

**TOWARDS A SINGLE DEVELOPMENT VISION AND THE
ROLE OF THE SINGLE ECONOMY**

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**As Approved By The Twenty-Eighth Meeting Of The Conference
Of Heads Of Government Of The Caribbean Community
(CARICOM), 1-4 July 2007, Needham's Point, Barbados**

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TOWARDS A DEVELOPMENT VISION AND THE ROLE OF THE SINGLE ECONOMY

INTRODUCTORY NOTE

The report is meant to provide a vision for the development of the Caribbean Community to which all stakeholders can give their support. It serves as the basis for decisions by the Heads of Government on a 'road map' for the further implementation of the Caricom Single Market and Economy. It is the product of an extensive process of consultation with regional stakeholders and with the relevant organs of the Community over the past two years.

The framework was laid out at a Brainstorming Session on the Single Market and Economy among public and private sector representatives in Barbados in May 2005, convened and chaired by Prime Minister Arthur of Barbados in his capacity as Prime Minister with responsibility for the CSME. The next step was the preparation of a *Concept Paper on the Vision for the CARICOM Economy for the year 2015* by Professor Norman Girvan of the University of the West Indies Submitted in December 2005; this report drew on a number of reports and policy documents prepared over the past twenty years by international, regional and national agencies¹. During 2006, at the instance of Prime Minister Arthur, a series of consultative symposia and technical meetings organised by the CARICOM Secretariat succeeded in fleshing out the development vision and CSME implementation priorities in considerable detail. A consultation on Enhanced Monetary Cooperation was held in Jamaica in May 2006 and this was followed in June 2006 by a High-Level Symposium on Production Integration, Capacity Building and Institutional Strengthening². The Symposium was chaired by Prime Minister Arthur and was attended by over 300 stakeholders discussing over 30 technical presentations. Two significant publications relevant to the

¹ See Annex 2

² See Annex 1

CSME were also launched³. The Symposium provided convincing evidence that that the Caribbean Community has within it the human resources with the knowledge, expertise, experience and wisdom needed to advance its own development and integration. It marked a significant step in the development of a regional consensus on the direction of the Community's development and the priorities for implementation of the CSME.

At the 27th Conference of the Heads of Government in St. Kitts and Nevis in July 2006, it was agreed that Professor Girvan would be tasked with producing a revised version of the Concept Paper integrating the results of the Symposium and the May meeting. This report, 'Towards a Single Economy and a Single Development Vision', was revised as a result of a follow-up symposium chaired by Prime Minister Arthur in Barbados on October 6, 2006; and by a special Task Force of stakeholder representatives convened by the CARICOM Secretariat on October 21, 2006. The revised Report of October 25, 2006 was considered in February 2007 by the Joint Meeting of the Prime Ministerial Sub-Committees on the CARICOM Single Market and Economy and External Trade and Economic Negotiations and by the Eleventh Meeting of the COFAP; which made a number recommendations for its refinement, while endorsing it to the Heads of Government.

The Report was endorsed by the Eighteenth Inter-Sessional Meeting of Heads of Government in St. Vincent and the Grenadines in February 2007 'as a broad framework for addressing the development needs of the Community'. The Heads agreed that Professor Girvan, in collaboration with the Special Task Force and the Secretariat, should refine it in the light of the recommendations at the Joint Meeting. The Revised Report dated May 16, 2007 was approved by the Second Joint Meeting of the COTED and the COFAP held in Trinidad and Tobago in June 7, 2007 which agreed that the title should be changed to "Towards a Single

³ The *Caribbean Trade and Investment Report 2005* from the CARICOM Secretariat, and a collection of papers on *Production Integration in CARICOM: The Way Forward*, edited by Professor D. Benn of the UWI.

Development Vision and the Role of the Single Economy'. The Joint Meeting noted that the adoption of the Revised Report would 'set the framework for the formulation of a regional strategic development plan which would elaborate on the Vision for the future socio-economic development of the Community'. The Revised Report was approved by the 28th Conference of Heads of Government held in Barbados, July 1-4 2007.

MISSION STATEMENT

We envision a Caribbean Community in which every citizen has the opportunity to realise his or her human potential and is guaranteed the full enjoyment of their human rights in every sphere; in which social and economic justice is enshrined in law and embedded in practice; a Community from which poverty, unemployment and social exclusion have been banished; in which all citizens willingly accept a responsibility to contribute to the welfare of their fellow citizens and to the common good; and one which serves as a vehicle for the exercise of the collective strength of the Caribbean region, and the affirmation of the collective identity of the Caribbean people, in the world community.

1. SCOPE AND DEVELOPMENT VISION

I. 1 CONTEXT AND BACKGROUND

The CARICOM Single Market and Economy (CSME) will establish a single economic space within which business and labour operate; in order to stimulate greater productive efficiency, higher levels of domestic and foreign investment, increased employment, and growth of intra-regional trade and of extra-regional exports. The Single Market component consists of freedom of movement of goods, services, capital, business enterprise and skilled labour within an area bounded by a customs union. This has been largely completed, and the Community now looks forward to implementation of the Single Economy. Under the Revised Treaty of Chaguaramas, this requires harmonisation of policies, laws, and regulations; enhanced monetary cooperation, and common external economic policies.

However, stakeholders agree that there is a huge 'information deficit' regarding the CSME among the ordinary citizens of the Community and a major 'credibility gap' regarding its completion. Many citizens are cynical about the slow pace of implementation, while others are apprehensive about the possible adverse effects of increased competition for jobs and markets. It is obvious that a much greater effort at public education and consciousness-raising is necessary. Articulating a single development vision offers an opportunity to show the regional public that the CSME can be an instrument for achieving, in a regional framework, certain development goals that are difficult or impossible to achieve individually by member states. A single vision also provides a framework of shared objectives to guide policies, priorities and sequencing for further implementation of the CSME.

Nonetheless if implementation continues to lag behind commitments undertaken, the credibility of the integration process will be further undermined and the nay-

sayers will find vindication. Reform of Community governance that addresses the implementation deficit is, therefore, crucial to the realisation of the Vision.

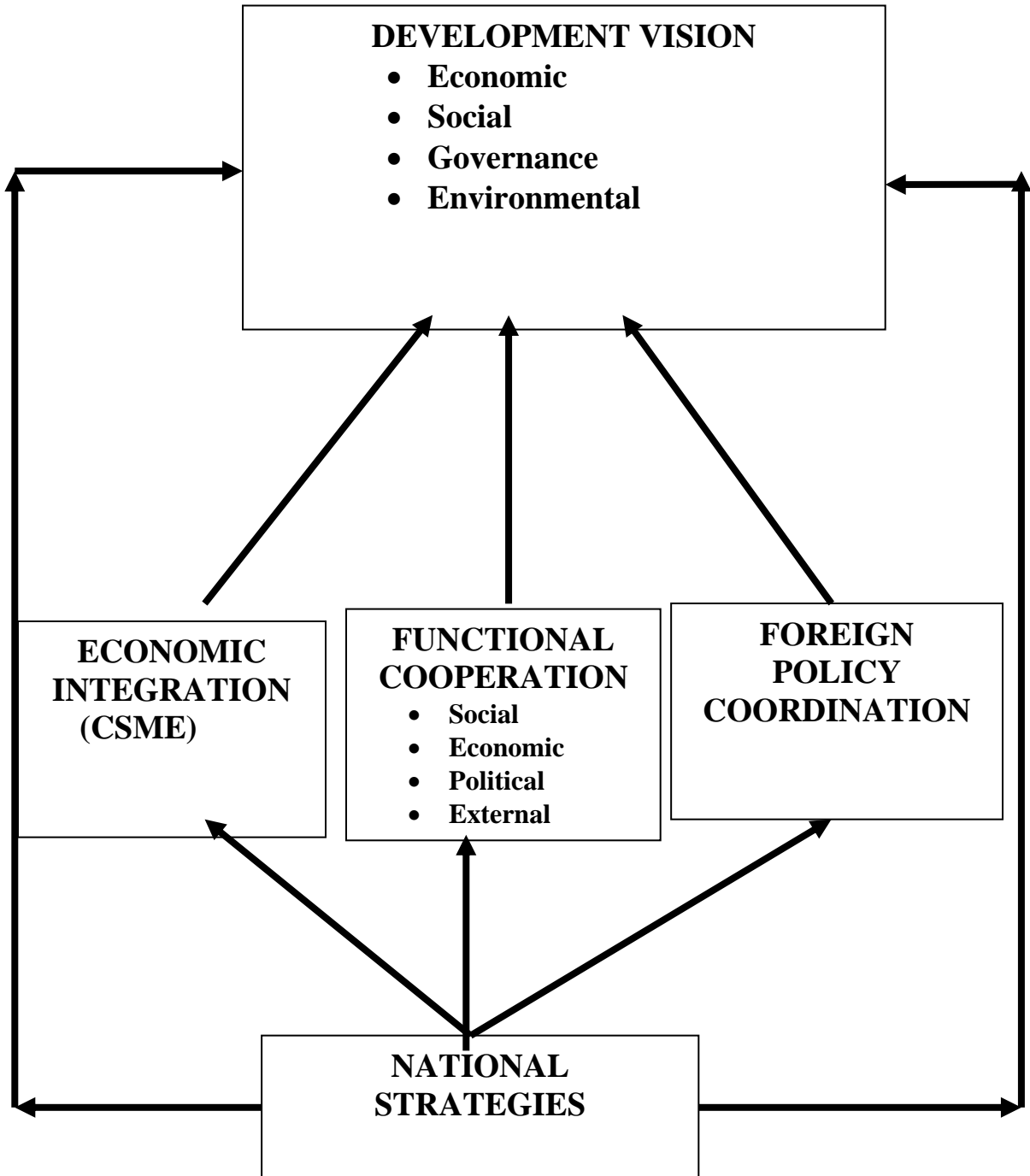
Stakeholders also agree that the Vision should not be exclusively economic; that is, concerned only with, trade, investment and business opportunities. Popular support for integration requires that economic benefits are spread broadly across countries and social groups; and that it makes a difference to quality of life issues such as crime, health and education. In other words, the Vision should be holistic, relating to all dimensions of development; and there must be perceptible 'value added' that derives from the existence of the Community.

This is why functional cooperation--the second pillar of integration—is so important. Functional cooperation is not necessarily based on legal instruments or on the operation of market mechanisms: it is essentially a process of sharing services and undertaking joint activities in order to reduce costs and achieve synergies. Several kinds of functional cooperation are mentioned in this Report; notably health, human resources development, security, foreign trade policies, and research and development. Functional cooperation in the economic field has a direct economic benefit in helping to realise the potential of market integration. In social, political and environmental matters, functional cooperation supports economic development by improving labour productivity, systemic competitiveness and sustainability. Just as important, functional cooperation speaks to other aspects of development, helping to provide integration with a 'human face' and facilitating broad stakeholder involvement. Hence, it is to be seen as an *integral part* of the integration process and as an indispensable complement to the CSME. If most of this Report is devoted to CSME-related subjects, this is not to downplay the importance of progress in other integration activities.

The CSME by itself, therefore, cannot be 'all things to all men', neither should we expect more from it than it can realistically deliver. Even as an economic instrument, it should not be regarded as a cure-all for the region's economic problems, and its benefits will take time to be realised. Most of the development effort will continue to be made nationally and sub-regionally; but this will be bolstered by creation of a single economic space and by functional cooperation.

The third pillar of integration is foreign policy coordination. This strengthens the Community in its dealings with the wider world, increases its ability to make external arrangements that support its development objectives, and enhances the collective identity and collective capacity of Caricom states in their interactions with the world community. This is another element of 'value added' in integration.

Figure 1. THE DEVELOPMENT VISION AND REGIONAL INTEGRATION



I.2 A SINGLE DEVELOPMENT VISION

The single vision is for sustainable development and it encompasses economic, social, environmental and governance dimensions; grouped into six broad elements:

1. Self-sustaining economic growth based on strong international competitiveness, innovation, productivity, and flexibility of resource use;
2. A full-employment economy that provides a decent standard of living and quality of life for all citizens; elimination of poverty; and provision of adequate opportunities for young people, constituting an alternative to emigration;
3. Spatially equitable economic growth within the Community, having regard to the high growth potential of member states with relatively low per capita incomes and large resources of under-utilised land and labour;
4. Social equity, social justice, social cohesion and personal security;
5. Environmental protection and ecological sustainability;
6. Democratic, transparent and participatory governance.

In the remainder of Section I we elaborate on the different dimensions in slightly greater detail. The rest of the Report deals mainly with the economic dimension.

1.3 THE ECONOMIC DIMENSION

- A goal of accelerated economic growth through adjustment and transformation of regional economies, greatly improved international competitiveness, sustained innovation and productivity growth;
- The highest rates of growth should be recorded for the economies with lowest per capita incomes; so that there is some movement towards

convergence within the Community, This is particularly relevant for those economies with large unused reserves of land and labour;

- Regional policies for growth and transformation will be adopted within the framework of a dynamic, sustainable development-oriented social partnership of the public and private sectors, labour and civil society. Governments will:

- Establish the framework within which strategic goal-setting and monitoring will take place by means of consultation with the social partners,
- Provide the enabling environment for private sector activity through policy harmonisation, and common policies and support measures for productive activity
- Act as an 'entrepreneurial state'⁴ through direct involvement in activities, where this may be justified by the existence of market failure and of high positive externalities.

The private sector will play the leading role in investment and in the ownership and management of economic activities

- The main drivers of economic growth and transformation are expected to be clusters of goods and services industries centred on the energy sector; agriculture, forestry and fishing; manufacturing; sustainable tourism; and other export services. It very important that these sectors should benefit from the adoption of common Community policies and support measures⁵.
- Common sectoral policies will be complemented by common regimes or harmonised policies in foreign trade; human resource utilisation; fiscal, monetary and incentives policies; transport; investment; financial services;

⁴ The entrepreneurial state is here distinguished from the interventionist state, which involves detailed government regulation and direction of private sector activity.

⁵ Common policies and support measures are provisions of the Revised Treaty of Chaguaramas.

capital market integration; competition; regional quality infrastructure; small and medium enterprises; and corporate governance⁶.

- Member States will prioritise the upgrading of human and social capital, and the promotion of an entrepreneurial culture at all levels of the society, as areas for functional cooperation.

With regard to implementation, three further points should be made:

- Institutional machinery for coordination, management and monitoring of the process will need to be strengthened. This issue is not addressed in the present report.
- It will become necessary to prepare a detailed Regional Development Strategy containing indicative targets for economic growth, exports and infrastructural investment; in order to refine scenarios for the growth of the regional economy, to guide to common policies and support measures, and for negotiation with external stakeholders.
- For monitoring purposes, indicators of production integration would need to be identified. These could include:
 - Intra-CARICOM shares in total trade in goods, total trade in services, and total cross-border investment flows.
 - Growth in number of cross-border investors.
 - Ratios of regional assets to total assets for financial intermediaries and other institutional investors
 - Growth of extra-regional exports by pan-Caribbean firms.
 - Growth in number of Skill Certificates Issued.

⁶ Most of these are also called for under the terms of the Revised Treaty.

I. 4 THE SOCIAL DIMENSION

- Legal entrenchment of the CARICOM Charter for Civil Society, with regular reports on its implementation by an independent body involving Civil Society stakeholders.
- Adoption of a Regional Human Rights Convention
- Adoption of an indicative target for investment in human capital by member states, and preparation of an indicative regional Human Resource Development Strategy, to meet the quantitative and qualitative requirements for successful performance in a globalised world economy
- Reasserting the central role of culture in the integration process by its mainstreaming into all aspects of development agenda and specifically for the development of regional identity, attitudes to regional citizenship and respect for diversity through, *interalia*, education, preservation and presentation of cultural heritage.
- Fostering, through the strategic use of ICTs, the development of an inclusive information society which focuses on skills for employment in a knowledge economy and enhancing participation in decision-making processes at the community, national and regional levels.
- Adoption of models of 'best practice' of public policy in labour-management relations, health, security, justice, local government, youth empowerment and gender equality; to benchmark progress in these areas in Member States.

- Adoption a decent minimum wage and conditions of work as a common standard applied by law throughout the Community.
- Adoption of a model of Corporate Social Responsibility as a common standard applied by law throughout the Community.
- Establishing a Community Social Compact, based on the foregoing elements, among the four principal social partners of governments, business, labour and civil society.
- Designating the Caribbean Diaspora as the fifth social partner; and on that basis developing and adopting the principles of a Community Diaspora Policy in which the Diaspora is encouraged to partner with the Caribbean resident community in the supply of skills, entrepreneurship, capital, export marketing, and social capital.

I. 5 THE ENVIRONMENTAL DIMENSION

- Adoption of a common Environmental Regulatory Regime which protects, preserves, enhances and manages the productive potential of the natural environment to ensure sustainable development, so that investors and other economic agents operate across the entire space of the CSME on the basis of the same policies and regulations that are publicly known and applied in a predictable and transparent manner.
- Sponsoring the preparation and publication of a regular State of the CARICOM Environment reports, including the status of implementation of national laws and international commitments relating to the environment. Particular attention will be paid to priority issues in the Region such as the coastal and marine environment, forestry and watershed management,

waste disposal and recycling, climate change impact analysis and adaptation, and natural disasters impact and management.

I. 6 THE GOVERNANCE DIMENSION

Implementation of the *Rose Hall Declaration on Governance and Mature Regionalism*, based on the recommendations of the Technical Working Group on Governance (2007) particularly:

- The automatic application of decisions of the Conference of Heads of Government at the national level in certain defined areas.
- The creation of a CARICOM Commission with Executive Authority in the implementation of decisions in certain defined areas.
- The automatic generation of resources to fund regional institutions.
- The strengthening of the role of the Assembly of Caribbean Community Parliamentarians.

Extension of regional governance by giving official recognition to the following mechanisms of particular relevance to the CSME:

- The Caribbean Business Council
- The Caribbean Corporate Governance Forum
- Civil Society Forum

II. ECONOMIC DRIVERS OF REGIONAL DEVELOPMENT

II. 1 ECONOMIC DRIVERS: CONCEPT AND ROLE

Economic drivers are sectors or clusters of activities whose expansion is expected to drive economic growth in the Community as a whole. To qualify as a 'driver', a sector must have the potential for (a) sustained growth of exports to international markets, or (b) significant growth in intra-regional exports, or (c) significant growth in supplies, at low real cost, of a key input that is important to the achievement of international competitiveness in other activities. A driver does not have to be present in the economies of all member states, it can be concentrated in one or two economies for reasons of resource availability, but it must be capable of imparting dynamism to other economies and to the Community as a whole. This conception of the regional growth process does not mean that *all* the economic opportunities will be generated by the 'drivers', but that these clusters are expected to act as engines of growth, creating opportunities in other sectors through linkage effects.

The economic drivers discussed in Section II do not constitute an exhaustive list. They are industry and service clusters whose growth potential have been identified through an iterative process of technical studies and stakeholder consultation. The clusters are centred on energy, agriculture, sustainable tourism, and export services. However, the strategic role of *innovation* as a driver in its own right should be emphasised-this is a crosscutting factor that impacts across the entire range of economic activities. (Research and Development in support of innovation is discussed under Section IV.3).

II. 2 ENERGY

The energy industry cluster is here defined to include:

- (i) Petroleum and natural gas exploration, production and refining;
- (ii) Production in upstream (energy-supplying) and downstream (energy-based) goods and service industries; and
- (iii) The generation of electricity from indigenous energy resources, focusing on natural gas and development of new and renewable sources of energy.

For several reasons, the cluster is seen as an important major source of economic growth and increased international competitiveness for the regional economy.

First, large investments in the Trinidad and Tobago energy sector and the resultant revenue flows have imparted considerable dynamism to the Trinidad and Tobago economy, with significant actual and potential spill over effects to other CARICOM economies. These spill-over effects include the supply of goods, services and skilled labour by other member states to Trinidad and Tobago, cross-border investment by Trinidad and Tobago firms in other CARICOM economies, bond and equity financing to other member states from the Trinidad and Tobago capital market, and government of Trinidad and Tobago funding of regional development projects and the Regional Development Fund. In the future, other spill over effects are envisaged in the form of establishment of upstream and downstream industries related to the Trinidad and Tobago energy sector, in other Member States.

Second, implementation in tandem of the Regional Energy Policy developed by the CARICOM Task Force, and the Regional Energy Plan and Pipeline Project proposed by the Trinidad and Tobago energy stakeholders; will be pursued as a means of optimising the use of energy resources, reducing the relative cost of

energy to regional producers and other member states, and leveraging increased international competitiveness across a broad range of goods and services. This will serve as a mechanism of dispersing the benefits of integration among Member States.

Third, functional cooperation in energy through the Caribbean Renewable Energy Development Programme (CREDP) will help to attain critical mass in the development of new and renewable energy sources and other aspects of research and development and relate this to energy use optimisation.

Fourth, a common approach to energy development will encourage fossil fuel exploration in other member states with actual or potential energy resources⁷.

This sector is therefore one in which an ‘early harvest’ may be reaped from the integration process; as considerable technical work has already been done. The main elements of the regional energy policy will be

- Use of Trinidad and Tobago natural gas as part of a regional energy network; including a policy of promotion of cross-border electricity supply, inter-state interconnectedness of transmission and the organisation of regional electricity enterprises.
- Implementation of the regional renewable energy programme for environmental sustainability and long-term energy security, taking note of wind, geothermal, and wave capacities, *inter alia*,
- Complementary actions to take full advantage of PetroCaribe and GeoCaribe as part of regional energy policy and plan.
- Common regional energy negotiations with external players; including financing, supply of natural gas, and market access for exports of energy-based goods and services.

⁷ Among these are Barbados, Belize, Guyana and Suriname.

- Trinidad and Tobago energy-based downstream industries as a fulcrum of industrial development, spreading the benefits regionally through participation of labour and equity capital from CARICOM Member States.
- Promotion of CARICOM business participation in Trinidad and Tobago energy-supplying upstream industries through the supply of goods and services: supplier registration, technology and skills upgrading, credit and incentives.
- Harmonisation of electricity legislation, regulation, licensing, incentives, and administrative procedures among member states.
- Interpretation of Chapter 3 of the Revised Treaty to include the electricity sector within the scope of Right of Establishment and include cross-border supply of electricity within the scope of non-discriminatory pricing.

Constraints of the sector are identified as:

- High exploration cost
- Cost effectiveness of alternate energy sources
- Border issues

11.3 MANUFACTURING

Current industrial policies of several Caricom states designate manufacturing as a key driver of economic growth. Resource-based manufacturing will continue to be a major growth area in energy-based, agro-based, and mineral-based industries. Furthermore, tourism-linked manufacturing industries in food, building materials, furniture and handicrafts offer significant opportunities for growth, which will be addressed by regional policies. In exporting to international markets, the competitiveness of manufacturing will depend on a highly skilled and productive labour force, excellent infrastructure, in transport and telecommunications and product innovation to capture niche markets.

II. 4 AGRICULTURE, FORESTRY AND FISHING

AGRICULTURE

CARICOM agriculture faces major challenges arising out of preference erosion and weak international competitiveness of traditional exports; low living standards of the rural population; and rapid increase in food imports generated by economic growth, urbanisation and tourism. The 'Jagdeo Initiative' and CARICOM regional agricultural strategy calls for a paradigm shift based on guiding principles that:

- Agriculture spans all activities in the value chain from production of inputs to primary production, transformation and sale of value added products.
- Agriculture is a business: entrepreneurial activity will be promoted by providing appropriate incentives, training, finance, technology and infrastructural support.
- Agriculture will contribute to broader socio-economic goals: sustainable rural development and poverty reduction, food security, equity, and competitiveness.
- Public-private sector partnership will be the principal vehicle of implementation. Commodity groups at both the national and regional levels will be recognised as integral partners in the planning and development of growth and transformation.

Among the important constraints of the sector identified are

- Research and Development
- Land and land use
- Water distribution and management systems
- Investment and Financing
- Marketing information

- Infrastructure, including transport
- Technical Barriers (e.g. Sanitary and Phytosanitary Food Safety Systems (SPS))

The main priorities for regional action will be:

- Upgrading of facilities for intra-regional agricultural trade and transport.
- Strengthened regional collaboration in agricultural R&D and in SPS by cooperation among national R&R bodies and revitalisation of existing institutions with increased funding of regional bodies.
- Completion of a Food Needs Study to indicate potential investment opportunities, and convening of an investors/donors conference involving traditional, non-traditional, development and commercial financial institutions and regional agri-entrepreneurs.
- Market intelligence - sharing of information with respect to demand and supply for agricultural commodities

FISHERIES

The vision is the sustainable use of the fisheries and aquaculture resources in and among Member States, by the development, management and conservation of these resources in collaboration with stakeholders to the benefit of the people of the Caribbean Region.

The Strategic Direction will be addressed through programme areas encompassing: research and data analysis to support policy formulation and decision making; enablement for global competitiveness; resource assessment and management; development of skills and expertise; institutional strengthening; improving the quality of community participation for effective co-management; and the diversification and expansion of aquatic resources.

The regional plan for collaboration among Member States will include:

- (i) The management of straddling and highly migratory fish stocks;
- (ii) Ongoing surveillance of exclusive economic zones;
- (iii) The delimitation of maritime boundaries;
- (iv) Safeguarding the marine environment from pollutants and hazardous wastes;
- (v) Strengthening of Fisheries' Organisations and improved Community participation;
- (vi) Development and promotion of Programmes for Conflict Resolution among Multi-users and Coastal Zones.

FORESTRY

Article 61 of the Revised Treaty provides for CARICOM to collaborate with national, regional and international agencies and organizations to promote the development, management and conservation of forest resources on a sustainable basis.

In this regard, policies and programmes will be formulated, *inter alia*, for:

- (i) The management of forest resources and enhancing the institutional capabilities of Member States to design and implement forest management systems;
- (ii) Providing incentives for forestry development to stimulate domestic, regional and foreign investment in the forestry sub-sector;
- (iii) Establishing, facilitating and strengthening programmes for research and for human resource development at the professional, technical and vocational levels; and
- (iv) Harmonizing standards for quality assurance, compatible with international specifications.

II. 5 SUSTAINABLE TOURISM AND AGRO-TOURISM

Sustainable tourism has economic, social, cultural and ecological dimensions. An important component, which will play a greater role in the future, is 'agro-tourism'--activities linking agriculture, agro-industry and tourism. Tourism is the largest foreign currency earner in the majority of CARICOM states, with a significant untapped potential to contribute to agro-industrial development and sustainable rural development. Competition from mass-tourism destinations also point to the development of niche markets in which the region has the potential to offer a unique visitor experience.

This cluster will support product innovation and capacity development for sustainable tourism included in the following areas:

- Agriculture and Agro-industry linked to tourism (both land and cruise)
- Agro-tourism
- Culinary tourism
- Eco-tourism
- Diaspora tourism
- Health and wellness tourism
- Heritage and adventure tourism
- Entertainment tourism
- Education tourism
- Yachting tourism
- Sport tourism

.The starting point for agro-tourism will be elaboration and implementation of the strategic plan for the development and promotion of Agro Tourism in the Caribbean Region developed by IICA in collaboration with the CTO, the CHA and other tourism industry stakeholders.

Key policy issues are:

- R&D and technical assistance for process and product development and upgrading.
- Pre-investment studies, venture capital and incentives for new product development.
- Development of and implementation of quality management systems for the industry as based on internationally recognised standards, benchmarks, and codes of practices for producers.
- Training and education at all levels.

Stakeholders have also identified the need for:

- Establishment of information and communication networks.
- Exchange and transfer of best practices.
- Establishment of an Agro Tourism Business Council.
- Involvement of stakeholders at national levels.

II. 6 EMERGING EXPORT AND OTHER SERVICES

This will be the fourth driver of CARICOM growth. Actual and potential competitive advantages in this area are an English-speaking population with relatively high education and literacy levels, wage and salary levels that are below developed country levels, and relative proximity to, and time-zone alignment with, large markets in the American hemisphere. These advantages are countered by high production costs other than labour, a subject to be addressed by appropriate policies.

Services are the fastest growing segment of world trade and already account for the bulk of export earnings for the majority of CARICOM States, and percent of all export earnings. These are relatively undiversified, with tourism accounting for 70 percent of the total. The goal should be to increase the share of non-tourism services to 50 percent of the total by 2015. Services are well suited for

development of small and medium-enterprises (SMEs) and can contribute to growth with equity.

Increased earnings will come from growth of the following service clusters:

- Information
- Energy-related
- Culture, entertainment and sport
- Health
- Education
- Accounting
- Legal
- Engineering
- Architectural drafting

The main constraints on the development of services exports are:

- Telecommunications costs, which are relatively high.
- Venture capital is scarce, and capital from regular sources (commercial interest rates) is relatively high-cost.
- Manpower with specialised skills in particular service occupations is in short supply.
- SME management and technology need upgrading.
- CARICOM services regime is incomplete.
- External market access is beset by restrictions for Mode 4 – movement of natural persons – and Mode 3 – establishment of commercial presence.

Policies to address these constraints will be:

- Early completion of liberalisation of intra-CARICOM trade in services prioritising Mode 4, so that firms will have access to a regional pool of service suppliers.

- A common CARICOM telecommunications regime aimed at significant reduction in the cost of telecommunications services to users and continuous technological upgrading of facilities. This will include the liberalisation of value added services.
- A special regime for SMEs in selected service export activities that makes available a package of venture capital, incentives, technical assistance, marketing assistance and subsidised training. This will be performance-based and transparently administered.
- Orientation of Tech/Voc training and tertiary education to produce manpower with the requisite specialised skills in selected service activities.
- Common external market access negotiations to trade access to CARICOM services markets for enhanced access in external markets, particularly in Modes 4 and 3.

III. ENABLING ENVIRONMENT: ECONOMIC POLICY

HARMONISATION

III.1 FOREIGN TRADE POLICIES

CARICOM'S foreign trade policies are driven by the imperatives of diversification and structural transformation and the common policies derived therefrom. Hence, the needs of the economic drivers will be the strategic focus of trade negotiations and of functional cooperation in foreign trade. Trade negotiations will target market access for their products by means of reduction of tariffs and, equally important, of non-tariff barriers. The aspects of trade agreements that relate to services, investment, government procurement, competition policy and trade facilitation must leave space for the common policies and support measures in

fostering the development of the economic drivers. Hence it is of cardinal importance to complete the regional policy regimes for these sectors.

EPA negotiations with the EU and the WTO Doha Round negotiations are the most immediate challenges. CARICOM will argue forcefully that the principle of Special and Differential Treatment (SDT) as it applies to small vulnerable economies means recognition of the peculiar (and well documented) disadvantages that these economies have in effecting adjustment and transformation. This operationalises the principles of SDT and of 'policy space' in the CARICOM setting. The 'defensive' aspect of foreign trade policies is to seek realistic periods for the phase-out of preferential arrangements that result from challenges under the WTO agreement and changes in developed country policies. Realistic phasing means recognition of the time required to plan, organise financing for, and implement structural changes in preference-dependent industries.

However, securing appropriate trade agreements by itself will not suffice. Functional cooperation in export promotion and export marketing in selected export goods and services will complement negotiated market access. This is especially important for small exporters, which are handicapped by the large start-up costs of breaking into foreign markets. Collaboration amongst national industry associations and national export promotion agencies is the first step. Moreover, a start has already been made with Caribbean Export.

Functional cooperation is also vital in the matter of *market diversification*. World geo-economic power is shifting towards the East and the South. China and India represent huge growth opportunities for the products of small economies. Together with Brazil and South Africa, they have become important global economic players. CARICOM will adopt an active policy of trade promotion and economic diplomacy towards these players. Trade relations are growing and there are significant historical and cultural links with some. Some CARICOM

states are strategically located to become a bridge to markets on the South American mainland. These opportunities will be easier to exploit with functional cooperation in trade representation and economic diplomacy.

III.2 INVESTMENT

Intra-regional foreign direct investment (FDI) and formation of trans-Caribbean firms (TCCs) are now important features of the CARICOM landscape. In recent years intra-regional investment FDI has averaged 10 percent of total FDI inflows to Member States. Intra-regional investment has been led by firms in the financial sector (banking and insurance), followed by firms in tourism, distribution and manufacturing; including several conglomerates. Trinidad and Tobago is by far the leading regional investor country, followed by Barbados and Jamaica. The main destination countries have been Jamaica, Barbados, the O.E.C.S., and Belize, Guyana and Suriname. CARICOM as a whole is a major recipient of extra-regional FDI relative to the size of its economies. However extra-regional FDI is concentrated in a small number of member states, and the annual inflow is erratic. Energy-related industries, minerals and tourism are significant sectors for extra-regional FDI.

The goal of policy will be to facilitate the continued formation and consolidation of trans-Caribbean firms, including SMEs, and to attract extra-regional FDI especially in the economic drivers by leveraging the synergies of the Single Market and Economy. Central to this policy is the creation of the region as a single investment jurisdiction. The framework for this will be established by CARICOM Investment Code (CIC). The CIC will harmonise national incentives to investment in the industrial, agricultural and services sectors, with priority given to sustainable export industrial and service activities. New investments will be facilitated by the removal of bureaucratic impediments. Community-owned firms will be subject to national treatment in member states; giving them slightly more favourable treatment than foreign owned firms, for which access will be subject to

progressive liberalisation. Hence the regime will foster the growth of regional enterprises, including SMEs, in the growth sectors, while enhancing the attractiveness of the region to foreign investment.

The CIC covers all goods and services (except financial services which are covered by a separate agreement); adopting a Negative List approach under which certain small-scale activities are reserved for nationals of member states. It reinforces the Right of Establishment and the right to provide services embedded in the CARICOM Single Market. It liberalises capital movements and current transactions and establishes transparency in the authorisation process. It establishes common regional principles for Environmental Protection and Intellectual Property, Competition Policy, Consumer Protection and Corporate Social Responsibility; and sets up a mechanism for the resolution of Investor-State Disputes. The result will be lower transactions costs and greater certainty and predictability for investors, leading to enhanced efficiency and international competitiveness, expanded investment flows within the region and from the rest of the world and greater CARICOM bargaining power in external negotiations.

The CIC will enable CARICOM to be marketed as a single investment jurisdiction to global firms, focused on attracting FDI to the priority activities that are the subject of common sectoral policies, while allowing for national targeting of FDI by individual member states and sub-regions.

III.3 TAXATION AND INCENTIVES

Harmonisation of the tax regime will focus on:

- Implementation of Articles 7 and 8 of the Revised Treaty, which prohibits discrimination on grounds of nationality, or more favourable treatment of non-CARICOM taxpayers vis-à-vis CARICOM taxpayers; so that

CARICOM firms and individuals can operate in all member states on an equal footing.

- Harmonised treatment of investment income and incentives, to eliminate the possibility of tax arbitrage by investors and enable the marketing of the region as a single investment jurisdiction.
- Agreement on common definitions and treatment of items in the tax code; particularly allowances. This is well advanced in discussions among the Caribbean Organisation of Tax Administrators (COTA).
- Completion of legal arrangements for the avoidance of double taxation among member states, to eliminate disincentives to cross-border investment and movement of natural persons.

III.4 FINANCIAL SERVICES

The CARICOM Financial Services Agreement will establish the legal framework for the unrestricted movement of capital and financial resources across the regional economic space. Operating alongside sector-specific legislation such as the Draft Regional Financial Institutions Bill, it will establish a seamless financial services market by setting identical requirements for financial institutions operating intra-regionally. This will generate a wide range of benefits to financial services firms and to consumers and will impact positively on the efficiency of regional production and international competitiveness. Among the expected benefits are:

- Regional pooling of liquidity and regionalisation of supply and demand for financial instruments.
- Improved operation of financial markets in fairness, efficiency, transparency and degree of competition.
- Product innovation, wider range of financial products and improvements in service quality.
- Lower transactions costs for financial service firms and their customers.

- Lower liquidity risk for financial service firms.
- Tendency towards the convergence of interest rates.
- Larger and more efficient financial institutions.
- Increased investment, production and employment.

III.5 CAPITAL MARKET INTEGRATION

Capital market integration is an important tool for the mobilisation and optimal utilisation of the region's capital resources. Integration is already under way, as several major regional firms are cross-listed on existing national stock exchanges; some technical work has been completed on the establishment of a regional stock exchange; and a regional bond market has emerged. CARICOM policy will be to broaden and deepen capital market integration by harmonisation of the legal and regulatory environment, complemented by appropriate institutional arrangements.

Equity market development in the region is still relatively low, as only 132 companies are listed (or have their shares traded) in stock exchanges in the Bahamas, Barbados, Jamaica, the O.E.C.S. and Trinidad and Tobago; and in Guyana. The financial sector leads in terms of sectoral distribution, followed by manufacturing and tourism. Regional equity market integration is still embryonic, as only 13 firms have cross-listed on securities on five of seven stock exchanges in the Region.

The regional bond market is centred on Trinidad and Tobago, which over 1997-2005 financed \$1.7 billion of regional corporate securities and \$743 million of bonds issued by eight regional governments. The market helped satisfy capital needs for corporate investment and commercial operations and for government provided infrastructure, at lower cost than regular commercial credit; while providing an outlet for the funds of institutional investors. At the same time it is

highly dependent on the continued buoyancy of the Trinidad and Tobago energy sector, the underlying source of its liquidity.

CARICOM Member States will take the following steps to encourage development and integration of the regional capital market:

- Removal of multiple listing fees and other impediments to cross-listing.
- Harmonisation of securities and company laws.
- Harmonisation of listing rules, trading requirements and procedures.
- Updating of trading technology with the establishment of a regional electronic business policy to include security guidelines, including Public Key Infrastructure guidelines, to maintain the integrity of the electronic system.
- Provision of incentives for private firms to become publicly listed and traded.
- Decision on the establishment and form of a regional stock exchange.

III. 6 INTEREST RATES

The Revised Treaty in Article 44 (e) includes Interest Rates as one of the economic variables to be harmonized under macro-economic convergence . Interest rate convergence is an important indicator of the degree of fiscal and financial stability required for launching a durable Single Currency . As the integration process deepens, it will be necessary to incorporate interest rates into the formal convergence criteria. Most member states have already abolished exchange control and those that remain are re-examining their position. With capital mobility, wide variations in interest rates would result in distortion and skewness in capital flows and interest rate arbitrage, militating against efficient resource allocation and equitable distribution of the benefits of integration.

III.7 ENHANCED MONETARY COOPERATION / MONETARY UNION

CARICOM is pursuing the goal of creating a monetary union as part of the CSME. Among the advantages of monetary union are reduction of transaction costs of intra-regional trade, investment and remittances; increased price transparency, reduced exchange rate uncertainty, enhanced efficiency of financial markets, and a deepened sense of regional identity. Significant obstacles to an early monetary union are wide differences among member states in macroeconomic conditions, in fiscal and monetary conditions, in exchange rates and exchange rate regimes and in banking and finance legislation; the existence of capital controls by some Members States; the differential susceptibilities of member states to exogenous shocks, the desire to retain national monetary sovereignty and seignorage revenues; and the substantial costs of converting accounting systems that would be incurred by some trans-Caribbean corporations.

On the other hand, CSME implementation will set in place several of the underlying conditions necessary for the CMU and serve as an impetus towards monetary integration. This will be the effect of full implementation of the Right of Establishment; and the harmonisation of the legal, regulatory and policy environment associated with implementation of the CARICOM Investment Code, the Financial Services Agreement, the harmonisation of taxation laws and practices, capital market integration and common sectoral policies.

CARICOM will therefore adopt a phased approach to implementation of the CMU, as shown below. This would entail among other things, monetary and macro-economic policy coordination.

Phase I – 2006-2010:

- (i) Adoption of a Protocol on Monetary Integration to the Revised Treaty setting out the framework for the completion of the CMU

- (ii) Agreement on the adoption of a numeraire CARICOM Currency Unit as a further step towards full Monetary Union; and
- (iii) Initiation of the Caribbean Monetary Union with ‘Category 1’ countries as the core—i.e. Member States that already satisfy the convergence criteria for the CMU;

Phase 2 – 2011-2015:

Expansion of the CMU to encompass Category 2 and Category 3 countries.

Among the matters to be addressed by the Protocol are (i) the nature and scope of a common monetary policy (ii) the relationship between national central banks and a regional monetary authority, (iii) legislative arrangements required to give effect to monetary integration, and (iv) the operational requirements of monetary integration.

IV. ENABLING ENVIRONMENT: SOCIAL AND INSTITUTIONAL STRUCTURES

The basic architecture of the enabling environment for the regional development strategy is embodied in the Revised Treaty of Chaguaramas--the legal framework for the CSME. It remains to put ‘flesh’ on the ‘bare bones’ established by the Revised Treaty by specifying agency, policies and complementary actions. Section III summarises the consensus reached with stakeholders under the headings of: the role of social partnership, human resource development, policy harmonisation and the business environment, research and development, transport policy, monetary cooperation, and the regional development fund.

IV.1 SOCIAL PARTNERSHIP

Implementation of the regional development strategy will be based on a solid foundation of social partnership among the key stakeholders of government, business, labour and civil society. The purpose of social partnership is to establish an agreed framework and understanding of mutual rights and responsibilities as the basis for cooperation in the attainment of strategic goals. The formation of the Caribbean Business Council in June 2006 was a significant step in setting up a mechanism for dialogue and consultation for the forging of a dynamic public-private partnership that is key to strong growth performance in the economy. Similar initiatives will be pursued with labour and civil society. Activation of the CARICOM Charter for Civil Society to make it legally binding will also provide tangible expression of the Community's commitment to vibrant social partnership.

IV. 2 HUMAN RESOURCES

The Region's approach to human resource development and utilisation requires a paradigm shift. To function adequately in a globally competitive economy, the Caribbean person of the future will need to be self-confident, innovation-oriented, multi-skilled, IT-literate, foreign language competent, entrepreneurial, and above all accustomed to critical and creative thinking. Production of high value added goods/services for internationally competitive niche markets, use of appropriate advanced technology and development of regional enterprises will generate new and expanded human resource requirements which, if not met, will stop the process in its tracks. Regional and national-level surveys indicate skills shortages at all levels and in a wide range of occupations related to growth sectors and the delivery of basic services; as well as issues related to work ethic. Institutional weaknesses at the primary, secondary, tech/voc and tertiary levels, as well as emigration, have exacerbated these shortages.

Accordingly, an indicative Regional Human Resource Development Strategy will be prepared with the following as its core areas:

- Revamping of education and training systems to meet the needs of economic drivers
- Equipping the youth of the region with a sense of regional identity and pride of accomplishment and with the attitudes, skills and work habits needed to participate successfully in a modern globalised economy
- Strengthening of mechanisms for facilitating lifelong learning and continual retooling of the workforce
- Attention to essential elements of health systems in order to promote healthy lifestyles, and development of cooperation mechanisms for shared health services

The following initiatives will be taken in the immediate future to make better use of available human resources and effect short-improvements in the supply of skills:

- **Streamlining of the CARICOM Skills Certificates arrangements.** This involves agreement on automatic and mutual recognition of Skills Certificates issued by member states, arrangements for on-line application and granting of Certificates, and targeting of the Caribbean Diaspora in areas of skill shortages
- **Legal implementation of Contingent Rights for dependants of holders of CARICOM Skills Certificates.** Governments have already agreed that this will be implemented administratively; but the relevant Protocol needs to be brought to early completion in order to clarify and guarantee these rights.

- **Expansion of the eligible categories for Free Movement.** A proposal is now under discussion for this to include domestic workers, nurses, and teachers, and artisans.
- **Implementation of the right to provide services for self-employed service providers.** This involves agreement on equivalencies, accreditation, recognition and acceptance of qualifications over the entire range of service occupation; leading to a common register and certification of service providers to facilitate free movement.
- **Strengthening of regional collaboration among national tech-voc and tertiary level institutions and of regional institutions.** Existing national training agencies in the tech-voc field will become the hub of a regional collaborative network to make better use of existing facilities, exchange experience and expertise; while the UWI and ACTLI will expand facilities in the areas of professional and para-professional skill shortages.
- **Establishment of a CARICOM Human Resources Information System (HRIS).** A feasibility study will be undertaken on potential users, scope of coverage and technological requirements for an information system on human resource needs and availability in CSME-significant skill categories.
- **Implementation of Transference of Social Security Benefits. Extension of these arrangements to include portability of pensions.**
- Orientation, education, training and information sharing for relevant “front line” personnel in Member States about current arrangements.

IV. 3 HEALTH

In the Nassau Declaration, on Health 2001 Caricom Heads of Government have recognised that ‘the health of the region is the wealth of the region’. Health is designated as a major area of functional cooperation, to be pursued by building on existing regional and sub-regional initiatives and establishing a series of networks within a coordinated regional structure responsive to the needs of

ordinary Caribbean citizens and designed to ensure equity in access to quality preventive and care regimes. The knowledge base for this has been laid by the Report of the Caribbean Commission on Health and Development, a comprehensive diagnostic with detailed recommendations for national action and regional cooperation.

The major problems have been identified as noncommunicable diseases, HIV/AIDS and injuries and violence; compounded by inadequacies in the management of health service delivery. With regard to HIV/AIDS, significant progress has been made in public awareness and functional cooperation. Noncommunicable diseases generate a significant economic cost to the region in lost production and will put increasing strain on national health budgets. Caricom Heads have agreed that their prevention and control rest in areas that may sometimes lie outside lie within the mandate of the Ministers of Health and a Regional Summit scheduled for September 2007 will deal specifically with functional cooperation in this area. Health status statistics, however, are in need of major improvements as regards scope of coverage, reliability and timeliness and this problem will need to be addressed if national management and regional cooperation are to be more effective.

Free movement of persons under the Caricom Single Market and Economy will pose certain challenges as a result of wide differences in the availability and cost of public health services among member states. The issues relate to the eligibility of Caricom nationals to access services, the matter of contingent rights, and the potential impact on costs and availability in host countries. This will need to be addressed by establishment of a Caribbean wide health insurance scheme, as recommended by Health Commission. This will be an enormous task and a first step is to be undertaken by means of a feasibility study organised by the CDB.

IV. 4 SECURITY

Due to their small size and geographic location, CARICOM states have become increasingly vulnerable to the activities of transnational crime in drug-trafficking, trade in illegal arms, money-laundering and illegal migration. This has been exacerbated by the deportation of criminal aliens from metropolitan countries to the region. These have been reflected in the emergence of violent gangs and posses, kidnapping for ransom and contract murder, and steep increases in homicides; with resulting significant negative impacts on the retention of skilled manpower, business costs, levels of investment, tourist arrivals, and the quality of life of general population. Terrorist activity that could target tourism, foreign investment and the security of the state has also become a major concern.

Highlighting of security as a key area of functional cooperation reflects recognition of this vulnerability and of the imperative of mutual support and assistance among Caricom states and of maintaining a common front in arrangements made with international partners. Caricom has already established the foundation of a system of functional cooperation in this area in the form of the Regional Security System (RSS) and police cooperation in a number of areas (LIST). A Regional Task Force on Crime and Violence was set up in 2001 and made a number of recommendations that were approved by the Heads of Government in 2002. Cooperation in intelligence sharing and border controls, among member states and with international partners, was significantly strengthened in response to the exigencies of Cricket World Cup 2007.

Existing elements will, therefore, be consolidated into a full-fledged **Caribbean Security Cooperation System (CSCS)**. This will have two components. First, consideration will be given to establishment of a regional or sub-regional response mechanism to combat regional security threats arising out natural disasters, terrorism, insurrection or invasion. The long-term objective is the

creation of new Caribbean Security System based on regional resources. In the short to medium term, the options are for any one, or a combination of (i) expansion of the Regional Security System (RSS), (ii) establishment of sub-regional systems based on the creation of geographic zones within Caricom with sub-regional coordinating centres in identified member states, and (iii) establishment of sub-regional systems based on strategic cooperation with the wider Caribbean.

The second main component of the CSCS will be a Caribbean Police System. To this end, a decision has already been taken to establish a Caribbean Regional Information and Intelligence Sharing System (CARISIS) and enhance border security as priorities, and to establish a Coordinating Information Management Authority to oversee its implementation. CARISIS will begin as a 'virtual system' but will be managed and owned by a regional entity to develop trust and optimum use of its facilities. The system can also serve to manage regional border security and provide such services like a Regional Inspectorate and regional witness protection programmes to assist in the development of the smaller and weaker police services within the Region and enhance the integrity of the justice system.

IV.5 RESEARCH AND DEVELOPMENT

CARICOM will require both a regional policy on Research and Development (R&D) to encourage the development, adaptation and diffusion of technology in production, and a regional institutional mechanism to drive the process. The relationship between investment in research and development and the rate of economic growth is now clearly established empirically; but CARICOM spends only 0.016 percent of its GDP on R&D, compared to 2-3 percent for the developed countries. In the Caribbean, industries where R&D can play a significant role include domestic and export agriculture, agro-processing, energy,

information services and telecommunications. Product innovation is a key strategy in winning market niches in export agricultural products such as sugar, rum, exotic products such as tropical fruit extracts and spices, and ethnic food products for supply to the tourism sector and the Caribbean Diaspora. Process innovation can increase the capacity of firms, including SMEs, to process indigenous products. Adaptation and diffusion of technology, whether locally generated or imported, is an integral part of maximising productive efficiency and maintaining international competitiveness. Consideration will therefore be given to the feasibility of establishing a Caribbean Research and Competitiveness Funding Agency, based on the proposal recently prepared by UWI for the CARICOM Secretariat⁸.

R&D is an area where close collaboration between the public and private sectors is highly relevant. Governments need to provide incentives to private firms, for example tax write-offs for approved R&D activities. Governments and the financial sector need to work out mechanisms of venture capital financing to support the development and commercialisation of new technologies, including SMEs. Regional cooperation in R&D also has potential synergies; by allowing critical mass to be attained in the development of new technologies, avoiding costly duplication of effort and promoting technology sharing. For example, regional technology networks in product clusters can be a mechanism of R&D collaboration and diffusion of new technologies. The regional universities and local research institutes should be encouraged to work closely with industry in science and technology. Intellectual Property policy, for example vis-à-vis patents and industrial designs will need to be modernised with these goals in mind, and adequately implemented. The proposed Caribbean Research and Competitiveness Funding Agency (CRCA) is specifically designed to achieve these synergies and outcomes. External donor agencies should be asked to support the regional policy by providing direct subventions to approved R&D by

⁸ Concept Paper on the Establishment of a Caribbean Research and Competitiveness Funding Agency available on request

regional and national R&D institutes and/or by supporting the establishment and operation of the proposed Agency if this option is pursued.

Details of the regional policy for R&D and of the proposed CRCA will be developed by a Task Force comprised of the UWI, regional and national R&D institutes, and representatives of the private sector and the scientific community. The Task Force will complete its report with recommendations by mid-2007.

IV.6 SMALL AND MEDIUM ENTERPRISES

Small And Medium Enterprises (SMEs) will play an integral role in the regional development strategy and CARICOM policy will be to encourage cross-border activity by this sector. SMEs can be important sources of growth, innovation and competitiveness, income and employment generation, and foreign exchange earnings and savings particularly in the smaller CARICOM economies. The Single Market, in the wider context of globalisation, will create new opportunities for SMEs to grow through the building of regional production networks based on productivity and cultural adaptation, niche marketing and electronic commerce. SMEs are well suited to utilise the Caribbean's unique cultural assets, its links with the Caribbean Diaspora in developed countries, and its cultural and geographic connections to the major emerging markets of China, India and Brazil. Industries in which SMEs have a strong potential include agro-industry, tourism and hotel services, furniture, food services, printing and packaging, and a wide range of services including accounting, engineering consultancy, information services and information technology.

CARICOM regional policy will focus on providing key resource inputs for SMEs that facilitate their taking advantage of the enhanced opportunities available from market integration. In summary this will consist of

Co-ordination of technical assistance

Technical assistance organisations will be encouraged to co-ordinate technical assistance on a regional basis, following the example of CDE/Proinvest and the CDB. One organisation is already planning to source and supply technical assistance to SMEs in the Southern and Eastern Caribbean, in collaboration working with agencies such as IICA and CARIRI

Application of quality systems and standards and industry benchmarks

The competitiveness of Small and medium-sized enterprises (SMEs) of identified sectors will be enhanced by their involvement in region-wide standardisation efforts to facilitate trade in goods and services and promote regional, hemispheric and global integration. The SMEs should be specifically targeted to ensure an understanding of strategic importance of standards in trade facilitation and sustainability.

Sectors such as agro-industry, furniture manufacturing, food service businesses, printing and packaging, and services sectors such as the Caribbean tourism sector and the finance sector will be encouraged to build quality management practices into their industry practices. Although the measurement of SME productivity presents difficult challenges, a start will be made with the larger regional industries such as airlines, banking, cement, distribution and educational facilities.

Wider availability of services

Firms providing key services to SMEs, such as advertising agencies and legal service firms, will be encouraged to regionalise their business. The CARICOM Financial Services Agreement is especially important as a means of facilitating the availability of capital to SMEs. Policy will also encourage specialised regional financing organisations in Small Enterprise Lending.

Facilitating Equity Investment in SMEs.

Increasing equity investment in SMEs will be a significant factor in their expansion and this will be facilitated in several ways. It is important to encourage more enlightened views on equity investment among owners and managers of SMEs themselves. SME need strategic partners who will help build the business by bringing adding value to the firm and cross- border activity will widen the pool of strategic investors.

It is also proposed that a Charter for Small and Medium Business Enterprises included a Strategic Development Plan be prepared and given official recognition.

IV.7 CORPORATE GOVERNANCE

CARICOM will support the establishment of a strong Corporate Governance Framework (CGF) based on existing initiatives by major regional stakeholders. A strong CGF facilitates economic development by strengthening market discipline, improving business transparency, enhancing disclosure, facilitating effective regulation and encouraging Corporate Social Responsibility. Policy-makers and regulators are better able to monitor markets, identify risks and develop regulations that encourage growth and fair competition. It is integral to development of sound and properly functioning money and capital markets. Global trends calling for enhanced transparency and accountability in the public and private sectors; the emergence of international CG standards; and the demand for improved governance by institutional investors and stakeholders; underline the importance of having a CGF as part of the CSME

The absence of legislation to protect the interests of minority shareholders' interests is a major obstacle to development that needs to be addressed. Adoption of the new International Financial Reporting Standard IFRS 7 will provide minority shareholders with a great deal of information and analysis; enabling them to ask questions that directors should be obliged by company law

to answer in the presence of the auditors at the General Meeting. For example, the return on capital to one particular set of shareholders should not be disguised as payment for services, and majority shareholders in control of the Board should be accountable for declaring income in cash and in kind that is above what they could otherwise earn in similar employment.

Improved *corporate governance* must be seen as a crucial enabling factor in development. Major private sector organisations will be encouraged to take the lead in securing agreement on basic principles and best practices suitable to the Caribbean; which can then be written into regulations by Central banks and Stock Exchanges. Steps should also be taken to strengthen the role and effectiveness of audit committees, working with the Caribbean Association of Audit Committee members.

Accounting and auditing standards are recognised as public issues and the goal will be to adopt International Financial Reporting Standards, making use of the approved exemptions. Auditors should be free to operate in any member states country without un-necessary, country-specific restrictions imposed by the industry or by governments. Implementation of standards will begin with begin with the adoption of common requirements and procedures for incorporating new companies within the Community, including the removal of disincentives such as of stamp duty on equity issues.

CARICOM supports and endorses the initiative to establish a Caricom Corporate Governance Framework through the activities of the Caribbean Corporate Governance Forum (CCGF). The Forum was launched in 2003 as a joint initiative of the East Caribbean Stock Exchange Ltd. and the East Caribbean Central Bank; as a pan-Caribbean forum for the promotion of good CG standards in the region. Regional meetings involving hundreds of stakeholder representatives, and the work of several task forces, have resulted in agreement on a Draft Principles of Corporate Governance for the Caribbean. These focus on six areas:

- I. *Overall Objective.* The development of transparent and efficient markets, based in the rule of law and high ethical standards.
- II. *Shareholder rights.* The framework should protect and facilitate the exercise of shareholders rights.
- III. *Equal Treatment.* Ensure the equitable treatment of all shareholders, including minority and foreign shareholders.
- IV. *Rights of other Stakeholders.* Recognition of the legal or other rights of other stakeholders. Addresses family owned businesses and state-owned/controlled enterprises.
- V. *Disclosure and Transparency.* Timely and accurate disclosure of all material issues
- VI. *Board Responsibilities.* Strategic guidance of the entity and in effectively monitoring management as well as the Board's accountability to the entity and to stakeholders.

The Principles are consistent with international standards, while being appropriate to the developmental context of the Caribbean and supportive of the integration process and should be extended to include corporate social responsibilities. They are seen as non-binding and non-prescriptive and are intended to serve as a reference tool in the development of national and/or sector specific codes and in the further development of national legal and regulatory frameworks. A complementary activity is the ECSE/ECCB programme of training interventions aimed at raising awareness of corporate governance issues and principles among the region's pool of Directors.

IV.8 COMPETITION POLICY

CARICOM competition policy will seek to balance the objective of fostering internationally competitive regional enterprises, with the need to protect the interests of consumers and ensure equity. Cross-border investment, mergers and acquisitions can lead to market concentration in key sectors, with ownership concentrated in firms based in larger member states. The possible negative consequences of this include anti-competitive behaviour, retrenchment of employees and displacement of small firms in key sectors; and inequitable distribution among member states of the gains from integration. These issues will be addressed by the Community competition policy.

The policy will be developed and administered through the regional Competition Commission whose functions are set out in Article 173 of the Revised Treaty. The Commission would need to take special note of the following:.

- *Surveillance*: identifying anti-competitive conduct with cross border effects: e.g., dividing up markets, barriers to entry and predation.
- *Ensure compliance*: Assess complaints and select those that merit investigation; issue judgments and enforce rules.
- *Issue guidelines and interpretation of rules* so as to foster confidence and certainty in the private sector: need to tailor rules to local conditions as gain experience;
- *Research*: sponsor and undertake studies to monitor structure of production and distribution and assess the impact of concentrations on competition
- *Public education and advocacy*: educate the consumer and promote the development of consumer organizations; encourage the business sector to monitor and report anti-competitive conduct of other businesses; encourage competition legislation and compliance programmes; educate the press, labour unions, NGOs; advocate competition in governments of member states; provide opinions on. Laws and regulations that stifle

competition; monitor the conduct of state owned enterprises; and interface with authorities in regulated sectors to extent that cross border trade is affected

- *Facilitate new entry into Caribbean Markets;* and
- *Cooperation* with competition authorities within and outside of the CSM:

The Commission will be endowed with the legal powers, staff, and financial resources necessary to carry out these functions and to have sufficient financial and political independence to establish credibility with businesses, consumers and Member States.

IV.9 REGIONAL QUALITY INFRASTRUCTURE

Establishing a recognised regional quality infrastructure (RQI) is an essential process for gaining access to foreign markets and securing strategic advantages in international trade. The model for establishing the RQI recognises that small economies of the Region may not all have the resources to establish in their national jurisdictions, the infrastructure required to ensure that the demands of international treaties and trade rules are met.

The process ensures that there is continuing maintenance and continuous upgrading of standards in keeping with international practices.

The RQI is based on

- a. the establishment of a metrology infrastructure that is traceable to international primary standards;
- b. a regional system of accredited testing laboratories,
- c. an internationally recognised standards development framework based on the WTO Code of Good Practice for the development of standards; and
- d. a regional mechanism for assuring quality and international recognition of the goods and services traded within and outside the region.

The success of the model is based on leveraging the identified national strengths of the region through harmonised standards and procedures to support the entire region, provided technical support and ensure the mutual recognition of the region's accreditation and certification systems. The recognition of this harmonised regional model by the international community should be a goal of the Caribbean Community.

Development of a Regional Quality Infrastructure (RQI) will thus be a key element of the CSME. The hub of the RQI is already in place in the form of the Caribbean Regional Organisation for Standards and Quality – CROSQ – established in 2002. The CROSQ RQI model has two aspects: (i) an Interdependent State Partnership Model, with interaction with governments, the private sector and civil society; and (ii) an Interdependent Resource Sharing Model, comprising a Regional Quality Assurance Mechanism; a Testing Infrastructure consisting of Caribbean testing laboratories in collaboration; and a Metrology Infrastructure and a Standards Infrastructure at national levels.

CROSQ will also be designated as a single regional point of contact between the member states of CARICOM and the WTO for communication on standards under the obligations of the WTO agreement.

IV.10 TRANSPORT

The Revised Treaty calls for a Community Transport Policy whose goal will be the provision of adequate, safe and internationally competitive transport services for the development and consolidation of the CSME. The policy will embrace air and maritime transport both in their regional and international dimensions. It will address functional cooperation, common negotiations with third parties, tariff regimes, market access, competitive practices, taxes, air navigation charges, regional aviation authority, safety and security.

Maritime Transport.

Adequate and efficient maritime transport i.e. required to facilitate the expansion of intraregional trade and the competitive positioning of the region's producers in international markets. Intra-regional trade in perishable agricultural products, of small scale manufactures and handicraft products is adversely affected by the inadequate nature of the regional stock of ocean going vessels. The containerisation revolution that had occurred in international shipping (containers now carry approximately 90 percent of world trade in goods) has impacted unevenly on the region. Some regional ports have become major and secondary transshipment points for container traffic⁹, with feeder services to smaller and less well-equipped locations. For the countries with these ports, extra-regional and intra-regional trade and the needs of large exporters are reasonably well served by existing facilities and by international shipping lines. Port productivity, customs and trade facilitation remain issues in these locations. Other locations--principally the mainland countries and several O.E.C.S. states—face higher shipping costs; as do SMEs in all states that ship in less-than-container loads (LCL) quantities. Hence, availability of low-cost maritime transport to these countries and to small firms is crucial to ensuring their equitable participation in the benefits of integration and help counter regional disparities.

Consultations with industry stakeholders, complemented by further technical work as necessary, will be undertaken to formulate a regional maritime transport policy that addresses the following:

- Scope for increasing facilities and lowering costs for regional locations other than major and secondary transshipment ports.

⁹ The paper by Roland Malins-Smith lists Kingston and Freeport as major transshipment ports and Point Lisas, Port of Spain and Vieux Fort as secondary transshipment ports.

- Facilities and cost-reduction measures for SMEs shipping in LCL quantities.
- Measures to address the problem of minimum size of refrigerated shipments for SMEs.
- Measures to enable new exporting firms to have easy access to information on shipping services and rates and to improve coordination between production and shipping; through better use of information systems, shipping agents and shipping associations.
- Measures to reduce the high cost of loading and discharging containers at Caribbean ports by improving labour and management productivity.

AIR TRANSPORT

90 percent of tourism earnings in the CARICOM region derive from visitors arriving by air and for some countries in the Eastern Caribbean, the Caribbean itself, is the largest Caribbean market. Adequate, efficient and affordable international and intra-regional air transportation including air freight capacity will be an integral component of the CSME economic infrastructure and a key instrument for in the regional development strategy. The main steps to be taken in the immediate future are:

- CARICOM will continue to negotiate air transport agreements with third parties with the aim of attracting additional service to the region and increasing access of regional airlines to extra-regional markets
- Caribbean airlines, whether in government or private ownership, will be encouraged to aggressively pursue functional cooperation in order to respond to the transportation needs of the people of the region. The aims of functional cooperation are to create synergies, reduce costs, improve the range and quality of services, avoid wasteful competition, and improve profitability.
- CARICOM governments will be willing to consider private investment and even control of regional carriers on terms that ensure the investor

operates within the context of the Community's strategic direction and its socio-economic goals.

- CARICOM will develop and implement a Community Air Transport and Aviation Policy that addresses the needs of the sector in a comprehensive manner.

IV.11 CARICOM DEVELOPMENT FUND AND REGIONAL DEVELOPMENT AGENCY

CARICOM has agreed to establish a CARICOM Development Fund (CDF) and a Regional Development Agency to provide financial or technical assistance to disadvantaged countries, regions and sectors; as called for by Chapter 7 of the Revised Treaty of Chaguaramas. The CDF and the RDA will be two important instruments in enabling the smooth adjustment of the Community's disadvantaged countries, regions and sectors to the establishment of the CSME and assisting their transformation in line with the regional development strategy.

The CDF will be established and governed as a separate legal entity, but will be housed in the Caribbean Development Bank to minimise its overhead costs. It will be capitalised at US\$250m, with \$120 million contributed from member states¹⁰ and the remainder sought from the region's development partners, the regional private sector, and other sources. It will provide both loans and grants to eligible recipients, and possibly interest subsidies on loans from other institutions.

Eligibility criteria for CDF assistance are set out in the Revised Treaty of Chaguaramas. The underlying rationale is that cohesion of the integration movement requires the minimisation of adjustment costs to weaker partners and equitable participation in the economic benefits. Accordingly, CDF financing will be used for the purpose of providing financial or technical assistance to disadvantaged countries, regions and sectors to offset costs of fiscal and

¹⁰ Of the \$120 million, \$20 million will be in the form of a one-time contribution from the Petroleum Stabilisation Fund of Trinidad and Tobago and \$100 million from all member states.

economic adjustment, and to support activities related to economic transformation.

The Regional Development Agency will operate as a source of technical assistance to the same categories of recipients accessing the CDF, and with the same purposes and objectives. The policy will be to ensure maximum synergies between the activities of the CDF and RDA, for example in the preparation of funding requests to the Fund and in the implementation of projects financed by it.

V SEQUENCING OF THE SINGLE DEVELOPMENT VISION INCLUDING FURTHER IMPLEMENTATION OF THE CSME

V. 1 PHASE 1: MID 2007- – END 2008): CONSOLIDATION OF SINGLE MARKET AND INITIATION OF SINGLE ECONOMY

Implementation actions

- Adoption of CARICOM Investment Code (2007)
- Adoption of CARICOM Financial Services Agreement (2007)

- Extension of free movement of labour to teachers, nurses and domestic workers
- Streamlining of procedures for free movement of labour including contingent rights and transfer of social security benefits
- Implementation of free movement of service providers, with streamlined procedures. Implementation of Legal status for the CARICOM Charter for Civil Society
- Implementation of recommendations of the Technical Working Group on Governance.

- .
- Establishment and commencement of operations of the Regional Development Fund.
- Establishment of the Regional Stock Exchange.

Preparatory activities

- Preparation and agreement of a regional Human Resource Development Strategy.
- Forging of social partnership by agreement among the social partners on a Regional Social Compact
- Further technical and consultative work , in collaboration with stakeholders, and decisions on regional policy frameworks for:
 - Energy-related industries
 - Agriculture
 - Sustainable tourism and agro-tourism
 - New export services
 - Transport
 - Small and medium enterprises;
- Preparation, negotiation and political approval of the Protocol on Enhanced Monetary Cooperation, to come into effect no later than January 1, 2011.
- Agreement among Central Banks on common CARICOM currency numeraire, to come into effect no later than January 1, 2011.
- Finalisation of technical work on harmonisation of
 - investment incentives
 - corporate tax code
 - revised Double Taxation Agreement
 - capital market integration
 - financial regulatory environment,.

- Further technical work, consultation with stakeholders, and political decisions on:
 - Regional Environmental Regulatory regime
 - Common policy framework on Small and Medium Enterprises
 - Regional Competition Policy
 - Technical Standards
 - Regional Intellectual Property regime
 - Principles of Corporate Governance

V.2 PHASE 2 (2009-2015): COMPLETION OF SINGLE ECONOMY

This will consist of a phased implementation of the decisions taken in Phase 1, viz.:

- Implementation of common policies in Energy-related industries, Agriculture, Sustainable tourism and agro-tourism, Transport, and Small and medium enterprises.
- Harmonisation of taxation systems, incentives, and financial and regulatory environment.
- Harmonisation of fiscal and monetary policies.
- Implementation of Regional Competition Policy and Regional Intellectual Property Regime.
- Implementation of CARICOM Monetary Union.

ANNEX 1

Programme of Caribbean Connect Symposium.

ANNEX 2

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