D R A F T

GLOBALISATION, TRADE LIBERALISATION AND THE CARICOM SINGLE MARKET AND ECONOMY

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"The people of the Caribbean today face a set of challenges of a complexity and magnitude that are unprecedented in the history of the Caribbean and which demand from us as governments and people the most carefully thought out, timely and effective responses. It concerns the workings of globalisation and our response to them."[1]

"All of these forces and tendencies taken together .... will require that we conceive of and build in a very short space of time, a virtual new economic system, featuring enterprises that can hold their market position without any special preference or coddling and that can adapt to rapidly changing market and technological convulsions."[2]

"We have as a country supported and actively participated in promoting deeper Caribbean regional integration as one of the strategic responses to the threats of the processes of globalisation and trade liberalisation and the CARICOM Single Market and Economy (CSME) is the centrepiece of this strategy today."[3]

Introduction

In July 1989, the political leaders of the Caribbean Community decided to move the Caribbean economic integration process forward from a common market to a single market and economy. The rationale given was that it was the appropriate regional response to the severe economic challenges posed by trade liberalisation and globalisation. Essentially, the political leadership views the Caribbean Single Market and Economy (CSME) as pushing the Region towards greater economic competitiveness in response to the new international economic order dominated by marketisation and the loss of preferences. In 2006, after a period of seventeen years, the CSME was established.[4] The questions however remain: (i) In relation to trade liberalisation and globalisation, how appropriate/strong a policy response was this for the Region? If need be, how can the response be strengthened?

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[1] Arthur(2004), p.13

[2] Arthur (2004), p.15.

[3] Jagdeo (2003),p.5.

[4] Members of the CSME comprise Antigua and Barbuda, Barbados, Belize, Dominica, Guyana, Grenada,, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. The Bahamas and Haiti are members of the Common Market but not of the CSME. Montserrat , which is a dependent territory, is awaiting permission from the United Kingdom to join the CSME.

The paper seeks to answer the foregoing questions. The first section looks at the challenges and opportunities posed by globalisation to the Region. The second section gives an overview of the CSME. The third section looks at the strengths, weaknesses and challenges of the CSME as a regional policy response to globalisation while the fourth section makes suggestions for strengthening the CSME response. The fifth section concludes.

1. The Challenges and Opportunities of Trade Liberalisation and Globalisation

Before being able to assess the appropriateness and adequacy of the regional response, it is necessary to be clear about the nature of the challenges posed by trade liberalisation and globalisation. These are presented in summary form below:

(a) increased economic competition as a result of the dismantling of trade preferences of some of the Region's major export commodities and the lowering of trade barriers;

(b) additional trade liberalisation initiatives in the not too distant future (WTO, FTAA, EPA);

(c) pressure on external sector performance as a result of (i) contributing to increased external borrowing, higher external debt;

(d) as a result of (i), stagnation, decline and/or significant economic adjustment in some industries – bananas, sugar, manufacturing;

(e) reduced real income growth as a result of the inability to compete;

(f) reduced employment, increasing poverty and income inequality against a background of substantial poverty in some countries;

(g) increased pace of economic change forced by the acceleration of technological development; and

(h) reduced policy flexibility forced by the new international norms of good governance (essentially the rules of the Washington Consensus).

The foregoing list is by no means exhaustive but purports to capture the major challenges presented to the Region by the processes of trade liberalisation and globalisation.

While the foregoing list attests to the difficulties arising from trade liberalisation and globalisation, it is important at the same time to remember that the new international regime also offers substantial opportunities which the Region should prepare itself to take advantage of. These include:

(a) substantially increased opportunities for trade growth, commodity and market diversification as a result of trade liberalisation;

(b) the potential for substantially increased private sector inflows if the appropriate policies and safeguards are in place, a very important opportunity, given the decline in donor inflows in recent years;

(c) expanded opportunities for the exploitation of scale economies;

(d) increased opportunities for technological development and productivity enhancements especially through application of ICT technologies (e-government, e-commerce etc.); and

(e) the potential for significantly increased growth and poverty reduction.

2. Overview of the CSME

The key elements of the CSME as proposed in the Revised Treaty of Chaguaramas are as follows:

(a) free movement of goods and services (Common Market);

(b) rights of establishment (Protocol II);

(c) free movement of capital (Protocol II);

(d) free movement of labour (Protocol II);

(e) common trade policy (Protocol IV);

(f) economic, fiscal and monetary policy harmonisation (Protocols III to V);

(g) harmonisation of policy with respect to competition, consumer protection including sanitary and phytosanitary measures; dumping and subsidies (Protocol VIII);

(h) support to disadvantaged countries, regions and sectors (Protocol VII); and

(i) other policy harmonisation (transportation policy (Protocol VI); company policy; intellectual property; technology; banking and securities; standards and technical regulations; commercial arbitration).

The free movement of goods and services is a key element of the common market and so predated the decision to move to economic union (single market and economy). CARICOM, the common market, was established in 1973 through the Treaty of Chaguaramas. All goods and services produced within the Region can be traded freely, without restrictions in the Region. An important outcome of this policy is that there should be increased competition for regional producers, leading hopefully to improved quality and more competitive prices regionally and internationally.

The issue of the free movement of services is dealt with somewhat differently from the free movement of goods and is more appropriately addressed within the Rights of Establishment (Protocol II) which allows Caribbean nationals to move to any country within the union to establish enterprises for the provision of services. Again, the intention is essentially the same – to enhance the performance of regional service providers through the promotion of competition. As in the case of the producers of goods, however, the same caveat applies in that the ability to survive depends not only on the ability to be competitive regionally but also internationally. Of course, the Rights of Establishment apply not only to service providers but to all producers who now have the right to establish production anywhere within the Region.

Another cornerstone of the CSME is the free movement of capital, initiated in part through the convertibility of currencies which is to be followed by the establishment of a common currency and the removal of capital controls (Protocol II). For example, the Barbados government has indicated its intention to free all capital controls with respect to the rest of the Caribbean by the end of 2007. An integrated capital market through the establishment of a regional stock exchange is also one of the mechanisms intended for facilitating the free movement of capital.

An important component of Protocol II is the free movement of labour. All CSME member-states with the exception of Antigua and Barbuda have enacted the legislation. The ultimate goal is to have eventually unimpeded movement of the nationals across member-states as occurs in the European Union (EU) and the United States (US). Some initial movement has been made in this direction with the allowance of free movement of certain categories of workers, spouses and other immediate dependents. These are university graduates, media workers, artistes, musicians, sportspersons, managers, technical, supervisory staff, teachers and nurses. Also included are the self-employed engaged in commerce, industry, agriculture or some form of professional activity. Two important measures implemented to facilitate the movement of personnel are the CARICOM Skills certificate to be followed later by a system of regional accreditation and the portability of social insurance.[5/] An important principle undergirding this movement is a set of contingent rights in the form of non-discriminatory access to land, capital, buildings and property. The aim eventually is to have a fully integrated Caribbean labour market by permitting completely free movement.

There are, however, clearly difficulties in the implementation of the free movement of skills, one of which is the fear of economic competition, xenophobia and the consequential political constraints thereby imposed.

> *"In the Caribbean, the impulse to restrict free movement of our people has become so institiutionalised because of its appeal to the more brutal aspects of our supposed national sovereignty and independence, that it has made it very difficult for us to see the obvious and to do the logical."*[6/]

> *"The logic is that freedom of movement for all rather than a few is crucial because it is the only means by which the given pool of regional skills can be pressed into service to make the maximum contribution to regional nation building while allowing each member of the regional society the opportunity to become the best that he or she can be."*[7/]

Of course, the difficulties in the CSME approach go beyond this in that there are other critical limitations that remain unaddressed. One of these is the issue of discrimination on the basis of nationality

[5] / An Agreement for evaluating the certification of skilled personnel in Medical and other health professions is already in place in six countries.

[6] Arthur (2004), p.33.

[7] Arthur (2004), p.34.

with respect to employment. EU law (Article 7 of the Treaty of Rome), for example, forbids discrimination on the basis of nationality. In fact, the EU law, quite unlike that of the CSME, entitles the EU national to all the rights of citizenship in any country of the Union including access to employment by family members of the migrant, to health care, education and other social services, not just the contingent rights as defined by the CSME.[8/] Without this fuller definition of rights, protections, benefits and opportunities, it is likely that the "free" movement of labour which is meant to be one of the cornerstones of the CSME, may be very limited indeed.

Common Trade Policy (Protocol IV)

Arguably, one of the strengths of the CSME not only in intent but also in execution is the embrace of a common trade policy. Substantial advantages emanate from a unified approach policy. These include increased negotiating capacity as seen for example through the Caribbean Regional Negotiating Machinery (CRNM); reduced costs at a national level as a result of cost sharing; greater leverage from unified positions on trade issues; and greater ease in linking up with other countries and regions.

Economic, Fiscal and Monetary Policy Harmonisation – Protocols III to V

These protocols speak essentially to the single economy or economic union dimension of the regional integration process. It is envisaged that member countries will harmonise taxation regimes and also pursue fiscal policy integration as in the EU. Monetary policy harmonisation envisages the coordination of exchange rate (currency convertibility and exchange rate stability), interest rate, commercial banking and securities policies with the intention eventually of having a single currency, a Caribbean Central Bank and a regional stock exchange.

Currency convertibility has been established and trading of regional currencies has been taking place. The committee of Central Bank governors has been mandated to detail the process towards the establishment of a single currency. Economic coordination involves the pursuit of convergence measures and policies in other areas such as, for example, technology development, the harmonisation of foreign investment policy, of agricultural and industrial policies together with the pursuit of sectoral production coordination where possible. The Heads of Government have approved a Common Strategic Plan for Regional Agriculture and for Sustainable Tourism. A task force for the

[8] Arthur (2004), p.40.

development of a Regional Energy Policy has been established. A Regional Investment Code has been drafted. There is also a draft Agreement on the Development of the Regional Financial Services sector. The development of frameworks for the harmonisation of fiscal incentives, for fiscal policy harmonisation and for monetary cooperation is also in the planning stages.[9/]

Other Policy Harmonisation – Protocol VII and VIII

Other areas of functional cooperation include harmonisation of policy in the areas of transport (Protocol VII); competition; consumer protection; customs; sanitary and phytosanitary measures; anti-dumping, countervailing measures and subsidies. A Regional Competition Commission has been tasked with ensuring that anti-competition policies are not pursued. To a large extent, these measures can be considered part of the attempt to define a common trade policy.

Regional Development Fund - Protocol VII

The CSME member-states recognising that integration is taking place among unequal partners, that the benefits of integration would not be spread evenly, and that this may threaten the cohesion of the Community, have put in place a regime for support of disadvantaged countries, regions and sectors. According to Chapter VII of the Revised Treaty of Chaguaramas, the purpose "is to assist the disadvantaged countries, regions and sectors towards becoming economically viable and competitive by appropriate interventions of a transitional or temporary nature." The assistance provided may include technical and financial assistance to address economic difficulties related to the operations of the CSME; special measures to attract investment and industries; temporary arrangements to ameliorate economic and social impacts; assistance for the restructuring of industries towards enhanced competitiveness; assistance for structural diversification and infrastructure development; support to firms affected by the removal of intraregional trade barriers; and the establishment of mechanisms to monitor and aid in the fulfilment of CSME obligations or those related to other international trade agreements.

The establishment of the Regional Development Fund (RDF), which is the centrepiece of the regime of assistance, is to be established with funds from the CSME member-countries and the donor community. The countries currently designated as

[9/] Arthur (2005), p.6-8.

disadvantaged are the OECS members, Belize and Guyana. However, disadvantaged countries, regions and sectors may be designated from time to time. COTED (Council for Trade and Economic Development) and COFAP (Council for Finance and Planning) are to identify, administer and monitor the measures listed in the previous paragraph.

The Regime for disadvantaged countries, regions and sectors, raises several issues. Firstly, the question arises as to whether the type of instrument intended is appropriate to the task. Given the nature of the task, it is unlikely that countries can be made competitive by interventions of “a transitional or temporary nature.” Also, economic transformation which is defined as “changing the structure of an economy,” is unlikely to be a short-term exercise. According to Brewster (2007), the Fund is intended to “transform the economic structure of the disadvantaged countries through the diversification of production and infrastructural development so as to enable them to compete on an equal footing in the CSME.”[10/] This suggests that the RDF should ideally be working in partnership with other funding agencies such as the IDB, World Bank and the Caribbean Development Bank in a supportive role, contributing in some way to their more long-term initiatives. In this regard, the suggestion that the Fund be used to subsidise the interest on loans from other institutions and for blending with grants is a very worthwhile strategy. This would introduce an element of concessionality to commercial type loans and allow access to larger amounts of resources. Alternatively, the RDF can pursue on its own more modest “infrastructural” and other initiatives which, though very useful, would not have the economic transformative impact initially intended.[11/] According to Brewster (2007).

“There appears to be a significant inconsistency between the CSME dislocation-related/temporary-transitional support-related definitions given in Article 1 and the structural diversification/competitiveness improving objectives of the regimes for the disadvantaged countries, regions and sectors that are an important part of Chapter Seven.”[12/]

Secondly, the Regime essentially seeks to address the challenges of economic adjustment which are inescapable within the current globalised environment. Clearly, the adjustment objectives and strategies must de defined on a case-by-case basis. In some cases,

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[10/] Brewster (2007), p.5.
[11/] For a list of the types of projects suggested, see Brewster (2007), p.9-10.
[12/] Brewster (2007), p.23.

if the particular sector/industry is not capable of competing, not just regionally, but internationally, adjustment will imply finding a way to close the industry at minimum economic and social cost. Will the RDF help in this regard? If the industry is capable of competing, then proper analysis of its weaknesses and strengths together with implementation of the appropriate corrective measures should lead to a more competitive industry. It is important for countries to understand that the RDF cannot be a mechanism for propping up indefinitely uncompetitive industries. The high resource cost of such action alone should enforce more rational decision making. Hence, determination of the economic viability and sustainability of the industry will be critical to identification of the appropriate response.

There is also likely to be some difficulty defining the source of the problems facing the industry or sector. While the RDF is meant essentially to address difficulties arising from the operations of the CSME, in a globalised environment in which the source of competition may emanate from both regional and external sources with similar consequences, it may be very difficult to separate the impact of the two sources. Of course, when dealing with entire regions and countries which have been impacted in various ways by forces both internal and external, the identification problem becomes much more complex. Additionally, if the source of the competition is external and the industry/sector with some adjustment support will be able to compete internationally, will the RDF deny adjustment resources? Alternatively, if the industry/sector can compete regionally but not internationally, will it be supported? These are important questions which will have to be addressed by Fund management.

3. Strengths, Weaknesses and Challenges of the CSME Response to Trade Liberalisation and Globalisation

<u>A Common Trade Strategy</u>

Vis-à-vis the challenges of trade liberalisation and globalisation, the CSME offers several important strengths which can enhance regional economic performance. Among these is the implementation of a common trade policy. Trade liberalisation is one of the greatest challenges facing the Region and clearly unified positions on trade issues, especially if they also facilitate alliances with other countries or regions, offer significant advantages versus going alone against the major players in international trade such as the US, EU and Japan. It also offers the chance for the Region to identify and pursue collectively trading opportunities that may arise as a result of the trade liberalisation process.

Globalisation entails the increasing integration of markets for commodities, services, capital, labour etc. The CSME, through the integration of regional markets, is meant to facilitate regional integration into the global economic system. This, of course, is not necessarily an unmitigated good or the most appropriate strategy, for unless the Region can compete internationally, many regional firms will collapse. On the other hand, the CSME by opening up regional markets will likely force the pace of adjustments necessary for increased regional and international competitiveness. As a result, more regional firms may survive the challenges of trade liberalisation and globalisation because of more timely adjustments. Those regional firms that can compete will find access to a wider market regionally and internationally. The net effect of these two contending forces is unknown. However, the intended purpose of the CSME is that the net effect will be significantly positive. Beyond this, of course, there is the wider issue of the comparative strategic effectiveness of the market as a tool for stimulating economic growth. It should be noted, for example, that rapid growth in East Asia was not the result of the simple unleashing of market forces but of critical, strategic, well thought out policy, investment and technological interventions including the development of a comprehensive skills base (Lall 1993, 1998, 2000, 2001).

Financial Sector Integration

The extent to which regional firms will be able to compete will depend critically, though not exclusively, on what happens within the financial sector. In this regard, the integration of the financial sector is a key strategic element for success of the CSME. The cross-border provision of financial services will bring some competition to these markets and should help to lower somewhat the cost of financial resources, thereby enhancing the ability of regional producers to compete in global markets. Another major concern from the globalisation perspective is the competitiveness of the financial sector itself. In the increasingly competitive environment as a result of the globalisation of financial markets, a critical question will be, can the regional financial sector compete internationally? Finally and very importantly, can the sector help to attract the types and quantities of external inflows needed for success of the CSME? In the pursuit of these objectives, the critical question is, will market integration be enough? There are substantial reasons to suggest that much more than this will be needed.

The reviews of the financial sector undertaken by the CCMS and the World Bank (1998) and more recently by Ramkissoon (2000) and Caribbean Connect (2006)) indicate that there are significant deficiencies that need to be addressed if the regional financial sector is to deliver the type of support (in terms of cost and quantity of resources) necessary for competitive production, and hence play the supportive and stimulative role required for a successful CSME. The high cost of finance in the Region is well recognised as a debilitating constraint on economic expansion and in part is the result of the fragmentation of financial markets. Financial institutions operate essentially in a single country with very little movement of funds across borders. Admittedly, this has changed somewhat with some cross-border establishment in recent years in the banking and insurance industries.

However, there are also other significant factors impacting significantly on the cost of finance such as the fiscal and monetary policy stance (CCMS and World Bank, 1998). For example, in several Caribbean countries, expansionary fiscal policy has led to excessive debt creation (Belize, Jamaica, Dominica, Antigua, Guyana, St. Kitts, and Grenada), undue pressures on monetary policy to maintain external balance and the stability of exchange rates (Sahay, 2004). The result has been high interest rates and high cost financing for the productive sector. High reserve requirements, in part related to the Region's susceptibility to economic and financial volatility (frequent natural disasters and substantial destruction in terms of GDP; volatility of exports etc.), have placed substantial strain on the commercial banking sector, forcing interest rates upwards.[13/] The oligopolistic nature of the banking system which dominates the financial sector in the Caribbean and the small size of many banks which prevents them from exploiting scale economies are also additional reasons for the high cost of finance. Interest rate spreads in the Region are very high in many cases, indicative of a high level of inefficiency in financial intermediation.

While some of the small banks may disappear because of the inability to compete regionally and certainly globally with the opening up of the financial sector as a result of the CSME and WTO, mergers may lead to retention of oligopoly within the sector. In fact, because of scale economies in the commercial banking industry, oligopoly may be necessary for survival of regional banks in the context of a globalising financial sector. For this reason, the opportunities offered by the CSME can be deemed critical for the development of the sector but may come at the cost of somewhat less than competitive interest rates unless countered by substantial competition through a developed capital market and external competition.

Concerns have been expressed as well about other deficiencies in the financial sector that impact on the competitiveness of the

[13/] CCMS and World Bank (1998), p.iv.

Region. These include the inadequate availability of investment finance despite high levels of liquidity in the banking system; the lack of long-term finance, critical for the creation of new industries and for the restructuring of old industries, both of which are inherent components of the globalisation process; and substantial limitations on the financing of small and medium-sized enterprises which comprise the bulk of enterprises in the Region.

The question of the availability of finance can be looked at in different ways, apart from the presence or absence of liquidity in the banking system. It can be recast in terms of the issue of the cost of finance. The high cost of finance can lead to low demand even in the presence of high liquidity. The latter has at times been explained in terms of the lack of bankable projects. However, there are no indicators to this effect. In the context of high liquidity, inadequate funding for the productive sector can also be an indicator of the lack of institutional infrastructure and instruments appropriate to the investment needs of productive units. In other words, the failure to intermediate reflects the underdevelopment of the financial sector itself and particularly the underdevelopment of the regional capital market.

The latter argument is much related to the second concern, that of the unavailability of long-term finance. While some long-term finance is potentially available through, for example, the social security and pension schemes, to a large extent, the resources of these institutions are often lent to governments or reside in commercial banks. Some additional long-term finance is also available through the insurance companies. However, this likely is channelled predominantly to housing, commercial deposits and government securities. Hence, one of the challenges is to find new ways of channelling these resources to the productive sector. One suggestion has been the establishment of a regional institution for long-term investment of social security resources.[14/] The remit of the institution may, however, be expanded eventually to include other contractual funds such as pension or insurance funds. The latter, hopefully, would include some development of venture capital in the Region which is seen as one of the critical financial pillars driving the development of new companies globally. In CCMS and World Bank (1998), it has been noted that “the venture capital industry took off in the US only after pension funds were allowed to invest part of their assets in venture capital partnerships.[15/] The availability of venture capital is critical to the incubation and commercial success of new technologies, one of the keys to enhanced productivity and competitiveness.

[14/] CCMS and World Bank (1998), p.51.
[15/] CCMs and World Bank (1998), p.52.

Overall, given the nature of the causes of high cost finance in the Region, it is unlikely that the problem will be solved simply by the integration of fragmented markets. For example, significant changes in regional fiscal and monetary policy will be necessary. Hopefully, the new fiscal and monetary policy regimes under the CSME as discussed below will contribute to the substantial policy reform required in some countries and the macroeconomic stability necessary for the development of a stable, competitive financial sector. Also, very important will be comprehensive regulatory reform. For example, the EU recently embarked on a programme (Financial Services Action Plan) for accelerating the integration of its financial services sector through the development of a common regulatory regime. The CARICOM Financial Services Agreement as currently drafted can be considered an initial step in the right direction. Indications are, however, that there will need to be a much more comprehensive overhaul of the current regulatory regime. As in the EU, this will likely require some research to identify existing barriers to the development of an integrated financial market and implementation of the appropriate corrective measures. CSME members will have to employ this and other harmonisation initiatives (increased transparency in the corporate and public sectors, significantly wider use of credit ratings, establishment of rules for improved corporate governance etc.) to promote the development of a strong competitive banking sector and a vibrant capital market to attract domestic and external capital flows to deliver financial resources in the quantity and at a price that would strengthen the regional response to globalisation. The creation of an integrated financial sector without these elements would constitute a failed response.

Integration of the Regional Labour Market

In order to truly evaluate the likely success of the integration of the Caribbean labour market, it is essential to place the expected outcomes within the context of the need for an appropriate response to the demands of globalisation. In a technologically dynamic globalised economy, the need for a highly-skilled, flexible labour force is paramount. A strong flexible skills base is essential to the maintenance of regional competitiveness and to the Region's ability to respond to the changing requirements of the global economy. In this regard the increased mobility implied by the CSME migration regime is very important and should be implemented as soon as possible, particularly with respect to all skilled labour, not just a select few. The movement of skills can be facilitated by a regional labour market information system that, among other things, permits dissemination of information on trends and vacancies. Of course, to achieve maximum effectiveness, the labour market information system must be integrally linked to human resource development planning and output. (The assumption is that the real bottleneck to production with respect to the labour input is not unskilled, but skilled labour which needs to be able to migrate easily to any part of the Region.)

The higher income returns to skilled labour within the Region should lead to increased incentives to the acquisition of skills and also, to some extent, to the retention of skills within the Region since it is fair to assume that some individuals migrate from the Region because of a lack of opportunities not only nationally but also regionally.[16/] The increased acquisition of skills, of course, assumes the greater availability of training opportunities within the Region, a critical input for enhanced success of the Region's labour market integration initiative. In fact, the scant attention so far at the regional level to the skills requirements of integration into a globalised economy is a major weakness of the CSME. The movement of skills regionally is only partly contributory to the flexibility required. If the skills required are not available, mobility is meaningless and opportunities for increased production and income are lost. A somewhat more optimistic view is that the skills are available regionally. However, a critical issue would be the quality of the skills. Are those skills competitive internationally? The foregoing discussion indicates very clearly that the success of integration of the regional labour market within the context of globalisation cannot be divorced from human resource development policies.

Of course, it is very important to ask what are the implications of the proposed intraregional migration regime for the unskilled and the poor? There are two possible answers. First, the intention of CSME members to have complete mobility of all citizens by 2009 will resolve that issue once there is no discrimination with respect to employment. Failing this, special regimes (for example, guest worker programmes) for the temporary movement of unskilled labour can be put in place. This can help to allay fears about social dumping, that is, massive movements of unwanted unskilled labour. Secondly, like the EU with its use of the Social Cohesion Fund (ESF), governments need to have in place the necessary financial, legal, and other support to ensure that the 'unskilled' have opportunities to obtain the skills and opportunities which they need.[17/] In the absence of such mechanisms, the distribution of income can become more skewed as a result of the integration process, which is not the declared intention of the

[16 /] For a rather disturbing analysis of the high level of skills loss in the Caribbean due to emigration, see Mishra (2006).

[17/] Brewster (2007), p.21.

architects of the CSME but may be an unintended consequence. This has implications for social and political stability.

Of course, intraregional immigration of labour will lead to greater competition in the labour market and will possibly place downward pressure on wage rates in some cases, an issue of deep concern among employees but not employers in host countries.[18/] This can lead to the mounting of stern resistance by residents in recipient countries and possible problems of social and political instability, diluting if not effectively blocking the immigration process as has occurred in the case of The Bahamas which has opted out of the CSME because of the fear of Haitian immigration. On the other hand, the increased mobility of skills will lead to a loss of skills in labour exporting countries, and possibly to higher wages and also lower production because of skills bottlenecks. Labour exporting countries can argue that they are losing human capital and subsidising the economies of recipient countries. These are in fact likely to be the poorer countries within the Region, leading to calls for compensation or for financial support in the training of nationals. Of course, the economic effect of skills loss will likely be countered to some extent by remittances.

The foregoing gives a little peek into the politics of immigration which is likely to lead to some pessimism with respect to the labour market integration process in the Region. The political and social tensions are real and have to be addressed since they can dilute significantly or even stymie the integration process. According to Fuchs and Straubhaar (2003):

> *"If immigration made sense in economic terms but was not tolerated by social organisations (such as trade unions), and could only occur at the price of social tension, migration demand would probably not materialise. Employers would rather employ domestic labour only and/or move their production sites abroad. Economic need and legal freedom of movement therefore do not always lead to an effective demand for migration."*[19/]

However, there is reason for hope. Firstly, for decades, some amount of labour movement has taken place in the Region prior to the

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18 / Of course, the downward pressure on wages is not a foregone conclusion. Much depends, for example, on the flexibility of the real wage, on whether migrant labour complements or substitutes for local labour. If migrant labour is complementary, it can lead to higher productivity of local labour and hence higher wages. Also immigrant labour, both skilled and unskilled, may lead to significant increases in economic output, resulting in higher demand for local labour. Many empirical studies have found small or no significant adverse effects on the unemployment or wages of locals (see Borjas (1994), p.1698-99; Zimmerman (1995), p.53; and Ghatak, Levine and Price (1996), p.182) .

19/ Fuchs and Straubhaar (2003), p.

establishment of the CSME regime, and will continue to take place. One can argue therefore that governments are only now catching up with a reality that already exists. Secondly, the social and political resistance to immigration is not a Caribbean but a global phenomenon as indicated by the current battles in the US over the immigration issue and also by the fears expressed in the EU about massive migration of labour from Eastern Europe after the fall of the Berlin Wall.[20/] Nevertheless, in both places, migration has continued to take place on a scale which the Caribbean is unlikely to witness since these countries, including Canada and Australia, are major magnets for external immigration. For example, the EU, unlike the Caribbean, has to deal not only with intra-EU migration, but also with substantial immigration from the Middle East and Africa. Despite the external inflows, the EU has not closed its borders but rather has attempted to put in place a regime that is consistent with its own economic needs, its social and political values. This is exactly what the Caribbean must do also.

The question is not whether to permit migration, but on what terms? The outcome will depend significantly, among other things (such as wage and cost of living differentials, the probability of obtaining employment, political instability in the home country, receptivity of the host country, the cost of emigration, aging population in the host country etc.) on the type of immigration regime put in place.[21/] The experience of other regional country groupings (EU, Nordic countries) that have engaged in the free movement of labour indicate that the actual migration is significantly less than expected.[22/] Fuchs and Straubhaar (2003) note that less than 2% of EU citizens live in another EU country despite significant disparities in per capita income and high unemployment in some countries, notably in the South. The Caribbean Expert Group Meeting on Human Rights and Development in the Caribbean notes that on average approximately "3% of the Caribbean population can be considered migrants."[23/] They also note that intraregional migration in the Caribbean has remained low, even with substantial disparities in income, and is likely to continue to be so, given the continuing attraction of emigration outside the Region, especially North America.[24/]

[20/] For the EU experience with immigration, see Zimmerman (1995); Biswas and McHardy (2004,2005)

[21 /] For a comprehensive review of the theoretical and empirical literature on migration, see Zimmerman Ghatak, Levine and Price (1996)

[22/] Ghatak, Levine and Price (1996), p.181; Zimmerman (1995), p.52; Koslowski (1994), p.374.

[23/] Caribbean Expert Group Meeting on Human Rights and Development in the Caribbean (2005), p.8.

[24/] Fuchs and Straubhaar (2003), p.1-2,30.

CSME and Fiscal Policy Integration

One of the intended pillars of the regional economic union is fiscal policy integration. Fiscal policy integration is here defined as the pursuit of a common fiscal stance, defined essentially as the pursuit of agreed fiscal targets, essentially fiscal balance and debt to GDP ratios, and agreed strategies for dealing with departures from the targets. One of the arguments for fiscal policy integration, as for monetary policy integration and the pursuit of policy integration in other areas, is the creation of a single economic space. More commonly, however, and more importantly, one of the main reasons given for the pursuit of fiscal policy integration is the need to control spending and hence the rate of inflation and exchange rate instability. Also, a conservative fiscal stance would place less pressure for economic stabilisation on monetary policy with potential negative implications for growth and employment as a result of high interest rates. For this reason, the EU, for example, has named the agreement governing fiscal integration as the Stability and Growth Pact (SGP). A related argument for fiscal policy integration is the need to avoid free riding by some members of the union with fiscal integration being seen as a form of equitable sharing of the responsibility for economic management of the union. Also, fiscal policy integration is an important support to fiscal policy credibility which has implications for risk perceptions by financial markets. Even if several members of the union find themselves in fiscal difficulties, within the context of a well- functioning fiscal policy integration pact, financial markets would have greater confidence that departures from the agreed fiscal targets would be corrected. The result can thereby be a lower cost of finance. The more conservative fiscal stance implied by fiscal integration also means that companies would tend to have less fears about increased taxation because of the need to close sizeable fiscal gaps. Fiscal stability can thereby contribute to greater domestic and external investment.

The arguments for fiscal policy integration given above are quite compelling. However, within the context of globalisation to which the CSME is meant to be a partial response, the question appropriately arises: how does fiscal integration strengthen the Region’s response to the challenges of globalisation? Certainly, given all of the foregoing benefits listed in the previous paragraph, fiscal integration would seem to be very beneficial to the CSME member-countries within the context of globalisation, especially given the recent fiscal performance of several members who have accumulated substantial amounts of public sector debt (Sahay 2004). As in the EU, a regional fiscal pact can be a stimulus to improved fiscal performance, given the seeming inability of some countries to manage effectively in isolation. One of the major requirements of financial markets in the current globalisation era is the emphasis on good governance of which good fiscal management is a key ingredient. Macroeconomic stability is seen as a very important determinant of foreign direct investment flows which are critical for the Region's growth. Also the lower inflation rates and interest rates implied by fiscal policy integration should lead to some improvement in the Region's international competitiveness.

Having noted all of the foregoing, it is useful to ask: (i) whether fiscal integration is indeed necessary to achieve the abovementioned benefits?; and (ii) whether it is in fact achievable in the regional context? For purposes of comparison, it would be useful to look at the experience of the EU and the OECS which is a monetary, not an economic union, but now seeks to become one. The experience of the EU and the OECS shows two very different approaches to the issue of fiscal policy integration. The OECS monetary union, which was established in 1981, until recently did not pursue fiscal policy integration. On the other hand, the EU has pursued the goal of fiscal policy integration from the beginning of its attempt to establish an economic union. As part of the Maastricht Treaty, prospective member-states were required to maintain budgetary balances within 3% of GDP and public sector debt within 60% of GDP as a requirement for membership of the Union. These requirements remain today for prospective members of the EU. The very different approaches of the EU and of the OECS with respect to fiscal policy beg the question as to which union has done better with respect to performance of some of the key macrovariables mentioned above, namely fiscal performance, inflation, interest rates, foreign investment and growth)? It would also be useful to look at the performance of non-OECS Caribbean countries and non-EU OECD countries for purposes of comparison.

A very good reason for questioning the need for fiscal integration is the rather difficult experience of the EU with respect to the maintenance of policy cohesion, given the constant tension between the desire for fiscal policy independence and the policy requirements of the Union. EU member-states have spent considerable time and energy pursuing the difficult path of fiscal policy integration. In the Caribbean context of limited implementation capacity and the need for efficiency in the integration implementation process, should that time and energy be spent otherwise? Also, it is wise to ask whether the Caribbean is capable of fiscal policy integration, given the wide disparity in fiscal policy and substantial variability in economic performance because of exogenous factors (natural disasters, changing terms of trade, changes in world economic performance etc.)? As the EU experience has shown, while it may be possible to attain the required balances in the attempt to gain membership, the sustainability of those targets in the long run can be much more difficult, forcing fairly constant use in some cases of excess deficit procedures and potentially undermining the credibility of the fiscal regime.

Table 1 seeks to provide answers to the two questions posed above. In the case of the first question, the need for fiscal integration, the response is not that clear cut or persuasive. Using data for the period 1994 to 2005, the period of the Maastricht Treaty implementation and EU membership, one notes that non-EU OECD members performed better with respect to fiscal targets, similarly with respect to growth, marginally worse in the case of the real interest rate and significantly worse as regards inflation.

TABLE 1 : KEY INDICATORS, 1994-2005

	Budgetary Balance (% of GDP)	Central Government Debt (% of GDP)	Inflation (%)	Real Interest Rate (%)	Net Foreign Direct Investment (% of GDP)	Economic Growth (%)
OECS	-3.9	n.a.	2.0	9.2	12.2	2.9
Non-OECS Caribbean	-3.9[1/]	n.a.	4.3	8.8	4.5[2]	2.9
EU	-1.0	63.9	2.4	5.0	4.7	3.0
Non-EU OECD	-0.7	40.9	8.8	5.6	2.1	3.0

Source: World Development Indicators; CDB

The estimates for the OECS include Antigua and Barbuda; Dominica; Grenada; St. Vincent and the Grenadines; St. Kitts and Nevis; St. Lucia, and St. Vincent and the Grenadines; The non-OECS Caribbean includes The Bahamas, Barbados, Belize, Guyana, Haiti, Jamaica, Suriname, Trinidad and Tobago. The estimates for the EU are for the EU-15, namely, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom. The non-EU OECD group includes those countries with membership prior to 1994 – Australia, Canada, Iceland, Japan, New Zealand, Norway, Mexico, Switzerland, Turkey and the United States.

[1] Does not include data for Haiti and Suriname. [2] Does not include data for Suriname

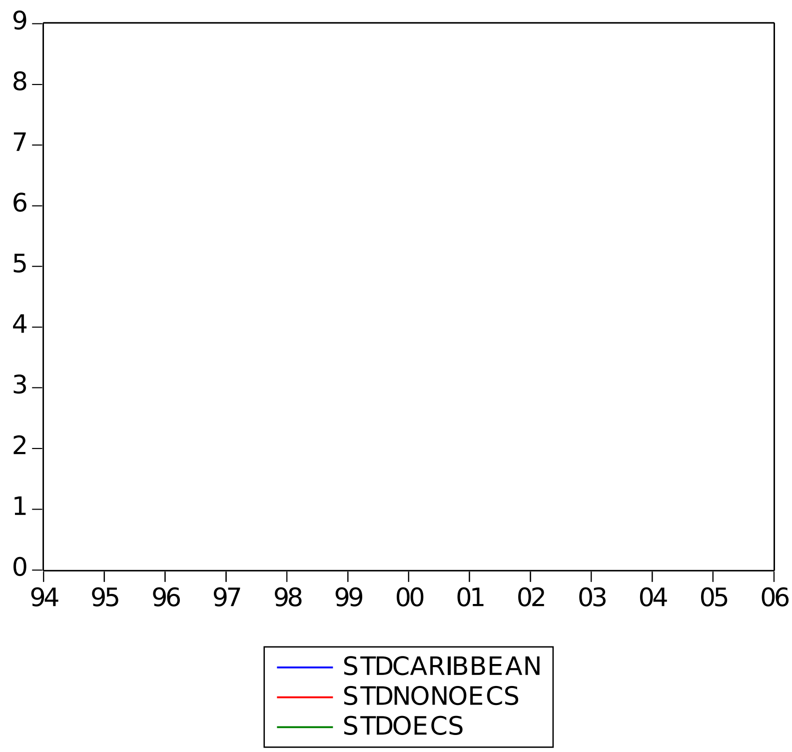
Also, net foreign direct investment for the EU was significantly higher than in the non-EU OECD countries. The critical comparison, however, is in the area of fiscal management in which the non-EU OECD countries performed better. In the case of the OECS, fiscal performance was worse than in the EU. The real interest rate was substantially higher. Real inflation was lower, net foreign direct investment substantially higher and growth performance practically the same. With such disparities among groups of countries, it is difficult to surmise whether fiscal policy integration is, in fact, a necessity. However, the most persuasive argument for fiscal integration lies in the EU itself. Fiscal performance of EU member-countries prior to the formation of the EU was worse than under the SGP, implying thereby that, despite past and current difficulties, the SGP has contributed to improved fiscal performance. Gali and Perotti (2003) report that under the SGP during 1997-2001, the fiscal deficits in the EU were reduced by approximately four percentage points as compared with the pre-Maastricht period 1998-92.[25/] The hope is that something similar can be achieved under the CSME.

With respect to the second question, that is, whether the Caribbean is capable of fiscal integration use is made of the standard deviation of the budgetary balance to give some sense of the

[25/] Gali and Perotti (2003), p.541.

possibilities. The analysis indicates that while fiscal policy integration may be very desirable, there are significant difficulties. First of all, the standard deviation of the fiscal balance for the EU at 2.9 percentage points for the period 1994 to 2005 was significantly lower than the estimate of 4.3 percentage points for the Caribbean as a whole. For the OECS and non-OECS Caribbean, the estimates were 3.5 and 5.0 respectively, indicating that the difficulties are likely greater in the latter sub-region. Additionally, Figure 1, the graph of the standard deviations for the period, indicate that fiscal performance has been diverging, suggesting that considerable work remains to bring the Region into convergence and that considerable thought will be necessary in crafting an appropriate fiscal regime.

Figure 1: Standard Deviation of Budgetary Balances



<u>CSME and Tax Harmonisation</u>

Definition of Tax Harmonisation

Unlike fiscal policy which can be relatively easily defined, tax harmonisation is substantially more complex. Firstly, there is no consensus even in the EU on the meaning of “tax harmonisation.” As indicated in Chetcuti (2001), several definitions can be found in the literature. Tax harmonisation can be defined, for example, as the minimisation of differences between tax systems, it being understood that uniformity may not be desirable or practical. Tax harmonisation can also be defined as the establishment of tax policies in pursuit of common economic goals. Additionally, it may be defined as the removal of fiscal barriers or discrepancies between member-countries of an economic union so as to prevent tax discrimination within a given jurisdiction against imported goods or services vis-à-vis domestic output. Chetcuti (2001) defines tax harmonisation in the EU as "the process of planning how to approximate the tax systems of the member-states or to achieve the objectives of the Community."[26/]

Within the CSME, indications are that an attempt has been made to define tax harmonisation as the removal of differences between tax systems in pursuit of uniformity region-wide as witnessed, for example, by the failed agreement on the harmonisation of fiscal incentives for investment and the inability to have a uniform cruiseship tax. As the EU experience has shown, uniformity may be neither desirable nor attainable, given the desire for fiscal independence and the unique social and economic needs within nation states. There clearly needs to be some consensus on what is meant by tax harmonisation. The suggestion is here made that for the Region it be defined as the minimisation of differences in national tax systems so as to approximate tax neutrality in economic decision making. This means, for example, that labour or investment does not move from one location to another simply because of differences in taxation.

Benefits

The benefits of tax harmonisation are several. Very importantly, convergence in tax systems helps to define the boundaries of a single economic space and for that reason is seen as an integral part of an economic union. It can lead to the minimisation of economic distortions and hence in economic inefficiencies in production and consumer choice. For example, resources will be allowed to migrate, without the stimulus of tax differences for example in personal and corporate income taxes, to locations and activities that have the highest returns. Additionally, as the EU experience indicates, differences in taxation systems can impose considerable cost on companies operating in several member-states of the union in terms of understanding and compliance. Differences in tax systems also tend to stimulate tax avoidance and evasion and the loss of revenue. Tax harmonisation will dilute such costs and incentives.

With respect to the regional response to globalisation, tax harmonisation clearly has two important points to recommend it.

[26/] Checuti (2001), p.6.

Firstly, the removal of barriers to economic activity, the reduced production cost and the enhanced efficiency which it implies, is an integral part of the regional response to globalisation. Secondly, the minimisation of market fragmentation can lead to the exploitation of scale economies which is one of the strategic pillars of the CSME.

Costs

However, the slow pace of tax harmonisation in integration groupings as noted below attests to its complexities and costs. The further loss of fiscal independence that it implies beyond that of fiscal policy integration is a cost that member-states generally resist and perhaps for good economic and political reason. First, tax harmonisation can lead to the institutionalisation of economic inequalities among states by failing to acknowledge differences in competitiveness due to a variety of reasons (differences in market size, in the cost of infrastructural services, for example electricity, transportation, telecommunications, in wage rates for skilled and unskilled labour etc.).[27/]

Uncompetitive jurisdictions attempt to use differences in taxation as a way of levelling the playing field. It has been further argued that tax systems need to be specific to a jurisdiction to maximise growth, economic and social development. For these reasons, partial rather than complete or comprehensive tax harmonisation may be preferred. Partial tax harmonisation is defined as harmonisation of a subset of taxes. An extension of this argument is that tax harmonisation is more easily attainable under a federal system of government since the latter permits the redistribution of revenue through transfers. It should be pointed out, however, that even in a federal system such as the US or Canada, tax harmonisation is far from complete. For the foregoing reasons, it may be argued that the real task for CSME countries will be to decide the most feasible level of harmonisation that should be pursued.

As in the case of the integration of fiscal policy, the experience of other countries with respect to tax harmonisation provides useful lessons for the Region. In the EU, the integration grouping which, it can be claimed, has the longest record in sustained pursuit of tax harmonisation, the experience has been very difficult and success very limited. The major success so far has been in the establishment of the VAT which was implemented by EU directive and therefore has an element of quasi federalism. Other harmonisation initiatives such

[27/] Note, for example, the significant differences in transport costs in the Caribbean in the absence of contiguous borders, quite unlike the EU, Canada or the US. In fact, differences in transport costs constitute one of the biggest barriers to the development of a single market.

as, for example, in the area of income tax, has met with considerable difficulty and resistance because of member-states' desire to maintain fiscal independence particularly with the loss of monetary policy independence and the curtailment of fiscal autonomy as a result of the SGP. Nevertheless, fiscal harmonisation remains an important goal for the EU and is proving to be much more difficult than the establishment of the single currency and of the SGP. The experience of other regional groupings has not been very different. Initiatives by MERCOSUR and the Andean Group have not made significant advances in tax harmonisation either in relation to the direct or indirect taxation. The experience so far of these other regional groupings suggests that, except for the more simple elements of harmonisation such as the harmonisation of tax administration (for example, tax codes, tax bases, formalisation of double taxation agreements etc.), for the CSME priority ought to be given to fiscal policy integration and that tax harmonisation, given its economic, political and social complexities should perhaps be pursued as a secondary rather than a primary goal.

Monetary Integration

Definition

While there are different levels of monetary integration (weak, semi-strong, strong) as noted by Farrell and Worrell (1994), the form of monetary integration discussed here is the adoption of a single currency and the establishment of a regional Central Bank, since this is the form of monetary integration intended under the CSME. This form of integration Farrell and Worrell (1994) characterise as strong since it involves centralised management of monetary policy.

Benefits

Monetary integration is likely to deliver substantial benefits to member-states of the CSME. A single currency will provide greater transparency with respect to prices of goods and services in the regional market and therefore greater intraregional competition. This can be an important stimulus for the exploitation of scale economies and the insertion of greater technological change into the production process. Also, savings in transactions cost in intraregional trade and the reduction in exchange rate uncertainty can both contribute to an expansion in intraregional trade. In fact, Rose (2000) in a very interesting article entitled "One Money, One Market: The Effect of Common Currencies on Trade," found that a single currency among trading partners has a substantially higher impact on trade than a reduction in exchange rate volatility. If this is in fact so, then the single currency augurs very well for intra-Caribbean trade and regional growth performance. He based his study on a panel of 186 countries over the period 1970 to 1990.

A single currency through the stimulation of greater intraregional financial flows and the creation of deeper and more liquid capital markets can also enhance competition and the diversification of risk in the financial services sector, leading to some moderation in interest rates. For example, even in the presence of the considerable regulatory and other barriers, introduction of the euro has contributed to substantial competition and significant growth of the EU capital market, especially in the non-governmental segment and the narrowing of interest rate differentials across member-states.[28/] The elimination of exchange rate uncertainty was also likely a contributor to the convergence in interest rates and the lowering of investment costs. Also, as in the EU, the establishment of a regional Central Bank offers the possibility of a more stable price regime and hence another important channel for the delivery of lower interest rates.[29/] Especially if coupled with an agreed and effectively

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[28] / For a discussion of the development of the euro capital market, see Peree and Steinherr (2001). Note also that in order to accelerate the process of financial sector integration, the EU embarked upon the implementation of a Financial Services Action Plan which sought essentially to remove regulatory barriers to growth of the sector through the development of single regulatory regime for all member- countries, an example that the Caribbean can follow. A single regulatory regime is an essential requirement for the development of a single financial services market and underscores the fact that a Protocol for the Rights of Establishment can still leave substantial barriers to market integration untouched.

[29] / Note particularly the emphasis of the European Central Bank (ECB) on price rather than on short-run economic stabilisation. The ECB has targeted the inflation rate at 0% to 2%. While it has not in recent years often achieved its target, (for example, between 2001-04, the average rate of inflation was 2.27%),

implemented fiscal regime, indications are that the generally more stable macroeconomic environment likely to emerge from regional monetary integration, can lead to an increase in domestic and foreign investment, both of which are critical to the success of the CSME.[30/]

All of the foregoing outcomes will promote greater competitiveness of the Region's goods and services in regional and international markets, an absolute requirement for confronting the challenge of globalisation. This is not to imply, however, that monetary integration by itself will be an adequate response. It clearly provides an important policy framework for making the Region more competitive. However, much more will be necessary, particularly intensified human resource and technology development, which will be much more impactful with respect to the competitiveness of the Region.

Costs

Of course, the foregoing benefits are not without cost. Member-countries will lose monetary policy autonomy including, control over exchange rates, which some countries in the Caribbean use for external sector adjustment. Fortunately, the number of countries with flexible exchange rates is just a handful (Guyana, Jamaica, Trinidad, and Haiti). Loss of monetary policy autonomy, especially when coupled with the curtailment of fiscal policy control, limited labour mobility and wage inflexibility, can place substantial strain on governments in terms of finding new and creative ways of addressing economic shocks. Pattichis (2001), for example, has argued that the loss of monetary policy autonomy will force governments to find other adjustment mechanisms such as improvements in the quality of commodity and service exports which would, in fact, contribute to increased international competitiveness and hence can turn out to be a very important benefit.

The other major concern about monetary policy integration is the problem of significant structural differences and of asymmetric shocks. Clearly, a "one size fits all" policy would not be optimal for all countries. According to Pattichis (2001),

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it has not strayed too far from the mark. The Bank has argued that the maintenance of low predictable inflation is very important for long-term growth and has given it precedence over stabilisation policy. Mafi-Kreft and Sobel (2006) have argued that the ECB's emphasis on long-term growth is correct and that the focus on short-term stabilisation has led to greater economic instability than the less activist policy currently used by the ECB.

[30/] Note also that a single currency regime is likely to be more durable than an exchange rate regime.

"The costs of a single currency also arise because countries differ in their preferences about inflation and unemployment, have different fiscal systems, grow at different rates; they also have different labour institutions."[31/]

With respect to economic shocks, for example, only a small subset of Caribbean countries have suffered the impact on the banana and sugar industries of the dismantling of European preferences. Similarly, the impact of trade liberalisation on the manufacturing sector has been different across the Region depending on the size and competitiveness of the sector. Rising oil prices have had very different impacts across the Region depending on the energy intensity of economic activity. The events of 9/11 impacted different CSME member-states with differing intensities depending on the importance of tourism in the various member-countries. CSME member-countries are therefore unlikely to need the same monetary policy at any point in time. Clearly, there will need to be, as in the EU and the OECS, the appropriate legal and institutional arrangements to facilitate negotiation of the monetary policy stance appropriate for the Region in the short and long run.

4. **Recommendations for Strengthening the CSME Response**

To a large extent, the CSME strategy is market-based. It places substantial reliance on the market to deliver growth, efficient labour and capital inputs, efficiently produced commodity and services etc. This is consistent with the rules of the current international economic paradigm. However, there is substantial reason to believe that this approach will not be enough and that the Region will have to do substantially more in order to attain the objectives of higher growth, reduced poverty, economic and social development. For example, assuming that the market is fair, it will deliver its valuation of what the Region brings to the market. If the Region brings to the market uncompetitive, inefficient labour, it will reap the rewards of that quality of labour. If it brings to the market high quality, internationally competitive labour, it will reap the rewards for that type of labour. The limitations of too great a dependence on the market alone are also discussed extensively in the review of the challenges of the financial sector. Therefore, it is very important that the Caribbean understand that it must put in place the conditions that permit it to reap the highest rewards possible and not expect that mere marketisation of the status quo will deliver the economic and social gains hoped for. Management of the integration process has to recognise that much more needs to be done in terms of supportive/development policies to

[31/] Pattichis (2001), p.125.

prepare the Region for competition internationally. The market will deliver some gains at the margin but is very unlikely by itself to deliver the larger gains possible with more strategic interventions.

Secondly, it is important to recognise that the market can provide opportunities for growth but can also lead to the demise of entire industries and sectors. The competition is fierce and it is not merely interregional but global. By its very nature, the outcome of marketisation is not predictable. One only hopes that the Region will be able to compete enough internationally to permit continued increases in economic and social development.

Thirdly, the argument given essentially for the reliance on the markets is the desire to make the Region more competitive. The question arises as to whether the market is the best mechanism to deliver competitiveness or whether there are other strategies that would be more impactful. In this regard, it is arguable that much more attention needs to be placed on a technological development strategy, with a prominent place for Information and Communication Technologies (ICTs), as a means of enhancing regional competitiveness. In fact, there is tremendous need to mainstream technological development in the integration process rather than leave it as almost an appendix to current efforts. Ideally, there ought to be a separate protocol to this effect in order to give it much greater prominence. Because of the high cost of technological development and the tremendous spinoffs possible, technological development is best treated as a regional enterprise rather than the responsibility of individual states.

Very much related to the foregoing argument is the fourth – that of the need for much greater focus on human resource development not only as an important concomitant of regional technological development, but also as a very important long-run determinant of competitiveness, (poverty reduction and income equality) as indicated by the East Asian experience. Quite unlike the case of the OECS where human resource development receives a central place in defining the way forward for OECS Economic Union, in the CSME, human resource development remains off center. Essentially, the efforts at a regional level seem to focus on the declaration of training targets at the secondary and tertiary levels, leaving the attainment of those targets to individual states, whatever their capabilities. Like the OECS Economic Union, the CSME needs to elevate human resource development to a much more central place in the integration process. Here also a new Protocol, supported by clearly defined strategies, may be necessary to give human resource development the attention that it needs.

Fifthly, it may be argued, that there is need to pay much closer attention to the issue of infrastructural development (transportation, telecommunications, energy etc.) as a means of more effectively integrating Caribbean economies and increasing the competitiveness of the Region. In this regard, of critical importance is the development of efficient air and sea transport. After years of struggle, the Caribbean is yet to develop an efficient means of transportation among the island states. Yet without this, the level of market integration possible, especially in the case of the goods market, will continue to be limited.

5. Conclusion

The CSME is clearly the most ambitious regional undertaking ever. It is a work in progress and one that will take a long time. The EU integration process started in 1958 and is still ongoing. The current attempt at Caribbean integration started in 1968 and is also ongoing, engaged in the most difficult portion of the process so far. There have been and will be missteps since it is a learning process. However, the aim must be to minimise the missteps and strengthen the process in whatever way possible so as to accelerate implementation and delivery of the accompanying benefits, since the slow delivery of benefits endangers the process. Consequently, maintaining the right focus is of paramount importance.

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