-ACP level and a number of 'cross cutting' issues, such as rules of origin, safeguards and other provisions for the developing partners in general, labour standards and competition law, are to be included for agreement at that stage.¹⁶ They are open either to an EU-ACP Framework Agreement or to the incorporation of the outcomes within the regional (or individual ACP states') Economic Partnership Agreements. These discussions are envisaged to last till the end of 2004, which is the target date for both the WTO round agreement and the FTAA. The ACP-EU EPA negotiations would then continue for a further three years.

However the interests of the Caribbean countries could be compromised by the still-valid clause in the Lomé Conventions that requires that all preferential market access arrangements, given to another developed country by an ACP State, must also be given to the EU. The implication is clear. After negotiating membership of the FTAA the Caribbean will have lost a major part of their bargaining power vis-à-vis a REPA with the EU.

To the extent that equivalent access will have to be made available to the EU, the Caribbean negotiators will have to convince their FTAA colleagues that an additional measure of flexibility is required to take account of an additional liberalisation of import barriers, which might imply a longer adjustment period. More important, by the time the EU-ACP negotiations start, the Caribbean countries might have already committed themselves to a detailed timetable for import liberalisation, service sector opening, SPS and TRIPs rules and so on.

The one suggestion voiced in this regard is that the Caribbean states might ask their FTAA partners for a moratorium on the opening up of markets to Canada and the United States to obviate their simultaneous opening to the EU. This would allow the Caribbean states a further transition period to undertake the structural adjustments needed for trade liberalisation. The Caribbean countries might try to enlist the support of Canada in this regard.¹⁷ Canada has signed a preferential trade agreement with Costa Rica, that is particularly sensitive to the

¹⁶ The Commission on the other hand has said it would like the plenary all-ACP talks to deal with only the principles, objectives and structure of the negotiations.

¹⁷ Canada and the CARICOM countries are currently engaged in preliminary discussions about an FTA. Both parties have expressed disappointment with CARIBCAN, the existing trade agreement. In the words of Jean Chretien, the Canadian prime minister, Canada-Caribbean trade has "not lived up to expectations". Only 7.5 per cent of the Caribbean's total exports to Canada enter duty-free under CARIBCAN. For example, Caribbean apparel exports are losing ground on the Canadian market. They are still subject to tariff rates of up to 20 per cent while those of Mexico will be enter tariff-free from 2003. Canada has also been supportive of the arguments of small states for special treatment in such fora as the CHOGM (Commonwealth Heads of Government Meeting). It has been active in technical assistance programmes in the Caribbean. CIDA (the Canadian International Development Agency) has been helping Caribbean countries to meet their WTO commitments and has also provided a grant of C\$3.6 million to the RNM.

special needs of small economies. It has also been suggested that, in view of a REPA negotiated with the EU, it might be possible for the Caribbean states to ask for modifications in their commitments under FTAA, though it clearly would be unwise to bank on this possibility.

2.4 Institutional questions: the role of the negotiators – RNM and the national representatives

The Regional Negotiation Machinery (RNM) was established in 1994 by CARICOM to coordinate the external negotiations of the Caribbean Community. Its objectives are to:

- Provide comprehensive negotiation services to Caribbean countries as a means of facilitating the successful global integration of their economies through trade.
- Provide services in preparing technical documentation, mobilising for a common regional position on various issues, supporting Ministers and Ambassadors, and leading negotiations.

The Dominican Republic also makes use of the RNM. The Head Office of the RNM, which has overall responsibility for technical and administrative matters, is located in Jamaica. There is an RNM office in Barbados that handles co-operation with the OECS states and relations with donor agencies. The RNM also has a representative in Brussels (operating out of the Embassy of the OECS) and one in Geneva (operating out of the Embassy of Barbados).

The main tasks of the RNM are formulating and advising on negotiation strategies as well as leading negotiations not only within the WTO, but also with the FTAA, and the EU. The RNM also deals with bi-lateral negotiations, which have included DR-CARICOM, Cuba-CARICOM and Canada-CARICOM. It should be noted that the Community through the RNM cannot act to directly represent the Member States in establishing international legal arrangements, but has to act on the basis of consent by all of the states¹⁸. A Director General heads the RNM. In addition, the existing technical staff includes a Lead Technical Adviser and technical officers responsible for three principal areas of negotiations – WTO, FTAA and EU-ACP.

The RNM has thus been set up to coordinate the negotiating process – in theory not to manage it, let alone determine the negotiating stance. The RNM reports to the Council for Trade and Economic Development (COTED) – the CARICOM Committee for Trade and Development - but COTED normally meets only three times a year though there are other meetings for special purposes. But there are technical committees of COTED, for example on trade in agriculture and services trade, where negotiating positions can be thrashed out. Some countries are unable to send representatives to meetings but can send in written proposals. Negotiating positions must then in principle be agreed by the Prime Ministerial Group on

¹⁸ This is unlike the European Community in which the Commission can represent the Community in international legal arrangements.

External Trade Relations and, ultimately, by the Heads of Government. These two bodies meet twice a year.

So far in the FTAA only the modalities of the negotiations have been discussed but the nitty-gritty of 'real' negotiations, involving compromises affecting individual sectors, businesses and workers, is close. It is not clear that the accountability question of the RNM has been fully resolved. The RNM's resources are too thin, and its workload too great for it to report to COTED as often as would be wished. Secondly the extent to which it can negotiate for the region is largely unresolved. There are complaints of insufficient advocacy with respect to individual countries in the FTAA negotiations, such as the Dominican Republic. Even if the RNM is merely the co-ordinator of the negotiating positions of the different states its role in the actual process of negotiation may be critical to the outcome. But clearly where a number of states are not represented individually at negotiating sessions its role becomes more than that of a coordinator. It must make a judgement on the extent to which the absent members would be prepared to compromise on one goal in order to achieve another, since the process cannot be held back until each detail is ironed out in Georgetown. In practice the ministers already give considerable discretion to the RNM, but the mandate needs to be made appropriate to the size of the task at hand. Meanwhile the costs of attendance limit the readiness of the member states to service more frequent COTED meetings or those of its technical committees.

The Council of EU Member States has delegated the initiation, negotiation and indeed the implementation of trade policy to the Commission, only retaining the veto over final decisions. Without major constitutional change, the RNM could not be responsible for the implementation of policy but could be delegated the responsibility for its initiation and negotiation, subject only to rejection of the whole deal – whether membership of the FTAA or an EPA with the EU – by the Caribbean governments and parliaments. They might not be prepared to go that far but some intermediary process can be envisaged whereby the COTED or the Prime Ministerial Group on External Trade Relations sets a broad negotiating mandate for the RNM but gave sufficient scope for the necessary give and take of effective negotiation while retaining the right to turn down the final package.

The importance of dialogue with the private sector is fully accepted by all parties. Nevertheless the implementation of that dialogue is far from straightforward. Regional private sector groupings – on bananas, sugar, rice, rum and apparel – are well established. They are fairly new in poultry and citrus. There are also private sector organisations in all the Caribbean countries and, at the regional level, CAIC. At present not enough time is made available for private sector representations at COTED meetings. The government officials find the private sector representatives unprepared and uncoordinated. Part of the problem is that the private sector does not and never will speak with a single voice – the interests of importers and producers are inevitably different – but, to some extent owing to inadequate public information, the private sector organisations tend to be badly informed about the issues. Separately the RNM is making a serious effort to discuss the main issues with private sector representatives.

There is an urgent need to improve information about the trade agenda, both internal and external, for the private sector, NGOs and civil society in general. This must be a joint RNM, CARICOM (particularly on CSME issues) and national government effort. It is important that the governments agree on their expenditures and activities in this respect. There is clearly room for some division of labour.

The negotiating process, including both the formulation of regional positions and effective presence at the negotiations themselves suffers from the weakness of national trade departments. In the OECS countries there may be 2 to 3 people for all external trade matters. Throughout the OECS there are only 3 legally trained personnel in trade ministries. The funds received from donors have been largely spent on short-term projects not directed at strengthening the capacity of national trade departments – such as the WTO Trade Policy Review of the OECS countries. Now a Trade Negotiating Group is being formed to prepare OECS positions. This will pool the expertise of trade officials in the OECS states and will economise on attendees at the negotiating meetings (at the cost of leaving empty seats and the adverse impressions that that can leave). It also means that it becomes more difficult for countries to monitor their interests at the negotiations.

2.5 Suggestions on the External Trade Agenda

Clearly the Caribbean countries should be thinking of an overarching trade policy, which will inform all their trade negotiations, FTAA, EU-ACP and WTO, maintain consistency between negotiating strategies in different fora and, ultimately, end up with the best trade regime obtainable in the light of its development goals. This would inform as to where the negotiators should opt for longer adjustment periods, where reciprocity could be most helpful (through cutting import costs) or do most damage, where safeguards might be needed and so on. For better or worse, the region has no agreed development plan, nor is it likely to develop one in the near future. CARICOM was established when such plans were no longer in fashion and there has been no support for such a plan from the Bretton Woods Institutions. As a result ‘the Caribbean response to the various negotiating initiatives is being fashioned in an ad hoc, fragmented manner, without a clear point of reference to the common principles and basic objectives to be pursued’ (Caribbean Trade and Adjustment Group, 2001). Some economists might be relieved: certainly ‘picking winners’ was no sure way to growth in Europe in the 1950s and 1960s, though it is arguable that a less prescriptive form of indicative planning could play a useful role. In any event the Caribbean countries’ officials will have to thrash out compromise position after compromise position. But this needs to be done with as much information and research as possible, both now in short supply. Some suggestions for an external trade agenda are presented below.

Serious consideration should be given to making the RNM the sole negotiator (a la European Commission) for the region for the EU-ACP and the WTO negotiations – and even, were it still possible which is doubtful, for the FTAA negotiations. A lot of resources are currently being expended by trade officials from the Caribbean states on attending meetings in Miami (or wherever – the sites vary - for the FTAA), Brussels and Geneva. Many of these officials are neither particularly experienced in negotiations nor well versed in the subjects being

discussed. If the RNM were given a mandate to negotiate for CARICOM (plus the Dominican Republic and Haiti which are included in the RNM's current responsibilities), the accountability (in the broadest sense) of the RNM to COTED would have to be more detailed – possibly monthly meetings, written negotiating mandates agreed with COTED, and so on. Such reforms of the RNM would also contribute to clarifying its relationship with the CARICOM Secretariat.

Making the RNM the sole negotiator would force the member states to take the reporting and mandating system seriously. It would remove present doubts about the RNM's accountability. It might even pressure the member states to honour their financial commitments to the RNM. Of course the RNM would need to be beefed up, but the foreign and trade ministries could agree to second their most experienced trade negotiators and officials to the RNM. Until such time as sufficient Caribbean nationals can be brought up to speed, the RNM and the trade ministries should avail themselves of opportunities for hiring researchers, advisors and even negotiators with technical expertise from outside the region, possibly from other Commonwealth countries such as Canada (except in the FTAA negotiations), Australia, New Zealand and the UK (though probably not in the EU-ACP negotiations). Donors should encourage them in that direction.

Extending the mandate of the RNM to become the sole trade negotiating body for the region would require a clear pooling of sovereignty. The member states would have to give considerable discretion to the RNM to secure the best outcome in the cut and thrust of the negotiating table. In that sense it might serve as a watershed in the slow appreciation that the process of integration, whether regionally through the CSME or into the international economy through different trading arrangements, must involve some sacrifice of national sovereignty. The interests of the smallest countries are best protected through rule-based systems, including that of the WTO, but these systems need the sacrifice of some measure of sovereign discretion.

It hardly needs stressing that there is a lack of the technical expertise required for the negotiations in trade ministries. The WTO has provided for a number of workshops in the region. But they are insufficient to bring officials in the ministries up to scratch with such subjects as sanitary and phyto-sanitary rules, customs valuation and procedures, intellectual property, disputes settlement and standards and technical barriers to trade. Secondments of officials to developed country trade ministries could help in this respect. The pooling of skills among officials in the national governments should be encouraged, in particular, to deal with technical areas. There are clearly issues of sovereignty here as well, but the OECS countries have given a lead in the new Tax Commission and Trade Negotiating Group mentioned earlier.

Another major issue is the lack of research to inform negotiating positions. Various proposals for studies have been made and discussed in COTED or technical group meetings – but not yet contracted. Again there is also a financial constraint to undertake research.

3 Caribbean Single Market and Economy (CSME)

3.1 Introduction

The CSME, formally established in 1992, was conceived as an instrument geared towards enhancing economic development of CARICOM Member States. The Agreement establishing the CSME identifies it as the vehicle through which the regional integration movement is to be deepened¹⁹. The CSME is mandated to be the decisive mechanism to facilitate the achievement of “sustained economic development, international competitiveness, co-ordinated economic and foreign policies, functional co-operation and enhanced trade and economic relations with other countries.”

Through the establishment of CSME, it was anticipated that the integration movement would be better positioned to increase exports in both intra regional and extra regional markets, mobilise investment funds and negotiate critical external trade and investment agreements in an increasingly competitive global economy. Caribbean politicians and policy makers have perceived regionalisation as a more accessible, less difficult approach to entering the global market. The experience of the Caribbean region shows that so far this approach has had mixed results in addressing the asymmetries and inequities involved in its international economic and political relations and on regional economic development.

Although most Caribbean economies have experienced significant economic growth and impressive human development outcomes since political independence, there still exist serious negative outcomes both within and across regional economies. These include widespread inequalities in income distribution, high levels of unemployment, poor export competitiveness, high levels of domestic and external indebtedness, environmental degradation, and serious social problems such as growing levels of crime and violence and increasing use of illegal drugs.

¹⁹ Nine Protocols have been drafted which establish the legal framework for the operations of the CSME. The areas covered by these Protocols are: organs, institutions and procedures (Protocol I); establishment, services, capital (Protocol II); industrial policy (Protocol III); trade policy (Protocol IV); agricultural policy (Protocol V); transport policy (Protocol VI); disadvantaged countries, regions and sectors (Protocol VII); competition policy and consumer protection, dumping and subsidies (Protocol VIII); and dispute settlements (Protocol IX). As at 1st May 2002, Protocols I to VII have been signed by all Member States except Montserrat. Protocols VIII and IX are yet to be signed by Belize and Montserrat. Protocols I, II, IV and VII are reported by CARICOM Secretariat to be in force in all Member States. Issues still to be addressed include e-commerce, trade with free zones, free circulation and government procurement. Information on CSME implementation can be found on the CARICOM web site: www.caricom.org/csme-implementation.htm.

The implementation of CSME foresees the implementation of a wide range of policy, legislative and institutional measures. There is a need to identify priorities in order to facilitate timely implementation of the CSME, i.e. by 2005²⁰. The ultimate aims of the CSME are to attain global competitiveness and to link the regional integration process more effectively to the integration of the region in the global economy and to achieving global repositioning thereby facilitating economic development and reducing social problems. Based on these aims the following priority areas for CSME implementation can be identified:

- completion of the common market, with free movement of goods, services, people and capital within a common external tariff;
- elaboration of national and sectoral policy planning frameworks in support of productive transformation to ensure competitiveness based on comparative advantage and optimal use of the internal market;
- support to the private sector through institutional strengthening, entrepreneurship development and appropriate frameworks for investment incentives.
- The establishment of the CCJ;
- legislation concerning competition policy, consumer rights, commercial arbitration, intellectual property rights, standards, and government procurement;

These issues are analysed further in the following sections.

3.2 Free movement in the CSME

A key element of the CSME, embodied in Protocol II, deals with the rights of establishment, trade in services and the free movement of capital and persons across national boundaries in CARICOM. This requires substantial legislative, regulatory and institutional reforms in each of the Member States, geared towards removing existing restrictions.

3.2.1 Free movement of goods

Within the context of trade liberalization, Protocol II envisages a regime that grants CARICOM Member States unrestricted access to each other's markets for goods produced within CSME. The current situation with respect to free movement of goods is that all CARICOM Member States have met their obligations to eliminate restrictions on free movement of goods in CSME. However, some Member States still continue to introduce various types of restrictions, for example, in the form of revenue replacement taxes or discriminating sanitary standards on goods produced in CSME. This trend has been recently identified by CEOs of Caribbean transnationals as a major obstacle to the expansion of intra-regional trade (Smythe, Witter and Associates, 2002). Given the critical nature of trade liberalisation in CSME, Member States need to eliminate all remaining tariff and non-tariff barriers to intra regional trade.

²⁰. It should be noted that a more in-depth review of CSME implementation is being prepared by a team headed by Havelock R. Brewster, "Implementation of the Caribbean Single Market and Economy", which is being funded by DFID.

In terms of free movement of goods, an effective CSME necessitates uniform application of rules, procedures and forms throughout Member States. Not all Member States, however, have met this requirement which is essential to quick, and efficient movement of commodities across national boundaries. In a recent survey of CEOs of Caribbean transnationals (Smythe, Witter and Associates, 2002), regional exporters of manufactured and agricultural goods listed “customs procedures and related problems” as the most serious obstacle to intra-regional trade. Improvements in levels of efficiency in the implementation of agreed Customs rules and procedures should be accorded high priority in CSME.

Although some collaboration exists in the development of standards for important commodities in regional trade, there is need for more detailed identification of those commodities requiring regional standards and the identification of standards for such goods. The Harmonised Commodity Classification and Coding should be speedily introduced since it allows for consistency and comparability of both intra- and extra-regional trade data. This System can assist with ongoing monitoring and evaluation of trends in intra-regional trade and support policy formulation.

Another challenge with respect to the free movement of commodities relates to Haiti’s tariff regime and its compatibility with the existing CSME arrangements. This situation requires careful study in order to devise successful policy responses.

A common external tariff (CET) applicable to imports from third countries has been adopted by CARICOM member states. During the 1990s the CET has been reduced in phases. Most countries, except Antigua and Barbuda (only at stage I), St Kitts and Nevis, and Suriname (at stage III) have adopted the fourth and final phase, which provides for a maximum tariff on non-agricultural goods of 20 percent. For agricultural goods a tariff 40 percent applies in most cases, though for some products countries apply the bound WTO tariff. The decline in the CET has resulted in a decline in the average external import tariff from 20 percent in 1990 to 10 percent in 1999. However, the CET does not fully represent the import tariff regime applied by CARICOM countries, as governments have introduced other import-related levies, such as stamp duties, import surcharges, and discriminatory rates of the consumption tax. These import levies are usually, but not only, applied to agricultural products. In several countries these import-related charges have become a more serious source of anti-trade bias than the CET tariffs. Moreover, countries can apply for derogations from the CET reducing or suspending import duties for inputs, in case supplies from the region are considered inadequate or not competitive, or applying for temporary increases in import tariffs to protect domestic industries (up to the bound rate allowed by the WTO). The substantial variation in CET import tariff rates between products remains also a significant source of price distortions.

A major objective of trade liberalisation, to establish a customs union, allowing free circulation of goods, has not yet been fully achieved. In each country an independent customs authority operates, and imports from outside the region that pass through other member states attract duties at each border. A customs union is now to be established as part of the Common

Single Market and Economy (CSME). The impact of external trade liberalisation in the region on trade and fiscal revenues has been analysed in Chapter 4.

3.2.2 Free movement of services

CARICOM Heads of Government (HOG) agreed that restrictions on the free movement of services in CSME should be removed immediately. HOG also decided that those restrictions, which could not be immediately removed, should be phased out between March 1, 2002 and December 2005. Almost all CARICOM Member States have restrictions on trade in a substantial number of services, including cross border trade (mode 1) with 80 restrictions identified, commercial presence (mode 3) with 300 restrictions identified and with respect to temporary service providers (mode 4) some 270 restrictions.

There are also a number of outstanding obligations related to the free movement of services. These include: certification, accreditation, licensing, common standards and equivalency. Implementation of these obligations should be accorded high priority by Member States. Free movement of services is integrally linked with free movement of labour (which can be classified as trade in services, mode 4) and as such, outstanding obligations related to this area should also be urgently addressed²¹. However, there are institutional and political factors in many of the Member States, which appear to be constraining the immediate implementation of these obligations.

3.2.3 Free movement of capital

Free movement of capital is an essential element in the CSME since it is expected to promote intra regional capital transfers, facilitate cross border investment and encourage private sector financing of business opportunities, regardless of the location of the business entity. Protocol II provides for the removal of restrictions on capital movements within CSME and prohibits CARICOM Member States from introducing any new restrictions. Capital and related payments and transfers in CSME include equity and portfolio investments; various bank and credit transactions; interest and amortization payments on loans; investment dividend payments and repatriation of proceeds from asset sales.

Among the major constraints to free movement of capital in CSME are the existing alien land holding legislation and exchange controls. Regional entrepreneurs have identified monetary and exchange control policies and restrictions on the free movement of capital within CSME as the two most serious constraints to investment. In the region Guyana, Jamaica, and Trinidad and Tobago have completely abolished exchange controls, but exchange controls are still maintained in the other countries of the region. The most recent decision of HOG (Feb. 2002) recommends that the removal of restrictions on the free movement of capital be fully

²¹ See also Section 3.2.4 below.

completed by 2005. This schedule needs to be reviewed to aim at earlier removal of restrictions since these restrictions severely constrain intra-regional investment.

As part of the free movement of capital, integration of the capital markets within CSME was agreed in 1993; this was to begin with cross-listing and cross trading of securities on the existing regional stock exchanges. In addition, the stated objective was to facilitate capital market development in those CARICOM Member States where no markets existed. Currently, stock exchanges exist at various levels of development in Barbados, Jamaica, Suriname, Trinidad and Tobago and the OECS. Guyana and Belize have implemented plans geared towards establishing stock exchanges in the near future. Cross listing and trading of securities, as part of regional stock market operations, is limited to the three more established stock exchanges – Barbados, Jamaica and Trinidad and Tobago. Given the small size of the economies in the region and the small number of eligible firms, it is desirable to strengthen regional stock exchanges.

There is still reluctance on the part of privately owned Caribbean enterprises towards financing capital formation via equity financing as opposed to traditional debt financing. Public education at all levels, including private companies and households, is required as part of a thrust towards regional capital market integration. This is particularly important in light of the stated plans for Caribbean private sector business expansion across the region.

3.2.4 Free movement of persons

As early as 1989, CARICOM States agreed to develop a policy to facilitate the free movement of CARICOM nationals throughout the region. In terms of the Treaty, it was intended that both wage and non-wage workers would have the right to move to and work in any CARICOM country without any impediment. Interestingly, CEOs of regional transnationals strongly support the easing of restrictions on the movement of labour within the CSME.

In theory, CARICOM nationals who are allowed free movement are university graduates, media workers, sports persons, artistes and musicians. The current situation is that except for Montserrat and Suriname, all CARICOM Member States have enacted legislation geared towards facilitating free movement of university graduates. However, the majority of the Member States have not enacted any legislation allowing free movement of media workers, sports persons, artistes and musicians. There is the need to finalise the definition of a Caribbean national and certain related criteria that are necessary to allow for free movement of these categories of workers across the region.

Even in those countries where legislation has been enacted to facilitate free movement of regional university graduates, there exist serious constraints. Firstly, both immigration and labour authorities in Member States are not always clear as to the administrative procedures required for the facilitation of freedom of movement across national boundaries. Secondly, regional university graduates have not been adequately informed about the available options and arrangements concerning free movement. Thirdly, there also appears to be serious

reservations by the political directorates of many CARICOM Member States concerning the speedy implementation of those policies and related legislation, which target free movement of nationals in CSME. It is to be noted here that issues related to the movement of other categories of skilled labour and, more so, unskilled labour are yet to be addressed in CSME.

As part of facilitating the free movement of Caribbean citizens across the region, HOG previously agreed to remove the requirement for passports for travel within CSME and recommended enhanced facilitation at borders through more sensitive immigration procedures. The 2001 deadline for the elimination of passports for travel in CSME was not achieved. It is not clear whether this policy is still being considered as issues related to the definition of nationality as well as the rights associated with holding a passport remain to be clearly articulated. It appears that, as a short-term alternative, CARICOM identification cards are to be introduced by 2003 to deal with the problems concerning free movement of persons in the region.

There are some additional measures, which need to be applied to ensure the smooth implementation of those policies freeing the movement of skilled persons in CSME. These are the harmonisation and transferability of social security benefits; procedures for certifying and establishing the equivalency of academic certification and the accrediting of academic institutions; establishment of a regional skills register and promotion of public education related to free movement. Only one Member State has not implemented measures related to the transference of social security benefits. However, the additional measures are yet to be fully implemented especially the legal, administrative and institutional arrangements, which are necessary to facilitate the agreements included in Protocol II.

3.3 Regional development strategy

For a successful implementation of the CSME, it is important that it fits into a broader more general development strategy. A regional development strategy is expected to articulate a distinct commitment to regional co-operation and the CSME. The strategy should address issues related to sustainable development, expansion of employment, reducing poverty and improving living standards and reduce inequality and social problems. A key issue to be addressed is the fundamental improvement of human development. Furthermore, the strategy should address the role of various actors, including the role of the state and that of the private sector. The strategy should also present views on sectoral prospects for growth and competitiveness and how these can be realised. In addition, the regional development strategy will have to determine the benefits and costs of the regional integration process as these relate to governments, private entrepreneurs and the citizens of CARICOM States. It will need to be ensured that benefits and costs are equitably distributed across countries, sectors and population strata.

The formulation of a regional development and repositioning strategy should be based on a dialogue involving the various stakeholders in the region including governments, opposition parties and groups, private business enterprises, non-government organisations including

trade unions and members of the public. Chapter 4 develops further the components of the strategy, particularly aiming at global repositioning and restructuring.

3.4 Macro-economic convergence

In preparing for the implementation for CSME, it was recognised that provisions had to be made for macro-economic policy convergence. Convergence here entails the long run approximation of the economic policies of all Member States. In establishing the CSME, specific goals of convergence are identified as critical; these relate to greater fiscal discipline, low inflation rates, exchange rate stability and favourable balance of payments positions.

Fiscal, financial and investment policies are the key areas to be co-ordinated. Fiscal policy harmonisation deals with issues related to co-ordination of various taxes and related policies, including double taxation agreements. Financial policy convergence covers the respective financial sectors, including banks and non-bank financial intermediaries and securities. Investment policy co-ordination focuses on fiscal incentives to industry and the preparation of a regional investment code.

Harmonisation of fiscal policies is becoming even more important as a result of the impact of trade liberalisation on government customs revenues. With increasing levels of intra-regional trade and a reduction in the CET, many CARICOM States have experienced declining revenues from import duties. As such, alternative fiscal policy instruments have to be developed. As part of fiscal policy co-ordination, it is also necessary to ensure that tax incentives are harmonised across countries. In listing bureaucratic obstacles to regional cross border investments, CEOs of Caribbean transnationals cited non-uniformity of corporate laws and taxation regimes among the top three which should be removed (Smythe, Witter and Associates, 2002).

There are serious delays in implementing the harmonisation of legislation in the areas reviewed above and related policies. It has been noted that without a stronger, more adequately staffed regional secretariat, progress in these areas will be difficult to achieve.

In 1992, HOG agreed to the establishment of a monetary union in the region. By 1994, the Committee of Central Bank Governors, which had been established to assist in operationalising the monetary union, recommended its indefinite postponement. A regional monetary union and, more specifically, a common currency are no longer cited as priority policy instruments in CSME. Many analysts still argue the case for a common currency in CSME as an essential element in unifying the regional investment market. CEOs of Caribbean transnational enterprises have recently urged HOG to revisit the policy of a common currency with a view to expediting its implementation. This is listed as a necessary condition to facilitate investment transfers across regional borders. However, given the substantial differences in exchange rate regimes, fiscal policies and the political implications of monetary union and its specific requirement of a single currency, it is hardly likely that these policies will be implemented in the near future. In the meantime, it is crucial for the

successful implementation of CSME that CARICOM States vigorously pursue currency convertibility.

3.5 Private sector

Successful regional integration in the Caribbean requires the commitment of a strong, dynamic private sector. In terms of public policy statements, the private sector has been identified as the “engine of growth”. As such, the regional private sector must be more directly involved in regional policy making. This entails institutional strengthening of regional private sector organisations. It also requires private firms to re-organise and restructure their operations to enhance their productivity and efficiency, while ensuring more competitive positions in regional and international markets.

The regional private sector has recently agreed to prepare a regional private sector business plan. The private sector has recognized that a fundamental prerequisite for developing their plan involves co-operation with the regional governments, especially as this relates to sectoral and industry strategies and programmes. Although this proposal comes initially from the large Caribbean transnational corporations, it represents an important opportunity for collaboration between the private and public sector in the identification of certain medium and long-term growth and development objectives for the region.

3.6 Caribbean Court of Justice (CCJ)

The settlement of disputes and matters related to justice and legal recourse in CSME are to be managed by the Caribbean Court of Justice (CCJ). Replacing the Judicial Committee of the Privy Council (UK), the CCJ will be vested with 2 jurisdictions: *original jurisdiction*, to discharge the functions of an international tribunal with compulsory and exclusive jurisdiction, applying rules of international law in respect of the interpretation and application of the Treaty Establishing the Caribbean Community and, replacing, *appellate jurisdiction*, as a municipal court of last resort, to consider and determine appeals in both civil and criminal matters from common law courts within the jurisdictions of the members of CARICOM.

The original jurisdiction is an essential feature for the proper functioning of the CSME, which creates an extensive range of rights and obligations for State parties and Community nationals. The old Treaty of Chaguaramas provided for arbitration in the event of disputes, but this procedure was never used and serious disputes were rarely settled. The Caribbean countries had recognised the Privy Council for its international reputation and sound judgements, but consider that its judicial process is too tardy to offer much comfort to the foreign investor. As the rights and obligations created by the CSME are important and extensive, affecting such matters as establishment of enterprises, provision of professional services, movement of capital, movement of people, and acquisition of land, the CCJ through its original jurisdiction should ensure that the laws of the CSME are uniform and predictable.

In the discharge of its appellate jurisdiction, the CCJ will be the highest municipal court in the Region. In the exercise of its original jurisdiction, the CCJ will be discharging the functions of an international tribunal applying rules of international law in respect of the interpretation and application of the Treaty. In this regard, the CCJ would be performing functions like that of the European Court of Justice.

Some analysts have questioned whether there will be sufficient demand for the services of the CCJ. However, given the planned expansion of the regional integration movement, the CCJ is indispensable. An issue which has been subject to debate is whether the CCJ should have the final appellate jurisdiction function for individual CARICOM Member States. A number of countries had objected to this and some civic groups still do. To address this issue a provision has been introduced for reservations to be entered in the case of the appellate jurisdiction. Presently, most countries are expected to sign up to both the original and appellate functions of the CCJ. Reservations with respect to the final appellate jurisdiction are to be entered by Suriname and Haiti because of their Civil Codes and Montserrat, because it is a British OCT. Most countries can make provision for the CCJ through the passing of legislation through their national parliaments. Some countries may feel obliged or are required, e.g. Jamaica, to entrench the CCJ as the final Court of Appeal in their constitutions, which would also require referenda. For the CCJ to become operational ratification is needed by three countries, funding arrangements have to be adopted, which has been done²² and judges have to be appointed. The CARICOM secretariat is conducting a public awareness campaign, especially to assist countries which need to conduct a referendum in order to adopt the CCJ.

The CCJ is expected to become operational in the 2nd half of 2003 after member states have completed the necessary legislative reforms to replace the Privy Council. Trinidad and Tobago will host the CCJ and is providing it with a building. It is estimated that the initial costs involved in establishing the CCJ amount to approximately US\$20 million over its first five-year period of operations. It is clear that the importance attached to the CCJ should be reflected in the commitment by Member States to contribute to the sustained financing of its operations. To finance the costs of the CCJ, CARICOM countries have opted for a loan based arrangement through the establishment of a Trust Fund with a one-time settlement of US\$ 100 million to finance the Court. The CDB has been charged to raise these funds on international capital markets. Member States could then access these funds to meet their assessed contribution towards the financing of the Court. This approach avoids the need for making annual appropriations from budgets.

3.7 Other policy issues

The CSME makes provision for sectoral policy development and co-ordination in industry, agriculture, services, transport and communications in order to improve the competitiveness of these sectors in a globalised economic environment. This requires medium to long-term

²² St. Lucia, Guyana and Barbados

sectoral development strategies, which should be an integral part of the regional development strategy.

The CSME also makes provisions for assistance to “disadvantaged countries, regions and sectors towards becoming economically viable and competitive by appropriate interventions of a transitory or temporary nature”. The key arrangement here is the proposed establishment of a regional Development Fund, which is authorised to allocate assistance to the disadvantaged countries, regions and sectors. So far no resources have been mobilised for this Fund. Given the importance of such a Fund, sources of finance should be identified. An examination of the role of the Caribbean Development Bank (CDB) in both mobilising and allocating financial resources for disadvantaged regions and sectors is strongly recommended. In general, the CDB could play a leading role in mobilising development financing internationally and regionally and allocating these funds to development projects throughout CARICOM Member States

In support of sector policies, a number of new regional institutions are being set up. A Competition Commission is being established to implement the region’s competition policy and a regional standards bureau has been set up to implement regional standardisation policies. With respect to these and other regional institutions, financing issues need to be addressed, as well as relations with similar institutions at national level and the commitment at national level to recognise their authority and rulings.

3.8 CSME, external trade negotiations and repositioning

Views among both private and public sector officials in the Caribbean states range from a major emphasis on the CSME as a mechanism for improving the readiness of the Caribbean states to accept liberalisation and globalisation vis-à-vis the outside world to a shoulder-shrugging indifference on the grounds that when the Caribbean states join FTAA – or the EU in an EPA – CSME will arrive by default.

However in the first regard there could be some clear gains. For example this could be the case in liberalising rules on establishment – for which there is an agreed timetable but in CSME history that has not meant a great deal – on free capital movements, on the free movement of labour (albeit limited to professionals) and, arguably most important to the credibility for any free trade arrangement, free circulation of imported goods within the Caribbean countries. Achieving free movement of services and labour under the CSME is important, because it could be difficult for the region to negotiate with the other FTAA members or the EU in favour of greater labour mobility under mode 4 of the GATS if highly qualified individuals from one Caribbean state are being prevented from working in another. Movement in these areas in advance of any new trading arrangements would also accelerate the process of the Caribbean’s integration into the world economy. They would stimulate the process of the rationalisation of productive capacity in the Caribbean’s small-scale manufacturing sectors and help break the residual atavistic grip of the cult of national self-sufficiency. They would help entrench the process of the adjustment of the productive apparatus to each country’s comparative advantage. By initiating the process of establishing

viable regional activities, they would give further credibility to any requests for flexibility in timetables for reciprocity or adjustment to new rules, say on competition or labour standards. Without movement towards the CSME the Caribbean countries will find the process of adjustment more traumatic, even with flexible time-scales and asymmetries in market opening. With implementation of the CSME the region has a stronger bargaining position in external negotiations and facilitate the adjustments needed in implementing the requirements of external trade agreements.

Nor does the entry of the Caribbean countries into one or more FTAs imply that further progress towards the CSME is irrelevant – though its priorities will change. Once free trade within the region is a reality – or on clear track to being so – there will still be value in common institutions among the Caribbean countries, including such institutions as an effective common standards body (an embryo organisation CROSQ [CARICOM Regional Organisation for Standards and Quality] exists but individual national standards bodies have yet to relinquish their powers), a common competition authority, agreed sets of rules on customs procedures, e-commerce and government procurement, and, ultimately perhaps a common currency (if that is not pre-empted by a broad move towards dollarisation).

It is worth noting that intra-regional trade could diminish in relative or even absolute terms as trade with the outside is liberalised. Sources of supply outside the region are often cheaper and will be used more extensively as the Common External Tariff is reduced and the various derogations (allowing higher tariffs) are eliminated. In any event it is clear that intra-regional trade will always be small in comparison with external trade as a result of the size of the regional market. However, the CSME introduces disciplines in many areas, which will help the region to take full advantage of the impetus given by trade liberalisation through the FTAA, with the EU or at a global level.

Therefore, in the process of CSME implementation, it is desirable to establish priorities based on relevance in the context of wider liberalisation and global repositioning. Priority areas include such areas as proceeding with liberalisation of trade in goods and services, facilitating the movements of persons, standard development, reform of investment incentives, pursuing currency convertibility, strengthening functional co-operation in areas such as in regional transport, as well as establishing or strengthening supporting institutions in these areas.

3.9 Development prospects arising out of widening regional integration

In order to augment the advantages of regional integration CARICOM has been seeking to expand regional economic integration and co-operation within the Caribbean by adding Haiti as a member of CARICOM, concluding free trade agreements with the Dominican Republic (DR), Cuba, Venezuela, and Colombia, as well as by improving regional co-operation with OCTs and DOMs. Caribbean countries have also sought wider economic co-operation with Latin American countries through the ACS and the EU-LAC partnership.

3.9.1 Haiti's membership of CARICOM

At present Haiti's trade in goods and services with CARIFORUM countries is limited, Trade with CARICOM countries accounts for 1 percent of Haitian exports and 2 percent of Haitian imports. Haiti's main export products are fruits, craft products and garments. As barriers to imports in Haiti are low, additional opportunities for CARICOM exports due to Haiti's membership are limited. A study conducted in preparing for CARICOM membership found that there are possibilities for Haiti to expand exports of food and craft products to other CARICOM countries (e.g. to the Bahamas), and in increasing revenues from tourism (multiple destinations).²³ Benefits for Haiti are also likely to include an improvement in the investment climate, to be realised by the harmonisation of its legislation and regulatory framework. Haiti will furthermore benefit from strengthening the defence of its interests through CARICOM representation in negotiations with WTO, the FTAA and the EU. It should be noted, however, that political instability and poor governance in Haiti is raising concerns with governments of other CARICOM countries and these factors are having an adverse impact on the speed and effectiveness of the integration process.

3.9.2 Free trade agreement with the Dominican Republic

The Dominican Republic has experienced high growth throughout the 1990s, realising an average growth rate of 4.2 percent per year in the first half of the 1990s, which increased to an average of 7.7 percent in the period 1996 to 2000. This growth is based on a strategy, which combines a free trade regime for selected export sectors (all-inclusive tourism and industrial free trade zone (FTZ) sectors, especially garments) with an import-substitution regime for other sectors of the economy. Growth in the FIZ has been particularly impressive. In 2000 there were 46 industrial parks, with 500 enterprises, employing 200,000 workers and accounting for over 80 percent of the country's exports. The FTZ growth is due to a transparent regulatory framework (in contrast to the legal framework applying to the domestic economy), attractive tax incentives and preferential trade arrangements with the USA. However, increasing regional competition with respect to both garments and tourism is threatening the country's favourable growth performance and is dictating the need for diversification.

Since the beginning of the 1990s several economic policy reforms were introduced. On the domestic front, prices were liberalized and adjusted, as in the case of public utilities and, in order to curb inflation, monetary conditions were tightened. The financial system was reformed to strengthen and eliminate distortions in credit markets. On the external front, the economy started to open up to external competition. Tariff rates were simplified and reduced, most non-tariff barriers were eliminated, and export taxes were abolished. Also, the multiple exchange rate policy was dropped and a unified official rate was set in relation to the commercial banks' exchange rate.

²³). Bureau de Coordination et de Suivi des Accords CARICOM/OMC/ZLEA (2001).

The economy of the Dominican Republic is still affected by a number of weaknesses including lack of transparency in public sector and monetary operations, an inadequate legislative and regulatory framework, and governance in general, strong state intervention that limits competition, remaining trade restrictions, as well as high levels of inequality and poverty. A significant number of migrants from Haiti, provide relatively cheap labour, but this also puts downward pressure on wages for Dominicans, and contributes to social tensions.

A free trade agreement has been negotiated with CARICOM, which provisionally entered into force on December 1, 2001. It involves reciprocal trade liberalisation with the five large CARICOM MDCs (Barbados, Guyana, Jamaica, Trinidad and Tobago and Suriname). Haiti and other LDCs are not involved in the FTA between CARICOM and the Dominican Republic. In the free trade agreement with CARICOM, free trade will become immediately effective for most commodities. Some sensitive goods are excluded from the arrangement. The FTA agreement contains provisions regarding rules of origin, technical barriers to trade and sanitary and phytosanitary measures.

The Free Trade Agreement between CARICOM and the Dominican Republic will include agreements on trade in services, which are consistent with the WTO's GATS, as well as on reciprocal promotion and protection of investments. Through the FTA agreement, the Dominican Republic will become to a significant extent integrated in the CARICOM CSME offering both trade and investment opportunities. As a result of the FTA, the Dominican Republic can also be used as a conduit for Caribbean investors, e.g. through establishing strategic partnerships, to target the Central and Latin American markets. The Dominican Republic has free trade agreements with several of these countries. Several economic missions have already been organised from Trinidad and Tobago, and Jamaica to look for trading and investment opportunities in the Dominican Republic. The Dominican Republic is currently pursuing, as some other Middle American countries are doing, the concluding of a free trade agreement with the USA, basically to secure full NAFTA treatment. This initiative, once successfully concluded, may result in at least a temporary competitive disadvantage of CARICOM with respect to the Dominican Republic at the USA market. The Dominican Republic is participating in the FTAA process, using the RNM to assist in its negotiations. The Dominican Republic is not pursuing any additional bilateral trade agreements with Latin American countries.

The free trade agreement between CARICOM has already resulted in several business missions from Trinidad and Tobago and Jamaica to look for trading and investment opportunities in the Dominican Republic. There is a need to explore how this process can be accelerated and supported. Poor transport and communications links are an important obstacle to strengthening economic relationships between the Dominican Republic and CARICOM.

3.9.3 Free trade agreements with Venezuela, Colombia and Cuba

CARICOM has also sought to expand economic relations with several Latin American countries through free trade agreements including Venezuela (since 1993) and Colombia

(since 1995). CARICOM exports to Venezuela have increased since 1993, but remain modest (from US\$15 million to US\$58 million in 1998). The FTA agreement with Colombia did not bring significant benefits to CARICOM countries, as exports to Colombia have even declined and amount to only US\$ 19 million in 1998. Both agreements foresee a gradual replacement of tariff preferences with reciprocal liberalisation.

CARICOM has concluded a Trade and Co-operation Agreement with Cuba. The Agreement includes a list of products from Cuba for which CARICOM provides duty free access and a list of products from CARICOM for which Cuba provides duty free access. There are also short lists of products for which duties will be reduced in a phased manner over a four-year period. The agreement also covers protection of investment. CARICOM exports to Cuba amounted to US\$16 million in 1998. Though so far trade between CARICOM and the Dominican Republic with Cuba has been negligible. It is expected, however, that Cuba's participation in the process of regional economic integration and co-operation will result in enhanced opportunities for Caribbean countries in the fields of trade, technology and foreign investment.²⁴ In the area of tourism Cuba also constitutes a potentially formidable competitor for other Caribbean countries with the number of visitors already having increased from three hundred thousand in 1990 to 1.7 million by the end of the 1990s. Nevertheless, there is also potential for co-operation through promoting multi-destination tourism. Multi destination agreements have already been concluded with Jamaica, the Dominican Republic, Mexico and Guatemala. There is furthermore scope for export of technology, and the provision of business advisory services assisting in enhancing the market orientation of the Cuban economy and the introduction of market-based business practices and systems. CARICOM countries can also take advantage of Cuba's technical potential in specific sectors, such as biotechnology, pharmacology, medical care, fisheries, sugar cane derivatives and the development of human resources. In general, there is a need to strengthen information about economic co-operation opportunities with Cuba. There are furthermore investment opportunities to bring the transport infrastructure up to date, especially ports. In the field of education and training, there are significant opportunities for students from CARIFORUM countries to take advantage of high quality programmes in Cuba. There are, however, also still considerable constraints in doing business with Cuba, including US economic sanctions (Helms-Burton law²⁵), as well as restrictive government regulations and foreign exchange limitations.

3.9.4 Co-operation with OCTs and DOMs

Closer co-operation with the OCTs and DOMs in the Caribbean will strengthen trading and investment relations with these territories. So far economic links between OCTs/DOMs and CARIFORUM countries are limited, though some trade is taking place, e.g. exports of agricultural produce from the Windward Islands to the DOMs. There is scope for strengthening economic relations and achieving greater efficiencies through collaboration in

²⁴ There are for example considerable investments from Jamaica in the tourism sector in Cuba.

²⁵ This law was passed in March 1996 and aims reducing foreign investment to protect the rights of US citizens including nationalised Cubans of whci property has been expropriated by the Cuban government.

such areas as agriculture (by reducing administrative barriers), ICT, exploitation of marine resources, transport, tourism-related sectors, health care, education and training, technology and disaster mitigation. To facilitate economic integration, there is scope for supporting networking of the CARIFORUM/OCT/DOM private sectors and facilitating exchange of information on business opportunities. With respect to promoting trade between the DOMs and CARIFORUM countries, the conclusion of reciprocal trade agreements can be considered. There is scope for better utilisation of modern facilities present in the DOMs (airports, education, health, laboratories and research) by other Caribbean countries.

3.9.5 Co-operation with Latin American countries

With respect to Latin American countries in the Caribbean region strengthening of economic relations are pursued in the context of the Association of Caribbean States (ACS), especially in the following areas:

- Trade (business forum for promotion of trade and investment);
- Sustainable tourism;
- Transport (co-operation between air and sea authorities);
- Natural disaster management.

Furthermore, there is scope for pursuing stronger economic ties with Latin America through the EU-LAC partnership process which started with a first Summit of Heads of Government in Rio de Janeiro in 1999. In the context of this partnership sound economic and financial relations based on a comprehensive and balanced liberalisation of trade and capital flows, and dynamic co-operation in key sectors is pursued, especially in the educational fields and in scientific and technological development. In the economic field improvements are targeted in communications infrastructure; and fostering the training and education of human resources and capacity building in the area of use and management of ICT, in particular in the areas of education, health, transport infrastructure, government services.

4 Global repositioning in the Caribbean

4.1 Economic outlook for the region

At the start of the millennium, analysts regarded the economic prospects for the Caribbean region as a whole as relatively favourable. According to Itam *et al.* (2000), for example, economic growth was expected to be higher than the performance of the region in the 1980s and 1990s, although below the expected growth of the world economy. Indicators for inflation, fiscal performance and the region's external position were also likely to improve. Recent figures show that growth has been modest in most countries over the last years, however. The US recession after September 11 will have contributed to a declining growth performance over the last year, given the region's strong trade linkages with the US.

Agreements for the FTAA, ACP-EU, and the WTO, completion of the CSME, and macro-economic adjustments will have important implications for the region in the coming years. Governments in the region are concerned over the impact of the erosion of preferences in the EU market for a number of important products. As agriculture and manufacturing are likely to decline in the region, growth will depend on the success of stimulating new types of businesses, notably in the area of services.

Bonnick (2000) notes that growth in the region needs to be equal to worldwide growth of productivity plus 1.75 percent to provide employment for the increasing labour force over the next 20 years. These implied growth target rates are considered feasible, but may be difficult to sustain over a longer time period. The author notes that in the context of stimulating growth, a number of lessons should be learnt from the past. These lessons include, among others, avoiding and reducing protection of economic activities, limiting the role of the government in direct production, avoiding erratic intervention by the government, and clarifying the environment for private sector activity.

This chapter examines the impact of these developments on the economic prospects for the Caribbean. It starts with an overview of theoretical and empirical studies on the impact of liberalisation. It follows with an assessment of the threats and opportunities that arise from liberalisation: which sectors are likely to loose from liberalisation and which sectors may benefit? Finally, it looks at how governments can support the private sector to adapt to expected changes, and how it can create an environment in which the private sector can become the engine of growth in the Caribbean economy.

4.2 The impact of liberalisation: theory and empirical evidence

Economic theory shows that trade liberalisation has both static and dynamic effects. The static effect relates to cheaper inputs and consumption: a reduction of the barriers to trade will make foreign goods available at lower prices and reduce the rents that previously may have been captured by domestic producers, provided that markets function effectively. In the longer run, countries can improve efficiency of production through increased competition, by encouraging specialisation in sectors in which the country has a comparative advantage, and by making use of economies of scale through exports to the world market. In addition, imports of foreign goods can give countries access to ideas and technology embodied in these goods, thereby increasing their technological capability. (McCulloch, Winters and Cirera (2001)).

Despite these expected gains, policy makers are often reluctant to implement trade reforms. On the one hand, this is caused by strong lobbying of sectors that are currently protected. In addition, however, policy makers may fear excessive adjustment costs. Matusz and Tarr (1999) survey the evidence on the adjustment costs of trade liberalisation, examining more than 50 studies. They find that in virtual all cases adjustment costs are relatively small in relation to the benefits of liberalisation. The authors argue that policy makers can reduce adjustment costs by ensuring macroeconomic stability and credibility of policies to foster a quick and sustained private investment response in newly competitive sectors of the economy. In addition, structural policy reforms to improve labour market flexibility and reform of the state enterprise sector may have important effects in this context. Thus, according to this study, adjustment costs are unlikely to outweigh the benefits of trade liberalisation and these costs do therefore not provide a valid argument against trade liberalisation.

Regional integration

The analysis is somewhat different for liberalisation in the context of a regional free trade agreement (FTA). In the case of an FTA, two static effects are distinguished: trade creation and trade diversion. Trade creation refers to the effect that a country will import goods from a country within the FTA that were formerly produced domestically, because trade barriers are reduced between the two countries. This will increase welfare. Trade diversion occurs when goods that were formerly imported from a third country are now imported from a country within the FTA, because only trade barriers within the FTA have been eliminated. This implies that goods or services are now imported from a less-efficient producer, and therefore welfare is reduced. In the long run, an FTA will also have dynamic effects, notably through specialisation and increased competition in the countries involved.

In the context of an FTA between developed and developing countries a potential benefit is that developing countries may attract more FDI. For the Caribbean, this will in particular apply for goods for which transportation costs are low and for which production costs will be lower in the region than in the developed countries. An increase in FDI would bring both capital and knowledge into the developing countries.

As shown in the first chapter, the Caribbean region is preparing for two major FTAs: the Free Trade Agreements of the Americas and an FTA with the EU in the ACP-EU context. Together, the US and the EU accounted for 63.9 percent of imports and for 60.2 percent of exports of CARICOM in 1999 (see Annex 1, table 6). If agreements would be concluded for both FTAs, this will therefore have significant effects on the economies of the region.

Stevens *et al.* (1998) identify the economic impact on CARICOM and the Dominican Republic (DR) of a regional economic partnership agreement (EPA) with the EU. The authors only consider the static gains from such an EPA, because dynamic gains will to a great extent depend on the progress in the hemispheric liberalisation process (FTAA). In addition, the study does not look at the service sectors and assumes that a number of sensitive agricultural items will not be included in the offer of CARICOM and the DR to the EU. In the analysis, trade creation effects of a EPA are estimated to be larger than trade diversion effects, but both figures are relatively small. These low figures can be partly explained by the small initial share of the EU in the Caribbean market. Given the product coverage in this study, the authors conclude that the adjustments in production and employment will only be significant in Jamaica, the DR, and Trinidad and Tobago. The authors warn that if an EPA is undertaken in isolation, there is a serious danger that tariff cuts would not be passed on to consumers in the form of lower prices due to a lack of competition in the Caribbean region. If an EPA takes place in the context of broader hemispheric liberalisation, this risk will be lower.

There are no detailed empirical studies on the possible impact of an FTAA on the Caribbean. Devlin, Estevadeordal and Garay (1999) look at the potential positive and negative effects of the FTAA from a theoretical perspective. One important benefit will be the access to the hemispheric market. This will be important for the Caribbean, since the US is a very significant trade partner. However, the Caribbean already enjoys relatively free market access to the US under the Caribbean Basin Initiative (CBI). Benefits will therefore only be significant in the areas that are currently still protected. The authors also point to the attraction of FDI created by integration schemes: an FTAA, creating a large preferential market, could be a magnet for foreign direct investment. Another important gain may be the lock-in effects of the FTAA, i.e. the FTAA can make reversals of economic policy changes more difficult, and these changes therefore gain credibility. These lock-in effects have been important for Spain and Eastern Europe in the link up with the EU. On the negative side, four potential effects are identified: high adjustment costs, an uneven distribution of the benefits, macroeconomic vulnerability associated with the sequencing of structural reform, and the erosion of autonomy through increased interdependence. The authors do not make an assessment of the size of these effects however.

Some lessons on the impact of liberalisation through concluding an FTA for the Caribbean, may also be drawn from studies on the economic impact for small countries that have joined or concluded a free trade agreement with the EU. Here, we will have a brief look at three studies.

Goerg and Ruane (1999) focus on the effects on investment of economic integration in the peripheral countries of the EU, namely Ireland, Greece, Portugal and Spain. They find that

the increase in FDI flows to Ireland was much larger than that to Greece, Portugal and Spain. This difference can be explained by differences in variables like language, culture, industrial policy and developing agglomerations. Therefore, they conclude that economic integration may be a necessary, but not a sufficient condition for attracting FDI. The Caribbean may learn from Ireland's policies that support the location of multinational enterprises through the use of incentives and from the agglomeration that took place in Ireland. The Irish experience also suggests that the English language may be an advantage for the Caribbean.

Brenton, Di Mauro and Luecke (1998) look at economic integration and FDI in the EU and Central and Eastern Europe (CEEC). The authors find, among others, that the relation between FDI and trade is complementary and therefore liberalisation is likely to stimulate FDI flows. This is reflected in the experience of Portugal and Spain, where EU accession led to a considerable increase in FDI, although this effect declined after a number of years. If the results of the study could be translated to the Caribbean, it would imply that FDI is likely to increase immediately after joining a FTA. Given the complementary relationship between trade and investment, this will not happen at the expense of trade.

Dessus and Suwa-Eisenmann (1998) look at the effects of the Egyptian-European Partnership Agreement (EEPA) on sectoral reallocation in Egypt. This study shows that the EEPA could promote diversification of the Egyptian economy towards tradable industries. This diversification is necessary to overcome the decline in traditional industries and to reap the benefits from globalisation. An important requirement for these benefits is that the EEPA improves market access for Egyptian products. The authors note that the EEPA can ease the transition of Egypt to globalisation with carefully designed accompanying measures. An important role for the EEPA for Egypt is to function as an anchor and lock in domestic reforms. If the results of this study are translated to the Caribbean, it seems that the Caribbean can benefit more from regional FTAs, when these are linked to some development co-operation, to ease their transition into the global economy. This will help the region to diversify its production and exports.

While the above studies may provide some insight to the impact of joining FTAs for the Caribbean, more specific studies that focus on the effects of various future trade agreements separately, or that focus on specific sectors, would help governments in the region to make better-informed policy decisions.

4.3 Global repositioning in the Caribbean: opportunities and threats

While a country as a whole will gain from liberalisation in the long run, in the short run adjustments in the economy will be necessary. Some sectors will contract as a result of liberalisation while other sectors will face new opportunities. The challenges posed by globalisation cannot only be addressed by conventional economic policy. Countries need to pursue a development strategy aimed at strategic global repositioning. "Strategic global repositioning is a process of repositioning a country in the global economy and world affairs

by implementing a strategic plan”²⁶. An integral part of global repositioning is export diversification and continuous adjustments in product mixes.

The Caribbean region, mainly consisting of middle income countries (exceptions are the low income countries Haiti and Guyana), is faced with a serious dilemma with respect to the type of competitiveness strategy to be pursued. On the one hand the region has largely lost its competitiveness in labour intensive products, and on the other hand, it cannot yet compete with the developed world in high tech products. Therefore, another model of economic development needs to be pursued, which builds on a more effective combination of human resources, natural resources and fixed capital through harnessing knowledge. Incorporating knowledge into the development strategy involves creating the capacity to absorb and adapt knowledge through investments in human capital and research, investing in technologies to facilitate the dissemination of knowledge and creating knowledge locally. This implies that the region needs to focus on knowledge-driven business development. In the Caribbean, knowledge-driven business development does not necessarily mean high tech, but more intelligent running of businesses (better knowledge of markets, being able to utilise available information, ability to adjust products based on market opportunities, better organisation of production, knowledge and application of standards, better organisation of inputs, quality control). Knowledge driven business development is especially important for the diversification of the Caribbean economies in favour of services.

This section looks at the possibilities for export diversification in the Caribbean: which sectors will loose from liberalisation and which sectors may benefit? In addition, attention is paid to the fiscal implications of liberalisation for the region and the role of remittances in promoting development. Section 4.4 addresses the role of the government and the private sector in stimulating knowledge driven business development and increasing international competitiveness.

4.3.1 Agriculture

Most non-traditional agricultural products are still heavily protected in both in CARICOM countries, as well as the Dominican Republic. This protection will decrease given future liberalisation. In addition, the preferential treatment that Caribbean producers of the traditional products, bananas, sugar, rum, and rice currently enjoy in its major markets is likely to be eroded in the process of liberalisation within the EU-ACP and FTAA context. In the future, Caribbean producers will therefore face increased external competition. We will briefly look at the prospects for the four traditional agro-based commodities.

Bananas

Belize, Jamaica, Suriname and the Windward Islands are the countries within CARICOM that export bananas. However, exports of bananas from Jamaica and the Windward Islands have decreased over the last years due to a mixture of increased competition and

²⁶ Quoted from: Bernal (1996).

unfavourable domestic production factors (e.g. a severe drought in the Windward Islands in 2001). From 2006, there will be a tariff-only regime for bananas, which will further increase competitive pressure on exports from the region.

Estimates suggest that the production costs of bananas in the region are 40 to 50 percent higher than in Ecuador. Given these large costs differences, the region is unlikely to be able to compete on the world market when preferences are eroded. A study has concluded that banana production in Belize and Jamaica has been competitive under the present regime and will possibly remain so under alternative less preferential regimes. The situation in the Windward Islands is much different. Despite recent attempts to rationalise banana production in these countries, the industry is not truly competitive in the world market and the prospects of this changing in the future are not promising.²⁷ Also the Caribbean Trade and Adjustment Group (2001) thinks that only Belize would be able to compete on the world market, although this would require some restructuring and strengthening of alternative direct marketing arrangements.

Sugar

Barbados, Belize, Guyana, Jamaica, St. Kitts and Nevis and Trinidad and Tobago export sugar outside the region. The largest part of these exports, 85 percent, are destined for the EU under the Sugar Protocol and the Special Preferential Sugar Quota. Like in the case of bananas, the costs of production in the region are much higher than in other parts of the world: the average cost of production in the region is 39 cents per pound, while this figure is 6 cents a pound in Australia and Brazil. Given these large cost differences, it is unlikely that Caribbean producers will be able to lower production costs to be able to compete at the world market. Therefore, it seems unlikely that these industries will survive after liberalisation. Only Guyana and Belize have been able to produce sugar below the EU price under the Sugar Protocol and seem to have any prospect of being internationally competitive, whereas in Jamaica some smaller estates benefiting from good soils and efficient cultivation practices and processing plants may also remain competitive. The Caribbean Trade and Adjustment Group (2001) notes, however, that these countries still need substantial investment in rationalisation, relocation, and field and factory productivity improvement.

Rum

Rum is an important export product for the region. The industry has enjoyed preferential treatment at the US, EU and Canadian markets. The preferences have been partially eroded, however, and the ongoing liberalisation process will further increase international competition in the industry. The industry has to make some changes in order to face these competitive pressures. Up until now, the majority of rum export has been in the form of bulk rum. Next to upgrading of equipment, technical assistance and training of personnel, the promotion of branded products will be important in raising the competitiveness of the industry. There are a number of successful examples of branding in the region. For example, El Dorado rum from Guyana won the prize for best rum in 1999 and Wray and Nephew in

²⁷ See Taylor, T.G. (2001).

Jamaica has succeeded in gaining important market shares in Canada, the USA and Mexico for its Appleton rum.

Rice

Guyana and Suriname are the main exporting countries of rice in the region and benefit from preferential access to the European market. The preferences have been partially eroded over the last years, however, and the EU's Everything But Arms initiative will further erode the competitive position of Caribbean rice exports. Rice exports are still substantial, partially also to regional markets. The only way that exporters may still be able to compete on the world market is through improving production efficiencies at farm and processing stages, and institutional strengthening of organisations in the sector. Other important areas to be addressed are infrastructure, land reform, access to credit, storage, and especially marketing to increase markets in Latin America. There is also scope for example to specialise in exporting organic rice to the EU. The improvements require considerable investments, which can only be financed with foreign support.

Overall assessments of the threats and opportunities in agriculture

The foregoing shows that the prospects for the traditional agricultural exports do not look favourable for the region. The region has relied on special agricultural regimes for bananas, sugar, rum and rice from the EU, but most of the earlier tariff-quota preferences or guaranteed price-quotas have been or will be wound down. The region is at present not internationally competitive in these traditional products, as the costs of production are substantially higher in the region than in other parts of the world. Whereas in general therefore contraction needs to be expected in the traditional product areas, the implementation of ongoing and planned restructuring programmes hold some promise for improving competitiveness and sustaining part of production. These structural transformation efforts should address issues related to improving production and processing efficiencies, developing specialty products, and active marketing programmes. For example, Belize has the potential for becoming internationally competitive in bananas and sugar, and Guyana and some estates in Jamaica may also be able to compete in sugar on the world market. In rice, there are opportunities to sustain exports through specialisation in certain varieties, e.g. the export of organic rice to the EU, and through diversifying markets.

Non-traditional agricultural products and food processing

It has been concluded that while CARICOM agriculture faces significant competitive challenges as a result of liberalisation, liberalisation will also provide opportunities, as a result of new markets access opportunities in several product areas at more attractive prices.²⁸ It has been estimated that elimination of agricultural trade and domestic policy distortions in developed countries would increase agricultural prices on the world market on average by 12 percent. The challenge presented by trade liberalisation is to achieve the sectoral structural transformation to capture these opportunities. Several countries in the Caribbean already exhibit competitive advantages in several non-traditional crops, including fresh fruit (tangerines, mangoes, papayas, peppers) in Jamaica and in some of the Windward Islands, as well as yams and other tubers in Jamaica and the Windward Islands. There is scope for

²⁸ See Taylor (op.cit),

further development of exports for several of these products. Effective marketing and strengthening of links between growers and exporters is required to strengthen the competitive position of the Caribbean in agriculture and to achieve diversification. However, several other non-traditional agricultural products are produced under high import protection. In these product areas, liberalisation will result in higher competitive pressures as imports become cheaper. Especially, the livestock sectors in the Caribbean are generally not competitive with imports, though it is likely that most countries are committed to retain livestock activities by maintaining sufficient levels of protection to do so.

In several CARICOM countries the fishery sector has been increasing in importance. This sector has a strong export orientation. In 1997 fish exports from CARIFORUM countries amounted to some EUR 150 million. The main fish exporting countries in the region are: Bahamas, Guyana, Belize, Jamaica, Suriname, Haiti, St Vincent and Antigua and Barbuda. Access to markets is increasingly determined by health conditions imposed by importing countries. The capacity to respond to these conditions will determine future growth prospects.

A major constraint to improving the competitiveness of agriculture in the region is the limited transportation infrastructure. Poor transportation linkages, handling and storage facilities are especially a constraint for perishable commodities. Extension support capacity is another constraint, where the existence of adequate research and extension services and the establishment and enforcement of the requisite product standards and regulations are critical to the ability of CARICOM agriculture to compete in a liberalised environment.

Good marketing is also an important ingredient for strengthening the competitive position of agriculture in the Caribbean. This marketing may well be linked to the unique nature of the region or country of origin of the product. The branding of products has already proven to be successful, notably in the case of rum, but also for example in the case of Blue Mountain coffee from Jamaica.

Liberalisation may provide opportunities to the food-processing industries, which have effectively faced negative protection in the past through the preferences for non-processed goods and the tariffs on imported raw materials.²⁹ In the liberalisation process, agricultural products will become cheaper in the region as a result of lower protection, and food-processing industries will therefore be able to use cheaper inputs. Opportunities may lie in the production of banana chips, beverages using local sugar, processing of fruits and vegetables, etc.

The challenge for the region is not only to diversify production and export, but also to have a flexible production platform. When the Caribbean is successful in certain niche markets, other countries like India and Brazil will also start to produce for these markets and then the Caribbean is likely to lose. A constant search for niche markets is therefore required.

²⁹ For example for Jamaica, average tariffs for fruits and vegetables are 40 percent, whereas, average tariffs for processed products amount to less than 20 percent.

4.3.2 Manufacturing

Manufacturing is only important for a few countries in the Caribbean region. Within CARICOM, Trinidad and Jamaica account for the major part of manufacturing exports, mainly resource based products (petrochemicals and alumina), garments, agro-based products, as well as some consumer goods and packaging products. In the region the Dominican Republic is the largest exporter of garments. In the other countries in the region, the share of manufacturing in exports is relatively low.

In general, the countries in the region are too small to take advantage of economies of scale, which are important in manufacturing. In addition, labour costs in most countries are too high to compete in labour intensive products, and the region cannot yet compete with the developed world in high-tech products. It is therefore expected that liberalisation will be associated with a decline in the share of manufacturing in both GDP and exports.

The future of the garment sector is difficult to assess. The (enhanced) CBI with the USA fuelled most growth in garment exports to the USA. Most of this growth has taken place in free zones, based on imported inputs, with few linkages to the domestic economies. The growth in garment exports in both Dominican Republic and Jamaica has been instrumental in creating substantial low wage employment, especially for female workers.³⁰ However, because of the isolated status of the industry, it has not resulted in important technological and organisational spillover effects to other industries. The enhanced CBI will be phased out in 2005. However, when this regime will be replaced by the FTAA access to the US market will become even less restricted than under the CBI and CARIFORUM countries will continue to face strong competition from garment producers in Middle American countries, such as Honduras and El Salvador. Moreover, in garments the phasing out of the Multi Fibre Agreement will increase competitive pressures from Asian countries. The FTAA will open few new areas of manufacturing exports to the USA, as for most products US import tariffs are already low. Similarly, an EPA with the EU will have limited market access effects for Caribbean manufacturers.

The manufacturing industries that are currently successful have become competitive through reducing costs, better quality control, and also through marketing. It seems that the opportunities that arise from further liberalisation lie in finding niche markets and in effective marketing of Caribbean products. Opportunities may be most prominent in the Dominican Republic which has in its free zones fledgling food processing, including cigars, pharmaceutical and electronics industries, with the potential of improving their competitiveness. Also Trinidad and Tobago and Jamaica have firms in these sectors which can achieve international competitiveness.

³⁰ In the case of the Dominican Republic enterprises in free zones created 250,000 jobs and account for 82 percent of the country's exports of goods..

4.3.3 Services

From the above, it seems that the opportunities from liberalisation in the Caribbean in the field of agriculture and manufacturing are limited. Most opportunities from liberalisation are generally considered to lie in the area of services. Bonnicks (2000) also identified services exports as an opportunity for growth in a paper on challenges, opportunities and strategies for the region for the coming twenty years.

The World Bank (1996) identifies a number of benefits from the expansion of service exports: it creates employment for a large range of skill levels, reducing the vulnerability of the economies to external shocks as a result of diversification, and increasing foreign exchange earnings and tax revenues. Well-functioning service sectors will also create a more efficient business climate for other sectors in the economy. Transport, communication, and education and training are prime examples of services that can improve the efficiency and thereby facilitate the expansion of other sectors.

The main source of competitive advantage in many service exports is human capital. In more labour-intensive service sectors the productivity of workers is crucial, and for knowledge-intensive sectors the availability of sufficiently qualified technicians and professionals is a determining factor for competitiveness. The region has the core of a relatively educated labour force, though access to higher education is still limited. In addition, the region has advantages of geographical proximity, shared language and cultural affinity with the North American market. It is important to exploit these advantages in an environment that is characterised by fierce competition and strengthen them where possible, especially with respect to education.

In the following, the opportunities and challenges in a number of important service sectors are identified. Attention is paid to the different modes of supply of export of the various services sectors, using the WTO classification of cross-border trade (mode 1), consumption abroad (mode 2), commercial presence (mode 3) and the movement of natural persons (mode 4).

Tourism

Tourism is by far the largest service export in the Caribbean. The sector contributes a third to a half of GDP for most Caribbean countries. Tourism is labour-intensive and encourages entrepreneurship in a wide range of auxiliary activities including agriculture, restaurants, entertainment, transport, sports facilities, trade and crafts. The indirect effects of the industry are substantial and whereas more local resources could be used, hotels already rely to a significant extent on local inputs in terms of food, furnishings and other inputs. The main tourism markets are the USA and Europe. Important destinations for tourists from the USA are especially the Bahamas, Jamaica and Cuba. The Dominican Republic, Barbados and Cuba are important destinations for tourists from Europe. The OECS attracts tourists from both markets. Recently, the growth of the sector has started to decline, however, and the 11 September terrorist attacks in the USA have aggravated this trend. This decline can be partly explained by some structural problems the industry is facing. In some parts of the region, tourism is negatively affected by the local crime situation. Furthermore, lack of air access and

poor local infrastructure are obstacles to growth in some of the countries. Despite these problems, there is a general consensus that for the medium-term the industry has considerable growth potential. Some estimates put potential growth for the next 10 years in the 4-5 percent range (Gonzales (2001)).

Tourism is a typical example of exports in mode II. Opportunities may also lie in the export of tourism through other modes of supply, however. Two Jamaican hotel chains have opened branches and captured hotel management contracts in the region (mode 3). These chains have also started operating hotels outside the region (e.g. in Brasil). In addition, tourism workers may also provide tourism services abroad, inside as well as outside the region and are also extensively employed in the hotel sectors in the USA and Canada (mode 4).

To achieve further growth, it is important to market and promote the Caribbean tourist industry effectively abroad, thereby creating a strong Caribbean brand. The client base should be expanded to countries other than the US and the UK. In addition, it is believed that the sector can expand by moving upscale, providing more high-quality attractions, such as golf, water sports and other facilities. Furthermore, efforts should be made to capture more benefits from the rapidly expanding cruise shipping tourism³¹. Further development of eco-tourism provides opportunities. Finally, a Caribbean brand-image can also be used for organising thematic holidays, for example through holidays focusing on “learning reggae in Jamaica” or on cricket. Other challenges are to improve transport links to and within the region. In addition, training of people working in tourism is essential, as well as keeping the industry sustainable by limiting environmental degradation.

Education and training

There are opportunities for Caribbean countries to increase exports in the field of training and education. Exporting education can for example be done at university level. If other countries apply restrictions on the number of students for a certain study (e.g. medicines, veterinary studies), the Caribbean could offer the study programme to the people who have been rejected in their own country. Cuba is already an important exporter of health education to Latin America. This would lead to export in mode II. For training in specific topics, teachers can also travel abroad to supply their services, which would be export in mode IV.

To facilitate the strengthening of economic links with Central and Latin America it is important for the English-speaking islands to extend access to Spanish and Portuguese language training. Other important challenges in training and education are the use of internationally accepted standards, wider use of IT in education (computer skills, distant learning), wider regional use of available high quality institutions (e.g. in the French DOMs and Latin America) and to ensure the availability of qualified teachers and trainers.

³¹ The Caribbean has become the largest cruise ship tourist destination in the world, representing 53 percent of the world's cruise market.

Entertainment

The entertainment industry in the region already has a strong export orientation and is expected to benefit from further liberalisation. Music is the most promising area, since the Caribbean is well known for its reggae, Trinidad style carnivals and jazz festivals. The Jamaican music industry is estimated to control US\$ 60 million in reggae music sales. Exports of Trinidad and Tobago's music industry are estimated at US\$ 25 million, mainly driven by the annual carnival. For the Dominican Republic, Barbados and the Eastern Caribbean the export revenue of the music industry, generated by domestic and overseas performances, radio broadcasts and a variety of festivals, are estimated at US\$ 60 million, US\$ 15 million and US\$ 20 million, respectively. The main market for the music industry is still among the Caribbean diaspora, but there is substantial scope for serving the mainstream markets.

Exporting mainly takes place through mode 4, in the form of live performances abroad. Trade through mode 1, in the form of recorded material, has proven to be difficult as a result of the structure of the music industry, piracy, weak administration among royalty collection agencies and weak intellectual property rights protection. Digitalisation of the production and marketing of music is posing substantial challenges to the music industry in the Caribbean. Internet will provide an important means for the promotion and trade of entertainment services in the future. Apart from music, filmmaking has potential in the region.

The challenges for expanding trade in the sector include improvement and better enforcement of intellectual property rights legislation, development of new markets and distribution channels, and establishing a good regulatory framework for foreign investment in cultural industries. Regional collaboration can contribute to improving the effectiveness of above-mentioned measures.

Financial services

Financial services have become increasingly important for the region. In particular, there has been success for offshore financial services, where advantage was taken of lower taxes.

Liberalisation is expected to improve efficiency in the financial sector through increased competition, skills and technology transfers, better risk management and increased transparency. This will have beneficial effects for the Caribbean economy as a whole. It is not clear to what extent the region will be able to increase exports of financial services however. The OECD Report on Harmful Taxation Competition has for example resulted in a reduction in the attractiveness of the offshore financial sector by putting countries that have been identified as engaging in harmful tax practices on a black list. A recent IMF report (IMF, 2002) notes that the prospects for the Caribbean region in this sector have indeed deteriorated with the current tightening of international standards. Offshore financial centres are now often associated with money laundering or other illegal activities. An established reputation will therefore become a determining factor of success. For other segments of the financial sector, much will depend on improving the conditions for entry in other markets. There may be possibilities in the provision of some new services, like custodial services and asset management.

The major challenges are to establish prudent regulation in the sector with liberalisation and to keep up with technological developments.

ICT

Many developing countries are focusing on the promotion of the ICT sector. The ICT industry in the Caribbean is currently in a phase of infancy. The pace of change in the sector has been relatively slow compared to other developing countries (Souter, 2002). In a number of countries in the region (e.g. Jamaica and St Lucia) a fledgling call centre industry is developing. Whereas there is competitiveness in the costs of workers and access to sufficiently qualified workers, telecommunication costs are still relatively high, unfavourably affecting the overall competitiveness of this segment of the IT industry. Lack of highly qualified workers is a constraint to developing the more upscale software development segment of the IT sector. The Caribbean countries also face problems of limited size of the domestic market, remoteness and lack of resources. Even more so than financial resources, the availability of sufficiently educated workers is essential for the development of the IT sector.

Major requirements for promoting the development of the ICT sector in the region are improving general and specialised IT education and training, strengthening the enforcement of intellectual property rights, as well as establishing low-cost and high quality telecommunication connections.

Health care

The market for health care services is expected to grow, given the ageing of the world population and the increased mobility of suppliers and consumers of health services. The Caribbean may be able to exploit this market, given the location and language of the countries. At this moment, health exports still mainly consist of emergency services to tourists. Complex health services are often only available outside the region, and it is therefore unlikely that the region will be able to export a wide range of health services. Rather, it should focus on some specific areas. The most important opportunities seem to lie in the area of retirement homes or care for the disabled, in the area of short-term treatment, for example, dental treatment and cosmetic surgery, and in the area of health tourism, using spas and hot springs. These services are exported through mode 2. Mode 4 seems to become increasingly important, as developed countries are often recruiting medical personnel in the region.

Important challenges for the sector are to solve the problem of non-portability of health insurance, training of skilled medical personnel, identification of niche markets and effective promotion and marketing of these services.

Other professional services

Professional services consist of a large range of services, including engineering and construction, marketing, design and advertising, management and advisory services, accounting, legal and tax advisory services, etc. The market for professional services is increasing as firms increasingly outsource activities. The use of Internet and e-mail has

improved the possibilities for cross-border supply of these services. Another important mode of supply is mode 4, when professionals visit their clients abroad to provide a service.

Engineering services is the most developed sub-sector. A World Bank study (1996) concludes that the level of experience that has been obtained by the professional services sector in the Caribbean provides a basis for a strategy for future development.

Challenges for this sector are to increase the outward-orientation of domestic service suppliers. This sector also needs to innovate and adapt their offers continuously, in the light of technological developments, expanding information and new methods.

Special attention for migration

In the Caribbean, governments tend to focus on the negative effects of migration, in particular by emphasising the brain drain issue. Migration of workers has contributed significantly to the inflow of remittances however, from which most countries in the region benefit.

Therefore, the export of skills should be viewed more positively. In Barbados, promoting professional services exports through migration is an important component of the country's development strategy. Jamaica has facilitated recruitment drives of nurses and teachers from the USA. Facilitating easier access for migrating workers should be an important topic in negotiations on market access for services in the context of the FTAA and the EPAs with the EU.

Overall assessment of the threats and opportunities in services

The foregoing shows that there is ready scope for the Caribbean region to expand exports in several services sectors. However, in most areas the capacity to produce services for the export market needs to be further developed, quality needs to be enhanced, and the reputation should be strengthened to become internationally competitive. In addition, liberalisation under GATS has been limited, so that there are still barriers to trade in services. In particular in mode 4 there are still many restrictions, and from the above it is clear that this is an important mode of supply for the region. Restrictions in the right of establishment need to be addressed, especially aimed at facilitating the setting up of small to medium sized businesses by foreigners. The service sector will also benefit from trade liberalisation as this will result in reducing costs and improving competitiveness. A more detailed study on the opportunities for trade in services, taking into account the productive capacity of the region, external trade barriers and international demand for services, is desirable.

4.3.4 Fiscal implications of liberalisation in the region

As was noted in chapter 2, the governments in the Caribbean are still highly dependent on tariff revenues. In the OECS countries, the average share of taxes on international trade in total tax revenues amounts to 57.4 percent. Antigua and Barbuda has the highest share, at 66.1 percent. Some of the OECS countries, in particularly Dominica, is already experiencing problems on the fiscal front, as these economies have been suffering a severe downturn in the past two years due to declines in exports, particularly bananas and lower tourism revenues. In Dominica an IMF supported Stabilisation Programme is being implemented to restore macro

economic balances. Liberalisation will also have a major impact on the fiscal revenues of those countries, and the tax structure will have to be adjusted to compensate for lost revenues.

An often-cited option is to introduce or increase value-added tax (VAT) in these countries. As has been pointed out, this would not need to change tax revenue collection methods to a great extent, as in many countries VAT is levied at the point of entry and most goods consumed by the economy are imported. It would require the effective introduction of VAT drawback mechanisms for exporters however. VAT has proven to be a successful alternative source of revenue in Guyana, Barbados, Jamaica and Trinidad and Tobago. For the OECS countries, it has been estimated that import duties amount to 16 percent of GDP, which illustrates the feasibility of replacing import duties by a VAT, which generally varies between 15 and 20 percent. The problem seems therefore more political than economic: as tax restructuring may have some important redistribution effects, not all restructuring options will be politically feasible.

Although dependence on tariffs varies in the region, it will be difficult for all countries to restructure their tax structures to substitute this important source of revenue. Technical assistance is therefore desirable.

4.3.5 Remittances

Worker remittances are playing a growing role in the Caribbean economies. It is estimated that they amount to US\$ 1.8 billion for the Dominican Republic, close to US\$ 1 billion in the case of Jamaica and US\$ 800 million for Haiti. The importance of remittances can also be assessed in relation to GDP, which exceeds 10 percent in many countries in the region (e.g. Jamaica, 11.7 percent, Dominican Republic, 10 percent and Haiti, 17 percent). For the region, remittances constitute a critical flow of foreign currency, with corresponding potential multiplier effects on consumption, investment and GDP. The growth in remittances is fuelled by growing numbers of new migrants. Furthermore, improvements in transportation, communication and information technologies make it much easier for migrant workers and their families, not only to maintain close personal contact, but also to create significant new opportunities for economic exchange across national borders.

For the most part, remittances are used for basic subsistence needs and make up a significant portion of the income of those households that receive them. There is a need to study more closely how remittances can be used as a tool for supporting development and global repositioning. Priority issues to be addressed include cutting the cost of remittances and enabling their transmission through financial institutions that cater to low- and middle-income clients, such as credit unions and microfinance institutions. There is also a need to assess how to increase the development impact of remittances. Efforts can be made to seek to involve migrants in social and economic development initiatives in their home communities. Creating the right business environment can further improve the flow of remittances.

4.4 Supporting global repositioning

4.4.1 Introduction

Implementing a global repositioning strategy, as described in section 4.3, heavily relies on establishing public-private partnerships, whereby national and regional authorities must take the initiative and responsibility for creating the appropriate environment for overall development and the private sector must be the engine of economic growth throughout the region and realise the opportunities offered by a more liberal economic environment. To achieve diversification and growth of production and exports, the private sector must engage in a process of sustained improvement in competitiveness by increasing productivity and efficiency. In order to assess the scope for promoting competitiveness of the private sector in the region it is important to understand its current structure. The private sector in the region can be distinguished into a number of main groups, including foreign-owned enterprises, domestic corporate firms and the large majority of small and micro enterprises.

Foreign owned enterprises

Foreign owned enterprises in the region play an important role in resource-based industries, tourism and the financial sector. As a result of liberalisation, foreign investors have largely withdrawn from assembly type operations in manufacturing for the domestic markets, though in a number of manufacturing sectors, especially beverages. Foreign owned firms play an important leadership role in responding to a more liberal trade regime in restructuring their businesses to become more competitive. They are benefiting from having benchmarks of sister companies abroad which meet international best practices. Success in attracting foreign investment requires the establishment of an attractive investment environment in terms of legislation and regulation, as well as infrastructure. A disadvantage is the small markets of most countries. Whether foreign investment in export-oriented activities can be attracted depends also on more liberal conditions with respect to rules of origin applied by importing countries.

Domestic corporate enterprises

In the past there has been a concern that the domestically owned private enterprises have been slow in responding to changes in market conditions and taking advantage of new opportunities. There are various reasons for this, including easier opportunities at domestic markets in protected sectors, or in sectors with preferential access to export markets, as well as obstacles to trade (such as customs procedures, and government bureaucracy in terms of licensing and documentation requirements). Also their ownership by one or a few families has contributed to their risk aversion. In recent years, though, a number of local domestic companies have responded to the opening of markets in the region due to regional liberalisation by increasing exports and acquiring companies in other countries. Many domestically owned companies are also following the example of foreign-owned enterprises in restructuring to respond to external liberalisation to become more competitive with imports from third countries and to explore markets outside the region.

Small and micro enterprises

The small and micro sector is still characterised by technological backwardness and poor international competitiveness. Major efforts will be needed to improve the competitiveness of the micro sector in terms of access to information, capital, support to technological innovation, and training.

4.4.2 Strategy for global repositioning

A strategy for global repositioning aims in particular at integrating the CSME in the wider trade and integration environment. Section 4.3 has put forward the need for the Caribbean to focus on knowledge-driven business development. Stimulating this knowledge driven business development should therefore be a central element of a private sector strategy for the Caribbean, facilitating competitiveness by allowing effectively combining technology, managerial entrepreneurship, employee skills, business organisation and software to service markets and interact with customers and suppliers. In fact, the mastering of information and the introduction of knowledge intensive means of production have become the key to competitiveness.

Knowledge driven companies can be characterised by (i) effective management of organisational knowledge, actively acquiring knowledge and putting it to productive use to improve operations and to develop new strategies, (ii) significant investment in market and managerial knowledge, as well as production technology, and (iii) incentives to encourage employees to acquire and use knowledge (Monitor Company (2001)). Such companies are better able to take advantage of market opportunities and to find niche markets.

In the context of global repositioning and the development of knowledge driven business development strategic issues need to be addressed in a number of key areas. These include facilitating networking and co-operation among firms, improving the quality of the work force through education and training, improving transportation and communications, improving access to finance, strengthening the ability to adapt technologies and standards, reducing costs of access to markets and information, and dealing with specific problems adversely affecting the business environment in the Caribbean, such as crime. Furthermore, business support services can facilitate strengthening knowledge in the private sector. These issues will be elaborated in the following sections of the report under the following headings:

- Cluster development.
- Co-operation between businesses.
- Education and training.
- Transport.
- Communications.
- Access to finance.
- Research and development.
- Standards.
- Business support services.
- Addressing crime.

Cluster development

Increasingly it is considered that an effective way of strengthening competitiveness and knowledge-based business development is through support of clusters. Clusters can be defined as networks of production of strongly interdependent firms (including suppliers and clients) linked to each other in a value adding production chain and which are often geographically concentrated. Clusters can also encompass alliances with training institutes, research institutes, and knowledge intensive business services. In a cluster the competitiveness of firms relies strongly upon knowledge developed and efficiencies achieved in other companies or linked organisations supplying inputs or services. Clusters occur due to proximity of markets, in the presence of specialised labour, inputs and equipment/service suppliers. Firms having access to world-class suppliers, inputs of up-to-date technologies and appropriately skilled workers will have a better chance to compete at the international level.

Clustering and networking basically is a bottom up market induced and market-led process. Public policies, however, can play a catalytic role in the formation of clusters by making markets work better and strengthening learning, research and innovation capacities. In the formation and strengthening of clusters, public authorities at national and regional level should therefore focus on facilitating networking, and acting as a catalyst, broker and institution builder. They can also support the conducting of strategic planning exercises to assess constraints in strengthening linkages between firms in a cluster, the scope for innovation and the need for skill development and research. As soon as the private sector becomes aware of the opportunities, they will seek further collaboration with the public sector in the form of support for training and research initiatives, support to attract investment in key activities in the cluster, and investment in infrastructure. Public authorities should also monitor progress in cluster development and its effectiveness in increasing productivity.

In many countries the clustering process has been initiated by the establishment of forums, and regular meetings of firms in a cluster. Strategic information (technology foresight studies, cluster studies) is often used as an input to the process of dialogue. Based on the firm level discussions and studies, public policies can address constraints, such as inefficient functioning of markets (through competition policy), and institutional mismatches between knowledge infrastructure and market needs (by facilitating joint industry-research co-operation and human capital development).

The principle incentives for firms to actively participate in cluster formation have been identified as being: (i) to gain access to new technology, (ii) to capture economics of synergies, (iii) to spread risks, (iv) to facilitate R&D efforts with suppliers and users, (v) to speed up the learning process, (vi) to lower transaction costs, and (vii) to overcome entry barriers to markets. These advantages of cluster formation will translate into improvements in price determination and higher value added within the linked firms. Firms that compete at world markets will experience most directly the benefits of improvements in competitiveness from cluster development and will therefore have the strongest incentive to play a leading role in cluster formation. A key ingredient in improving efficiency at various levels in a cluster is access to well developed business consultancy services in such areas as logistics, quality control, introduction of standards, marketing and technology.

Clusters have not yet really developed in the Caribbean, though in several areas, there is clear scope for the development of clusters (tourism, agro processing). In tourism a cluster could involve, the hotel industry in the region, cruise shipping lines, tour operators, restaurants, representatives of the entertainment industry, craft shops, suppliers of food, furniture, household furnishings, cleaning materials, air lines, local tourist transport companies, hospitality training institutes, national tourism promotion organisations, and representatives of local communities. In agro-processing, a cluster could consist of agro-processing manufacturers, farmers, packaging companies, distribution and marketing companies, companies specialised in maintenance of machinery, food-based research institutions, Bureaux of Standards, consultants in the field of food production technology and standards, and representatives of Ministries of Industry and Commerce. In implementing a cluster approach for competitiveness improvement, one can build on cluster support projects currently being carried out at national level in the Caribbean, including in Trinidad and Tobago, and in Jamaica. The current initiative by the CAIC to develop a regional private sector strategy could be used to introduce and promote the concepts of knowledge business development, and cluster development. Furthermore, an agency like Caribbean Export could play an important catalytic role together with private sector associations in promoting the development of clusters.

Co-operation between businesses

Even large companies in the Caribbean are small to medium scale by global standards. Their small size makes it more difficult to harness knowledge and to achieve economies of scale, even though innovations and technology and the need for companies to be flexible allows smaller companies the opportunity to be competitive in the global market. Beyond networking between companies in clusters, businesses can establish stronger forms of co-operation. There are a number of ways in which small businesses can co-operate to overcome the limitations of size and compete more effectively with larger firms, including engaging in strategic corporate alliances, mergers and acquisitions. Such forms of co-operation may not only be entered into with other companies in the region, but also with extra-regional companies to improve access to technology and/or markets.

For companies in the Caribbean increasing competitiveness by the establishment of corporate alliances is particularly attractive, as this can be done without sacrificing ownership control. Strategic corporate alliances can be concluded in different areas of business operations, such as marketing, purchasing of inputs, specialisation of production, acquisition of technology, product development and research. Experience suggests that strategic alliances are most successful, if co-operation is limited to a few key areas of business operations. Nevertheless, the establishment of strategic corporate alliances in the region has so far been rare, as has been the engaging in mergers. In recent years, however, several companies in the region have been pursuing expansion strategies by acquisition of companies in other countries in the region (insurance from Barbados in Jamaica, banking from Trinidad in several countries, hotels from Jamaica in other countries in the region, establishment of regional retail networks in household goods and in retailing transport equipment). Some distribution companies operating at regional level engage in contracting out of production of food and other consumer goods to companies across the region (Grace Kennedy in case of food, Courts in

case of furniture). These initiatives have not been extended in a few cases to expansion beyond the region, i.e. in the case of hotels and some agro-processing industries which have established packaging plants in developed markets (e.g. Wray and Nephew for in Canada and Mexico, and Jamaica Producers for banana chips in the UK).

The co-operation between firms should be market-driven. However, it can also be supported by facilitating contacts between firms in the region and with firms outside the region in the form of information and organising business forums.

Education and training

Human resource development occupies a central place in the drive to achieve competitiveness and the improvement of education and training should therefore be among the most important development priorities in the region. It has been found that the improvement in human capital has been a common factor behind the growth process of the developed OECD countries, especially Greece, Ireland and Spain. In fact international research has found that in the longer run an additional year of education raises per capita output levels by 4 percent.³² Moreover, without a highly educated labour force, the region will not be able to achieve the desired global repositioning and the attraction of new sectors. Improvement in the quantity and quality of education is essential for harnessing knowledge and the capacity to create, adapt, disseminate and use new technologies.

It is well known that the region possesses a small elite well trained in both the traditional disciplines as well as in the new scientific and technological disciplines that provide them with the capability for management in the most modern economic activities in which the Caribbean would wish to be involved. On the other hand, it is equally clear that the region's middle and lower sectors are lagging behind in terms of the knowledge base required for operational functioning in a Middle American sphere open to the kinds of activities that require small, but efficient, rather than large, medium-skilled labour forces. With respect to the education system, the region performs comparatively well with respect to primary education. However, access to secondary and tertiary levels of education remains restricted. Enrolment rates at secondary level amount to 60-66 percent in the larger countries in the region (Trinidad and Tobago, Guyana and Jamaica) with slightly higher levels in the OECS countries of about 70 percent, whereas at tertiary level, Jamaica and Trinidad & Tobago have enrolment rates of 8 percent, compared to 39 percent in Singapore. As a result there is a substantial deficit in trained human resources in all countries in the region.

Some of the important elements of the regional strategy for education³³ include the following:

- Strengthening regional collaboration via networking to deal with common weaknesses, pool scarce resources, and maximize the positive effects of new solutions. Key areas include common standards at various levels of education, promoting science and technology learning at the earliest levels of education, upgrading the teaching of Mathematics, Languages (English, Spanish, French, Portuguese), Information

³² OECD (2000).

❖ ³³ CTF. *Op.cit.* pp. 25 – 36.

Technology and Health and Family Life. As part of this strategy, the role of CXC is to be strengthened

- Utilising distance education and information technology.
- Using information technology to develop links with regional and international institutions.
- Developing a system for the use of master instructors in critical subject areas like science and mathematics, involving the use of audio-visual and computer aided instructional material.
- Creating and expanding, teacher and student exchanges across the region.

Improvements in education and training have to be tackled by governments, as well as by employers. Developing a well-educated work force will not only require spending more on education, but also expenditures should be allocated differently. Public education reform should address improvements in the quality of primary education and in both quality and quantity of secondary and tertiary education. A target to be pursued is to universalise 12 years of education. The region has established a target enrolment at tertiary level of 15 percent. At both secondary and tertiary education levels an appropriate balance should be sought between general secondary education and vocational training, creating more flexible pathways that allow young people to gain solid combinations of general and technical education. The relation between the education system and the requirements at the labour market can also be enhanced by including periods of gaining practical work experiences in the educational programmes, particularly at tertiary levels. The quality of the workforce can furthermore be enhanced by increasing opportunities for lifelong learning. There is a need to introduce more extensive innovative technical supports for learning based on communication and information media. Education should furthermore aim at developing higher cognitive functions, including problem solving, creativity, information selection and the ability to plan and investigate. Specific attention needs to be paid to developing ICT skills and in the case of the Caribbean also language skills (Spanish, Portuguese, French).

There is scope for collaborative research between regional universities, and universities and research institutes in Europe, the USA and Latin America. Among the priority areas are:

- information technology
- economic policy issues related to small states, including regional integration studies
- environmental issues
- natural resource use including flora, fauna and marine resources
- cultural studies
- health and wellness research.

The education system should furthermore be reformed to facilitate lifelong learning, providing opportunities for adults to re-enter the education system to upgrade skills or to acquire new skills. Educational reforms also have implications for teacher training and remuneration. Furthermore, there is considerable scope for regional co-operation in improving and extending tertiary education, as well as in introducing common qualifications standards (as has already been achieved at secondary level with the CXC examination).

At the level of firms, more emphasis needs to be put on vocational and on-the-job training in order to facilitate knowledge harnessing. One of the success factors for companies in the region which have restructured to improve competitiveness has been the transformation of the work place and human resource development, involving up-skilling, improvements in work place democracy, resulting in increased worker motivation, flexibility and productivity.³⁴

Research and development

The ability of the region to adopt, adapt and disseminate new technologies also requires new strategies with respect to research and development. Research and development is undertaken both at the level of firms, as well as in public and private research institutes. Traditionally, firms in the region have allocated little resources to research and development, as competitive pressures to innovate were limited. In the public sector, research facilities were established, but these were not strongly linked to the innovation needs of the private sector and have been chronically plagued by lack of resources. In recent years, firms in the region have become more active with respect to innovation, trying to develop new products, introducing new forms of packaging and exploring new markets. Foreign-owned firms have been on the forefront of this development based on technologies developed in parent companies. However, also the more advanced domestically owned companies in the region are devoting more resources to research and development for introducing innovations. It should be noted that globalisation and improved telecommunications has facilitated access to technologies through reducing the costs of capital equipment and better access to information on new technologies.

The new role of the public sector should be to create a conducive environment for technological innovation, through human resource development, removing obstacles to technology imports, facilitating foreign investment and providing incentives for increased expenditure by firms on research and development (tax incentives and subsidies for funding specific research projects). Special attention needs to be given to providing incentives for research in the sustainable exploitation of the region's natural resources (e.g. in such fields as biotechnology, animal and plant genetics, marine sciences, mineralogy and climatology). There is considerable scope for organising support to research at the regional level. At the regional level there is also scope for regulating and harmonising property rights and patenting, to protect the findings of research and development activities. Regional intellectual property right regulation should aim at protecting the use of trademarks, domain names, geographical indications, etc.

Transport

With respect to transport and communications, it is important to develop networks that will serve the region, rather than mainly to meet domestic requirements. At present transport and communications costs are comparatively high in the region and constitute a major constraint to trade and economic development. It has been estimated that maritime freight costs as a percentage of exports can be as high as 30 percent in the region, as compared to 4 percent for exports from large countries such as Brazil, Canada and the USA. Similarly Caribbean

³⁴ As reported in: Caribbean Trade and Adjustment Group (2001).

countries pay more for transportation of their imports. Contributing factors to high transportation costs are small volumes, the need for bulk breaking, small vessels and the lack of return cargo.³⁵ However, transport costs are also adversely affected by inefficient port operation and customs procedures. In the case of air transport, protection of domestic carriers, as well as restrictive landing right policies by developed countries in the region contribute to high costs. Some ports in the region have taken advantage of their favourable location, both with respect to the region, as well as externally and have rapidly expanded based on transshipment traffic. However, lack of co-ordination in the development of transshipment ports is threatening to result in excess capacity and reduced efficiency.

In recent years some policy reforms initiatives have been taken, which aim at promoting the competitiveness of the transportation sector. Several governments in the region are in the process of privatising seaport and airport operations. The private sector has been investing in establishing regional shipping services with smaller cargo vessels to cater for the transport needs of the region. Several regional and sub-regional airlines have been established. Also strategic alliances between sub-regional airlines and regional airlines are emerging. To further facilitate the development of the air transport industry governments need to accelerate moving to open sky policies. In order to bring out more clearly the bottlenecks in regional transportation and to guide new investments it is desirable to prepare a strategic master plan for the regional transport sector. Special attention should be paid to identifying optimal locations for transshipment ports in the region.

Promotion of ICT

Information and communication technologies are important pillars of the knowledge-based economy. How countries adapt and master ICT is the key to their future economic performance. An efficient and cost effective telecommunication infrastructure is a primary requirement for enabling the rapid introduction of ICT. Efficient communication links can also contribute to overcoming some of the constraints in the transport system in the Caribbean. Moreover, efficient communication links can be an effective vehicle in education (distance education) in trade (e-commerce) and in obtaining/providing information for both business and more general purposes (internet). In its applications, it can also be an effective tool for marketing tourism, and for facilitating the use of health facilities for patients from outside the region through telemedicine. Through telemedicine links can be established with medical centres of reference, as is happening in St Lucia and Martinique.

In the Caribbean competition and a reduction of telecommunication costs are hampered by monopoly positions awarded to national telecommunication companies and lack of regional harmonisation of systems and regulations. In several countries in the region (OECS, Jamaica, Dominican Republic) a process of regulatory reform of telecommunications has started, but implementation has been slow, especially in the OECS, as a result no significant declines in the costs of telecommunications have been realised, frustrating the development of IT industries. There is therefore a need to speed up telecommunications regulatory reform in the region.

³⁵ Data on transportation costs are from: R. Bernal (2000).

Furthermore active policies need to be implemented to assimilate IT and its use in the society, including the use of the internet as the key driver of ICT. Education plays an important role in this process. The private training industry is playing an important role in responding to the demand for IT skills. Most countries in the region have private companies who are commercially viable in the computer training business. In addition, other institutions are developing the skills base which an information processing industry will require, including large companies (banks, insurance companies, telephone companies), technical and vocational, as well as tertiary education institutes (UWI, U'Tech). Nevertheless, there is still a need to improve the level of computer training and literacy in the Caribbean. A systematic approach providing training in new skills and consistently measuring computer literacy attainment can provide a strong competitive advantage.

Support in the area of introduction of IT could be one of the areas to be pursued in the framework of the FTAA and the EPA with the EU, especially as this process involves relatively high costs in the small economies of the Caribbean.

Access to finance

Financial systems play an important role in the global repositioning and structural adjustment process because they are key in the provision of funding for capital accumulation and for the diffusion of new technologies. Financing needs for global repositioning and structural adjustment can be met from various sources. Part of the financing needs can be met from inflows of private foreign investment in the form of foreign direct investment, portfolio investments and access to foreign loans. At present both foreign companies in the region, as well as domestic corporations are already accessing these sources. These foreign investment flows will be facilitated by a stable macro economic environment, and result in more favourable credit ratings and therefore lower interest costs. However, a considerable part of the financial resources will need to be raised locally. This requires adequate local savings, which are presently still modest in most countries, and a more efficient local financial sector.

Inefficiencies in the banking sector in the region have resulted in relatively high costs of credit, with interest rates varying from 9-10 percent in Barbados, to 11-13 percent in the OECS countries, around 15 percent in Trinidad and Tobago to substantially over 25 percent or higher in the Dominican Republic, Jamaica and Guyana. In the latter group of countries, high country risks and devaluation expectations have contributed to the high interest rate regime. The high costs of lending are also due to such factors as restrictive monetary policies in some countries, as well as high costs of banking operations due to small markets, prevalence of relatively small loans, and lack of competition. The banking sector in the region also operates mostly on a short-term basis mainly with capital loans with contractual terms of one year or less. Medium and long-term loans are not readily available in commercial banks. In the Dominican Republic, moreover, there is still a strong government presence in the banking sector and only a small presence of foreign banks. In most CARICOM countries, the banking sector is largely private with a strong presence of foreign banks. In recent years, there has also been a significant expansion in the Caribbean of regionally based financial institutions (in banking from Trinidad and Tobago and in Insurance from Barbados).

In some countries, governments have introduced subsidised long-term loan programmes to stimulate private sector investment and restructuring. In Trinidad and Tobago, such loans have contributed to successful retooling during the mid-1980s. In Jamaica, similar programmes have been less successful in stimulating investment. On the whole, such programmes have benefited mainly the larger corporations. SMEs, and especially small farms, have major difficulties in accessing credits, as these are considered risky, due to limited collateral, poor bookkeeping, lack of a track record and little demonstrated management experience.

The financial sector in the region can be made more efficient by sustaining stable macro economic policies, improving the regulatory environment for the financial system, not only ensuring safety and soundness, but also enhancing competition, better credit risk assessment and increasing scale by expansion in the region. Appropriate lending technologies and programmes have to be introduced to facilitate lending to SMEs and micro enterprises. Important examples of successful micro credit programmes are ADEMI in the Dominican Republic, as well as micro credit programmes operated in Trinidad and Tobago (by the Financial Development Corporation) and in Guyana (operated by Nova Scotia bank).

Well functioning stock markets are another avenue for raising corporate finance. In order to promote intra regional investment flows, efforts are being undertaken to establish a regional stock exchange, commencing with arrangements for the cross-listing and cross-trading of securities on the three existing stock exchanges in Barbados, Jamaica, and Trinidad and Tobago. These arrangements have allowed for some amount of trade in investment instruments across the Community. Further regional integration and expansion of regional capital markets needs to be promoted.

Standardisation

An issue which increasingly affects market access is compliance to standards of one sort or the other. There has been growing recognition that such standards can impede trade, particularly in agricultural and food products. An attempt has been made by the WTO to reduce the trade distortive effects of standards. All Caribbean countries with the exception of Montserrat and The Bahamas, are signatory to the Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT)³⁶ agreements of the WTO and need to adjust their legislation and to introduce the required standards. SPS standards have been developed to protect human, animal and plant health and to ensure food safety, and are often mandatory in developed markets. Technical standards are mostly voluntary, though some have been made mandatory by governments such as the Hazard Analysis Critical Control Point (HACCP). Even when they are not mandatory, compliance to technical standards greatly facilitates access to markets.

As signatories to WTO, Caribbean countries are expected to harmonise national regional standards with standards applying at the international level. However, within the region

³⁶ TBTs cover regulations and standards on packaging, labelling and conformity assessment procedures.

countries face a number of difficulties in introducing international requirements with respect to standards. Controlling institutions are poorly funded and fragmented, and the laboratory infrastructure for testing and certification is weak. There is also a lack of trained staff (laboratory, inspection). Furthermore in certain instances international standard requirements are incompatible with prevailing systems of production and marketing. As a consequence substantial structural and organisational changes may need to be made at company level in order to comply with international standards. There is as yet no harmonisation of technical regulations. Lacking are furthermore, enquiry points and notification authorities as required by WTO to collect and disseminate information on standards.

With respect to SPS measures, there is a need to enhance the capability of CARIFORUM countries to comply with the SPS requirements of its main market countries. The countries should also be able to ensure that their standards and inspection systems prevent the importation of unsafe, sub-standard foods. Initiatives will be required to improve access to scientific and technical expertise, to develop domestic SPS control systems and to establish the required institutional infrastructure. There is considerable scope for developing SPS control systems at the regional level. The newly established CARICOM Regional Organisation for Standards and Quality (CROSQ), which has been set up to support national standards institutes can play a key role in developing a regional approach to standard development. This organisation was expected to become operational by November 2001 in Barbados, but its establishment has not yet been realised. However, the private sector must also be encouraged to participate in inspection, surveillance and certification.

Technical and quality standards can relate to the quality of the organisation of production, product quality and the meeting of environmental requirements (i.e. various ISO standards, green hotel certificates, but also blue flag certification for environmentally maintained beaches). There is scope for organising services to assist companies in qualifying for these standards at the regional level.

Producers must be made aware of product standards and requirements of their markets. They must be able to apply internationally accepted safety systems. Support to businesses in this area is desirable, as there are significant information requirements to be met. In a number of countries Bureaux of Standards are advising firms on standards and assisting in the introduction of quality control systems such as the HACCP and ISO certification. This type of support can effectively be provided on a regional basis, as companies in different countries need similar information and support.

Business support services

An effective business support services programme can play an important catalytic role in assisting companies to adjust to increased competition resulting from increased liberalisation and to make use of new business opportunities. Business support programmes should aim at addressing both internal and external constraints faced by companies in the region. These have been identified as including, lack of access to information about markets, technology, packaging and product design. Also weak management can limit the ability of firms to respond to market opportunities resulting from globalisation.

In the design of company support programmes the experiences and the effectiveness of past support programmes should be taken into account.³⁷ Their effectiveness should be assessed in terms of outreach as well as impact on sales, exports and profitability. Business support programmes should have a broad sectoral outreach including services, manufacturing and agriculture. Areas of support could include the preparation of business development plans, marketing activities, product development and technology, through making use of available consultancy services. The approach to supplying business support services should be based on a broader strategy, supporting knowledge-based business development, strengthening of clusters and promoting strategic alliances between companies in the region, as described above. In implementing a business support services programme, the issue of sustainability will need to be addressed, as well as governance and management issues, i.e. implementation by a market entity.

Business support programmes should work closely with private sector bodies in the region and an important task is the strengthening of these organisations.³⁸ These associations seek to represent national members organisations in addressing regional issues, as well as informing and assisting its members, in particular in trade policy issues, through reports, participation in trade negotiations, training programmes, seminars and presentations to governments and regional organisations. One observer has noted, that private sector institutions in the region are in disarray, many lack leadership and most are under funded.³⁹ There is therefore a need to revitalise these associations, based on a strong commitment of members to develop viable organisations, as well as for strengthened co-operation among them. Also the establishment of regional private sector associations, representing private sector companies in newly emerging sectors (IT, financial sector, non traditional agro-processing industries) should be supported. Business support programmes can also be instrumental in co-operating with governments in reforming economic legislation and the overall improvement of the legal framework relevant for commercial activities, in the context of implementing the CSME, but also especially a priority in the Dominican Republic.

Addressing crime

Crime has become a major deterrent to development in several countries in the region, adversely affecting export sectors both in goods and services. In Jamaica, garment and agro-processing industries are faced with security costs amounting to 5 percent of the value of export sales. Crime also deters tourists from coming to the region, as well as constraining the development of new service sectors, including transshipment services, the off-shore financial sector because of money laundering, and the attraction of health related travel. Most crime in the region is drug-related as the region has developed into a major transshipment centre between the sources of supply in South America and major markets in North America and Europe. For this reason, national efforts to combat crime have to be supplemented with a regional approach to address this problem. In this context it is necessary to strengthen

³⁷ Including for example, the EC funded Caribbean Export, the OECS based Export Development Unit and the CIDA funded CPEC.

³⁸ At the regional level, a number of private sector representative organisations operate, such as the Caribbean Association of Industry and Commerce (CAIC), the Caribbean Employers Federation (CEF), the Caribbean Hotel Association (CHA), association of rum producers (WIRSPA), the Caribbean Poultry Association (CPA), the Caribbean Rice Association (CRA), WEBDECO (banana grower association).

³⁹ David Jessop (2002), *The View from Europe*, 1 June 2002.

regional co-ordination of the various drug control programmes by reinforcing relevant, sustainable regional institutions and implementing priority programmes. These efforts can build on the work undertaken by the 1996-2001 Regional Action Plan on Drugs Control, the Barbados Plan of Action Plan, which formulated recommendations regarding a wide range of actions from demand reduction to maritime, customs and judicial co-operation, control of precursors and money laundering. Essential for its success is the consideration of the wider scope of the cocaine drugs route and co-ordination and co-operation with the producing countries in Latin America.

5 Conclusions and Recommendations

The foregoing chapters have shown that the Caribbean countries face a number of important challenges in the near future, relating to the large number of external trade negotiations, regional integration and the need for global repositioning in the region. This chapter summarises the most important findings in these areas and provides recommendations for both policy makers and donors.

External trade negotiations

The most important negotiating issues that the Caribbean will focus on during the external trade negotiations include increasing market access for services, obtaining flexibility in the process of adjustment to new trading arrangements for small economies, and, in the case of regional negotiations, on the importance of the Caribbean countries speaking with a single voice. The comparative advantage of the region seems to be in services (see the global repositioning part) and therefore obtaining market access for this sector is important. Regarding the flexibilities for small economies, the countries do not oppose to reciprocal liberalisation, but do require some flexibility, notably through longer adjustment periods, but also through special safeguard clauses, freedom from anti-dumping and other contingent protection, more flexible rules of origin and technical assistance programmes. The adjustment periods will give the region time to decrease its dependency on tariff revenues and increase competitiveness of sectors in which the region has or might develop a comparative advantage, leading to diversification of exports.

An important strategy towards the negotiations is to build alliances with countries with similar interests. In addition, the region will concentrate on a number of issues in each set of negotiations. The issue of sequencing is important in determining a strategy. Negotiations for the FTAA are already underway, and the current focus is therefore on these negotiations, also because most trade of the Caribbean is with the Western Hemisphere. An important element of the Cotonou Agreement with the EU, however, is that all preferential market access arrangements given to another developed country by an ACP State must also be given to the EU. It is important to keep this in mind during the FTAA negotiations. A suggestion made to circumvent this problem is that the Caribbean asks its FTAA partners for a moratorium on opening up markets to Canada and the United States, to obviate their simultaneous opening to the EU.

Clearly, the Caribbean countries should think of an overarching trade policy which would inform all their trade negotiations, maintain consistency between negotiating strategies in different fora, and, ultimately, end up with the best trade regime obtainable in light of its

development goals. There is no such agreed development plan at present, however, nor is it likely to develop such plan in the near future.

There are a number of weaknesses on the institutional side. The RNM was set up to coordinate the negotiating process, but at this moment the accountability question of the RNM does not seem to be fully resolved. The RNM has limited resources and its workload is too great for it to report to COTED as often as would be wished. In addition, the extent to which it can negotiate for the region is largely unresolved. The RNM also suffers from a lack of input of national governments, which do not have the resources to frequently attend COTED meetings or those of its technical committees. And while the importance of dialogue with the private sector is fully accepted by all parties, the implementation of this dialogue is far from straightforward.

Recommendations:

- Capacity building is very important in the context of the negotiations. Capacity building has to take place in three areas: in the area of research in order to develop an informed negotiating position (including data collection), in the area of negotiating techniques, and in the area of implementation of trade agreements. In general, more technical expertise is required. Capacity building has to take place both at a national and regional level. Until this capacity building has taken place, the region should hire researchers, advisors and even negotiators with technical expertise from outside the region.
- Serious consideration should be given to making the RNM the sole negotiator for the region. This would reduce the costs for national governments because it provides a possibility for pooling resources. In addition, this would force member states to take the reporting and mandating system seriously. This would help to solve the accountability question of the RNM.
- Information to the public (private sector, NGO and the wider public) about the trade agenda should be improved. The public is currently often unaware of what is happening in the area of trade and of how this will impact them.

Implementation of the CSME

When the CSME was established in 1992, it was anticipated that this would facilitate its integration in the global economy and to negotiate critical external trade and investment agreements in an increasingly competitive world.

An important element of the CSME is the establishment of free movement of goods, services, capital and labour. While progress has been made in the area of trade, delays have limited achievements in the other areas. Also with respect to macroeconomic convergence, harmonisation of legislation, competition policy and the CCJ progress has been slow. Lack of political will and commitment and reluctance to give up control at the national level seem to be important obstacles to full implementation of the CSME. Some have argued that if the region joins an FTAA agreement, the CSME will arrive by default. Nevertheless, in preparation of the FTAA and the other trade negotiations it is important that CSME implementation is actively pursued. The CSME will facilitate the implementation of trade liberalisation under the FTAA and other wider trade agreements. CSME implementation is

also desirable because it provides the region with a stronger bargaining position in external trade negotiations. It is, however, desirable to establish priorities with respect to implementing policy reforms under the CSME based on their relevance in external trade negotiations. In this context the most important challenges for CSME implementation are:

- Reduce restriction in the movement of goods, services, capital and labour, in particular implementing agreed programmes on removing restrictions in services and labour.
- Formulation of a regional development strategy aiming at repositioning,
- Harmonisation of fiscal, financial and investment policies.
- Sectoral policies: facilitate rationalisation and restructuring to achieve competitiveness, establishment of a regional fund to finance these programmes.
- Caribbean Court of Justice: get member states to sign the agreement for establishing the CCJ and find an appropriate mechanism for financing the CCJ.
- Institutional support at national and regional levels is necessary for the creation of a standards bureau and a competition commission.

In addition, CARICOM has recently been seeking to expand regional economic integration with the Caribbean in order to augment the advantages of liberalisation. Haiti has been added as a member to CARICOM, free trade agreements have been concluded with the Dominican Republic, Cuba, Venezuela and Colombia, and regional co-operation is being strengthened with OCTs and DOMs. In addition, CARICOM has sought wider economic co-operation with Latin American countries. This increased integration and co-operation offer a number of opportunities for the region.

Recommendations:

- Further implementation of the CSME would help the region to adjust to the process of globalisation. In some areas of implementation, donor support would be needed, notably in establishing the CCJ and a regional competition commission.
- Establishing a regional development strategy and related programmes should be a priority. Such a strategy is needed to identify regional priorities with respect to repositioning, examining all options available to the region in terms of collaboration, and to develop sectoral programmes that are in line with the overall strategy of the region. This would also help the private sector to develop a regional private sector business plan.
- Establishing this regional strategy and implementing it would require substantial amounts of development financing. The role of the CDB in mobilising development financing and allocating these funds to specific projects in the region should be seriously examined.
- The level and scope of public information and debate should be enhanced.

Global repositioning

The external trade negotiations and further implementation of the CSME will have important implications for the economies of the Caribbean countries. The challenges that these developments pose cannot only be addressed by conventional economic policy. As stated earlier, countries need a development strategy aimed at strategic global repositioning. An integral part of global repositioning is export diversification and continuous adjustments in

product mixes. In the Caribbean, the focus in the global repositioning strategy is on knowledge based business development, with particular emphasis on service sectors.

A review of the opportunities arising from liberalisation shows that the opportunities for agriculture and manufacturing are limited. In both sectors the region will in general not be able to compete internationally. There may be some opportunities in food processing. Other opportunities will mainly lie in finding niche markets in these sectors and in effective marketing of Caribbean products. Most opportunities will lie in services. The tourism and financial sector are already important in the region and in particular tourism services may be able to expand further. Promising new areas seem to be entertainment, health care and education and training. There may also be some opportunities in the ICT and professional services.

Governments can play an important role in the global repositioning process and the development of a knowledge-driven economy. There are a number of possible strategies:

- Stimulating cluster development and co-operation between businesses. Although co-operation should be market-driven, it can be supported through facilitating contacts between firms in and outside the region in the form of providing information and organising business forums. In cluster development, governments can act as catalyst, broker and institution builder.
- Improving transport and communication. The costs of transport and communication are relatively high in the region. Regulatory reform, regional co-ordination and skill development are needed to increase efficiency in these sectors.
- Improving education and training. Both quality of education and enrolment need to be enhanced, especially at secondary and tertiary level. In addition, an appropriate balance should be sought between general and technical and vocational training. Education of the workforce should also be stimulated and enhanced. Both government and individual firms can play a role in this process.
- Improving access to financing for new businesses. Finance is currently expensive in the region. Governments can improve efficiency of the financial system by sustaining stable macroeconomic policies and improving the regulatory environment. Further efficiency gains are possible through better credit risk assessment and increasing the scale of operations.
- Stimulating research and development. The role of the public sector should be to create an environment conducive for technological innovation, through human resource development, removing obstacles to technology imports, facilitating foreign investment and providing incentives to firms for research and development.
- Addressing standards in international trade. Within the WTO, the Agreement on Sanitary and PhytoSanitary (SPS) measures and the Agreement on Technical Barriers to Trade (TBT) set the context. The Caribbean region has difficulties in complying with standards because it is faced with weak controlling institutions, lack of trained staff and underdeveloped laboratory infrastructure for testing and certification. Next to solving these problems, providing information and support to business is important.
- Support to business. Support is in particular needed in the field of market information, technology, packaging and product design. The management and governance of these support programmes is an important issue. Programmes should be based on a broader

strategy, aimed at improving the competitiveness of clusters. These support programmes should be implemented in close co-operation with private sector bodies in the region.

Recommendations:

- Whereas in general contraction needs to be expected in the traditional agricultural sectors (bananas, sugar, rice), the implementation of ongoing and planned restructuring programmes hold some promise for improving competitiveness and sustaining part of production. These structural transformation efforts should address issues related to improving production and processing efficiencies, developing specialty products, and active marketing programmes.
- In services, there are a number of opportunities arising from liberalisation. In most service sectors, the capacity to produce service exports need to be further developed, however, and quality and reputation should be enhanced to become internationally competitive. In addition, liberalisation under GATS has been limited and there are therefore still many restrictions on trade in services. It would be desirable to have a more detailed study on the opportunities for services, taking into account the productive capacity in the region, and demand for services and existing restrictions outside the region.
- Liberalisation will also have important implications for fiscal revenues. Most countries in the region, in particular the OECS countries are still highly dependent on taxes on international trade. Liberalisation will make restructuring necessary. Donor support is needed here, especially through providing technical assistance.
- A number of strategies are presented that could stimulate the development of a knowledge-driven economy. National governments should decide which of these strategies seem feasible, and whether they should be implemented regionally or nationally. Donors could help funding these strategies.

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