



CARICOM REPORT

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Integration and Regional Programs Department
Institute for the Integration of Latin America and the Caribbean - INTAL

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CARICOM Report N° 1





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The Subregional Integration Reports Series, to which this first CARICOM Report belongs, represents an effort by INTAL to promote understanding of and disseminate information about the dynamic process of integration under way in Latin America and the Caribbean.

The overall purpose of this report is to appraise progress towards deeper integration among the member states of the Caribbean Community and Common Market (CARICOM).

In publishing this annual report, INTAL aims to facilitate access to information for a broad potential readership interested in the CARICOM integration process, from the public and private sectors as well as from among the subregion's general public. It also seeks to go beyond the interest that the process arouses at the subregional level by making the report available to a broader international community through the publication of the Report in Internet.

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In order to meet the expectations raised by the Reports in this Series, readers are invited to send their comments and/or suggestions for the purpose of improving the scope or focus of these publications in the future.

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EXECUTIVE SUMMARY

The overall purpose of the report is to appraise progress towards deeper integration among the member states of the Caribbean Community and Common Market (CARICOM). More specifically, and with particular reference to the goals of the CARICOM Single Market and Economy (CSME), it seeks to assess the depth of market integration and functional cooperation by examining the state of policy coordination and harmonization, the level of institutional development, and the degree of capacity sharing. The study also addresses CARICOM's pace of widening and its integration into the world economy, against the backdrop of trends in international trade negotiations.

In 1989, CARICOM member states agreed to move beyond the Common Market by encouraging the movement of and access to the factors of production, the delivery of services, and the establishment of businesses. In 1991, the main priorities for establishing the CSME were agreed. These included the completion of arrangements for the free internal movement of goods originating in the region; mechanisms for the free movement of services, capital and labor; and a more comprehensive harmonization of laws and regulations affecting commerce, including customs laws and procedures, intellectual property, competition policy, corporate taxation, dumping and subsidies.

The reform of Community institutions, the establishment and joint management of common services, and greater coordination of macroeconomic and external trade policies were also placed high on the agenda. Nine Protocols were drafted to reform the Treaty of Chaguaramas and thereby facilitate implementation of the CSME.

A review of the progress made in establishing the CSME found that the process could be accelerated. Intra-regional goods trade is essentially free. Substantially all tariff and non-tariff barriers to goods of common market origin have been removed, although there is scope to limit further the number of authorized exceptions.

Despite recent efforts to create a CSME, the pace of trade and investment integration in the region can be deemed moderate. The low growth rate of extra-regional exports of goods and services is particularly disquieting in view of the importance of trade openness for growth and development. Many countries also need to attract more inward investment.

The optimism about convergence has been misplaced. New forms of macroeconomic linkages that were expected to arise from deeper coordination are still not apparent. There is some broad agreement as to what constitutes a solid macroeconomic policy framework, but individual policies tend to vary. The inability to deal adequately with the real and perceived problems of harmonization remains the most significant hindrance to macroeconomic policy coordination.

Implementation will entail substantial future challenges. Member states must introduce the necessary arrangements to ensure compliance with their obligations under Protocol II and the relevant provisions of other Protocols. Several policy initiatives, constitutional actions, and legislative and administrative measures are required to ensure full application of the protocols and non-discrimination in the areas of rights of establishment, provision of services and movement of capital; acceptance of diplomas, certificates and other evidence of qualifications; and policies to remove restrictions.

As regards the common trade policy, the different speeds and phases of trade reform at the national level and a heavy reliance on trade taxes, especially in the countries of the Organization of Eastern Caribbean States (OECS), are impeding harmonization of the common external tariff (CET). It seems that further progress can only be made after a fiscal reform that reduces the present dependence on trade taxes.

CARICOM has made some progress in devising and implementing new rules and regulations to govern the CSME, and significant strides have been made in such a sensitive area as the free movement of skilled persons. The road ahead, however, is long and arduous. Implementation will determine the credibility and effectiveness of the CSME now that negotiation of the legal framework has ended.

Civil society and the private sector in CARICOM do not yet fully appreciate their rights and obligations under the CSME, whose effective implementation requires a commitment on the part of all stakeholders to raise awareness and to adopt regional policies in their national programs and legislation. A number of institutional changes are also required. Facilitating the movement of persons is critical to maintaining the CSME's momentum and credibility, since it must be perceived by CARICOM nationals as easing their temporary and permanent entry into other CARICOM countries.

The convergence of Caribbean regulatory frameworks towards best-practice standards would create a more competitive environment for investment. Harmonization would reduce transaction costs and thus stimulate regional integration. Foreign investment regulations need to be modernized in this regard. Institutional and legal frameworks affecting the financial system's and regional capital markets' capacity to facilitate investment and trade financing need to be tackled, as does effective prudential supervision. Technical, labor, environmental and sanitary standards for products and production processes must also be upgraded for the purpose of establishing an integrated labor and product market.

Under Protocol II, in the area of services, the mutual recognition of professional and technical qualifications, as well as mechanisms for all workers to transfer social security entitlements, remain to be harmonized. Tax systems also require review. Some progress has been made on competition policy but more is needed, especially at the national level.

On the external front, a significant challenge is to ensure that treatment negotiated in agreements with third parties does not undermine the desirable margin of preference for CARICOM producers and, at worst, that it is not more favorable than that given in the CSME. Reciprocity will doubtless lessen the prospect of offering preferential treatment to CARICOM nationals, but in the context of open regionalism the granting of protection and incentives -especially in a small integration movement- should be tempered by moderation and by a concern to introduce international competition without undue delay.

Another important issue is to reconcile the granting of preferences to the European Union (EU) with those under the Free Trade Area of the Americas (FTAA). This involves sequencing negotiations in such a way as to ensure minimum costs and maximum benefits in granting trade concessions. The overarching role of the World Trade Organization (WTO) will doubtless determine the framework and must be considered from the outset. The search for WTO compatibility and consistency across agreements will be taxing.

CARICOM-Latin American relations pose another challenge. They advanced substantially in the 1990s relative to earlier periods. In the years ahead it is expected that Latin America will become even more important for CARICOM. The FTAA process will impose on CARICOM the task of finding the optimum path to hemispheric integration. This will involve exploring the various options for linking existing bilateral and regional agreements. It is a challenge that these countries have already accepted and should lead to significant new diplomatic initiatives in the near future.

CHAPTER I. INTRODUCTION

Background

The membership of the Caribbean Community (CARICOM) now stands at 15 states and territories, 14 of which are independent and one of which, Montserrat, is an Overseas Territory of the United Kingdom.¹ The parliament of the most recent member, Haiti, approved the country's accession to CARICOM on May 13, 2002. Three territories, Anguilla, the British Virgin Islands and the Turks and Caicos Islands, are associate members of the Caribbean Community. The Cayman Islands and Bermuda are in the process of negotiating similar membership.

The geographic and economic characteristics of the CARICOM member states vary substantially. The population range is from 5,000 persons in Montserrat to 7.1 million in Haiti. The population of most countries is below 1 million and the members of the Organization of Eastern Caribbean States (OECS)² have populations below 150,000 (Table 1). Territorial size also differs considerably, ranging from 103 square kilometers in Montserrat to 214,970 square kilometers in Guyana. Per capita incomes range from US\$610 in Haiti³ (1999) to US\$11,214 in The Bahamas. Most members are small island economies marked by high levels of vulnerability as a result of their high dependence on trade -with a sharp attendant income volatility- and exposure to natural disasters. These characteristics of smallness have shaped the integration process in terms of the provision of administrative and technical capacity at the regional level, special provisions for the less developed countries (LDCs),⁴ and the search for special and differential treatment in CARICOM's commercial and integration links with the hemisphere and the world.

CARICOM was established by the Treaty of Chaguaramas on 4 July 1973.⁵ It grew out of the Caribbean Free Trade Association (CARIFTA), which was created in 1968. Its objectives, as stipulated by the treaty, are threefold:

- to foster economic integration among its member states through the creation of a common market, involving the free movement of goods, services, capital and people across the region. In recent years, CARICOM members have sought to pursue a yet more ambitious goal: the establishment of a single market and economy;
- to strengthen the region's external position through *the coordination of member states' foreign policies*, particularly *vis-à-vis* the Community's major trade partners; and

¹ Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago. Before the advent of the Caribbean Single Market and Economy (CSME: see below for a full discussion), it was common to refer to the Bahamas as a full member of the Community but not a member of the Common Market. The CSME eliminated the distinction between the Community and Common Market under Protocol 1 and the accompanying Protocols. Hence the current tendency in some quarters to refer to the Bahamas as an "Associate Member".

² The OECS countries are Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The British Virgin Islands and Anguilla are associate members.

³ Unless stated otherwise, currency is denominated in US dollars.

⁴ In CARICOM, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago are defined as more developed countries (MDCs). The others, the OECS countries and Belize are regarded as less developed countries (LDCs).

⁵ Article 24 of the Treaty provided that the agreement would enter into force on 1 August 1973 if the instruments of ratification were deposited in accordance with Article 23 by Barbados, Guyana, Jamaica and Trinidad and Tobago; if not, then entry into force would occur on such later date on which the fourth such instrument had been deposited. The condition was met and the Treaty thus entered into force on 1 August 1973.

- to pool scarce resources through *functional cooperation* in areas such as health, education, the environment, communications, science and technology, meteorology and responses to natural disasters.

The Annex to the Treaty Establishing the Caribbean Community makes provision for the signatories' joint establishment and operation of a Caribbean Common Market,⁶ which was created with its own international juridical personality. The common market had three objectives:

- strengthened coordination and regulation of economic and trade relations among members;
- sustained expansion and continuing integration of the members' economies; and
- greater independence and effectiveness in dealing with states, groups of states and entities of whatever description.

TABLE 1
CARICOM: SELECTED GEOGRAPHIC AND ECONOMIC CHARACTERISTICS

Country	Population	Real per capita Income	Area
	(mid-year 1997)	(US\$ 1999)	(sq. km.)
Antigua and Barbuda	69,747	9,410	442
Bahamas	288,000	11,214	13,864
Barbados	265,350	8,660	431
Belize	204,000	2,730	22,966
Dominica	76,000	3,170	750
Grenada	99,500	3,450	345
Guyana	775,143	760	214,970
Haiti (*)	7,180,000	621	28,000
Jamaica	2,540,500	1,980	10,991
Montserrat	5,000	n.a.	103
St. Kitts and Nevis	42,600	6,420	269
St. Lucia	149,621	3,946	616
St. Vincent and the Grenadines	111,000	2,941	389
Suriname	418,921	1,660	163,820
Trinidad and Tobago	1,270,000	4,230	5,128
	13,425,635		463,084

Notes: (*) Provisional Member.

Sources: CARICOM [2000]. Global Development Finance & World Development Indicators.

The OECS was created on 18 June 1981 when its members signed the Treaty of Basseterre. The treaty aims to promote cooperation at the regional and international level and to foster economic integration, to achieve the greatest possible harmonization of foreign policy among the member states, and to secure the provision of common services. In 1991 the OECS agreed to the creation of an OECS Single Market

⁶ It should be noted that CARICOM's definition of a common market did not include the movement of the factors of production, as it is presented in many standard texts on economic integration.

(OSM). The OSM included the free movement of goods, services, labor and capital. The OECS countries already have a monetary union, which facilitates the movement of capital. Progress in implementing the OSM has been gradual. Efforts have focused on the removal of barriers to the free movement of goods. The implementation of the common external tariff (CET) comes under the aegis of CARICOM. Within the context of new guidelines for OECS economic development in the OECS Development Charter, the OECS is committed to faster implementation of the CARICOM Single Market.

Since the establishment of the Caribbean Community and Common Market in 1973, CARICOM member states have made attempts to consolidate the regional integration movement by strengthening and deepening the common market arrangements. The focus was mainly on building a customs union by developing a CET, strengthening functional cooperation, and promoting the coordination of foreign policy. Despite the efforts made, the external tariff was not common in several areas and in many others the process of integration lacked depth. The full aims of a common market remained elusive, particularly as regards the complete removal of intra-CARICOM trade barriers, the implementation of a fully-fledged customs union, and the coordination of external trade policy.

In 1989, CARICOM member states agreed to move beyond the aims of a common market by encouraging the movement of, and access to, the factors of production, the delivery of services and the establishment of businesses. In 1991, agreement was reached on the priorities for creating the CARICOM Single Market and Economy (CSME). These included the completion of arrangements allowing for the free internal movement of goods originating in the subregion; mechanisms for the free movement of services, capital and labor; and more comprehensive harmonization of laws and regulations affecting commerce, including customs laws and procedures, intellectual property, competition policy, corporate taxation, dumping and subsidies. The reform of the Community's institutions, the establishment and joint management of common services, and greater coordination of macroeconomic policy and external trade policy were also placed high on the agenda.

The establishment of a formal CSME process in 1991 was largely a response to slow growth in intra-regional trade and investment, greater multilateral trade liberalization and the loss of trade preferences, the creation of large trading blocs, the need to strengthen regional competitiveness, and the changed international circumstances that emerged with the end of the Cold War. Concern for international competitiveness was a major part of the rationale for creating the CSME, which was perceived as contributing to competitive regional production. This was judged important because member states were finding it difficult to take advantage of preferences and to exploit the new opportunities arising from trade liberalization at the multilateral level. The move towards the CSME also placed greater emphasis on extra-regional trade, in contrast to intra-regional focus of the Treaty of Chaguaramas.

Additionally, the pooling of human, financial, natural and institutional resources offers certain advantages to small and vulnerable countries that lack technical and administrative capacity in many fields, and that face problems in delivering services in such areas as policy development and human resources; research; technology generation, transfer and adaptation; marketing and the development of information systems. Transforming CARICOM from an incomplete common market to a single market and economy could facilitate a better mobilization of resources.

At present, CARICOM is still instituting the legislative and institutional changes required to realize the CSME. The process has been protracted; deadlines in many of the areas targeted for further integration have been constantly missed and postponed. Meeting the goals of deeper integration, greater collective independence and greater coordination through the above policy and institutional changes is controversial, and will be the object of this report.

Purpose and Structure of the Report

The overall purpose of the report is to appraise, through detailed analysis, the progress made on integration and CARICOM's contribution to the sustainability of development. The specific objectives are:

- to assess the depth of integration in terms of the goals of the process in the areas of trade integration and cooperation;
- to examine the degree of policy cohesion;
- to explore the goals in the areas of capacity-sharing and functional cooperation;
- to assess the pace at which the CARICOM integration process is widening and at which the region is being integrated into the world economy;
- to evaluate the appropriateness of integration policies and vision in the light of current international trends such as globalization and trade liberalization (WTO, FTAA, Cotonou);
- to examine institutional development;
- to identify the main obstacles to effective integration.

Chapter I offers the necessary background to the subject and explains the scope of the report. Chapter II examines the trends in trade and investment as a backdrop to the examination of the state of the CSME. Chapter III addresses macroeconomic policies and the extent of macroeconomic convergence as a means of determining the degree of policy cohesion in efforts to create a CSME. The CSME is described and analyzed in Chapter IV. With a view to assessing CARICOM's achievements, Chapter V looks closely at some areas in which efforts are being made at coordination and harmonization. CARICOM's external policies are addressed in Chapter VI as a means of determining whether the goal of balanced and structured integration into the wider region and the world is being met. CARICOM's institutions are appraised in Chapter VII, while Chapter VIII concludes with an overall assessment.

CHAPTER II. EVOLUTION OF TRADE AND INVESTMENT IN CARICOM

Trade in Goods

The aim of this section is to reveal the trends in CARICOM's global and intra-regional commerce, with particular reference to trade with the region's main trading partners (the United States, the European Union (EU), Canada, and Latin America).

CARICOM's total imports increased in nominal terms from US\$5,065.2 million in 1990 to US\$8,054.4 million in 1998, or by 59%. This represented average annual growth of 7.4%. Intra-CARICOM imports, which varied annually between 8.4% and 10.7% of total imports over the 1990-1998 period, grew from US\$506 million to US\$787 million. This was 56% growth over the period and a 7% average annual increase. Total imports thus grew marginally faster than intra-regional imports during the period. In view of the relative magnitude of total and intra-regional imports, as well as the relative growth rates, imports do not seem to have been diverted by CARICOM's trade arrangements.

CARICOM's total exports increased in nominal terms from US\$4,163 million in 1990 to US\$4,335 million in 1998, or by 4%. This represented average annual growth of 0.5% over the period. Intra-CARICOM exports varied between 12.1% and 22.9% of total exports in the 1990-1998 period. In nominal terms, intra-regional exports increased from US\$515 million in 1990 to US\$999 million in 1998, or by 94%. This represented average annual growth of 11.7% over the period. Exports to extra-CARICOM destinations declined from US\$3,648 million in 1990 to US\$3,340 million in 1998, or by 8% (CARICOM [2000b]).

The growth rate of exports to extra-CARICOM destinations was markedly lower than that for intra-CARICOM sales. Since 1990, the value of intra-regional exports has increased by 11.7% a year on average, compared to a decline of 1.1% for extra-regional exports. Between 1990 and 1998, total CARICOM exports expanded by 4% annually, against a 7.4% growth in total imports. The huge difference in the growth rates of the region's total exports and imports was reflected in a massive merchandise trade imbalance.

The commodity composition of intra-CARICOM exports and of exports to extra-regional destinations is significantly concentrated. Intra-CARICOM exports are dominated by petroleum and petroleum products, and by non-traditional manufactures such as paper and paper board, cigarette paper, waters (including mineral waters and aerated waters) miscellaneous edible products and preparations, organic surface-active agents (other than soap); surface-active preparations, washing preparations (including auxiliary washing preparations) and cleansing preparations (whether containing soap or not), building cement, iron and steel. Extra-regional exports are dominated by petroleum and petroleum products, traditional agricultural commodities (sugar, bananas and rice), minerals (bauxite and alumina, as well as gold). Primary agricultural products do not figure among CARICOM's principal exports to intra-regional destinations.⁷ The relative change in trade performance on the regional and extra-regional markets does not stem from the diversion of export products to the regional market. Rather, access to external markets has hardened.

CARICOM's exports to Latin America amount to some US\$255 million, as compared to imports of US\$1.1 billion (Tables 2 and 3). Exports are largely dominated by Trinidad and Tobago (48%) followed by Suriname (14.79%) and Jamaica (10.78%). The import side is less concentrated; Guyana (29.8%), Trinidad and Tobago (24.9%), Jamaica (16.78%) and The Bahamas (10.7%) are the leaders players. A

⁷ This might be explained in part by the absence of data from Guyana, a major producer and exporter of agricultural products, particularly rice, sugar, seafood and pineapples.

huge negative trade imbalance is reflected in CARICOM's trade position. Guyana (38%), Jamaica (18.9%), Trinidad and Tobago (17.9%) and The Bahamas (11.5%) bear the brunt of this trade deficit.

TABLE 2
CARICOM EXPORTS TO PRINCIPAL HEMISPHERIC DESTINATIONS
(US\$ Millions)

	Value		
	1990-1992 Average	1996-1998 Average	Percentage Change
Andean Community	80.7	111.5	38%
Central American Common Market - CACM	15.5	59.1	281%
Latin American Integration Association - LAIA	148.4	204.1	38%
Southern Common Market - MERCOSUR	37.5	31.5	-16%
North American Free Trade Agreement - NAFTA	1,671.2	1,916.7	15%
Other	659.9	1,088.2	65%
(A) Total Exports to Western Hemisphere	2,612.2	3,411.1	31%
(B) Total Exports to all destinations	3,744.7	4,509.3	20%
A/B (%)	69.8	75.7	8%

Source: CARICOM [2000b].

TABLE 3
CARICOM IMPORTS FROM PRINCIPAL HEMISPHERIC DESTINATIONS
(US\$ Millions)

	Value		
	1990-1992 Average	1996-1998 Average	Percentage Change
Andean Community	312.2	523.7	68%
Central American Common Market - CACM	34.4	65.9	92%
Latin American Integration Association - LAIA	556.8	838.4	51%
Southern Common Market - MERCOSUR	128.7	153.5	19%
North American Free Trade Agreement - NAFTA	2,532.5	4,015.3	59%
Other	112.6	101.8	-10%
(A) Total Imports from Western Hemisphere	3,677.1	5,698.6	55%
(B) Total Imports from all destinations	5,128.0	7,809.6	52%
A/B(%)	71.7	73.0	2%

Source: CARICOM [2000b].

CARICOM accounts for a very small portion of the Latin American import market (0.17%) and Latin America's exports to CARICOM are a very small share of the region's exports to the rest of the world (0.72%). On a national basis, the import and export market shares are quite tiny. Guyana has the largest share on the import side (0.22%) while Trinidad and Tobago has the largest export share (0.17%).

At the margin, the only CARICOM countries revealing some export dynamism are Trinidad and Tobago and Jamaica. Tables 2 and 3 show that CARICOM's trade with the Hemisphere has tended to rise as a percentage of its trade with the world. Within the last decade, intra-hemispheric trade as a proportion of the Hemisphere's total trade with the world has increased significantly. With most regions the absolute figures are still small but there is evidence of rapid growth in imports and exports from small base figures, especially with the Andean Community and the Central American Common Market (CACM) (Tables 2 and 3), that surpass the averages for all destinations.

CARICOM's trade with the Andean Community was relatively limited during this period: CARICOM's exports to the Community averaged just US\$50.2 million a year. CARICOM's trade with the CACM countries is also relatively small. Between 1990 and 1998, CARICOM's penetration of the CACM export market was minimal. The average annual value of its exports was US\$27.3 million. CARICOM also purchased few goods from the CACM. Imports ranged from a low US\$19.8 million in 1991 to US\$65.4 million in 1998.

Trade between CARICOM and MERCOSUR was also insignificant compared to that with the EU or NAFTA. Exports from CARICOM countries to MERCOSUR averaged US\$82.2 million annually. CARICOM imports from MERCOSUR declined over the period.

CARICOM exports to NAFTA increased from US\$1,671 million in 1990 to US\$1,917 million in 1998, just 15% growth over the whole period. By contrast, CARICOM imports grew by 59% in those years, from US\$2,532 million in 1990 to US\$4,015 million in 1998. Exports to Canada and the United States grew slowly despite preferential market access. Slow growth caused the share of CARICOM exports to these markets to fall as a percentage of its total exports to the Hemisphere. The decline was sizeable in the case of the United States, from 59% to 46%. The export share with Canada fell from only 8% in 1990 to 6% in 1998.

Trade with the rest of the world was largely dominated by the EU. CARICOM imports from the EU rose from US\$795.4 million in 1990 to US\$1,569 million in 1998. CARICOM exports to the EU grew from US\$847 million to US\$1,706 million, an average annual increase of 7.6%.

In conclusion, CARICOM's trade with the rest of the world changed significantly over the period 1990-1998. The dominant feature of trade in this period was the slow growth of exports to extra-CARICOM destinations, in contrast to the faster growth in intra-CARICOM exports. CARICOM imports both from CARICOM and the rest of the world have been growing appreciably, causing the trade deficit to widen.

CARICOM's commercial integration with the Hemisphere is strengthening; its trade with the Americas as a percentage of its global trade is increasing. Intra-CARICOM exports as a share of the group's total hemispheric exports increased from 17.8% in 1990 to 29.5% in 1998. There was also rapid growth in imports and exports (albeit from a low base), especially with the Andean Community and the CACM.

Over the longer period 1980-1998, the share of CARICOM exports going to the United States fell from 48.7% in 1980 to 35.2% in 1998. The share going to the EU was preserved at 17%. Latin America⁸ took 1.9% of CARICOM exports in 1980 and 3.7% in 1998, while the portion of exports directed at CARICOM countries grew from 8.9% to 22.5% over the same period.

On the import side, the United States' share of CARICOM imports increased from 28% to 46% between 1980 and 1998. The EU's share fell slightly from 16% to 14% and Latin America's grew from 6% to 10%.

⁸ As represented by the Latin American Integration Association (LAIA).

There was a significant decline in imports from the rest of the world. Intra-CARICOM imports as a share of all purchases remained at about 9%.

Intra-regional imports' share of total imports has fallen short of expectations since the common market was created. Intra-regional exports' higher percentage of total exports reflects the relatively weak performance of extra-regional exports throughout the 1990s. Partly because of this poor performance, the creation of the CSME has become an imperative (Tables 4 and 5).⁹

TABLE 4
VALUE OF INTRA-REGIONAL EXPORTS BY REGION AND COUNTRY, 1990-1998
(EC\$ Thousands)

CARICOM Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998
CARICOM	1,376,169	1,235,411	1,249,148	1,447,566	1,789,232	2,274,925	2,363,082	2,483,163	2,655,538
MDCs	1,120,863	998,431	1,011,724	1,223,128	1,587,744	2,061,866	2,169,147	2,264,515	2,401,986
Barbados	178,061	182,930	176,301	190,715	172,709	241,367	271,624	270,258	296,139
Guyana	36,519				72,814				
Jamaica	191,737	170,329	162,069	161,595	156,697	159,304	143,666	124,093	117,613
Suriname						31,517	63,822	99,198	
Trinidad and Tobago	714,546	645,172	673,354	871,818	1,185,524	1,629,678	1,690,035	1,770,966	1,968,234
LDCs	255,306	236,980	237,424	223,437	201,488	213,059	193,935	218,648	253,552
Belize	23,111	19,396	16,423	13,100	13,557	14,795	12,714	29,153	31,055
OECS	232,195	217,584	221,001	210,337	187,981	198,264	181,221	198,495	222,487
Antigua and Barbuda	29,487	28,723	21,115	11,867					
Dominica	37,550		42,759	40,326	46,998	51,494	64,504	72,144	98,313
Grenada	18,714	22,406	16,734	19,001	16,788	17,136	15,553	24,042	27,522
Montserrat	1,589	1,090	2,319	2,229	1,627	1,897	2,479		
St. Kitts and Nevis	9,699	9,235	8,354	8,851	7,832	5,824	2,422	3,788	2,515
Saint Lucia	58,624	50,223	42,242	56,048	39,450	46,984	28,844	26,644	28,359
St. Vincent and the Grenadines	76,532	67,811	87,478	72,015	75,286	74,929	67,419	71,877	65,778

Source: CARICOM [2000b].

⁹ A more extensive analysis of trade flows can be found in CARICOM [2000b].

TABLE 5
VALUE OF INTRA-REGIONAL TRADE BALANCES BY COUNTRY, 1990-1998
(EC\$ 1000)

CARICOM Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998
MDCs	307,668	321,485	356,059	478,425	522,247	708,728	696,638	590,173	834,332
Barbados	-117,490	-91,800	-93,037	-101,649	-146,659	-92,551	-63,676	-63,212	-149,542
Guyana	-30,269				-106,109				
Jamaica	-45,105	-12,141	-19,690	-150,022	-245,910	-517,973	-632,166	-727,279	-720,272
Suriname						-100,246	-69,509	-126,106	
Trinidad and Tobago	500,532	425,426	468,786	730,096	1,020,925	1,419,498	1,461,989	1,506,770	1,704,146
LDCs	-281,798	-306,727	-353,171	-384,040	-446,147	-348,157	-392,694	-411,033	382,754
Belize	-11,961	802	-12,762	-16,143	-16,810	-19,668	-16,092	-9,595	2,164
OECS	-269,837	-307,529	-340,409	367,897	-429,337	-328,489	-376,602	-401,438	68,018
Antigua and Barbuda	-63,266	-43,931	-71,775	-77,977	-109,084				
Dominica	-30,199	-32,910	-29,560	-24,503	-29,451	-33,708	-22,103	-21,434	
Grenada	-50,778	-52,350	-61,743	-87,044	-75,495	-78,233	-93,638	-102,152	122,561
Montserrat	-19,640	-24,632	-19,821	-16,075	-16,975				
St. Kitts and Nevis	-33,321	-44,957	-39,235	-46,801	-48,235	-55,794	-68,018	-71,113	-39,035
St. Lucia	-72,903	-87,408	-113,783	-102,311	-133,031	-137,229	-155,965	-164,615	-161,896
St. Vincent and the Grenadines	270	-21,341	-4,492	-13,186	17,066	-235,251	-368,781	-42,124	-61,426

Notes: Suriname became a member of the Caribbean Community and Common Market in July 1995.

Blank spaces - Means data not available

Source: CARICOM Secretariat. CARICOM [2000b].

Trade in Services

The services sector accounted annually for some 73% of gross domestic product (GDP) for CARICOM as a whole in 1996-1997, ranging from Antigua and Barbuda's 88% to Guyana's 28% (Table 6). Since services make such a large contribution to GDP, most CARICOM countries are service economies with a major stake in international commerce and trends in world services trade.

The value of world services exports totaled about US\$1,300 billion in 1999 and accounted for some 19.6% of total trade in goods and services. This figure has remained unchanged since the mid-1990s. In terms of means of supply, cross-border provision accounts for 41%, commercial presence for 38%, consumption abroad for 20%, and the presence of natural persons for 1.4%. In terms of sectoral composition, 50% is in travel and transportation. The share of travel declined over the decade, from 33.8% in 1990 to 32.8% in 1999. Transport, which accounted for 28.5% in 1990, fell to 23% in 1999. The share of other services grew from 37.7% in 1990 to 44.7% in 1999. These are essentially financial services, communications, insurance, computer and computer-related services, and other business services.

TABLE 6
SERVICES SECTOR SHARE OF GDP FOR
CARICOM COUNTRIES AT CURRENT MARKET PRICES, 1996-1997

CARICOM Countries	Share %	
	1996	1997
Antigua and Barbuda	88.2	87.9
The Bahamas	n.a.	n.a.
Barbados	82.6	83.1
Belize	62.8	64.4
Dominica	70.6	71.2
Grenada	81.7	82.5
Guyana	27.3	30.2
Jamaica	77.1	77.3
Montserrat	86.2	84.0
St. Kitts and Nevis	79.8	80.1
St. Lucia	85.3	87.2
St. Vincent	74.7	75.9
Suriname	n.a.	n.a.
Trinidad & Tobago	56.4	55.8
CARICOM Countries (*)	72.7	73.3

Notes: (*) 12 CARICOM Countries.

Source: Statistics section, CARICOM Secretariat, National Accounts Database.

As regards concentration, 15 countries account for almost three quarters of the exports. Developing country exports are concentrated in travel and transportation services and are related to the movement of persons and goods, not to knowledge and information. These latter are dynamic services in which human capital producer services benefit from technological innovation. Developed countries account for 72% of world service exports. The contribution of developing countries has not changed: their share stood at 16% in 1990 and 16.29% in 1999. In most developed countries, the share of services in exports is above average. Most developing countries, unlike those in the Caribbean, have deficits in services trade.

Caribbean exports mainly consist of travel, transport, communications and financial services, which dominate world services exports. The largest exporters are The Bahamas (US\$1,517 million), Barbados (US\$995 million, some US\$712 million of it in tourism) and Jamaica (US\$1,712 million, of which US\$1,197 million is in tourism). Caribbean imports consist largely of transport, travel, other business services and construction. Trinidad and Tobago has the lowest level of services imports at US\$235 million, in contrast to Jamaica's US\$1,232 million in transport, travel and other business services. The Bahamas and Barbados respectively import US\$939 and US\$409 million in services.¹⁰ With the exception of Guyana, Suriname, and Haiti, all CARICOM countries are net exporters of services. Some, like St. Lucia, Barbados, The Bahamas, and Antigua and Barbuda, are doing well. Jamaica's performance is modest given that services exports have to cover the deficit in the merchandise account. Export growth in the region averages between 3% and 5% a year, in contrast to 10% to 15% in Thailand and Malaysia (Tables 7, 8 and 9).

¹⁰ Data on intra-regional trade flows in services are non-existent at present.

TABLE 7
CARICOM EXPORTS OF COMMERCIAL SERVICES BY SELECTED ECONOMY, 1980-2000
(US\$ Million and Percentage)

	Exports Value							Share				
	1980	1985	1990	1995	1998	1999	2000	1990	1995	1998	1999	2000
World	364,400	381,700	782,200	1,187,600	1,331,900	1,351,100	1,416,400	100.00	100.00	100.00	100.00	100.00
Antigua and Barbuda	45	150	308	348	---	---	---	0.04	0.03	---	---	---
Bahamas	731	1,104	1,465	1,523	1,517	1,789	---	0.19	0.13	0.11	0.13	---
Barbados	332	420	627	844	995	993	---	0.08	0.07	0.07	0.07	---
Belize	---	22	83	117	122	133	---	0.01	0.01	0.01	0.01	---
Dominica	6	10	33	54	72	---	---	0.00	0.00	0.01	---	---
Grenada	21	31	63	98	---	---	---	0.01	0.01	---	---	---
Guyana	18	47	---	130	---	---	---	---	0.01	---	---	---
Haiti	84	106	43	98	178	---	---	0.01	0.01	0.01	---	---
Jamaica	375	564	976	1,568	1,743	1,820	---	0.12	0.13	0.13	0.13	---
St. Kitts and Nevis	8	23	54	---	---	---	---	0.01	---	---	---	---
St. Lucia	41	70	149	265	---	---	---	0.02	0.02	---	---	---
St. Vincent and the Grenadines	18	19	41	72	---	---	---	0.01	0.01	---	---	---
Suriname	166	70	31	101	67	---	---	0.00	0.01	0.01	---	---
Trinidad and Tobago	383	246	322	331	574	---	---	0.04	0.03	0.04	---	---

Sources: Prepared by the Trade in Services Section of the Statistics Division, WTO. IMF, Balance-of-Payments Statistics; National Statistics and Secretariat estimates.

TABLE 8
CARICOM IMPORTS OF COMMERCIAL SERVICES BY SELECTED ECONOMY, 1980-2000
(US\$ Millions and Percentage)

	1980	1985	1990	1995	1998	1999	2000	Share				
								1990	1995	1998	1999	2000
World	396,600	396,300	812,400	1,187,600	1,316,400	1,338,800	1,401,900	100.00	100.00	100.00	100.00	100.00
Antigua and Barbuda	17	38	103	136	---	---	---	0.01	0.01	---	---	---
Bahamas	208	359	520	605	939	904	---	0.06	0.05	0.07	0.07	---
Barbados	121	144	237	347	409	429	---	0.03	0.03	0.03	0.03	---
Belize	---	26	54	88	94	97	---	0.01	0.01	0.01	0.01	---
Dominica	6	12	30	37	45	---	---	0.00	0.00	0.00	---	---
Grenada	11	21	30	37	---	---	---	0.00	0.00	---	---	---
Guyana	104	100	---	168	---	---	---	---	0.01	---	---	---
Haiti	129	175	71	236	370	---	---	0.01	0.02	0.03	---	---
Jamaica	356	390	667	1,073	1,258	1,271	---	0.08	0.09	0.10	0.09	---
St. Kitts and Nevis	6	10	34	---	---	---	---	0.00	---	---	---	---
St. Lucia	22	38	78	119	---	---	---	0.01	0.01	---	---	---
St. Vincent and the Grenadines	11	18	30	53	---	---	---	0.00	0.00	---	---	---
Suriname	337	124	150	146	174	---	---	0.02	0.01	0.01	---	---
Trinidad and Tobago	622	711	460	223	235	---	---	0.06	0.02	0.02	---	---

Sources: Prepared by the Trade in Services Section of the Statistics Division, WTO. IMF, Balance-of-Payments Statistics; National Statistics and Secretariat estimates.

TABLE 9
CARICOM BALANCE OF TRADE IN COMMERCIAL SERVICES
BY SELECTED ECONOMY, 1980-2000
(US\$ millions)

	1980	1985	1990	1995	1998	1999
Antigua and Barbuda	28	112	205	212		
Bahamas	523	745	945	918	578	885
Barbados	211	276	390	497	586	564
Belize		-4	29	29	28	36
Dominica	0	-2	3	17	27	
Grenada	10	10	33	61		
Guyana	-86	-53		-38		
Haiti	-45	-69	-28	-138	-192	
Jamaica	19	174	309	495	485	549
St. Kitts and Nevis	2	13	20			
St. Lucia	19	32	71	146		
St. Vincent and the Grenadines	7	1	11	19		
Suriname	-171	-54	-119	-45	-107	
Trinidad and Tobago	-239	-465	-138	108	339	

Sources: Prepared by the Trade in Services Section of the Statistics Division, WTO. IMF, Balance-of-Payments Statistics; National Statistics and Secretariat estimates.

Diversification in non-tourism exports is slow, and is not in line with faster world trends as described above. CARICOM countries are net importers of non-tourism services. In some cases there is a growing dependence on tourism. In Jamaica, for instance, tourism exports accounted for 30% of total exports of goods and services in 1980, as against 53% in 1994, despite the generally stagnant growth of tourism in the English-speaking Caribbean.

At the margin, export diversification is greater in Jamaica and Barbados. In Jamaica, non-tourism services are mainly in transport, communications and computer services. In Barbados they are in financial, insurance and other business services, as well as computer and information services and some transport. Product diversification in areas other than tourism is largely in financial services (Barbados and the OECS countries), information services (Barbados and Jamaica); and entertainment services (mainly Jamaica).

Caribbean exports are not characterized by skill intensity and technology, since they are based on the movement of persons and goods and not on the movement of knowledge and information. In information industries, CARICOM countries are struggling to move away from data entry and to move towards software development. Similarly, in financial services, CARICOM countries are still booking offshore financial centers that register transactions arranged and managed in other jurisdictions. The exception is Bahamian activity in investment banking. These offshore entities have few or no linkages in the region and do not engage in financial intermediation.

Dependence on consumption abroad is relatively high. Other modes of supply, such as foreign investment, cross-border and the movement of natural persons, are insufficiently used. The interdependence and combination of the four modes, and the identification of the lead mode, need to be exploited further as a means of penetrating foreign markets.

An issue for trade policy is the degree of liberalization of all the factors of production (land, labor, capital, technology) that is necessary for services growth. With foreign direct investment there are problems related to work permits, uncertainty, time periods, alien landholding acts involving high taxes and fees, complaints about licensing and accreditation problems, labor market inflexibility, and bureaucracy. Supply constraints in telecommunications, infrastructure (water, lighting, transport) and human capital also frustrate services development. Weak regulatory frameworks further contribute to supply problems.

Most studies point to competitive potential in financial services, information industries, entertainment and professional services. The presence of small firms without adequate clustering has been a restraining factor.

World trade barriers to mode 4 (movement of natural persons) are unlikely to be eliminated. CARICOM's potential in professional and entertainment services may not be realizable unless these can be delivered by e-commerce.

Investment

The growth of foreign direct investment (FDI) inflows worldwide has been phenomenal; they have tripled within the last ten years. Inflows exceeded US\$640 billion in 1998, growing by almost 39% over 1997 and contrasting with an annual average of US\$174 billion in the period 1987-1992. FDI grew faster in 1999 and 2000. Inflows reached US\$1.3 trillion in 2000 although the growth rate was slightly slower than in the previous two years (UNCTAD [2001]). By 1998, there were about 60,000 parent companies and half a million foreign affiliates throughout the world. In 2002 over 60,000 transnational corporations (TNCs) own more than 820,000 affiliates abroad; some 55 countries host more than 1,000 foreign affiliates with an FDI stock value of over US\$6 trillion.

The developed world continued to attract over three quarters of global FDI inflows in the past two years, and its share has risen in recent years. In 1999, the developing world's share fell by six percentage points to 21%. In 2000 this share declined further to 19%, the lowest since 1990 and well below the 1994 peak of 41%. Most parent companies are in developed countries and almost 50% of the foreign affiliates are in developing countries. In 1998 the number of affiliates in Guyana, Jamaica, and Trinidad and Tobago was estimated at 56, 156 and 70, respectively. The value of assets, output and sales (including exports), as well as the contribution of these foreign affiliates to global employment, also grew significantly in the 1990s (CARICOM [2000b]).

In 1998, the Western Hemisphere economies accounted for over 44% (\$282 billion) of global FDI inflows. Of this, over 70% (\$210 billion) was directed at Canada and the United States. The remaining \$72 billion went to Latin America and the Caribbean. Annual FDI inflows into Latin America and the Caribbean tripled in the second half of the 1990s but fell by 22% in 2000 to US\$86 billion.

In 1998, FDI inflows to the CARICOM countries amounted to US\$1.6 billion, a slight decline of 3% over 1997. This fall followed an increase of a little more than 100% between 1996 and 1997 after strong annual increases of about 50% in 1993 and 1994. The major recipients were The Bahamas, Jamaica and Trinidad and Tobago. From the available data it is estimated that FDI inflows to CARICOM countries in 1999 surpassed the 1998 level. Several major recipients have reported FDI flows in excess of those of 1998, although a 21% decline was reported for Trinidad and Tobago (CARICOM [2000b]) (Table 10). In 2000, FDI inflows to Trinidad and Tobago increased slightly and flows to Jamaica fell.¹¹

¹¹ UNCTAD [2001], Figure I.18. Latin America and the Caribbean: FDI inflows, leading 20 economies, 1999 and 2000.

TABLE 10
FDI INFLOWS TO THE CARIBBEAN COMMUNITY
(US\$ Millions)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998
The Bahamas	-17		7	27	23	107	88	210	147
Barbados	11	7	14	9	13	12	13	15	16
Belize	17	15	18	9	15	21	17	12	18
Guyana	8	13	146	70	107	74	92	52	47
Jamaica	138	133	142	78	130	147	184	203	369
OECS (*)	182	166	136	127	161	186	113	182	232
Suriname (**)							7	12	10
Trinidad and Tobago	109	169	178	379	516	299	320	1,000	732
CARICOM	448	503	495	699	965	846	834	1,686	1,571

Sources: CARICOM [2000b]. Data from UNCTAD World Investment Reports 1996,1999 & 2000 National data.

Although the figures do not appear to be very large in absolute terms, the Caribbean's performance in attracting foreign investment is well above average for such small economies.

Historically, FDI inflows in CARICOM countries have been directed at the primary and tertiary sectors, specifically mining (bauxite and precious metals), energy (petroleum), agriculture, forestry and tourism services. Over time, however, some flows have gone to labor-intensive areas in garment manufacturing. The sectoral distribution of FDI inflows has also begun to shift towards a concentration in the services sector, mainly financial services.

In general, FDI inflows are a significant source of development finance in the region. As a result of the growth of private capital inflows in the 1990s, FDI inflows as a percentage of GDP increased significantly compared to the 1980s. This highlights the Community's dependence on external resources to finance and sustain the region's growth and development.

All CARICOM countries have sought to attract FDI, particularly investment that will create jobs, generate foreign exchange and help develop the technological and productive base of the economy. The actual volume of investment flows to the region (except for a few member states) is below that required for desirable levels of employment and foreign exchange.

There has been some intra-CARICOM investment but never at a volume or rate that could be considered compatible with the integration process. It has also been fragmented and sporadic. Today, and especially over the last decade, there are a number of cross-border operations, particularly in the manufacturing/distribution and financial services sectors. The upsurge in intra-CARICOM investment originates mainly in two of the more developed countries (MDCs): Barbados and Trinidad and Tobago.

Information on the value of CARICOM cross-border investment is not readily available. According to CARICOM data,¹² of 39 companies studied effecting cross-border operations, 33 had their head office in the MDCs. The main source countries were Trinidad and Tobago (16 locations in other CARICOM countries),

¹² This information was acquired by means of a questionnaire and through reference to the companies' annual reports (CARICOM [2000b]).

Barbados (10), Jamaica (6), Guyana (4), Antigua and Barbuda (1), St. Vincent and the Grenadines (1), and St. Lucia (1). Most outflows from CARICOM went to the OECS countries, although there is also a fair amount of CARICOM investment in both MDCs and non-CARICOM countries. Cross-border activities tend to be in the financial, light manufacturing and distribution sectors (Table 11).

TABLE 11
FOREIGN DIRECT INVESTMENT INTO THE OECS SUBREGION BY ORIGIN
(US\$ Millions)

Country / Origin	United Kingdom			United States			Caribbean			Other		
	1995	1997	1998	1995	1997	1998	1995	1997	1998	1995	1997	1998
Antigua and Barbuda	41.2	5.9					0.4	88.2	3.3	58.3	5.9	96.7
Dominica							91.6	99.8	57	8.4	0.2	43
Grenada			---					88.6	68.5	---	11.4	31.5
Montserrat			---	---	---		---	---		100.0		
St. Kitts and Nevis					49	88.3	82.2	51	11.7	17.8	---	---
Saint Lucia	---					30.5	---		65.4	---	100.0	4.1
St. Vincent and the Grenadines											100.0	100.0

Note: --- Means Nil.

Source: Data Supplied by Eastern Caribbean Central Bank. CARICOM [2000b].

Trends in intra-CARICOM investment, as well as the development of CARICOM TNCs, now demand more vigorous support from policy-makers. Such investment would be facilitated if the goals of the CMSE were to be met.

Conclusion

The above review of trends in world and regional trade, as well as in investment integration, sought to determine the nature and pace at which CARICOM is integrating into the world economy. Although at the margin there were some positive signs of trade integration with Latin America and within the Caribbean, as well as with the Hemisphere, CARICOM countries' pace of trade integration is generally slow. The sluggish growth of extra-regional exports of goods and services prompts concern about trade openness and is promoting an unbalanced process of trade integration in which imports dominate exports.

The region's pace of investment integration is also a matter of concern. The overall volume of FDI is far below development needs. Inflows are highly skewed towards certain countries, sporadic and dependent on natural resources. Many countries need to move faster in the area of investment integration.

In terms of development finance, FDI inflows as a percentage of gross domestic capital formation have increased significantly from the average of the 1987-1992 period (CARICOM [2000b]). This suggests less dependence on inflows of external assistance. Official development finance declined from an average of US\$829 million in the period 1990-1995 to US\$560 million in 1998 (World Bank [2000]), reflecting a long-term decline and the offsetting role of greater private capital flows, particularly FDI inflows.

CHAPTER III. MACROECONOMIC TRENDS AND CONVERGENCE IN CARICOM

Article 39 of the Treaty of Chaguaramas made provision for the coordination of monetary and exchange rate policies in the Community, the aim being the long-term convergence of economic policies and performance. This goal was reinforced in the CMSE process, as targets were set in the areas of fiscal discipline, balance of payments, currency stability, and inflation. This chapter seeks to review and assess CARICOM's progress on macroeconomic convergence, against the background of the vulnerability of small states in the international economy.

Size, Growth and Volatility

CARICOM countries are small states with very open economies that are subject to the vagaries of the international economy. They experience high income and consumption volatility, have limited administrative and technical capacity to manage risks and diversification effectively, and are located in an area that is susceptible to natural disasters.

As a result of these circumstances the countries of the Community suffer a high level of economic vulnerability, entailing a risk that financial wellbeing can deteriorate as a result of an adverse shock and thereafter decline to a threshold that triggers widespread collapse. In some extreme cases the risk of such collapse is made possible by severe volatility and the low sustainability of growth, accompanied by shocks of sufficient scope to cause a significant drop in income. Even small shocks can destabilize an economy when several factors of vulnerability are present.¹³

Volatility stems largely from the impact of economic exposure, remoteness, internal instability and natural disasters, as well as from resilience. A main source of volatility consists of the terms of trade, which vary more widely for small countries because of the large share of commerce in their economies and the specialization of their exports. The latter two factors are inseparable from smallness. Further volatility of national (and hence household) incomes can be ascribed to hurricanes and other natural disasters.¹⁴ The region's economies have been subjected to a series of major external events and shocks in the last three decades, suffering wide swings in the terms of trade as a result of rapid changes in the prices of petroleum, intermediate and manufactured goods, and agricultural exports.

CARICOM countries do enjoy some positive effects of openness, including greater import competition, knowledge transfer, larger FDI inflows, and broader market access. Efforts to offset the negative effects of the output volatility that is attendant on openness, however, entail a relatively greater policy effort to maintain the momentum of growth. On balance, greater openness can be positive if it provides greater market access on relatively secure terms. Nevertheless, the international context has not been particularly favorable. Trade preferences have been reduced substantially and capital flows have tended to concentrate in large markets. These circumstances have put pressure on CARICOM to adapt by seeking greater economic strength in the regional pooling of resources and the sharing of sovereignty.

¹³ The Commonwealth Vulnerability Index - CVI (Atkins *et al* [2000]) defines economic vulnerability in terms of the incidence and intensity of risk and threat, the ability to withstand risks and threats, and the capacity to recover from external economic and environmental shocks.

¹⁴ There has been a fair degree of consensus that small states have greater openness and income volatility. Similar to the finding of greater output volatility in small states by Ramey and Ramey [1996], Easterly and Kraay [1999] found that real per capita GDP growth rates tend to be more volatile in small states.

Macroeconomic Performance

In 1999 real GDP growth ranged from negative 4.8% in Barbados to 8.2% in Grenada (Table 12). Over the period 1990-1999, Jamaica recorded low and stagnant growth rates from 1991 and negative rates from 1996 onwards. Guyana enjoyed high positive growth between 1991 and 1996, but its performance was negative in 1997 and 1999. Trinidad and Tobago experienced moderate and positive growth only from 1994 onwards. Barbados, which has a reasonably high level of trade openness, began to enjoy moderate growth only in 1993. Haiti experienced some positive growth as of 1995, while Suriname had clear positive growth only between 1995 and 1998.

TABLE 12
CARICOM GROWTH RATES, 1990-1999
(Constant terms -1990 as base year)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Antigua & Barbuda								5.6	3.9	3.2
Bahamas	1.10	-2.70	-2.00	1.90	0.30	-0.30		3.3	3	5.8
Barbados	-2.91	-4.98	0.99	4.54	0.5	2.5	2.9	4.8	2.9	-4.81
Belize	10.63	3.57	9.30	3.30	1.80	3.30	1.50	3.2	1.5	6.2
Dominica	5.25	0.61	2.05	1.68	1.43	1.68	2.77	2	3.5	0
Grenada	5.20	2.30	-0.30	-2.64	2.75	2.50	4.27	3.6	4.8	8.2
Guyana	6	7.82	8.17	8.83	5.5	7.3	6.2	-1.5	8.2	-3.04
Haiti	4.24	-13.19	-2.43	-8.29	4.43	2.7	1.4	3.1	2.2	-0.1
Jamaica	0.74	1.54	1.43	1.1	0.46	-1.75	-2.36	-0.7	0.4	5.47
St. Kitts & Nevis	2.07	1.97	3.98	7.04	4.79	3.82	6.33	7.1	1.6	2
St. Lucia	23.53	2.69	7.02	2.57	1.42	3.29	1.15	2.1	2.9	3.1
St. Vincent & Grenadines	5.05	0.62	7.52	0.16	-2.41	7.55	0.97	3.7	5.2	4
Suriname	2.92	4.35	-3	-2.3	4	10.8	10.1	3.9	-1	0.05
Trinidad and Tobago	1.51	14.36	-11.73	-1.41	3.57	3.81	3.52	3.24	4.1	4.2

Source: World Bank. Global Development Finance & World Development Indicators.

The OECS countries continued to experience positive growth over the 1990s, albeit at lower rates of about 3%. This stemmed from a number of external shocks, especially more frequent natural disasters, less preferential access for commodity exports, and reduced concessional aid flows. Growth rates in Barbados were substantially lower than in the OECS countries, but on average they were positive in both the 1980s and 1990s. Growth was particularly strong in service-based countries such as The Bahamas, Barbados, Belize, and St. Vincent and the Grenadines, where tourism and related construction were significant sources of economic activity. Despite progress on income growth and the provision of social services, poverty remains a problem in all the countries of the region.

Real exchange rate movements over the 1990s have also varied substantially among the countries. The Jamaican dollar, for example, appreciated by 65% between 1990 and the first quarter of 1998, while the Trinidad and Tobago dollar depreciated by 13%. Averaged across the countries, the real exchange rate appreciated by about 9%. Compared to the Mexican peso and to the average rate for a selection of comparable

Latin American countries,¹⁵ movements in the average Caribbean real exchange rate were detrimental to the commercial interests of the CARICOM countries.

In line with the region's main trading partners, inflation has been generally low in most countries during the past two years but fiscal performance has deteriorated markedly in some, indicating a need for swift corrective action if negative effects on growth prospects are to be avoided. Although fiscal deficits have been reduced drastically, public finances are still very vulnerable to destabilization. Debt financing has largely helped to obviate such destabilization. In addition, external balance remains precarious since it is being achieved largely by means of a sizeable reduction in import capacity rather than a significant expansion in exports.

Macroeconomic Policy Convergence

The framework to facilitate macroeconomic policy coordination in the interests of the Common Market originates in the Treaty of Chaguaramas. Mechanisms have since been added to monitor national economic policies so as to ensure a more coordinated policy framework, as have additional functions and responsibilities. The goal was to replace the incoherent and haphazard approach to convergence with a more systematic strategy.¹⁶

Convergence is a process through which the economic performance and policies of all countries in the group will approximate each other over the long term, due allowance being made for short-run fluctuations. The goals of convergent macroeconomic policies essentially concern fiscal discipline, a favorable balance of payments, stable currencies and moderate inflation. They are pursued in an effort to secure high levels of employment. Macroeconomic policies consist of interest rates, exchange rates, tax structures and national budgetary deficits, as well as the abolition of exchange controls, the institution of free currency convertibility and the establishment of an integrated capital market.

The Committee of Central Bank Governors was designated to monitor the level of economic convergence being achieved by Member States in accord with the eligibility criteria, and to advise the Conference on the degree of convergence. In line with this decision, arrangements were made to conduct biannual performance assessments according to the eligibility standards and to supplementary convergence indicators (growth rate, inflation rate, fiscal balance, interest rate, wages, unemployment rate, tourism performance). A country's performance relative to the eligibility criteria would be the main determinant of entry to monetary union. The eligibility criteria were to be reviewed annually so as to address the areas of greatest divergence in member states' economic performance, and were further defined as follows:

- Reserve cover rule: maintenance of three months of import cover or 80% of demand liabilities, whichever is greater, for a period of at least a year;
- Exchange rate rule: maintenance of a stable exchange rate within a band of 1.5% for a period of 36 months;
- A ratio of debt service to exports of goods and non-factor services not exceeding 15%.

The performances have been better in terms of import cover and debt service rules than in terms of the exchange rate rule. The average import cover for the Community exceeded the target of three months of

¹⁵ See Finger, Ng and Soloaga [1998]. The comparator sample includes Bolivia, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Mexico and Nicaragua.

¹⁶ Generally, the Council for Finance and Planning (COFAP) has the responsibility for adopting appropriate measures to promote a sound macroeconomic environment in member states.

imports during the period 1995-1999, although a few member states had difficulty in maintaining the required level of international reserves. Similarly, the average debt-service ratio has generally been within the target of 15% of exports, although at least two countries consistently failed to meet this criterion.¹⁷

A review of the variability (Table 13) in the performance of some of the convergence variables being monitored shows that the least dispersion (as measured by the average for 1991-1999 in the last column in Table 13) lies in unemployment rates, followed by interest rates. Variability is highest among inflation rates, followed by the fiscal balance ratio, growth rates and the debt to GDP ratio. Unemployment rates and interest rates appear to be exhibiting a greater degree of convergence than the other variables. The variability among inflation rates and the fiscal balance ratio seems to be increasing.

TABLE 13
CARICOM: DISPERSION OF ECONOMIC PERFORMANCE, 1991-1999
(as represented by the co-efficient ¹ of variation for selected variables)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	1991-1999 average
Supplementary Variables										
Growth Rates	2.2	1.6	4.2	1	1.6	0.9	0.8	1	0.7	1.56
Inflation Rates	1.2	1.4	2	2.3	2.3	1.5	0.7	1.3	2.3	1.67
Unemployment Rate	0.2	0.2	0.3	0.3	0.2	0.1	0.2	0.2	0.2	0.21
Fiscal Balance Ratio (*)	-3.3	-1.3	-2	-2.1	5.2	-3.7	-0.8	-1.2	-0.8	-1.11
Interest Rate (**)	0.56	0.66	0.72	0.6	0.65	0.58	0.5	0.45	0.31	0.56
Eligibility Standards										
Import Cover Ratio	0.8	0.6	0.6	0.5	0.6	0.4	0.4	0.4	0.4	0.52
Debt Service Ratio	0.7	0.7	0.8	0.7	0.6	0.5	0.6	0.7	0.5	0.64
Debt-GDP Ratio (***)	1.2	1.6	1.4	1.3	1.3	1	1	1.1	0.9	1.20

Notes: ¹ The co-efficient of variation has been used as a measure of cross-country variation of economic performance in CARICOM member states with regard to a representative sample of variables including two of the eligibility criteria (import cover ratio and the debt-service ratio). Coefficients that are tending towards zero are representative of low degrees of dispersion while those tending towards unity or higher are representative of high levels of dispersion.

(*) Overall fiscal balance as a percentage of GDP.

(**) Commercial banks' weighted average loan rates.

(***) This is simply a variation of one of the debt service eligibility standards.

Source: Caribbean Centre for Monetary Studies.

As regards exchange rate stability, currently Jamaica, Suriname, Guyana and Trinidad and Tobago have floating exchange rate systems; the other CARICOM countries use fixed exchange rates. The exchange rule that was set involved the maintenance of a stable exchange rate within a band of 1.5% for a period of 36 months. All the currencies are now outside the upper limit of the band: the Guyana dollar since 1998; the Surinamese guilder since 1999; the Jamaican dollar since 1997; and the Trinidad and Tobago dollar since 1995. The currency of Trinidad and Tobago is the only one to have exhibited some stability since 1995. The above variation in economic performances in CARICOM would suggest that convergence at the pace necessary to drive the single market is not taking place.¹⁸ Much more effective coordination would be required.

¹⁷ Biannual Reports on Convergence prepared by the Caribbean Centre for Monetary Studies.

¹⁸ As discussed later in Chapter V, CARICOM countries have also faced difficulty in meeting the convergence criteria set for the attainment of monetary union.

Incentives and Disincentives for Convergence

The convergence of macroeconomic policies aims essentially to secure greater fiscal balance, exchange rate stability, low inflation and a positive external balance. Hence the real benefit of Article 39 of the Treaty of Chaguaramas is greater and uniform macroeconomic stability throughout the single market, which would make it more attractive for investment and consequently produce higher growth rates and lower unemployment.

Despite the call in the 1989 Grand Anse Declaration for the immediate activation of Article 39, efforts to coordinate monetary and exchange rate policies in the Community have not borne fruit. It was expected that commitments to convergence would increase as a result of efforts to cope with developments in the global economy and the search for macroeconomic stability and improved allocative efficiency -as proposed by multilateral institutions.

Although the benefits of coordination are generally perceived, some countries fail to see much to gain from further coordination. These are generally the countries that have followed prudent economic management over the years and are experiencing reasonable growth rates. In addition, the incentive to remove distortions affecting commodity and factor movements within the CSME is not sufficient to drive this process because of the small size of the geographically-dispersed market and low dependence on intra-regional trade.

In addition, few benefits are perceived from monetary union, which is really the process in integration schemes that drives policy convergence. The slow pace of monetary integration is not creating a closer interaction of national policies, which would stimulate a demand for coordination. It is often suggested that autonomous policy-making in the Caribbean Community and the principle of market-based convergence would be insufficient to foster regional economic integration and more organized efforts to coordinate national policies in the interests of regional objectives (Jessen and Rodríguez [1999]).

Coordination must grow out of consensus and a perception of benefit by all members; these circumstances do not currently exist. To some extent this is related to the experience of coordinating monetary, payments and exchange rate policies. The failure of the CARICOM Multilateral Clearing Facility, which was created to replace the bilateral payments accounts among central banks in the Community, raised doubts about the gains from stronger monetary and financial coordination.¹⁹

While it is generally accepted that the intended long-term benefits of trade liberalization and factor mobility are only realizable if there is significant convergence of economic policies and performances in the Community, the process is seen as fraught with difficulties and just as important as the goals themselves.

It is acknowledged that political and economic losses are associated with coordination. In the presence of adverse shocks and the absence of stabilization and structural adjustment assistance, adjustment is problematical. Although the same macroeconomic conditions may persist, the same real exchange rate based on purchasing power parity might not be needed. The economic structures may be based on terms of trade (export prices) that require an exchange rate that differs from that of a services economy based on a high demand for upscale tourism and information services. Unifying an exchange rate in these conditions can lead to unemployment and the collapse of industries. CARICOM has not sufficiently addressed this issue.

There has never been any provision of financial and technical assistance for countries negatively affected by unexpected disruptions and shocks, especially aid for the disadvantaged to adjust structurally and to

¹⁹ In 1983 the CARICOM Multilateral Clearing Facility (CMCF) was suspended because one member state was excessively indebted to it.

address external imbalances. Moreover, there is no concept of balance of payments support through the pooling of foreign exchange reserves.

As open economies, CARICOM countries have emphasized external trade balance, which in the long term is only viable after significant macroeconomic and structural reforms in many countries. Vulnerability arising from dependence on one or two exports (as in the case of bananas) has made countries skeptical about committing themselves to one set of exchange rate and monetary policies.

In addition, the optimality of a single currency area in such a small integration scheme, and especially in an era of dollarization and hemispheric integration, remains in doubt. Hence the goal of monetary union, which should lead the process of convergence as in the EU, does not receive the same priority. The search for a common currency has been deferred; exchange rate stability and convertibility are seen now as more realistic goals. Even the latter targets are not being pursued with the necessary vigor, as evidenced by the fact that commercial banks do not accept currencies from some other countries because of the uncertainty aroused by a flexible exchange rate regime in some members. This is despite the CARICOM agreement that commercial banks should accept currencies from other countries. In view of the arrangements for implementing the 1995 decision to restore the convertibility of regional currencies, central banks are not minded to provide commercial banks with a level of comfort necessary to encourage them to accept flexible exchange rate currencies in the Community without applying high spreads to attenuate perceived risk. If they were to be fully convertible, their exchange rates would have a fixed relationship to each other.

Member states have systematically avoided joint management of their monetary and exchange rate policies, displaying a reluctance to accept mechanisms for monitoring and consultation on members' exchange rate and, particularly, fiscal policies. These mechanisms were never established, since "policy advice in this area is considered to be within the national domain and not subject to regional purview" (CARICOM [2000]).

In the Caribbean Community, the optimism about convergence that sprang from the stabilization and structural adjustment programs of the 1980s has been misplaced. New forms of macroeconomic linkages that were expected to stem from deeper coordination are still to emerge. While there is some broad agreement as to what constitutes a solid macroeconomic policy framework, individual policies tend to vary. Member states' confidence about the fair distribution of benefits and losses is still lacking, as are joint decision-making systems based on converging views of the strategies, policies and measures that should be adopted in particular circumstances.

Despite repeated calls by CARICOM at the level of ministers and the Secretariat to take convergence criteria into account in national macroeconomic plans, necessary action has not been forthcoming. The inability to deal adequately with the real and perceived problems of coordination is the most significant hindrance to macroeconomic policy coordination. It raises the question of why coordination should be pursued when so few states are interested and fail to perceive it as helpful. Inadequate appreciation of the vulnerability of the CARICOM economies to adverse external shocks and the lack of economic support within CARICOM, especially for balance of payments purposes, suggest that the benefits of the process are overstated. Additionally, the gains of monetary union remain elusive in the context of hemispheric integration and dollarization. Coordination should therefore be tackled with more modest objectives and within the framework of further deepening in CARICOM.

CHAPTER IV. CARICOM SINGLE MARKET AND ECONOMY

Nature and Background of the CSME

In 1989, CARICOM Heads of Government declared their intention to move towards the CSME. The main aim is to integrate the CARICOM economies in a single market in which people, goods, services and money can move freely, and to establish a single economy governed by the same coordinated and harmonized economic policies. The goal is motivated by the conviction that a "borderless" CARICOM market will lead to greater efficiency and competitiveness, which will bring about job-creation, lower prices, more investment, a stronger currency, and more growth and diversity in the production of goods and services. The prime expectation is that the competitive strength of the region's economies will grow so as to allow them to tackle the challenges of globalization, especially the loss of trade preferences from developed countries on which they currently depend heavily and which are being rapidly eroded.

The CSME program entails the complete removal of all remaining trade barriers on the movement of goods and services; the free movement of skilled persons, including artists, media workers and other categories of professionals; the elimination of restrictions on the free movement of capital; implementation of an appropriate common external tariff and a common external trade policy; and the coordination and harmonization of some aspects of economic policy. Specific actions in each of these areas seek to advance the integration program. In the area of the free movement of skilled persons, for instance, the sub-program consists of the elimination of work permits, mechanisms for equivalency and accreditation, transferability of social security benefits, elimination of the need for passports, and so on.

Nine protocols were drafted to revise the Treaty of Chaguaramas and so facilitate adoption of the CSME. Treaty revision sought to provide the legislative and policy framework for non-discriminatory access to a single, enlarged economic space for CARICOM nationals by removing all cross-border restrictions on the region's resources and markets. It also added more support measures for competitive production and a common external trade policy. In brief, the nine protocols are as follows.

- Protocol I on the Community's organs, institutions, and procedures was designed to replace Articles 6-19 of the Treaty of Chaguaramas. It is discussed in Chapter VII.
- Protocol II deals with establishment, provision of services, and movement of capital. It replaced Chapter 4 of the Common Market Annex and Articles 28 and 43 of the Treaty of Chaguaramas. It is discussed later in this chapter.
- Protocol III addresses the Community's industrial policy and supersedes Articles 41, 42, 44, 45 and 46 of the treaty. It focuses on resource allocation and international competitiveness. The articles aim to provide policy measures backed by a sound macroeconomic framework, investment incentives, pertinent harmonized legislation and relevant supportive administrative practices. Its contribution is assessed in Chapter V.
- Protocol IV on trade liberalization seeks to replace Chapters III and IV of the Common Market Annex. It essentially brings together existing amendments to the treaty and decisions taken by the Common Market Council. Some of the main areas addressed are entitlement to area origin treatment, the establishment of a regime for the free movement of goods, a common trade policy towards third states, dumping and subsidies, cooperation in customs administration, and safeguard provisions. Protocol IV is examined in this chapter.

- Protocol V addresses the Community's agricultural policy. Intended to replace Articles 48 and 49 of the treaty, it deals with issues designed to affect the transformation of agricultural production in the Community. This chapter examines Protocol V.
- Protocol VI on Community transport policy is discussed later in this chapter.
- Protocol VII deals with disadvantaged countries, regions and sectors; it is to replace Chapter 7 of the treaty. Its two major areas of focus are support to member states that are structurally disadvantaged, as provided for in the treaty's Special Regime for the LDCs; and special consideration for regions, sectors or enterprises that are disadvantaged by the establishment of the Single Market. It is discussed below.
- Protocol VIII concerns rules of competition and is to replace Articles 11 and 12 of the Common Market Annex. It is designed to ensure that enterprises do not indulge in restrictive business practices or similar activities. This chapter later discusses Protocol VIII.
- Protocol IX addresses the intractable issues of disputes settlement and sanctions.

Protocol II: Rights of Establishment, Movement of Capital, and Provision of Services²⁰

Protocol II entered into provisional application in July 1998. It provides for the right of establishment, the right to provide services, and the right to move capital within the Community to CARICOM nationals. These are general obligations to which member states subscribe. They may not introduce any new restrictions affecting these three basic rights. According to Protocol II, the right of establishment includes the right to engage in any non-wage earning activities -that is, activities undertaken by self-employed persons and those of a commercial, industrial, professional or craft-related nature; and the right to create and manage economic enterprises.

Protocol II expresses the following liberalizing principles: (i) market access, (ii) national treatment, and (iii) recognition of diplomas, certificates and qualifications. The acceptance by a member state of diplomas, certificates and other evidence of qualification issued by another member is necessary to give full effect to the free movement of people. The free movement of university graduates was agreed in 1995, thereby eliminating the need for work permits; the categories of services providers were extended further in 1996 with the inclusion of artists, media workers, musicians and sports persons.

A program was established for the removal of restrictions within one year, but this timetable had to be modified because the process of identifying restrictions under the Protocol, and of verifying and notifying them took much more time. Liberalization of trade in services within CARICOM will be completed when restrictions incompatible with the rights envisaged under the Protocol are eliminated. On the basis of a CARICOM inventory of restrictions in which countries have notified what they can remove and when, 350 restrictions were identified.

Most restrictions affect the right of establishment, followed by the movement of natural persons, cross-border trade and consumer movement to supplier, in that order. Some 358 subcategories or activities in services to which all the restrictions are applied were identified, as were 14 horizontal restrictions. Categories of restrictions and the timeframes for their elimination have now been established. The first category (short-term) consists of non-essential restrictions that should be removed by December 31, 2003, some 41% of which can be dealt with in the short run. The second category (medium-term) consists of 45% of the

²⁰ Protocol II is applicable to all member states except The Bahamas.

restrictions that should be removed by December 31, 2004. The last category (long-term) contains the more essential restrictions that are scheduled to be removed by December 31, 2005. Some 9% can be removed in long run. The remaining 5% are considered necessary and do not need to be removed.

Some countries have agreed to move faster than this timetable, and special provisions have been made for the LDCs. In line with the decision on freer movement of skills, by 2003 all restrictions on work permits will be removed (mindful of the rights of LDCs). By 2005 all provisions affecting rights of establishment, provision of services and movement of capital should be removed.

The projected liberalization schedule raises several issues. Despite the extensive and time-consuming work, there remains the challenge of ensuring that the restrictions identified are comprehensive and accurate. For instance, it is known that the inventory does not take account of certain restrictions with the rest of the world, such as in bilateral investment agreements with the United States. Another issue is that the special provisions for LDCs, Article 38 (c), will reduce the pace of liberalization internally, and especially with third countries. Against the background of the FTAA and the changes since 1973, the validity of keeping these special provisions for LDCs is questionable since retention might encourage protectionism.

Article 37 (c) offers safeguards not longer than 18 months but there is no time limit on special safeguard action under Article 38 (a). Some observers see this as a loophole, and it is not known how it will be implemented. It creates a contradiction if it can be applied only to a CARICOM country and not to a non-CARICOM country. If CARICOM is not successful in securing this emergency safeguard in the General Agreement on Trade in Services (GATS) and the FTAA, this contradiction will have to be resolved by removing the provision. Article 38 (b) also provides for a waiver for five years.

There is also a need to ensure that the program qualifies for most favored nation (MFN) exemptions under Article V of the GATS. As yet there is no common protective regime because restrictions vary and WTO commitments have been on an individual basis. A common defensible platform is needed to enable CARICOM to negotiate effectively as a regional grouping. The statistical basis on which the program is based is extremely weak. Indeed, it is virtually non-existent.

Protocol II simply began a liberalization process in services and the free movement of capital and labor. On that basis, a complete free trade regime in services is being constructed. Implementation presents significant challenges. Member states need to make the necessary arrangements to ensure compliance with the obligations of Protocol II and the relevant provisions of other Protocols. Several policy initiatives, constitutional and legal action, as well as administrative measures, are required to ensure full application and non-discrimination in the fields of the right of establishment, provision of services and movement of capital; acceptance of diplomas, certificates and other evidence of qualifications; and policies to remove restrictions.

Protocol IV: Trade Policy ²¹

Free Movement of Goods

The regime provides for all goods of common market origin, except in a limited number of circumstances, to be free of customs duties, tariff quotas and charges having equivalent effect to customs and fiscal duties. They should also be free of any quantitative restrictions (QRs) and measures that have an equivalent effect to QRs, except where domestic production is similarly treated. Member states are committed to maintaining

²¹ The Protocol came into effect on February 14, 2000. The policy for trade in goods has also been informed by the relevant provisions of Protocols VII and VIII.

liberalized trade in goods among the participating countries; providing a regime, to be effected through domestic law, for the free movement of goods; refraining from policies and practices that are inconsistent with free trade; complying with the rule that no new restrictions are to be imposed; completing the removal of unauthorized restrictions; operating the safeguard provisions in accordance with Protocols IV and VII; and observing the rules and disciplines of Protocols VIII and IX that may affect trade in goods.

Unrestricted access to each other's market for goods of common market origin is the basic principle. Article 15 of the Common Market Annex prohibits member states' application of import duties, or of any charges with an effect equivalent to an import duty, on goods of common market origin. Article 21 on quantitative import restrictions prohibits member states from applying QRs to goods of common market origin. It also forbids the imposition of import duties; fiscal charges in excess of those applied to similar domestic goods; export duties; the provision of direct or indirect export subsidies; discrimination in public undertakings; and the granting of export drawbacks on products traded within CARICOM.

The treaty describes special circumstances in which the requirement of unrestricted access to the market of a member state may not apply. There are some exceptions for special circumstances, mainly related to health and security, safeguard, revenue and facilitating development in the LDCs. These special circumstances are embodied in different articles, namely Article 13 (exclusion from the annex) and Schedule I (Products excluded from the annex to the treaty in pursuance of contractual obligations of member states); paragraph 5 of Schedule III (reserve list applying to the less developed countries); Article 19 (dumped and subsidized imports); Article 23 (general exceptions); Article 24 (security exceptions); Article 28 (import restrictions arising from balance of payments difficulties); Article 29 (difficulties in particular industries); Article 56 (promotion of industrial development in the less developed countries);²² and Schedule IX (marketing of oils and fats products).²³

Since the conclusion of the treaty, there have been significant efforts to eliminate, wherever possible, the exceptions.

- (a) The items under Schedule I have been greatly reduced. This schedule now contains only nine products.
- (b) The list of products under paragraph 5 of Schedule III has also been reduced. The remaining facility relates to the suspension of common market tariff treatment by some of the LDCs on rum, cigarettes and motor vehicles for a period of three years from 1998. Three LDCs (Belize, Dominica and Grenada) continue to apply import duty on these items when imported from the MDCs of the Common Market.
- (c) The operation of the protocol in Schedule IX has been simplified and the private sector fully involved to ensure that the element of protection is only to ensure the facilitation of trade from the LDCs. Nine product groups currently benefit from Article 56 treatment: curry powder, pasta products, candles, industrial gases, wheat flour, aerated beverages, beer, solar water heaters, and furniture of wood and upholstered fabric.

It was agreed that all remaining non-tariff barriers to intra-regional trade on goods that are not in accordance with the treaty will be eliminated by December 31, 1996.²⁴ In pursuance of this decision, member states have largely enacted or amended national laws and regulations to: (a) remove non-tariff barriers to intra-regional trade; and (b) eliminate discriminatory elements of internal taxes and regulations.

²² Article 56 provides for the promotion of industrial development in the LDCs of the Common Market through the application of licensing or duty on imports of specified products from the MDCs.

²³ Schedule IX permits the application of import licences on oils and fats products, including soaps, to ensure a market for those products from the LDCs.

²⁴ Conference of Heads of Government at its Seventeenth Meeting in July 1996.

Restrictions remain, however, on goods that meet the CARICOM area origin criteria. These restrictions tend to take the form of revenue replacement taxes on items such as aluminum windows and doors, fruit juices and ice cream; import duty on cigarettes and motor vehicles; discriminatory taxes on bottled water; discriminatory environmental taxes on non-returnable beverage containers; and an import licensing regime on malt, stout, toilet paper and garbage bags. Import licenses were required by five member states and discriminatory internal taxes were applied by two (CARICOM [2000a]). A CARICOM review in January 1999 revealed that only three member states had unauthorized non-tariff barriers -that is, licensing requirements on four common market products (namely aerated beverages, fresh milk, malt stout and toilet paper).²⁵

A number of similar restrictions on intra-CARICOM trade in 1999, tabulated from several sources, are documented in column 2 of Table 14. It is not clear whether the licensing regimes and discriminatory taxation identified in the member states have been removed, replaced by non-discriminatory systems, or if goods of CARICOM origin are no longer subject to these strictures.²⁶ Under Article 56 of the CARICOM Treaty, OECS members apply quantitative restrictions on a number of products for the purposes of protecting industries. These products include beer and aerated beverages, curry, and pasta. These restrictions are expected to be transformed into tariffs by the end of 2005. Since 1998 Dominica has replaced most quantitative restrictions with import duties.

TABLE 14
CARICOM COUNTRIES: RESTRICTIONS ON IMPORTS FROM WITHIN CARICOM,
QRs AND LICENSING OF IMPORTS FROM OUTSIDE CARICOM

Country	Restrictions on imports from CARICOM partners	Number of product categories subject to quant. Import restrictions or restrictive licensing when imported from outside CARICOM (a)
Antigua and Barbuda	import licenses required for 12 product categories when imports are from non-OECS. ©	51 - includes most foods, consumer non-durables, household appliances.
Barbados	import licenses required for 12 product categories, mostly vegetable oils.	20 - foods, beverages, motor vehicles.
Belize	import licenses required for 10 product categories; food, beverages, furniture	33 - foods, beverages, clothing.
Dominica	duties on cigarettes, rum and motor vehicles from MDCs. (b)	32 - food, beverages, consumer non-durables, wooden furniture.
Grenada	duties on cigarettes, rum, motor vehicles import licenses required for 16 product categories -foods, beverages, appliances.	45 – food, consumer goods, vehicles.
Guyana	import licenses required for wheat flour, animal and veg. Fats and oils and products include waxes	meats, fruits, groundnuts.
Jamaica	duties on milk and cream (fresh, evaporated or condensed), steel re-bars.	25 - milk, cream and products; vehicles and parts; industrial chemicals.

²⁵ COTED is monitoring the removal of these licenses. Compliance is monitored by the COTED, which reports to the Conference on cases of persistent violation.

²⁶ The present system of reporting and identifying non-legal restrictions is inadequate, as noted even in CARICOM [2000b]. There is no indication that these restrictions have yet been removed (CARICOM [2000a]). A check on the CARICOM website (<http://www.caricom.org>) relating to the CSME indicates the presence of some of the restrictions mentioned below.

TABLE 14
CARICOM COUNTRIES: RESTRICTIONS ON IMPORTS FROM WITHIN CARICOM,
QRs AND LICENSING OF IMPORTS FROM OUTSIDE CARICOM

Country	Restrictions on imports from CARICOM partners	Number of product categories subject to quant. Import restrictions or restrictive licensing when imported from outside CARICOM (a)
St. Kitts and Nevis	import license required for sugar, beer, some appliances, foods, beverages.	45 - food, beverages, vehicles, appliances.
St. Lucia	duty on rum from MDCs (b), import licenses required on 30 product categories	n.a.
St. Vincent and the Grenadines	duty on rum import license required for 16 product categories when imported from Belize or from non-OECS. (c)	42 - food, beverages, cosmetics, carpets, mats, plastic pipes and tubing (used in the banana industry) recapped tires.
Suriname	n.a.	quotas on 16 product categories. prohibitions on 20 product categories - foods, footwear, wood products, fishing boats.
Trinidad and Tobago	duties on selected products import licenses required for animal and vegetable fats and oils.	35 - foods, beverages, cigarette paper, animal and veg. fats and oils, ships and boats.

Notes: (a) Does not include restrictions based on sanitation, security or public health or public morals.
(b) More Developed Countries.
(c) Organization of Eastern Caribbean States.
n.a. not available.

Source: Tabulated from reports of the Caribbean Export Development Agency as found in Finger, Ng and Soloaga [1998].

In conclusion, sustained efforts to implement the trade provisions and policies of the Common Market Annex (particularly since 1989), as well as decisions geared towards establishing the Single Market and Economy, have borne fruit in the creation of a free trade area for goods of common market origin. The process is virtually complete. Substantially all tariff and non-tariff barriers to such goods have been removed,²⁷ although there is still scope for reducing the number of authorized exceptions mentioned.²⁸

The Common External Tariff (CET)

Article 31 of the Annex to the CARICOM Treaty provides for the imposition of a CET by the members of the Caribbean Common Market on all commodities imported from non-CARICOM countries. The treaty set August 1981 as the deadline for member states to complete the progressive adjustment of the CET, and Montserrat was granted a four-year extension to August 1985. The deadline was unmet. Except for Guyana, Jamaica and Trinidad and Tobago (which had implemented the CET by 1976) and Barbados (by 1981), the other members did not implement the tariff. By 1990, when a special meeting of the Common Market Council agreed on arrangements to implement a CET as of 1 January 1991, four different tariff schedules governed CARICOM members' trade with third countries: the CET applied by the MDCs, the

²⁷ As of June 2001, CARICOM reported the following unauthorized application of trade measures and practices. Belize - import duty on rum; Grenada - environmental tax on bottled water; Guyana - environmental tax on imported beverages in non-returnable containers; Dominica - import duty on cigarettes; St. Vincent and the Grenadines - import licenses on malt, stout, toilet paper and garbage bags (<http://www.caricom.org>).

²⁸ This view is endorsed in CARICOM [2000b].

Belize tariff, the Montserrat tariff, and the Eastern Caribbean Common Market (ECCM) tariff applied by the other OECS countries.

A 1992 decision to review the CET took account of the international community's increasing emphasis on trade liberalization; the formation and expansion of regional economic groupings and the phasing out of preferential trading arrangements; and the consequent need for the CARICOM states to strengthen the competitiveness of their industries in export markets. The member states were also conscious of the need for appropriate measures to safeguard sensitive production, particularly in the agricultural sector.

In 1992, CARICOM accelerated the pace of trade reform by establishing a new rate structure for the CET, which came into force on January 1, 1993.²⁹ With the exception of agricultural tariffs, which were to remain at 40%, the new tariff range of 5% (0% to 5% for the LDCs) to 20%, as against the existing 0% to 45%, was set to be in place by January 1, 1998 through a phased reduction of the prevailing rates. Table 15 illustrates the phasing-in of the new rate structure.

TABLE 15
1992 CET RATE STRUCTURE AND ITS TIME PHASES

Period of Application	Implementation Period	Rate Structure
01.01.93 - 31.12.94	01.01.93 - 30.06.93	5 (0-5 LDCs) to 30/35
01.01.95 - 31.12.96	01.01.95 - 30.06.95	5 (0-5 LDCs) to 25/30
01.01.97 - 31.12.97	01.01.97 - 30.06.97	5 (0-5 LDCs) to 20/25
01.01.98 onwards	01.01.98 - 30.06.98	5 (0-5 LDCs) to 20

Source: CARICOM Secretariat.

Member states were free to decide which rate they would apply, either the 30% or the 35%; 25-30%; or 20-25%, depending on the applicable rates corresponding to the implementation period. The LDCs were free to decide on a rate between zero and 5%, which they would apply to each item in the non-competing input category.

The rate of implementation of these four phases has varied considerably among the member states. All countries have completed the first three phases, albeit outside the stipulated timeframes in many cases. The fourth and final phase, which started on January 1, 1998 according to the schedule, entailed reducing the rate to a maximum of 20%. However, at the end of June 1998 (the six months within which the reduction should have been implemented) only Barbados and St. Vincent and the Grenadines had met the deadline for the fourth phase. Some countries, such as Trinidad and Tobago, Grenada, Guyana, St. Lucia and Suriname, promised to implement it in the second half of the year. Others, such as Jamaica, planned to implement it in early January 1999. Antigua, Dominica and St. Kitts-Nevis were still to suggest a timeframe for implementing it, since they were either holding discussions on the CET, awaiting technical assistance to facilitate its implementation, or completing a study on the revenue implications of reduction. One of the main causes of these delays was the desire to avoid revenue loss.

At the end of August 1999, Guyana, Jamaica and Trinidad and Tobago joined Barbados and St. Vincent and the Grenadines in implementing the fourth phase of the CET. Member states that had not yet implemented

²⁹ According to a decision of the Heads of Government in October 1992, the new CET rate for the first phase had to be implemented in member states during the period January 1, 1993 to June 30, 1993.

the fourth phase were required to do so by the end of December 1999. Belize, Grenada and St. Lucia have since completed implementation of Phase IV of CET reduction. Antigua and Barbuda, Suriname, and St. Kitts and Nevis have not reached Phase IV because of fiscal problems. Dominica is expected to take a decision soon. The reduction of the CET has caused some implementation problems in Grenada, where import duties exceed WTO bound rates for some products.

Besides the schedule of tariff rates, CARICOM's common external tariff includes a list of conditional duty exemptions. This permits exemption from the duties normally payable on goods that are imported from outside the common market and that are used for certain approved purposes, or by approved individuals or organizations. The rules allow member states to grant partial or full exemption from the total import duty, or to grant no exemption at all. This list is accompanied by another that outlines items ineligible for duty exemption. The main reason for this list was the need to protect inputs and final goods produced within the common market at levels of output that can satisfy a minimum of 75% of regional demand for those goods.

During temporary supply shortages, rates of duty established under the CET for particular items could be suspended. This provision was designed to address unforeseen circumstances in which regional supply did not match demand within the common market, thereby forcing member states to seek extra-CARICOM supplies. Where these items are included in the list of ineligibles, they are subject to the rates of duty prescribed under the CET.

When production falls below the level agreed for a "competing" CET rate (based on an expression of interest in supplying the regional market in the future), common rates have been established for some products in a separate list known as List A. The CET rates, however, have been suspended for an indefinite period, allowing each member to implement national rates as they deem necessary.³⁰

Temporary suspension of CET rates on a number of agricultural items was also granted to several LDCs. These items were included in a separate List B. The List B rate suspensions on agricultural items were granted for three years following the entry into force of the revised CET.

There are also exemption lists for revenue-sensitive products. These allow each country to set its own rate above the minimum set rate (List C). They also address goods whose production accounts for less than 75% of regional consumption but which a country regards as competing and to which it therefore wishes to apply a higher rate in order to protect its industry. Over the years, member states have resorted frequently to the duty exemptions and the regime of tariff suspensions, which makes the external tariff far from common.

The average tariff ranges from 9.7% to 11.2%. Belize heads the list, followed by Guyana, Grenada, Dominica and St Lucia. The others are below 10%. Surcharges and other discriminatory taxes on imports are still high in Barbados, Jamaica, and Trinidad and Tobago. As regards the number of tariff items covered by the maximum tariff, Trinidad and Tobago, Jamaica, St. Vincent and the Grenadines, and Dominica head the list with about 5.6%, as compared to 0.2% in the other countries. There is also a fair degree of variation in the maximum tariff across sectors (Finger, Ng and Soloaga [1998]).

Despite some progress, the region's tariffs are still relatively high.³¹ Tariffs on agricultural goods are 40%, and many rates exceed 25%. Rates in several other developing countries are lower. In the wake of the Uruguay Round, for example, average Latin American rates were lower, as were those in East Asian and Pacific developing countries (*Ibid*).

³⁰ A request for the common rate can be made based on evidence of a change in supply conditions.

³¹ Haiti has not been addressed since tariffs have been historically low (currently, 10% on average) and other border controls have been either relatively absent and/or unenforceable.

There is substantial tariff dispersion, particularly in countries where maximum rates (mainly for agricultural goods) approach 70% and where there are special rates for many products. Although maximum tariff rates fell substantially in the period 1987-1998, average rates increased nearly two-fold for imports of agricultural and manufactured goods, in sharp contrast to trends in many other developing countries, including the region's Latin American neighbors.

The CET is not being applied uniformly. Import duties vary considerably among members, reflecting the many concessions CARICOM makes for tariff suspensions and reductions, and national exceptions to the CET. For example, all OECS-WTO members apply the CET to imports from third countries at rates of up to 35% for industrial products and 40% for agricultural goods.³² Different rates are applied by other member states, particularly on agricultural items. At the national level, the CET is accompanied by different quantitative restrictions and non-automatic licensing requirements that are applied by many countries to most food products and to beverages. Imports of cosmetics, appliances, clothing and even some industrial goods are similarly controlled (Table 16).

Enforcement of the CET falls under the mandate of the ministerial Council on Trade and Economic Development (COTED) with the assistance of the CARICOM Secretariat, which monitors application of the CET. The Secretariat's surveillance capacity is weak, as evidenced by the current system for identifying and reporting unauthorized deviations from the CET. Recently, COTED has faced frequent requests for national derogations, which has probably increased the task of monitoring.

Harmonization of the CET faces difficulties attendant on the different speeds and phases of trade reform at the national level and marked dependence on trade taxes, especially in the OECS countries. As tariffs have been lowered in recent years among OECS-WTO members, other duties and charges -such as the customs service charge, the consumption tax, and environmental taxes- have been increased in an effort to make tariff reductions revenue-neutral. In some cases the customs service charge is as high as 5%, and acts more as a tariff surcharge than as a charge reflecting the cost of processing imports. With the exception of St. Kitts and Nevis, OECS-WTO members have not recorded the customs service charge in their WTO tariff schedules. Import licensing is also widely used by these countries for their trade with third countries. A number of safeguard measures, also applied under Article 29 of the CARICOM Treaty, have not yet been notified to the WTO.³³

In conclusion, the external tariff remains far from common and it is likely that further progress on harmonizing the CET can only be made after a fiscal reform that lessens dependence on trade taxes. In the context of hemispheric liberalization, CARICOM sees a need to review the CET, particularly agricultural tariffs. An examination of agricultural tariffs was undertaken recently but no changes have been proposed. Further efforts will be needed to unify and simplify tariffs.

The major beneficiaries of the CET are producers of agricultural goods, processed products and some light manufactures. Doubts have been expressed about the gains to be realized from unilaterally lowering tariffs for these producers rather than trading current tariffs reciprocally at the wider hemispheric and multilateral levels. Additionally, the problems involved in establishing and operating anti-dumping units, and in imposing countervailing duties, have spurred arguments for maintaining current levels. In some countries there is skepticism about the prospects of finding alternative, efficient, indirect taxes.

³² WTO Trade Policy Review Body: OECS-WTO Members. Report by the Secretariat - Summary Observations.

³³ *Ibid.*

TABLE 16
SUMMARY OF TRADE RESTRICTIONS AND ARRANGEMENTS IN CARIBBEAN COUNTRIES

Country	Tariff Structure (%)	Additional Surcharge (a) (%)	QRs and Import License Required (ML)	Other NTBs (State Trading)	Foreign Exchange Transaction	Export Tax & License (XL)
Antigua and Barbuda	0-35% for all 40% for prim agr	CS = 5% CT = 10-15%	ML for agric goods and other special goods	STE for rice & sugar	1% tax application	none
Bahamas	0-42% for all 30-62% durable	ST = 2-7%	ML for agric goods	few other NTBs no imp monopoly	prior approval	with some export taxes
Barbados	5-25% for all 40% for prim agr	CS = 75%, ET VAT = 15%	ML & QR for food & other sp. Goods	STE for chicken wine, sugar, milk	1% tax application	XL for some food products
Belize	0-30% for all 40% for prim agr	VAT = 15% OT	ML for agric goods, many gds. Banned	STE for rice	1.25% tax prior approval	XL & tax 2-5% for agric prod
Dominica	0-30% for all 40% for prim agr	CS = 15-16% CT = 25%	ML for manuf gds QR for beverages	STEs for rice & sugar	prior approval	some XLs req. and 1% tax for banana
Dominican Rep	5-35% for all 5-80% lux gds	CS = 5-20% ST = 3% CT = 6%	no ML many gds banned	STEs for petro. resale	dual exch rates applied	XL for sugar
Grenada	0-25% for all 40% for prim agr	CS = 5% CT = 25%, OT	ML for agric goods QR for cars	STEs for rice, sugar, milk prod	5% tax	XL for sp. goods
Guyana	5-25% for all 40% for prim agr	CT = 0-85% OT (envir tax)	ML for petro. & agr, many gds banned	STEs for papers & agric goods	adv. deposit	XL for gold and tax for rice & sugar
Haiti	5-15% for all 25% for gasoline	OC = 4% ET = 1-5%	ML for agric gds & others some banned	STEs for agric & machinery	application	XL for agric and exp QR for textiles exp QR for textiles
Jamaica	0-50% for all 40% for prim agr	ST = 65-90% CT = 15%	ML for agric goods; many gds banned	STEs for food & cars	auction sys.	XL for cars and sp. goods
St. Kitts & Nevis	0-30% for all 40% for prim agr	CS = 3% CT = 15%	ML for some manuf goods	STEs for chicken, sugar, flour wheat, eggs	adv. payment	few XL and tax
St. Lucia	0-30% for all 40% for prim agr	CS = 4%, ET CT = 3-45%	ML for food & other sp. Goods	STEs for rice, sugar, flour, fish	2% tax	XL for sp. gds and 2.5% tax for banana
St. Vincent	0-25% for all 40% for prim agr	CT = 0-65% CS = 2.5%, ET	ML for food & other gds; some banned	STEs for oils & fat, sugar, daily prod	2% tax	XL for agric and 2% tax for banana
Suriname	5-30% for all 40% for prim agr	CS = 2% ET = 5-18%	ML for all imports; some QRs & ban	STEs for some food items	prior approval	XL for agric and tax for sp. gds
Trinidad and Tobago	5-25% for all 40% for prim agr 20-30% durable	CS = 5-103% VAT = 15%, ET	ML for consumer gds and many gds. banned or with QR	STEs for rice, wheat, fats & oils; petro	only for some goods	XL for food and petro gds

Notes: (a) CS=customs surcharges; ST=stamp tax; CT=consumption tax; ET=excise tax; VAT=value added tax; and OC=other charges.

Sources: Adapted from the following sources: Finger, Ng and Soloaga [1998]; UNCTAD [1997]; IMF [1997] and Caribbean Export Development Agency [1997].

The inability to use contingent protection effectively, and the absence of special safeguards in agriculture, have had effects: some CARICOM members have raised applied rates in accordance with their bound rates, and have sought to raise bound rates on some vulnerable agricultural items that are subject to large subsidies in foreign markets.

The major challenge to the CET will come from the free trade negotiations in which CARICOM is now engaged. The need for fiscal, commercial and structural adjustment will become more significant as a result of the mounting pressure for the reduction and elimination of the CET.

Rules of Origin

CARICOM Rules of Origin, based on the Harmonized Commodity Description and Coding System (HS) 1996 and originally set out in Article 14 of the Annex to the 1973 treaty, are now laid down in Article VIII of Protocol IV.³⁴ Goods qualify for common market origin if they have been wholly produced within the common market, or if they have been produced within the common market wholly or partly from materials imported from third countries, provided substantial transformation has taken place within the common market. The goods may be substantially transformed if they are classified under a different tariff heading than the materials used, or if they attain a prescribed level of local or regional value added. Goods may be treated as being of common market origin in accordance with the specific criteria defined for each tariff heading in Part A of the list in Schedule II, Article 14 of the CARICOM Treaty. For common market origin treatment based on value added, a good should have at least 65% local or regional value added; in other words, third country inputs should not exceed 35%.

Qualification for common market treatment under the "wholly produced" criterion is a permanent option; under the rules of origin, a number of products must meet this condition to qualify for common market treatment. These include live animals born and raised in the common market. MDCs and LDCs are required to meet the same criterion.

The MDCs and LDCs are also required to meet the same qualifying criteria for: (i) the "change of tariff heading rule"; (ii) goods "produced from regional materials"; (iii) goods "produced from materials of specified HS headings"; (iv) goods "produced from materials not included in a specified HS heading"; and (v) goods "produced by specified process". In the case of those products for which the stipulated criterion is the "percentage value added condition", the value of extra-regional materials that can be used in production of an item is limited to a specified percentage of the export price of that item. The prescribed percentages vary from item to item; and "concessionary" terms are generally granted to the LDCs.

When regional supplies of an input are unavailable, member states can use extra-regional materials and still retain common market treatment. Resort to this exemption has been frequent, which raises questions about the value of stipulating regional materials as a qualifying origin condition in an age of competitive international production.

The rules have been revised. Schedule I, based on the 1996 HS and ensuring that qualifying goods receive Community origin treatment, was reformed with Schedule II. It was agreed that the amended Schedule II, based on the 1996 HS, should be implemented on January 1, 1998.³⁵ Almost all countries have implemented the amended Schedule II and the revised Schedule I.

³⁴ With respect to the Rules of Origin, Article X prohibits the application of restrictions on imports or exports of Community origin. Community Origin is set out in Article VIII, while the detailed rules regarding the application of that article are set out in Schedule I.

³⁵ The COTED at its First Meeting in September 1997.

Common External Trade Policy

Article 34 of the Treaty of Chaguaramas stipulates that members should seek progressively to coordinate their respective trade policies towards the rest of the world. There was no legal restriction on members' engaging in trade negotiations with third parties, providing they informed the CARICOM Secretariat of any new trade agreement. CARICOM members never made maximum use of this provision on a bilateral level: only Guyana and Trinidad and Tobago used it in pursuing partial scope arrangements with Venezuela.

This provision never threatened the integrity of the common market in as much as there was substantial non-compliance with the CET and different tariff regimes. More importantly, CARICOM sought non-reciprocal arrangements with its main trading partners, and these had no implications for the maintenance of the common trade regime. The negotiation of the African, Caribbean and Pacific/European Union (ACP/EU) Conventions, the Caribbean Basin Initiative (CBI), the CARICOM/Venezuela accord, the agreement with Canada (CARIBCAN) and other negotiations never had any bearing on the CET.

The uniformity and integrity of the common regime faced pressure from efforts to negotiate trade agreements with a larger number of non-CARICOM regional countries and from global trends in multilateral and regional trade liberalization, wherein some form of reciprocity is being demanded of developing countries.

CARICOM members are at different stages of trade reform and vary in their readiness to embark on free trade negotiations. Countries that saw CARICOM as too small to generate significant welfare gains, and that sought market access beyond CARICOM, felt the need to push the Community towards reciprocal trade negotiations. Others, less confident in their ability to compete, decided that they were unprepared and that free trade should be pursued more cautiously and over a longer term. The CSME was subject to debate: on the one hand, less value was attached to preserving a common external tariff over the long term in such a small integration movement: on the other, the CET was still seen as necessary to protect agricultural and industrial enterprises that trade regionally.

The debate also centered on the scope of bilateral trade initiatives and their implications for coordination. Those countries that were ready to proceed argued that they should be allowed to negotiate trade agreements with third parties before other member countries were ready to do so. These bilateral agreements were expected to become region-wide accords as the other CARICOM countries caught up.

The coordination issue was finally resolved in 1997, when Article 14 of Protocol IV on trade policy amended Articles 33 and 34 of the Community Treaty as follows:

- "member states shall coordinate their trade policies with third states or groups of third states;
- the Community shall pursue the negotiation of external trade and economic agreements on a joint basis in accordance with principles and mechanisms established by the Conference;
- bilateral agreements to be negotiated by member states in pursuance of their national strategic interests shall be without prejudice to their obligations under this treaty;
- prior to their conclusion such agreements shall be subject to certification by the CARICOM Secretariat that they do not prejudice or place at a disadvantage the position of other CARICOM States *vis-à-vis* the treaty;
- where trade agreements involving tariff concessions are being negotiated, the prior approval of COTED shall be required".

The foregoing reduces the flexibility for bilateral initiatives by obliging members who negotiate bilateral trade agreements to seek the approval of COTED when tariffs are being negotiated. It is on this basis that Trinidad and Tobago has now initiated trade negotiations with Mexico, Brazil and Costa Rica. The decision,³⁶ however, may have preserved the cohesion of CARICOM since the faster pace of liberalization with third states by one or more parties implies more competition for other CARICOM members in those CARICOM countries entering into extra-CARICOM trade agreements. This loss of protection could frustrate the expected benefits of some partners and prompt demands for compensation, not to mention acrimony and conflict.

The coordination of external trade policy remained under pressure from demands for free trade negotiations with regional third parties. The agreement to enter into reciprocal negotiations led to CARICOM's adopting a "model" approach of reciprocity for the MDCs and non-reciprocity for the LDCs. This is enshrined in trade agreements signed with the Dominican Republic, Colombia and Cuba.

Rules of origin might be needed for such different trading arrangements. Different access conditions would require border controls and rules of origin. For example, in order to ensure that products from the Dominican Republic that have been imported duty-free into the MDCs are not sent into the OECS without paying due taxes, new rules of origin would have to be put in place between the OECS countries and the MDCs, and border controls would have to be tightened. Such rules of origin would create additional transaction costs and may impede rather than promote intra-regional trade. In the context of the CSME and a possible move to free circulation of extra-regional imported goods and services, this becomes even more problematical.

Protocols IV and II have extended CARICOM's capacity to formulate and implement trade policy by attempting formally to link intra-regional and external trade policy. The CET upholds the integrity of the common trade policy by providing for the application of common tariffs on extra-regional imports. Multilateral obligations under Protocol IV have also been made to conform with regional commitments. Notifications to the WTO, under the new provisions, must also be sent to COTED.

In the area of external trade policy coordination, therefore, Protocol IV adds new commitments. More advanced than the arrangements in the Common Market Annex, its provisions effect the legal and administrative measures needed to coordinate action. The emphasis is on single market laws, which must be the same if the market is to operate effectively. Protocol IV, along with the other CSME Protocols, should introduce greater harmonization in a number of laws affecting trade and trade-related matters.

The absence of a truly common external tariff and the use of different non-tariff measures, as well as the flexibility that members have to negotiate bilaterally (although with some restriction as regards tariffs), fall far short of the requirements for a common trade policy. It does not seem feasible at this stage to move towards a fully common trade policy in view of the different levels of competitiveness and the members' different needs in the area of industrial and agricultural protection. A full common trade policy that covers the entire CARICOM market should allow for larger reciprocal market access in trade negotiations. In the present circumstances, because of the different access conditions, concessions are likely to be negotiated on an individual basis. This could restrict the scope for the reciprocal trading of market access concessions from third parties.

Other Areas under Protocol IV

Protocol IV foresees harmonization in several other areas, including government procurement. If the latter were to be progressively integrated into the CSME, the impact on business and trade could be significant.

³⁶ Belize has been exempted and Suriname still maintains reservations.

The CSME could acquire greater dynamism if broader access were possible in all procurement markets. The matter is now under active consideration in light of developments in other trade negotiations within the Hemisphere, notably those with the Dominican Republic and for the FTAA. Other areas requiring some degree of harmonization are trade in products from free zones, customs laws and e-commerce.

Protocol V: The Community Agricultural Policy

Community agricultural policy aims to make the agricultural sector market-oriented and internationally competitive. The goals are to increase production, boost exports and diversify primary and processed agricultural goods in a context of efficient management and the sustainable exploitation of the region's natural resources. Support for this at the regional level is to be effected through competent Community bodies, with a view to fostering the establishment of effective agricultural financing systems; linkages among member states with complementary natural resources, industries, and technical capacities; the development of human resources; the design of apposite policies; the implementation of appropriate land tenure systems; the promotion of information and market intelligence services; encouragement of research and development; the adoption of measures for rural enterprise development; public education; the establishment of an effective regime of sanitary and phytosanitary measures; the creation of a policy environment attractive to investment to the agricultural sector; and technical cooperation involving the dissemination of knowledge in agriculture.

Implementation of the above remains largely the responsibility of governments and must be pursued at the national level. Most of the programs are already present in the work programs of national and regional organizations, with the support of international agencies involved in agriculture. Resources are required mainly at the national level. CARICOM, however, will seek to mobilize additional financial resources to help regional organizations implement various programs. Programs in research and human resource development involving regional institutions, such as the University of the West Indies (UWI) and the Caribbean Agricultural Research and Development Institute (CARDI), would require additional funding.

CARICOM's role will be largely in the area of policy coordination and the provision of some technical and financial resources. For example, appropriate COTED action will be required to promote linkages among the economies of member states and to urge members to adopt appropriate national policies. Strong collaborative action at the Community level through institutions such as COTED and the Council for Foreign and Community Relations (COFCOR) will also be required for implementation of some aspects of fisheries management.

The expected benefits of successful implementation of this Protocol are improved income and employment opportunities, food and nutrition security, and poverty alleviation in the Community. It is difficult to assess how much value this regional transformation program will add to current and past efforts. Its real focus appears to be on perfecting domestic policies and securing greater support for a market-oriented approach, in contrast to the greater emphasis on public intervention in the past. Apart from the policy framework, additional stress is being placed on training and on research and development. Successful implementation, however, seems to be highly dependent on the extent to which CARICOM can mobilize additional resources from international financial agencies at a time of declining development assistance to the region.

Protocol VI: Transport Policy

The provision of adequate, safe and internationally competitive transport services for the development and consolidation of the CSME is the goal of the Community transport policy. The objectives are efficient, reliable, affordable transport services; expansion of air and maritime transport capabilities; promotion of

cooperative arrangements; internationally competitive ancillary transport services and human resources; and standards for the development of all modes of transport services (CARICOM [2000a]).

In terms of programs, the key elements involve the coordination of national transport policies through consultation, and the adoption of regional positions in international and regional fora (WTO, International Civil Aviation Organization, International Maritime Organization, hemispheric conferences) on critical transport issues; the implementation of uniform regulations and procedures, consistent with standards and recommended practices, particularly as regards operations, safety, licensing and certification; the provision of institutional, legal, technical, financial and administrative support for the balanced and sustainable development of the transport sector; environmental measures; technology acquisition; investment promotion and human resources development; cooperation in air and maritime search and rescue operations in the Community; the enhancement of flag and port state control activities in the region; the development of infrastructure and expertise in the shipping industry; and the establishment of a regime of incentives for the development of shipping enterprises.

COTED will play a critical role in implementing this Protocol, whose programs will largely comprise the provision of technical advice, consultations, negotiations, document collection, information dissemination, research and training. Most of the programs are present in the annual or multi-annual work programs of regional and national organizations, and national governments are expected to bear the brunt of the responsibility for implementation. Success will depend on the collaboration that can be achieved between CARICOM on the one hand, and national and international agencies involved in transportation on the other.

One major benefit is the way the Protocol has brought together disparate actions by the Community in the transport field and focused attention on key areas where policy coordination is needed. Much work is still to be done to inform national officials and agencies of provisions of the Protocol; to devise and implement national legislation to give effect to its provisions; and promote national and regional awareness programs.

Protocol VII: Disadvantaged Countries, Regions and Sectors³⁷

The objective here is to help disadvantaged countries, regions and sectors become economically viable and competitive by means of appropriate temporary interventions. The latter include technical and financial assistance to address the economic dislocation attendant on the operation of the CSME; special measures to attract investment and industries; transitional arrangements to attenuate or curb adverse economic and social effects of the CSME; special measures to help industries become efficient and competitive; support for structural diversification and infrastructural development; assistance to firms disadvantaged by the removal of intra-regional barriers; mechanisms to monitor and help comply with obligations assumed under the treaty and other international trade agreements. In terms of implementation, the main Community bodies involved are COTED and COFAP, which will establish, administer and monitor the measures.

Actions to rectify disadvantages arising from economic dislocation might include the granting of incentives, exemptions in programs for the removal of restrictions on service provision and the right of establishment in the Community (due consideration being given to the peculiar economic vulnerability of disadvantaged countries and the manner in which restrictions on services are to be removed). The imposition of import duties as the result of revenue losses arising from the import of goods eligible for Community treatment is also permitted, and the special needs of LDCs are taken into account in the implementation of the CET and the establishment of any incentives program. Additionally, special safeguard measures for LDCs

³⁷ Thirteen member states have signed and declared provisional application of this Protocol. Guyana has deposited its instrument of ratification. Montserrat's signature and declaration of provisional application are pending.

include the limitation of goods imports from other member states for a period of up to three years (unless COTED authorizes a longer period) and the non-application of safeguard measures against products of Community origin from a disadvantaged member state when such products do not exceed 20% of the market of the importing member state. Sensitive industries that might be adversely affected by the operation of the CSME can also benefit from the suspension of Community treatment on products from other member states. Furthermore, members undertake to provide nationals of disadvantaged countries with access to their technological and research facilities.

Protocol VII extends the existing provisions for LDCs by including exceptions in the area of services, special safeguards for industries, and a special Development Fund to provide financial or technical assistance to disadvantaged countries, regions and sectors. The provisions of the Special Regime for the LDCs will apply to Highly-Indebted Poor Countries (HIPC). LDCs perceive potential benefits in their ability to protect sensitive and vulnerable industries, and in financial and technical assistance to address their development needs.

Much work is still to be done to implement this Protocol. Model legislation has to be prepared by the CARICOM Secretariat and national parliaments have to adopt relevant legislation. A variety of needs assessments have to be undertaken for the purpose of administering technical and financial assistance. Funding has to be secured and technical studies have to be finalized.

A major concern with this Protocol is that in the context of wider regional, hemispheric and multilateral liberalization the extension of special and differential treatment might reinforce protection and reduce competitiveness. A situation could also arise wherein the treatment might not be acceptable to third parties in the WTO and FTAA but might exist in CARICOM. This poses special difficulties for CARICOM trade negotiators.

Protocol VIII: Competition Policy, Consumer Protection, Dumping and Subsidies ³⁸

The goal of CARICOM competition policy is to ensure that the benefits expected from the CSME are not frustrated by anti-competitive business practices. Hence the Community has agreed to promote and maintain competition and enhance economic efficiency in production, trade and commerce; to prohibit (subject to the treaty) anti-competitive business conduct that prevents, restricts or distorts competition or that constitutes abuse of a dominant market position; and to promote consumer welfare and protection interest. Measures being adopted to implement Community competition policy include appropriate norms and institutional arrangements to prohibit and penalize anti-competitive business conduct, and information systems to inform firms and consumers of the operation of markets within the CSME.

The member states have to take the necessary legislative action to ensure consistency and compliance with the rules of competition, and to penalize anti-competitive business conduct; to disseminate relevant information to facilitate consumer choice; to establish and maintain institutional arrangements and administrative procedures to enforce competition laws; and to take effective steps to ensure that nationals of other member states have access to competent enforcement authorities, including the courts, on an equitable, transparent and non-discriminatory basis.

A key provision is that a member state will establish and maintain a national competition authority for the purpose of facilitating implementation of the rules of competition. This authority must cooperate with the

³⁸ As of June 22, 2001, 11 member states had signed and one had declared provisional application. Guyana has deposited its instrument of ratification. Protocol VIII requires signatures by Montserrat and Suriname, and a declaration of provisional application by all member states except Belize.

Competition Commission -which will implement Community competition policy- in achieving compliance with the rules of competition. It also investigates allegations of anti-competitive business conduct (allegations are referred to the authority by the Commission or by another member state), cooperates with other national competition authorities in detecting and preventing anti-competitive business practices, and exchanges information on such conduct. In cross-border transactions or transactions with cross-border effects, the Commission can monitor, investigate, detect, make determinations or take action to inhibit and penalize enterprises whose business conduct prejudices trade or prevents, restricts or distorts competition within the CSME.

At present, Jamaica is the only CARICOM country that has competition law. Competition policy and practice are also in place. According to the Protocol, within 24 months of its entry into force, member states must notify COTED of existing legislation, agreements and administrative practices inconsistent with its provisions. Within 36 months of its entry into force, COTED will establish a program providing for the termination of such legislation, agreements and practices. The Competition Commission must then be instituted. This agreement is not yet provisionally applied, and hence the Protocol's entry into force is pending. Much technical and political work remains to be done at both the national and regional level for the benefits of the Protocol to be realized.

Overview of the CSME Process

CARICOM has made some progress in formulating and implementing the new rules and regulations that will govern the CSME. In such a sensitive area as the free movement of skilled persons (CARICOM is the only integration scheme after the EU to embark on the free movement of people), some significant strides have been made. The road ahead is long and arduous, and implementation will determine the credibility and effectiveness of the CSME now that the negotiation of the legal framework has been completed.

Civil society and the private sector in CARICOM are yet to appreciate fully their rights and obligations under the CSME. Inadequate capacity at both the national and regional levels is also an impediment. Effective implementation of the CSME requires that all stakeholders act in the interests of greater awareness and the transposition of regional policies into national programs and legislation. A number of institutional changes are also required. The free movement of people is critical for maintaining the momentum and credibility of the CSME, since the latter must be perceived by CARICOM nationals as facilitating their temporary entry into and permanent residence in other CARICOM countries.

On the legislative front, the negotiation of nine Protocols has been completed and a draft of the revised treaty has been prepared. It was expected that the Conference of Heads of Government would sign the revised treaty in July 2001 but this was postponed deferred for 2002. The creation of a separate CARICOM division responsible for implementing the CSME, under the direction of a CARICOM prime minister, is the method being used to accelerate implementation.

Enforcement and control mechanisms for implementation of the protocols will be addressed in the provisions for dispute settlement and the regular diplomacy of Community Councils. Ultimately, when the Caribbean Court of Justice is established, both governments and individuals will be able to seek redress for any infringement of the provisions.

The Heads of Government have already agreed that separate Protocols should be drawn up to cover the following new issues: government procurement, electronic commerce, trade in goods from free zones, and free circulation. Additional technical work is needed to determine how these should be reflected in the new CARICOM treaty.

CHAPTER V. COORDINATION AND HARMONIZATION OF POLICIES

To reduce transaction costs and thus stimulate regional integration, the CARICOM countries support a regional strategy to deepen the process of harmonizing and upgrading regulatory frameworks within the Community. The aim is to identify key areas that affect investment decisions, and other sectors where regional harmonization is most urgent. Apart from trade policy, where a common tariff regime and common rules of origin have been set, there has been limited harmonization of fiscal incentives for industry. Harmonization is being attempted in several new areas, as discussed below.

Harmonization of Fiscal Incentives

The 1974 CARICOM Agreement for the Harmonization of Fiscal Incentives to Industry (HFII) entailed the following objectives:

- containment of competition among member states in granting incentives to attract investment;
- establishment of a regulated system for granting incentives; and
- rationalization of the terms and conditions of incentive schemes to give special concessions to the LDCs, so as to compensate them for their lesser development.

All member states except one had subscribed to this agreement, which provided for the following categories of incentives:

- 5 to 10-year tax holidays for profits and dividends;
- export allowances after the tax holiday period;
- carrying forward losses for up to five years;
- accelerated depreciation; and
- duty-free concessions on imports of inputs.

Subsequent recommendations to revise the scheme included the application of a less than 100% tax holiday for a 10 to 15-year period, as well as tax credits for new investment, research and development expenditures, training expenses and export promotion costs. These recommendations have not yet been approved for adoption by member states.

The 1974 HFII³⁹ offers incentives to new and expanding firms mainly in the form of tax holidays on profits and duty-free status to approved enterprises. Duty-free status is considered the most valuable incentive, since approved enterprises do not pay duties on imports of raw materials and machinery for a period of 6 to 15 years. Other benefits are tax holidays and tax exemptions on dividend payments for investment, after the tax holiday has expired. Additional tax relief is available for exporting firms after the tax holiday ends. The HFII is only available to approved products and producers. Several products, mainly final consumer goods, are excluded from production in the MDCs.

³⁹ Guyana has not passed enabling legislation to incorporate HFII. Its investment code, however, is quite consistent with this agreement.

At the national level, and depending on the sector, several incentives are offered. Prominent among these are worker training programs, factory space at low subsidized rents, and other infrastructural concessions. In addition to the HFII, incentive provisions at the national level include export incentives that permit tax and duty reductions for exporting firms beyond HFII, fiscal incentives for firms that do not qualify under HFII, and free trade zones with subsidized rents and utility rates.

Currently, the framework for providing incentives in CARICOM states consists of this HFII harmonized scheme, some sector-specific legislation, and discretionary incentives that tend to be applied on a project by project basis. The non-harmonized incentives include investment allowances, export incentives, industrial training programs, and subsidies on the rent of factory space.

The harmonized scheme has been modified since 1974 to suit various national interpretations. A comprehensive regime is still being formulated, and a review of the incentives scheme begun in 1994 has not yet been concluded. Its purpose is to adjust HFII to reflect the current export orientation, which requires a wider and different set of industrial incentives. It also seeks to address the need to make the Community more competitive for foreign investment and provide for new areas of investment, as well as differences in the level of development among member states.

Policy, regulatory, institutional and legislative barriers to foreign investment persist in the region. They relate, *inter alia*, to uncertainty and lack of transparency concerning work permits, alien landholding acts, and visas, as well as the absence of information on government policies and regulations. Particular stress has been placed on the lack of a set of formal regulations readily available to interested investors, and of governing standards, licensing, quality assurance and control procedures.

Taxes on the purchase of property and the import of high technology equipment have also been seen as a deterrent to foreign investment,⁴⁰ while labor laws are deemed problematical for expatriates. It is difficult to obtain work permits, and the uncertainty of renewal makes many foreigners reluctant to invest. Furthermore, legal and regulatory constraints are subject to both interpretation and discretion. Lengthy approval periods involve much uncertainty.

While countries are making efforts to eliminate these barriers, the question arises as to whether it is sufficient to remove obstacles or whether incentives are also required. The debate on granting incentives to correct market failures has continued for years without any firm conclusion. The conditions under which incentives work or fail are not precisely understood (Guisinger [2000]).

The 1974 HFII Industry attempted to contain competition by establishing regulated terms and conditions for granting incentives. Competition continued, however, through the granting of non-harmonized incentives at the national level. Subsequent proposals were made to revise the agreement but they were not adopted. There has been a suggestion that financial incentives are needed. In terms of the statutes, special financial incentives are not offered, with few exceptions, but governments in the region have the inherent right to take "off the book" decisions and offer special financial incentives. It is often said that no specific incentives in the region are tailored to any sector *de jure*, although a range of incentives exists *de facto*. Financial incentives to address the peculiarities of sectors are often suggested as a way of stimulating and managing FDI. Governments have been advised, however, to abjure sector-specific incentives that tend to distort investment.

⁴⁰ An alien landholding license can add roughly 10% to the cost of land and any purchased buildings. Real estate fees can run as high as 10% and there is often a government sales tax that can be 10% at the time of sale. Tariffs are levied on equipment, spare parts, supplies, and motor vehicles.

A more general industry-neutral approach, non-discriminatory and less distortionary, avoids or reduces special lobbying. The tendency to offer incentives on a discretionary basis leads to foreign firms being given more incentives than local firms. Costly competition among Caribbean countries is a further consequence, which longstanding cooperative efforts to prevent have had little success.⁴¹

In an imperfect world special incentives never disappear, and by far the greatest competition for investment is among developing countries (Guisinger [2000]). In the absence of an agreement among CARICOM countries, or internationally acceptable conventions to limit unhealthy competition in granting incentives, special incentives will continue to stimulate investment in the region. This is illustrated by The Bahamas in hotel investment. Despite liberal FDI policies that reduced barriers, special incentives were still necessary.

CARICOM countries continue to make generous use of fiscal and other incentives for manufacturing and non-manufacturing enterprises. Although this policy has borne some fruit, the revenue foregone is considerable and the distortions to resource allocation are probably significant. Greater efforts must be made to improve the 1974 HFII in order to lessen distortion in the CSME. Going beyond the 1974 HFII is problematical, however, since the advantages are not evident.

As noted above, fiscal incentives have a cost as compared to non-direct incentives such as improvements in general macroeconomic performance, legislative transparency, improvements to transport and telecommunications infrastructure, and more capable human resources. Configuration of a best practice investment regime for the Caribbean countries is incomplete, although the benefits of harmonization are touted in the creation of a single market. In the years ahead, more technical analysis and consultation will be needed to determine the ideal model and the way forward for the region.

Monetary Integration

The proposed strategy for monetary integration, approved in 1992, was to begin the common currency with a group of countries whose currencies were stable and convertible, and which enjoyed low rates of inflation. Over time, through fiscal and monetary policy, other countries would reach the stage where they would have a steady volume of foreign exchange reserves (at least three months import coverage), a stable exchange rate, and low inflation. These countries would then be in a position to accept the common currency, along with its monetary and fiscal standards. According to this two-tier strategy, policy coordination would eventually lead to the elimination of risks inherent in frequent changes in the parities of currencies and the maintenance of convertibility.

The Category A countries in 1992 were the OECS members, The Bahamas, and Belize. The program outlined a series of stages on a pre-determined timetable. During the transition period to the eventual goal of a common currency, monetary policy was to be coordinated, and exchange rate fluctuation was to be limited to bands that would be narrowed progressively. Three stages were outlined. The first was to run to 1996 and mainly entail the implementation of sound macroeconomic policies. Stage 2, which was to be between 1997 and 2000, would see the formation of a Caribbean Monetary Authority (CMA) and the institution of a common currency among the Category A countries. It was felt that by this time, Barbados and Trinidad would have sufficiently adjusted their economies to become eligible to join Category A and adopt the common currency. However, it was expected that Jamaica and Guyana would only be able to accede to the CMA and the common currency after 2000.

⁴¹ CARICOM proposals for a harmonized system of incentives for industry, tourism and other services and agriculture. Dec. 1993. CARICOM Secretariat. For a list of special incentives given at the national level see Table IX.2 in CARICOM [2000b], p. 268.

The preparatory process, which began with the formation of a Committee (Council) of Central Bank Governors in March 1993 (to be transformed later into a CARICOM Monetary Authority), was to have been completed by 2000. However, when Trinidad and Tobago joined Guyana and Jamaica in adopting a flexible exchange rate regime, the Committee of Central Bank Governors in 1994 advised the Heads of Government that the time was not right to pursue monetary union in the agreed timetable. This recommendation stemmed from the observation that global economic developments and the responsive adjustment of policies had led member states to move away from the conditions required for monetary union. It was agreed that a new timetable would not be set. Instead, the Committee of Central Bank Governors would monitor the level of economic convergence in accord with the eligibility criteria, and advise the Conference on the degree of convergence that would sustain a monetary union.

In conclusion, there has been little movement towards monetary union. Although member states had accepted the proposals and reiterated their commitment to monetary integration in 1994, the preparatory process for monetary union has not yet moved beyond biannual assessments of the convergence indicators and eligibility criteria, as discussed in Chapter III. More has to be done explicitly to include the policies required for economic convergence into domestic policymaking. Moreover, CARICOM countries must still decide if they need a monetary union. Nine years have elapsed. International developments, country priorities, and the relative benefits of monetary union might have changed, raising doubts as to whether monetary union should still be a target.

Common Industrial Policy

CARICOM has attempted to institute a common industrial policy framework designed to address a wide variety of industrial goals, different levels of intervention, and the actual and potential instruments available. At the regional level, it was felt that a common industrial policy framework was needed to overcome the supply constraints to industrialization. The CARICOM Industrial Programming Scheme (CIPS), and the CARICOM Enterprise Regime (CER) were the two main instruments devised for this purpose. Under CIPS, an enterprise was to be designated as regional and could receive fiscal incentives as set out in the HFII; granted special access to capital, foreign exchange and labor (work permits); provided protection from extra-regional products and from new production that violated the CIPS; and given permission for CARICOM investors to remit dividends and repatriate capital. The CIPS scheme was intended to increase specification and complementarities among member states. It had little success because the state-oriented allocation mechanism adopted did not reflect the empirical experience of how factors influence the location of industries (CARICOM [2000b]).

The CER was created in 1988 and provided the legislative framework for the creation of regional enterprises that would receive the same benefits as local enterprises in whatever country they were established. Preferential treatment *vis-à-vis* non-regional enterprises applying for fiscal incentives under HFII was intended, as were special fiscal incentives for CARICOM enterprises in agriculture, tourism, forestry, transport and communication. The enterprises could remit dividends and repatriate capital. These two regional schemes favored regional investment over foreign capital and certain types of local capital.

Because of a lack of private sector interest, these schemes ended in 1995. Their demise was abetted by trends in foreign investment, concern to make a sharp distinction between foreign and local investors, trade liberalization, and the change in the state's role to that of a facilitator rather than an investor. In general, restrictive rules of ownership, location, and product lines have been giving way to more open and neutral policies. The overall political and business climate, the ease of entry and exit, and freedom to repatriate earnings and capital are now seen as more important.

The CER and CIPS represented the first attempts at an active regional industrial policy. In general, the movement at the national level away from such a policy, towards one more open and neutral, has led to a lack of interest in a regional strategy. The high costs associated with the attainment of economies of scale and "learning by doing" have prompted the suggestion that the smaller the size of the economy, the higher such costs will be (UNCTAD [1992]). Industrialization is thus regarded as costly for such economies, and promotion of an overly active industrial policy requires caution.

Protocol III on Community industrial policy illustrates the above trend. It states that "the goal of the Community industrial policy shall be market-led, internationally competitive and sustainable production of goods and services for the promotion of the Region's economic and social development". Its focus is on resource allocation and international competitiveness, and its aim to provide policy measures backed by a sound macroeconomic framework, investment incentives, relevant harmonized legislation, and supportive administrative practices. At the regional level, the option is left open for authorities to develop schemes to offset perceived market failures if such schemes are deemed both necessary and amenable to state intervention.

Protocol III adds little in terms of common policies, and virtually nothing in terms of required mechanisms. At the national level, emphasis is on creating an enabling environment marked by sound macroeconomic policies and the development of institutions, standards, intellectual property rights, industrial relations, capital market development, legal and social infrastructure, and agreements on double taxation. The real contribution of Protocol III seems to lie in the promotion of these latter policies and legislative frameworks at the national level. While such policies essentially promote a market approach and are found in the development plans of all CARICOM countries, as well as multilateral organizations' programs for the Region, CARICOM can stimulate and facilitate their implementation.

Free Movement of Persons

In 1989, CARICOM agreed to eliminate passport and work permit requirements for CARICOM nationals (beginning with the visual and performing arts, sports persons and media professional travelling for specific regional events), and to establish conditions for the free movement of skilled and professional personnel and for contract workers on a seasonal basis. In 1996 the Conference further agreed: "*Member States should adopt a broad policy which would permit the general extension of the right to freedom of movement to CARICOM nationals as their circumstances permitted and as agreed by Heads of Government*". In keeping with the progressive application of the principle of free movement and labor market integration, freedom of movement was first granted to skilled and professional personnel, university graduates, media workers, sports persons, and artistes and musicians. The free movement of service providers and managerial, technical, and supervisory staff is addressed in Protocol II, which includes the right to engage in non-wage earning activities of a commercial, industrial or artisan nature. University graduates who are non-wage earners providing services also benefit under Protocol II.

There has been general recognition of the benefits to be derived from freedom of movement but much dissatisfaction with the pace of implementation.⁴² In 1995, member states agreed to the free movement of CARICOM university graduates as of January 1996. Nine member states have completed the legislative process to implement this decision. Nine countries have also enacted supporting legislation on the harmonization and transferability of social security benefits. Only two countries have appropriate mechanisms for equivalency and accreditation (or mutual recognition). This provision was extended to

⁴² The Conference indicated its intent to address this problem by agreeing at its Seventh Special Meeting in Chaguaramas in 1999 to work towards substantial progress by January 2001.

artistes, sports persons, musicians and media workers, and four countries have made the necessary provisions in their legislation.

Criteria have yet to be established for identifying persons in some categories. The criteria to be applied for sport people and artistes have been approved.⁴³ Some member states must still enact the necessary legislation to recognize these categories; a number of legal provisions and appropriate administrative arrangements have yet to be implemented; and a skills register has to be drawn up.

Although the treaty makes no provision for the general principle and objective of free movement, Protocol II provides for the movement of persons as service providers or to establish businesses. It includes management, supervisory and technical staff, their spouses, and immediate dependent family members.⁴⁴ No deadline has yet been set for all member states to complete the legal process for the free movement of skills, including the regulations necessary for the Acts' objectives. Unresolved are the troubling questions of harmonizing administrative arrangements for the application of the free movement of skills policy, how that policy should be extended to other categories of skills, and what criteria will be used to determine the new categories.

The issue of the wider movement of persons beyond the very limited "special skills" agreement of today must be addressed. It is hard to understand why, if CARICOM really wants to develop a single market, it does not include the free movement of all factors of production, including unskilled labor. The migration of skilled labor from the LDCs (where it is in short supply) to the industrial centers is usually viewed as a factor that aggravates polarization. Restrictions on skilled labor movement in the MDCs are therefore regarded as being in the interests of the LDCs. In the MDCs, large pools of unemployed workers, coupled with deficient infrastructure, usually provide the justification for restrictions on unskilled labor.

It is clear, however, that a strategy of boosting comparative advantage through a better pooling of resources requires greater attention to the liberalization of movement for all factors. Fears about polarization do not seem to be justified. The MDC/LDC dichotomy is scarcely applicable in an integration scheme comprising small countries where the gains of agglomeration can easily be exaggerated. While the unfettered movement of labor could be disruptive in some instances (especially in a context where supportive regional adjustment mechanisms are non-existent), a more gradual process of controlled movement could better serve the interests of regional comparative advantage and the emergence of a new division of labor.

A rapid expansion of liberalization in this area appears to be neither politically desirable or feasible in the medium term. With structurally high levels of unemployment in each country, and a scarcity of high-paying jobs at the professional level, immigration is always a sensitive issue in the region. This largely explains why liberalization in this area has thus far been so slow.

Free Movement of Capital

The free movement of capital is critical for the development of the CSME since it would provide capital at more competitive rates and reduce the transaction costs of doing business across the region. Protocol II (Establishment, Services and Capital) outlines the Community's policy for the free movement of capital and addresses a number of measures that are essential to its attainment, such as rights of establishment, the provision of services and the movement of persons.

⁴³ The Third Meeting of the Council for Human and Social Development (COHSOD) in January 2000.

⁴⁴ Montserrat and Suriname are still to enact legislation.

In 1989, CARICOM undertook to develop a regional capital market. The first step to that end was the cross-listing and cross-border trading of securities on the region's three stock exchanges (Jamaica, Barbados and Trinidad and Tobago). The final goal was a regional stock exchange with the participation of all territories and the inclusion of other instruments. Beginning in January 1991, the conditions for the cross-listing of securities on the three stock exchanges were put in place, but cross-trading has been minimal thus far. The terms and conditions for the listing of securities have been harmonized, and any incorporated CARICOM company can list its securities on any exchange, provided that it satisfies the established criteria.

Member states' reduction and/or abolition of exchange controls has facilitated the movement of capital. There are now more production and service companies listed on all three active stock exchanges in the single market. There are also regional production and service firms with operations in several of the member states. There were arrangements for recording transactions up to the mid-1990s and the period saw reasonable growth in cross-listing and cross-trading activities. With the relaxation of exchange controls in some jurisdictions, however, the arrangements for recording cross-border flows and related trading are no longer adequate.

Existing stock exchanges have been upgraded to allow for easier dealing and settlement. Trinidad and Tobago and Jamaica are now able to engage in simultaneous trading. Most countries are still working on the development of domestic stock exchanges and the mechanisms needed to integrate them into the regional system. Further measures are required to accelerate this process, including the establishment of capital market infrastructure and associated supervisory and regulatory mechanisms in some member states; the introduction of new financial products; education and training for investors and issuers; the provision of appropriate incentives to institutional investors such as insurance companies, pension funds and investment banks to encourage them to hold a greater proportion of local and regional assets in their portfolios; creation of a central securities depository (CSD) to facilitate ease of security storage, retrieval and ownership transfer; the harmonization of listing requirements; streamlining of clearing and settlement procedures; and modernizing company laws across the region (CARICOM [2000a]).

One of the main factors explaining slower implementation in this field is the sheer scale of the technical and legislative work required for the successful establishment of the mechanisms described. Work continues at several levels (national, regional, and international) and some progress has been made.

Full restoration of currency convertibility, exchange rate stability and the coordination of macroeconomic policies -leading to the convergence of member states' economic performance- would stimulate the free movement of capital in CARICOM. These matters will become even more important as the region deepens integration in the CSME. The integration of capital markets and the harmonization of investment policies, as well as legislative and administrative procedures, are other support measures. The outlook for the medium term is one of progressive and gradual liberalization and integration.

Standards

The Caribbean Common Market Standards Council (CCMSC) was established in 1976 to advise COTED on standards-related matters. The establishment of the CCMSC was the first step in efforts to harmonize standards across member states on the basis of Article 42 of the Annex to the Treaty (Harmonization of Laws), which covered industrial standards and sanitary and phytosanitary (SPS) arrangements for agricultural products. The CCMSC's purpose was to promote the regional standards development program and to help build capacity in member states' administration of national standards. Harmonization at the regional level is crucial because of the importance of intra-regional trade and the need to protect consumer health, safety, and the environment without allowing standards to be used as non-tariff barriers.

CARICOM standards are usually adapted from international standards such as those of the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC), Codex, and those of the region's major trading partners. Since 1976, over 100 standards have been drafted under the auspices of the CCMSC and circulated to member states for comment. To date, 44 have been declared as CARICOM standards. The CCMSC has been restructured into a corporate body, the CARICOM Regional Organisation for Standards and Quality (CROSQ). Much work remains to be done to upgrade and harmonize technical, labor, environmental and sanitary standards for products and production processes.

Conclusion

The convergence of Caribbean regulatory frameworks towards best-practice regimes would create a more competitive environment for investment. A significant advantage of such convergence would be that investors would face a more level playing field with developed-country trading partners, thereby allowing CARICOM's competitive advantages to be more easily realized.

Harmonization would lower transaction costs and thus stimulate regional integration. Foreign investment regulations need to be modernized.⁴⁵ Institutional and legal frameworks affecting the financial system and regional capital markets need to be further developed, along with effective prudential supervision. There is a need to upgrade the technical, labor, environmental and sanitary standards applied to products and production processes in order to establish an integrated labor and product market.

As to services, some harmonization is pending in terms of the recognition of professional and technical qualifications under Protocol II, as well as mechanisms for all workers to carry over social security entitlements. Tax systems also need to be reviewed. Some progress has been made in competition policy but more is required, especially at the national levels.

Growing trade and investment in CARICOM demand greater harmonization in most of the areas discussed above. Swifter progress is necessary in the areas of free movement of people and capital, fiscal incentives for investment, and monetary and exchange rate policies. These, which are at the heart of investment decisions, will determine the degree to which investment is rationalized in the single market and whether resource allocation is more efficient.

⁴⁵ In 1973 the harmonization of fiscal incentives for investment was established to encourage foreign investment, minimize competition among member states for foreign investment, promote investment with high local value added and serve as a measure of equitable distribution of benefits by allowing the LDCs to give more incentives. CARICOM LDCs are Belize, Grenada, St. Lucia, St. Vincent and the Grenadines, Dominica, Antigua and Barbuda, St. Kitts and Nevis, and Montserrat.

CHAPTER VI. EXTERNAL TRADE RELATIONS

International Negotiations and External Policy Coordination

"Microstates"⁴⁶ face severe disadvantages in negotiating with the rest of the world because of their weak bargaining power and the high fixed costs of negotiations. As a result of their smallness, they usually lack the necessary human and physical capacity unilaterally to manage the various bilateral and multilateral negotiations that are typical for developing nations. Forming a regional group, or joining with neighboring countries, may help a country share fixed negotiating costs and increase its bargaining power. As the world has become increasingly more integrated and the number of issues to be dealt with in the international arena has grown, the need for microstates to integrate with their neighbors has also increased.

CARICOM countries, by acting together in articulating their mutual interests and sharing the fixed costs of international negotiations, have been able to increase their collective strength and acquire more bargaining power. CARICOM has often served as an effective political instrument in joint negotiations on trade and investment with larger countries or regional trading blocs. Fundamentally, the real gains in CARICOM have come from external collaboration in negotiating market access and financial assistance. The relatively high per capita concessionary inflows into CARICOM members, as well as their wide range of non-reciprocal market access agreements with the United States, Canada, the EU and others under the Generalized System of Preferences (GSP), appear to support this argument (Gonzalez [1984]).

Furthermore, CARICOM has underpinned coordinated positions in multilateral institutions on such matters as debt, the needs of small states and commodity prices. The members' concerns in the areas of environmental and territorial security have also been well put. Additionally, CARICOM is active in various commissions or joint councils with Cuba, Canada, Japan, Mexico, the United States, the FTAA, the OAS, the Group of Three (G-3: Mexico, Venezuela and Colombia) and the Latin American Economic System (*Sistema Económico Latinoamericano*, SELA). In CARICOM itself, the OECS countries in particular have improved their administrative capabilities and collective bargaining power in CARICOM and internationally.

Given the number and nature of issues to be addressed, an individual CARICOM country rarely has sufficient human, physical, or financial capacity unilaterally to conduct fruitful negotiations in so many arenas. CARICOM's recent success in negotiations with the Organization for Economic Cooperation and Development (OECD) on harmful tax competition attests to the advantages of a regional approach.⁴⁷

Successful participation in current and future FTAA, WTO and post-Cotonou negotiations will depend on a capacity for effective representation, preparation, and negotiation. CARICOM, through the Regional Negotiating Machinery (RNM), could help in this respect. The RNM was established to provide a technical foundation for negotiations and to coordinate the talks. It was designed to allow for the pooling of the limited technical resources available to the CARICOM members.

An Overview of the Region's Approach to its External Trade Negotiations

CARICOM countries face a continuously expanding program of trade negotiations at the regional, hemispheric and global level. Briefly, these negotiations include the WTO (GATS, built-in agenda, and the

⁴⁶ The term "microstate", according to the definition of the United Nations, denotes a state with a population numbering one million or less. In this paper, the term is broadly used to denote very small countries.

⁴⁷ The present interest of Bermuda and the Cayman Islands in Associate Membership in CARICOM may to some extent be related to the recent achievements of CARICOM in the negotiations with the OECD.

Doha round), CARICOM (CSME program), the FTAA, and ACP-EU relations. Other negotiations could encompass CARICOM/Cuba (phase two), CARICOM/Andean Community, and CARICOM/Central America coordination and market access issues. In these broad and complex negotiations, the matters to be addressed include market access, intellectual property, standards and technical barriers to trade, investment, sanitary and phytosanitary regulations, subsidies, government procurement, competition policy, dispute settlement, rules of origin, customs procedures and services. Adequate coverage of these areas requires negotiating capabilities, including a technical capacity for evaluation and analysis on the part of governments, the private sector and civil society.

At present, there are many questions about what type of FTAA, if any, will emerge. Will it be more or less integrated than NAFTA and how far might it move beyond the forthcoming round of WTO negotiations? In this uncertain climate, the question of reciprocity remains a central concern of CARICOM's external trade policymaking. Thus far, CARICOM countries have agreed to an approach that emphasizes reciprocity by the CARICOM's MDCs and non-reciprocity for the LDCs. This principle has been put into practice in trade agreements with Colombia, the Dominican Republic and Cuba.

This position has yet to be tested in relations with developed countries. Demands for reciprocity in the FTAA and in some quarters of the EU will have to be addressed. Some Caribbean countries, especially the very small ones, have been promoting an approach of limited reciprocity for small countries, characterized by longer phase-ins of agreement terms and requisite safeguards. This view asserts that the vulnerability of these countries to adverse economic and environmental shocks must be taken into account in applying Article XXIV of the General Agreement on Tariffs and Trade (GATT). A WTO-compatible FTA is seen as beyond the reach of many CARICOM states unless this article is reformed or flexibly interpreted.

Priority is clearly being placed on negotiations for a post-Cotonou arrangement with the EU, the WTO and the FTAA. The WTO is vital, since it governs both the FTAA and any future agreement between the EU and the African, Caribbean and Pacific (ACP) states. Post-Cotonou negotiations and the FTAA also underpin the importance of preserving existing markets and market prospects for exports. Caribbean trade is intricately linked to key markets such as the United Kingdom, the United States and Canada. Developments in these markets, in as much as they might be trade-diverting, are of particular significance to CARICOM.

Regional negotiations also have a strategic place among the negotiating priorities. Regional talks seek to consolidate the CARICOM market and extend it to neighboring countries, particularly for new and non-traditional manufactures and services.

The West Indian Commission (West Indian Commission [1992]) grappled with the twin problems of widening and deepening CARICOM in a new era. It sought to resolve the dilemma by advocating the widening of CARICOM through the creation of the Association of Caribbean States (ACS) and the concurrent negotiation of bilateral trade agreements with non-CARICOM and "non-small" countries⁴⁸ in the wider Caribbean Basin. As the strategy acquired momentum and was caught up in the FTAA process, the idea of extending membership of CARICOM to include other non-CARICOM Caribbean countries gained strength. Haiti's admission into CARICOM is a reflection of this strategy.

One response to the limitations of small market size has been an effort to broaden the integration arrangement. This has been pursued by widening the membership; establishing the ACS; negotiating reciprocal or asymmetrically reciprocal trade agreements with the Dominican Republic, Colombia and Venezuela; and participation in the FTAA negotiations. The basic objectives of widening were to: (i) provide a larger market,

⁴⁸ Suriname was regarded as small for purposes of direct entry into CARICOM.

especially for member states with a growing manufacturing sector; and (ii) provide an environment for CARICOM companies to learn to compete with firms that are close to them in size.

In 1996, CARICOM agreed to give priority to negotiating free trade agreements with Colombia, the Dominican Republic, the Central American Common Market (or Costa Rica) and Venezuela.⁴⁹ It also agreed that the region should signal its interest in entering into trade arrangements with MERCOSUR.

Since that decision, the Community has concluded agreements with the Dominican Republic and Cuba. It has also negotiated some reciprocity in the trade elements of the Agreement on Trade and Technical Cooperation between the Caribbean Community and Colombia, through a Protocol amending the existing accord. A significant feature of all of the reciprocal trade arrangements that the Community has concluded has been that the LDCs (the OECS members and Belize) are not required to grant tariff concessions on imports from third countries.

CARICOM countries view present and future negotiations as important in helping them make a transition to a more competitive and globalized environment. Member states accept that trade preferences are waning, but seek a reasonable period of adjustment for small economies that are vulnerable to rapid changes in prices, environmental hazards and so on. They believe that the international community should be mindful of the plight of small economies. Hence CARICOM trade strategies are linked to the vulnerability of small countries, the United Nations program for small island developing states (SIDS), Agenda 21 and poverty reduction strategies. They are formulated in terms of special and differential treatment. Most of the social partners subscribe to this approach and view the requirements of international competitiveness as very exacting. They argue for an adequate assessment of the negotiating environment facing CARICOM in the medium and long term, so as to maximize the region's strategy in hemispheric and multilateral trade negotiations.

Review of Trade Relations

CARICOM/Latin America and the Caribbean

- CARICOM and the ACS Countries -

In an attempt to shift the basis of its international relations more towards the Caribbean Basin, CARICOM worked for the creation of the ACS. The latter was seen as necessary to promote wider economic cooperation and integration in the region, particularly in the areas of trade, transport and tourism. Since then, CARICOM's commitment to the ACS has seemed to wane as wider regional events such as the FTAA have begun to overtake the ACS agenda.

Some observers continue to believe that the proper path to the FTAA is to increase levels of competition through the ACS. Given the complexity of free trade negotiations among large and developed countries, some also believe that collective bargaining power can only be maximized through the ACS. The ACS Caribbean Preferential Trade Area, however, has not attracted a great deal of attention. Some of the Association's most influential members do not see it as having any particular comparative advantage or adding much value to hemispheric trade liberalization. Rather, the ACS is considered to have more potential in exploiting synergies in transport, tourism, and trade facilitation -areas in which it has undertaken many beneficial activities since its inception.

⁴⁹ The Conference of Heads of Government at its Seventeenth Meeting held in Barbados in July 1996.

To a large extent, the ACS may represent a search for security by small CARICOM countries faced with the turbulence associated with a more globalized world. It might minimize risks under certain circumstances that depend on regional, hemispheric and global developments.

CARICOM/CUBA

The Agreement on Trade and Economic Cooperation between the Caribbean Community and Cuba was signed on July 5, 2000 and was expected to come into force on January 1, 2001.⁵⁰ Thus far, however, the parties have not yet notified each other through diplomatic channels that all internal legal procedures have been completed for the agreement to enter into force. For the purposes of trade liberalization between the Community and Cuba, the agreement takes account of the differences in development levels between Cuba and CARICOM's LDCs, and provides for: the treatment of goods produced in free trade zones/export processing zones; rules of origin to be applied; rules and procedures to resolve issues that might arise in the application of technical regulations; promotion of economic and social cooperation; an agreement to work towards the adoption of a double taxation agreement; trade promotion programs and missions; facilitation of investment and expansion of goods and services trade; trade financing; tourism; adoption of an agreement on intellectual property rights; the development of transport services; special arrangements for trade in selected agricultural products; and unfair trade practices and anti-competitive business practices.

This agreement seeks to further progress towards free trade between CARICOM and Cuba. It is based on a "positive list approach," involving lists of products for immediate duty-free status and phased most-favored nation (MFN) reduction. It provides for a limited number of tariff concessions in well-defined areas and expands the present range of products receiving duty-free and MFN-reduced rates. Its impact on trade is not expected to be significant, however, since trade between Cuba and CARICOM is modest and numerous obstacles are not covered by the accord. Remaining issues include the list of products to be traded duty-free under the agreement, establishment of a line of credit, the conclusion of provisions on intellectual property rights and reciprocal promotion and protection of investment.

Despite its limited impact on current trade flows, through this agreement the two sides are pursuing the long-term objective of strengthening their commercial links. CARICOM is interested in Cuba's reintegration into the region and how that process could expand the integrated market and boost the Caribbean's collective bargaining strength. The conclusion of the accord is therefore in line with the broader goal of widening CARICOM to confront hemispheric integration and multilateral liberalization.

CARICOM/DOMINICAN REPUBLIC

The basic agreement between CARICOM and the Dominican Republic was signed on August 22, 1998 while a protocol to give effect to some of the provisions was signed on April 28, 2000. It involves reciprocity with the five CARICOM MDCs and non-reciprocity with the LDCs until 2005.⁵¹ It recently entered into force between the Dominican Republic and two CARICOM countries (Trinidad and Tobago and Jamaica) after substantial delays in the ratification process, especially by CARICOM members other than Trinidad and Tobago. Ratification by other CARICOM countries is pending.

⁵⁰ It was expected that CARICOM and Cuba would meet and agree on the Protocol and other texts and set everything in order in time for implementation on 1st July 2001, but the new date was not met.

⁵¹ After 2005, negotiations will determine whether non-reciprocity or reciprocity will apply to the LDCs.

The agreement and the protocol cover the tariff treatment (duty-free, phased duty reduction, MFN duty rate) to be extended to every category of product traded between CARICOM and the Dominican Republic; rules of origin for each tariff heading of goods and the certificate of origin to be used; and special trading provisions for selected agricultural products. It also provides for the two sides to negotiate government procurement arrangements immediately after CARICOM's adoption of a regional regime to regulate its members' procurement activities, and special arrangements for the temporary entry of business people.

For most commodities, trade will be free immediately. Some sensitive goods (45 products, including meats of bovine animals, fish and milk) are excluded and will remain subject to MFN treatment. For a small range of 15 goods (pasta, sausages, jams and biscuits) tariff reduction will take place gradually, reaching zero percent by January 1, 2004.

The free trade agreement includes provisions on reciprocal promotion and protection of investment (governing investment in property, stocks and shares, money, intellectual and industrial property rights, and business concessions), as well as the exchange of information on exceptions to MFN treatment in the area of the reciprocal promotion and protection of investment. The details of the agreement on trade in services are yet to be negotiated, but will establish a framework for liberalization that is consistent with the GATS. A timetable for negotiating a trade in services regime has been set.

Pending issues include: the tariff treatment to be extended to some products, including aerated beverages entering the Dominican Republic from CARICOM; the continued though limited application to CARICOM business people of Dominican Republic Law 173, which requires CARICOM nationals doing business in the country to be subject to monetary penalties if agency agreements/contracts with Dominican Republic nationals are terminated; asymmetry in the levels of openness of the services markets, particularly in the telecommunications, professional services and other service sectors; and the treatment of goods and services produced in free trade zones/export processing zones in CARICOM and the Dominican Republic.

The agreement reflects the priority that the governments of both sides accord to strengthening relations and improving integration in the Caribbean region. Its commercial impact will be selective and will largely center on trade between the Dominican Republic and Trinidad and Tobago, which currently accounts for the bulk of CARICOM-Dominican Republic trade. The fears of many CARICOM countries, especially the LDCs, about strong competition from the Dominican Republic limited the scope of liberalization (which is mainly confined to market access in goods, and only with CARICOM MDCs), and affect its potential impact on trade and investment.

In CARICOM's view, the agreement is a stepping stone to a more long-term and permanent economic relationship with the Dominican Republic. Future scheduled negotiations will further advance towards that goal.

CARICOM/COLOMBIA

The Agreement on Trade, Economic and Technical Cooperation between the Caribbean Community and Colombia was signed on July 24, 1994 and entered into force on January 1, 1995. It began as a non-reciprocal accord but because of Colombia's constitutional provisions it had to provide for some reciprocity to Colombia after four years.

Concluded under the facility for partial scope accords available to LAIA members, this is an asymmetrical and reciprocal arrangement whereby CARICOM exports were granted unilateral preferential access to the Colombian market for four years. Thereafter the accord is reciprocal for CARICOM's four MDCs, Barbados, Guyana, Jamaica, and Trinidad and Tobago. A modifying protocol to the agreement was signed on May 21,

1998 and entered into force on June 1, 1999. This makes provision for the four CARICOM MDCs to grant duty-free or duty-reduced treatment to specified Colombian products, while Colombia provides similar treatment to different specified goods from all CARICOM countries (except The Bahamas, which was not a party to the agreement, and Suriname, which was not a member of CARICOM when the accord was concluded). MFN treatment applies to other products. The CARICOM LDCs will continue to enjoy preferences for those of their exports that qualify, without having to reciprocate.

The agreement foresees the phasing out of non-tariff barriers, includes provisions for safeguard measures in the event of balance of payment problems or of injury or threat to domestic production, and covers the application of antidumping and countervailing measures.

The low level of CARICOM-Colombia trade, combined with market penetration difficulties, have curbed interest in further developing an arrangement that might advance as part of a wider CARICOM-Andean trade pact in the future.

CARICOM/VENEZUELA

The trade and investment agreement between CARICOM and Venezuela was signed on October 13, 1992 and became effective on January 1, 1993. Concluded under the facility for non-reciprocal partial scope agreements available to LAIA members, this one-way preferential accord sought to foster CARICOM exports to Venezuela on the basis of duty-free or duty-reduced access for specified products. It provided for a review after five years and contained the following provisions:

- (a) promoting and expanding the sale of goods originating in CARICOM through, *inter alia*, one-way duty-free access to the Venezuelan market;
- (b) stimulating investment with a view to exploiting the two sides' markets and strengthening their competitiveness in world trade;
- (c) facilitating the creation and operation of regional joint ventures; and
- (d) fostering mechanisms for the promotion and protection of investments by nationals of the two sides.

Venezuela agreed to implement a program to eliminate tariff and non-tariff barriers to products that featured among CARICOM's export supply. In return, CARICOM agreed to grant MFN treatment in applying customs tariffs to all imports from Venezuela; to consult Venezuela in the Joint Council when any changes in the rate structure of the customs tariff were contemplated; and to confer with Venezuela before applying any quantitative restrictions on imports from Venezuela beyond those currently in place. The agreement recognized the principle of differential treatment to take account of the different levels of economic development. Implementation of the accord has faced difficulties; numerous trade barriers have arisen.

The agreement has not yet been reviewed. However, with the conclusion of the CARICOM-Colombia protocol, and on the basis of its interpretation of the MFN provisions of the CARICOM-Venezuela accord, Venezuela has requested, as soon as possible, the application of the same preferential tariffs granted to Colombia.

CARICOM/CENTRAL AMERICA

CARICOM and the Central American countries have been brought closer by their experience of working together in the Caribbean Basin Initiative (CBI) and external pressure for the integration of the region.

CARICOM-Central American cooperation has received greater attention in recent years and has featured two joint ministerial meetings to explore the possibility of further collaboration. The Central American countries have joined the ACS and cooperation mechanisms are being devised in that framework. There have been few developments on the trade front. Costa Rica has expressed some interest in associating itself with CARICOM and is now negotiating with Trinidad and Tobago.

The banana conflict has been a major stumbling block in CARICOM's relations with Central America. The position in the WTO of some Central American countries towards the EU banana regime has aroused objections from CARICOM members that are highly dependent on banana production, although CARICOM wants to make progress on trade agreements with at least some countries, such as Costa Rica. Hence the expression of interest in negotiating with Central America. Further cooperation and integration between the two regions is being induced by concern about the status of small countries in the FTAA, the future of the CBI and NAFTA parity, the future of the G-3, and prospects for the ACS.

CARICOM AND MEXICO

CARICOM's relations with Mexico have been governed for the past decade by the CARICOM-Mexico Economic Cooperation Agreement. That accord included no trade concessions and focused largely on mechanisms to strengthen commercial links, such as information exchange, trade promotion and cultural and technical cooperation. There have been proposals to conclude a trade accord with Mexico similar to those with Venezuela and Colombia. Trinidad and Tobago is now discussing an FTA with Mexico, but in general the CARICOM countries view Mexico as too competitive. Mexico has expressed no interest in extending meaningful non-reciprocity or asymmetrical reciprocity to CARICOM.

CARICOM/GROUP OF THREE

The G-3 (Venezuela, Colombia and Mexico) held successful talks with CARICOM, as it did with Central America, and in 1992 it was decided to set up a Caribbean Basin FTA. This process has slowed, however, largely because of events in Venezuela and Mexico, as well as skepticism about an FTA with Mexico. This G-3 process might be revived in the context now emerging. CARICOM might soon begin reciprocal talks with Venezuela and Colombia together, thereby providing momentum for a wider G-3 initiative in view of the stronger interest in regional integration now being expressed in Colombia and Venezuela.

- CARICOM, MERCOSUR and Chile -

Except in the case of Brazil, with which Trinidad and Tobago, Guyana and Suriname have developed economic links, CARICOM has had only a slender relationship with the countries of the Southern Cone. The CARICOM-Brazil cooperation agreement centered on cultural and technical cooperation and little is known of how it has been implemented. CARICOM sought non-reciprocal arrangements from Brazil in the 1980s and Brazilian participation in the Caribbean Development Bank (CDB), but Brazil was reluctant to expand its links with the Caribbean. Against the current background of liberalization, and given the interest in enlarging MERCOSUR to create a South American Free Trade Area (SAFTA), the CARICOM countries' position has never been made clear. Worse, the impression given is that CARICOM and the Central American countries are a US "burden" and that integration in the south should proceed without them.

The CARICOM countries themselves have shown little interest in developing new ties with countries in the southern hemisphere. Few initiatives have been taken to explore what possibilities exist and, except for occasional visits, contact has been very limited. CARICOM recently signed an agreement with Chile to

establish a CARICOM-Chile Joint Commission on Cooperation, Coordination, and Consultation, as well as an accord on scientific and technical cooperation. A similar agreement with Argentina is being contemplated. These would be similar to the existing arrangements with Mexico, Cuba and Brazil. Guyana, Suriname, and Trinidad and Tobago have expressed some interest in free trade or partial scope arrangements but no concrete steps have yet been taken to realize such accords.

- Conclusion -

CARICOM trade relations with Latin American and the Caribbean made more progress in the 1990s than in earlier periods. The various relationships examined above indicate the efforts made to develop a coherent CARICOM strategy for stronger links with the region. A building block approach seems to be emerging, in line with the notion of open regionalism. This follows a process of opening to higher levels of competition (with priority given to the Caribbean Basin) and, simultaneously, greater integration into the hemispheric and world economies. The Caribbean Basin is at the core of that building block process, particularly the "inner Caribbean", comprising the islands in the Caribbean Sea and Central America, Venezuela and Colombia.

In the coming years, Latin America and the wider Caribbean are likely to become yet more important for CARICOM. The FTAA process will oblige CARICOM to seek the optimal path to hemispheric integration by exploring the various options for linking the existing bilateral and regional agreements. Given the imminence of the FTAA and CARICOM's limited negotiating resources, the added value of negotiating new trade accords with partners such as Central America, the Andean Community and MERCOSUR will have to be taken into consideration. The CARICOM countries have already accepted this challenge, which will lead to significant new diplomatic initiatives in the future.

Post-Cotonou ACP-EU Negotiations

The agreements between the EU and the ACP states have given Caribbean countries non-reciprocal duty free access to the EU market for most products. In addition, preferential access for ACP countries is provided under various commodity protocols: sugar, rum, rice and bananas enjoy preferential access in terms of quotas and prices that are above those of the world market. A new framework for EU-ACP trade became necessary after the Uruguay Round because Europe could no longer maintain non-reciprocal Lomé-type trade preferences for a select group of developing countries.

Lomé trade preferences discriminate between ACP and non-ACP countries at similar levels of development. Under the enabling clause, WTO rules allow developing countries to be exempted from the principle of non-discrimination (also referred to as the MFN principle, expounded in Article 1 of GATT) only if they are all treated equally, as in the GSP. This discriminatory policy has managed to survive to date only by means of a waiver.

To facilitate the transition, temporary arrangements are being put in place to preserve the ACP "*acquis*" as far as possible. In this context the ACP states and the EU concluded a framework agreement for the post-Lomé accord and "rolled over" the present Lomé trade regime for eight years. In this period, beginning in September 2002, there will be a second post-Lomé phase of negotiations on WTO-compatible alternative trade arrangements. These negotiations will be concluded by 2008 and the new agreements will be implemented over a transitional period.

The EU asked the WTO for an eight-year waiver for the rollover of the trade regime during the preparatory period. The compatibility of the Lomé Convention with WTO rules was ensured by a waiver from Article I of the GATT (on MFN treatment), but the waiver ended when Lomé IV expired on February 29, 2000.

The conditions under which waivers are granted were amended by the Marrakesh accords and are now dealt with in Article IX of the agreement establishing the WTO, which was not in force when the current waiver was obtained. The WTO approved the waiver at the recent Doha ministerial meeting after much resistance by some states, including some banana-producing countries that have opposed special treatment for the ACP.

The current Lomé-type arrangement, or an extended GSP more favorable than the present system, will be offered to all the LLDCs,⁵² both ACP and non-ACP. For the non-LLDC ACP states, the choice will be between either the GSP (the current one or an enhanced version), which will not be as favorable as the one extended to the LLDCs, or negotiation of an FTA. Since the WTO allows for differentiation among non-LLDCs, the EU will review the GSP in 2004 to determine the best offer it can make to ACP countries that do not want an FTA. For individual non-LLDC ACP states, the EU offer might fall between two extremes. In a worst case scenario, a particular country will be graduated in the GSP and graduated out of some sectors, perhaps finding itself in worse situation than with the current, graduated GSP status for such a country. In a best case scenario, an enhanced GSP might provide the same status as that granted to LLDCs if the non-LLDC ACP state is deemed to be a deserving case under either a revised enabling clause or revised LLDC criteria on the grounds that changes in its economic conditions qualify it for LDC status.

In line with the principle of more favorable treatment for LLDCs, the EU's tariff concessions to these countries are significantly more far-reaching than those for non-LLDCs. The ACP and the EU, however, agreed to retain special treatment for ACP LDCs, and to take due account of the vulnerability of small, landlocked, and island ACP countries.

The task ahead is to develop a WTO framework that will allow: (i) the least developed to have Lomé or Lomé-plus access, (ii) at least standard GSP access for the developing countries, and (iii) an FTA option for the developing countries. These three different standards of treatment, however, must be adequately reconciled.

Improving the GSP on the basis of the existing conditions in the enabling clause (that is, without discriminating between beneficiaries) would work above all in favor of the non-ACP developing countries. This could have a significant impact in those sectors where ACP non-LDCs have not attained a sufficiently high level of international competitiveness.⁵³

As regards negotiation of Economic Partnership Agreements (EPAs), the EU will seek reciprocity individually or from all members of an ACP subregion (including LDCs favoring an EPA) that request negotiations and that either engage in free trade or plan to introduce free trade. This might be the case for custom unions or completed free trade areas among ACP states.

CARICOM countries will have to weigh the above options. Those that cannot compete might want the freedom to use national protection under non-reciprocity. Others might seek to trade reciprocally or on a non-discriminatory MFN basis. It has been argued that reciprocity will help CARICOM countries integrate "smoothly and gradually" into the world economy by attracting foreign direct investment, by "locking in" the process of trade liberalization, and by helping Caribbean economies to restructure through a combination of trade-induced incentives and financial and technical support. Others see the eventual impact of reciprocity as negative in as much as it might cause a sharp decline in tariff revenues (which is hard to offset by diversifying fiscal revenues in the short to medium term) and force countries to liberalize their trade at a pace and to an extent that is less attractive than might be achieved unilaterally.

⁵² LLDC refers to the UN or EU definition of least developed country.

⁵³ It must also be borne in mind that for many products, any improvement in preferences may be wiped out by the outcome of the present and possible forthcoming rounds of multilateral trade talks.

While the next eight years of continued EU trade preferences might provide a sense of security in an increasingly liberalized world economy, difficult decisions must be made eventually. With the exception of Haiti, the CARICOM countries are considered as non-LLDCs in ACP-EU arrangements and should opt either for an EPA, the GSP or some as yet undefined alternative.

While the current GSP could provide some CARICOM countries with a margin of preference "globally equivalent" to that granted under the Lomé Convention, the withdrawal of preferences (even for countries less dependent on them) might have adverse microeconomic effects and limit countries' scope to diversify exports in sectors categorized as sensitive or very sensitive in the GSP.

CARICOM members, especially the OECS countries, have indicated a strong interest in commercial non-reciprocity. It is therefore important that they determine which possible improvement of GSP preferences would be in their favor, since the ACP states are the main exporters and GSP beneficiaries have a minimal share of the EU market. Hence improvement of the GSP would mainly favor the ACP countries and their current preferences would not be eroded relative to other suppliers of the EU market.

It is not clear that an improved GSP would include the commodity protocols, especially since the present GSP has abolished tariff quotas. Retaining the preferences granted under these protocols for CARICOM countries that would benefit from the GSP alone in 2008 will require WTO waivers. The EU's present GSP is to be renewed in 2004.

A challenge has already been posed to CARICOM by the EU's 2001 offer of "everything but arms" (EBA), whereby 49 least developed countries received tariff- and quota-free access to the EU for all products except arms. Implementation was immediate except for transition periods for bananas, rice and sugar, tariffs on which are to be phased out over the next eight years. At the end of the transition period this measure is expected to cause trade diversion at the expense of CARICOM countries now supplying the goods that will face liberalized competition from the EBA countries.

The GSP issue also has several implications for the FTAA negotiations. Significant among those implications are the scope for maneuver within the trade regime and the recognition that whatever is decided in the post-Cotonou context must respect the principle of non-discrimination between the EU and North America in tariff treatment by the Caribbean members of the ACPs group.

The non-reciprocal alternative is essentially a matter of what the EU is prepared to offer in a revised GSP that would be Cotonou-equivalent for existing exports. Some countries might choose that option, even though the GSP is less than Cotonou, once it covers a fair amount of existing exports and does not entail reciprocal adjustment costs. The trade-off is the loss of some existing and potential market access for the greater gain of avoiding adjustment costs.

The 2004 EU GSP exercise will not cover potential exports that the Caribbean has not used under existing Cotonou tariff preferences. In addition, and more importantly, the GSP will not cover the protocols. Although the latter are related to reform of the Union's Common Agricultural Policy (CAP) and the new WTO round on agriculture, the protocols can still be incorporated into a free trade arrangement since duty-free tariff quotas are permissible under the GATT Article XXIV. It might be possible for the EU to grant CARICOM asymmetrical treatment on the products covered by the protocols because of concern about subsidized EU exports of similar products.

The biggest obstacle to extending Cotonou-equivalent concessions under the GSP is that the EU would have to give such concessions to other non-ACP developing countries, which would be costly. Indeed, unless the EU is granted a waiver for the ACP states under the enabling clause it would be impossible, since juggling rates in the existing GSP for different countries and regions would hardly be appropriate. The

current delay in securing an eight-year WTO waiver for the Cotonou agreement may reflect what is possible in future.

The EU already has a clear concept of how it wants to proceed with the EPAs. It believes that Article XXIV is flexible enough to go beyond 12 years if necessary. According to one interpretation of the article, a country only has to inform the WTO General Council that it needs more adjustment time (beyond 12 years) and this cannot be challenged in the WTO. Many FTAs in Latin America and other regions have taken over 25 years or more to meet this requirement of the article, and they are used to buttress this legal position. There is currently no desire to challenge Article XXIV in the WTO since the flexibility needed is already available.

With that flexibility, the EU believes that different transition periods could be arranged for different countries. The Union is encouraging the ACP LLDCs to join the EPA process under Article XXIV and to enjoy longer transition periods, perhaps 25-30 years or more. In accepting responsibility to help the ACP countries integrate gradually into the world economy, the EU has decided to work with a "soft" EPA (longer transitions and exceptions for sensitive products) and to strengthen regional integration movements as the basis for global integration.

Several unresolved issues will influence the choice between an EPA and some alternative non-reciprocal trade arrangement. The proposed EPA is still broad and lacks details. Its development context, as well as the trade related "preference" areas (such as contingent protection, standards, process and production criteria) that may accompany it, have yet to be specified. Moreover, for many Caribbean countries that are highly dependent on protocols and preferences in textiles, the existing Cotonou preferences are far from equivalent to GSP preferences on current exports. Substantial enhancement of the GSP would be required to make it Cotonou-equivalent on those goods. Worthy of serious consideration -especially if there are no WTO challenges- is a "soft" EPA that makes provision for longer transition periods, some exemptions from disciplines, and the exclusion of sensitive ACP products.

Any EPA could have less to do with securing preferences for trade in goods than with securing improved access in fourth generation areas (services, intellectual property rights, competition policy, safeguard measures, contingent protection and, especially, antidumping, procurement and sanitary and phytosanitary measures). The Caribbean would have a strong interest in many of these new areas, particularly services, where new trade concessions relevant to the region's development needs could be positive.

The foregoing considerations remain subject to developments in the WTO and the EU. If reforms are possible, especially waivers and changes to the enabling clause, the picture might change. The uncertainty encourages countries to keep their options open.

There remains the possibility that CARICOM countries will disagree on the preferred option. Haiti and some of the poorest small island states, for example, might qualify for special treatment from the EU; some other countries might want the GSP; others may want a full-fledged (though on asymmetrical) FTA. It might be difficult to reconcile these different approaches with the notion of the CSME, although the situation is less threatening for CARICOM than for other ACP regions, where differences in development levels are much more pronounced. Nevertheless, the situation raises questions about CARICOM's practice of treating MDCs and LDCs differently: the latter enjoy longer transition phases or temporary exemptions, and in some cases (as in Protocol VII) their "permanent" differentiation has been instituted. CARICOM might have to review this approach because a situation could arise in which where the concessions given by CARICOM's MDCs to the LDCs are not granted by third parties, either in the WTO or in plurilateral trade agreements.

Each CARICOM country's perspective of the FTAA is largely dictated by its perception of the costs and benefits of hemispheric integration. The determination of such costs and benefits, however, is critically dependent on the very process of negotiation. The latter is incomplete, infused with uncertainty and beset by slow decision-making. Since the FTAA is still being designed, all options remain open.

CARICOM member states, like those of in other integration schemes, are weighing their options and assessing several scenarios. The positions presented by CARICOM in the negotiations to date suggest that the members expect hemispheric integration to help them adjust to a world driven by globalization and liberalization, and in which there will be little or no place for special preferences in future.

More than most (if not all) regions, CARICOM has enjoyed significant non-reciprocal preferences over the last 25 years that have allowed it to continue the production of high-cost basic agricultural commodities. The abrupt elimination of those preferences could prompt severe labor disruption and perhaps even ethnic strife in certain countries. The economic, political and social costs of adjustment and transition are high for economies that have enjoyed such extensive protection in developed countries' markets. Added to the risks are the natural barriers attendant on smallness: the relatively higher transport costs that stem from small volumes; the higher per capita utility costs associated with lack of scale and indivisibilities; greater difficulties in diversifying because of narrow specialization and small markets; the higher transaction costs for their small firms to enter foreign markets in areas such as acquiring marketing information and penetrating distribution networks; the disproportionate impact of natural disasters; and the binding constraints of limited technical and administrative capacity. These bottlenecks do not necessarily condemn small states to be less developed than large ones but they do involve different risks and require appropriate policies.

An FTAA that focused mainly on reducing trade barriers and harmonizing regulations would leave these problems unaddressed by centering on securing national advantages in other markets. The natural constraints facing small states would persist. Hence CARICOM sees no deeper development purpose at work preceding formal market integration. CARICOM's own integration experience is of cooperation and solidarity among small Caribbean states to ensure economic and political security, and the members are not unperturbed at the prospect of an FTAA in which economic gain is the fundamental motive rather than a supplementary benefit. Moreover, CARICOM is concerned that the absence of non-trade concerns is compounded by the sheer diversity that has to be accommodated in a much bigger region.

These perspectives have conditioned CARICOM's attitude to the FTAA but the structural factors should not be ignored. Important among these is CARICOM's slow and uneven pace of trade and investment integration in the hemisphere. It is clear that CARICOM's trade with the Hemisphere is growing faster than its trade with other destinations, but the growth rate and the high concentration on one or two countries do not foster strong consensus for more policies to intensify that trade. This is evidenced by the small number of free trade and partial scope arrangements that CARICOM has concluded relative to other regions and countries.

Additionally, the widening of the integration process is constrained by the slow pace at which CARICOM is being deepened. The proposed CSME lacks depth, as evident in the significant divergence between the proposed FTAA and the present state of integration in CARICOM. A comparison of the nine FTAA negotiating areas with what prevails in CARICOM makes plain that, for seven of them, CARICOM's internal arrangements are rudimentary, embryonic or non-existent. These seven are services, government procurement, competition policy, intellectual property rights, investment, subsidies, antidumping and countervailing measures, and dispute settlement. Only in market access and agriculture can CARICOM

⁵⁴ This section is based on Gonzales [2001].

claim to have some depth. Hence the proposed FTAA far surpasses CARICOM in terms of a harmonized policy area; this may be so even if it were accepted that CARICOM has a common (in many ways uncommon) external tariff and some history of functional cooperation and popular collaboration.

The structural comparisons mentioned above must take account of the process criteria that have affected CARICOM's vision of the FTAA. The failure of CARICOM's concentric approach to hemispheric integration, involving an inner ring of small states in Central America and the Caribbean, has removed the benefit of approaching integration with the solidarity born of a wider coalition of interests, as the Benelux countries did in Europe. The idea of linking the smaller states of the Caribbean Basin and progressively opening markets to greater competition was never put into practice, although some diplomatic effort was made in that regard. The reasons for the lack of convergence are unclear, but diplomatic shortcomings were certainly important.

Another procedural issue that has governed CARICOM's view of the FTAA is the lack of progress on the group's proposals regarding smaller economies in the FTAA. Despite the Miami Declaration in 1994, the San José Declaration in 1998, and the Toronto Declaration in 1999, all of which included commitments to take account of the development level and size of economies in the FTAA process, no meaningful progress has yet been made beyond some agreement on the need for technical assistance. The CARICOM countries are still hoping that the issue of special and differential treatment will finally be addressed as the FTAA process enters a more substantive phase. There is growing consensus about the need to examine eligibility criteria, but this must be matched by relevant provisions that would meet the demands of these countries.

Moreover, the high rate of non-attendance on the part of many of the very small CARICOM countries has had an alienating effect. It is not that they are unrepresented in the committees and working groups, since they have designated the Regional Negotiating Machinery (RNM) to represent them. Such group representation, however, is not the same as having a dedicated representative. The psychological effect of knowing that the human and financial resources are lacking to participate actively in the FTAA can be debilitating.

Finally, CARICOM continues to stress that FTAA members must not only accommodate development considerations within the FTAA process but must also adopt a broader perspective that takes account of the development interests of some FTAA members in other international fora. It cannot reconcile discussion of integration in the Hemisphere with the severe opposition to transitional preferences in the WTO for a few small Caribbean countries that are heavily dependent on those preferences.

In conclusion, CARICOM states find it hard to accept that they must be fatalistically pragmatic as small states and adjust to regional and multilateral liberalization at any cost. They have adopted a defensive posture and are examining their options on all fronts. Their unfinished agenda is one of longer transition periods to enable them to meet their obligations and effect their own regional arrangements. They also want lower thresholds and less onerous obligations that are commensurate with their limitations as small countries that lack the administrative and technical capacity to implement some obligations in full. CARICOM is hoping to win support for this agenda in other fora, such as the WTO and the forthcoming negotiations between the EU and the ACP states.

The WTO

- Compatibility of CARICOM Regional Agreements with WTO Commitments -

At the multilateral level, the CARICOM single market arrangements are subject to, and must be consistent with, the various WTO agreements including the GATT agreement on trade in goods, the GATS accord on

services, the agriculture agreement and the disputes settlement agreement. Critical elements of in these agreements include the MFN provisions (a commitment to grant the goods and services of all countries the best treatment granted to the goods and services of any one country) and the national treatment provision (a commitment to grant to the citizens of all countries conditions that are at least equivalent to those accorded to nationals). The Treaty of Chaguaramas was deemed to be compatible with the WTO although, as noted in the discussion of Protocol IV above, a number of countries retain quantitative and other restrictions that are not consistent with WTO commitments.

CARICOM members have been able to structure provisions in the CSME to give more favorable conditions to goods, services and nationals of member states than to similar goods, services or nationals of third countries, by virtue of exceptions built into the agreements with third parties or provided for in international accords such as the Marrakesh Agreement. The exemptions are permitted on the basis of agreed conditions but the latter are not static. The WTO agreements are re-negotiated from time to time, as is currently the case for the agreements on agriculture and services.

Assurance that CARICOM members can continue to honor the full range of commitments, obligations and undertakings in Protocols II to IX will depend on the outcomes of these periodic negotiations. Hence the strong link between the external negotiating process and the attainment of regional objectives. The CARICOM treaty, as modified by Protocols II to IX, is founded on the assumption that commitments in multilateral and bilateral agreements will never offer better conditions to nationals of third countries or to goods and services from those countries than is provided to nationals of CSME members. The revised CARICOM treaty will be submitted to the WTO after its adoption.

The Marrakesh Agreement has also obliged CARICOM countries to change domestic legislation and administrative procedures, as well as to assume commitments on notification. Trinidad and Tobago and Jamaica are ahead of the other members in meeting their notification requirements, partly because they have representatives in Geneva. The other CARICOM countries are generally slower in compliance. Many have not begun to address the administrative and legislative requirements of the WTO, despite the imminence of the deadlines. They face particular difficulties in the areas of phytosanitary and sanitary standards, TRIMS and antidumping requirements. CARICOM recently launched a support program to help countries meet these obligations.

- Implementation of Uruguay Round Agreements: Progress Made and Main CARICOM Concerns -

CARICOM has always been concerned that the Marrakesh agreement did not take sufficient account of the conditions of small states. The experience with the WTO panel on bananas has led the banana-producing CARICOM countries to question whether the WTO appreciates their commodity dependence, and whether a case can be made for a waiver or some positive discrimination among developing countries in favor of small vulnerable economies. Trade remedy measures (countervailing duties, antidumping) and dispute settlement also prompt concern. The cost of litigation and investigation for small countries using these measures is prohibitive. Alternative arrangements are needed.

As regards agriculture, there is a feeling that CARICOM bound tariffs at low levels with no proper use of special emergency agricultural safeguards in the WTO. Some CARICOM countries now face import surges and do not have appropriate mechanisms with which to respond. It is further believed that many developed country subsidies are hidden, and cannot be effectively countervailed.

With few exceptions, CARICOM countries' position on implementation is difficult to gauge. Before the 1999 WTO ministerial meeting in Seattle, Jamaica was the only CARICOM country that had made proposals on implementation issues, either with other countries or alone.⁵⁵

Discussion at the Special Sessions of the General Council in June and July 2000 (WTO [2000b]) suggest that CARICOM concerns centered on the Agreement on Subsidies and Countervailing Measures (SCM), the Antidumping Agreement, and the Agreements on Sanitary and Phytosanitary (SPS) Measures and Technical Barriers to Trade (TBT). It is clear that some aspects of implementation do not favor CARICOM interests. The Agreement on Textiles and Clothing (ATC) is a case in point, since liberalization under the Multifibre Agreement (MFA) could disrupt the benefits currently available under the CBI and the Cotonou agreement. Similarly, the administration of tariff rate quotas (TQRs) does not favor the region since it could affect the status of the commodity protocols under Cotonou. On the latter point, the General Council supported transparency, equity and non-discrimination. While more transparency might not be problematical, the elimination of non-discrimination could be. TBT and SPS are generally applicable to CARICOM as they allow the region to participate in standards-setting.

CARICOM does not have a coherent position on implementation issues. Each country expresses its own concerns and there is significant divergence in some areas. Annex VII on the prohibition of export subsidies illustrates the lack of clarity and coherence. First, it is not clear how prohibiting the use of subsidies has impinged on the use of subsidies or on development generally. In addition, since the criterion of per capita income does not favor most CARICOM countries, other criteria are being advanced individually. These include trade share, small suppliers (small and medium size firms, small economies), and countries not using subsidies before 1986 and 1994. It is not clear, however, how the various criteria might open the door for existing and potential competitors in the FTAA and elsewhere to use subsidies to the detriment of the region. Similarly, the *de minimis* proposal on antidumping to protect small suppliers might give access to competitors. The region should first examine the areas in which it is a large supplier and those in which it is a small supplier. Only then will it be possible to determine where *de minimis* would adequately apply.

A major concern for Caribbean countries at the Doha ministerial was an extension of the December 2002 deadline ending the transition period for phasing out export subsidies for industrial products (in keeping with the Agreement on Subsidies and Countervailing Measures). This deadline was applicable to all free zones and to most fiscal incentives in the form of tax holidays and certain duty exemptions. The request for an extension of the transition period was made under Article 27.4 of the Agreement on Subsidies and Countervailing Measures. At Doha, there was agreement that the Committee on Subsidies and Countervailing Measures will follow the procedures set forth below for extensions of the transition period under Article 27.4 for some developing countries that meet certain criteria (WTO [2001b]).

Other concerns spring from commitments undertaken on trade in intellectual property rights (TRIPS), especially the implications of the pharmaceutical patents system for public health policy in the context of pandemics and epidemics, especially HIV/AIDS. The Caribbean has one of the world's highest per capita incidences of HIV infections and shares developing countries' concerns for greater flexibility to produce or source less expensive drugs. At Doha, it was agreed that the TRIPS agreement does not and should not prevent members from taking measures to protect public health (WTO [2001c]).

In general, CARICOM countries' have participated little in implementation issues. Most have been inactive, partly the result of a lack of preparation and partly of an absence of strong interests. The inactivity has

⁵⁵ Jamaica submitted requests in Agriculture (Market Access, a Special Safeguard Clause and Domestic Support) (WT/GC/W/370); Sanitary and Phytosanitary Standards/Technical Barriers to Trade - SPS/TBT (WT/GC/W/371); Subsidies, Textiles, TRIMS, TRIPS, Customs Valuation, Balance of Payments Provision Arts XV and XVIII (Job (99)/3169 and Add.1); and Regional Trade Agreements (WT/GC/W/214).

been justified on the grounds that Caribbean interests cut across most of the divergences, and hence the region's interventions in the debate seem to have been unsystematic.

Despite the gains made at the Doha ministerial, progress has been slow in many of these areas of concern to CARICOM. The WTO proposed the creation of a legal bureau to offer reasonable rates for countries that cannot bear the costs of litigation, but most of the other implementation issues remain unresolved.⁵⁶ They have been included in the work programs of the General Council and various specialized committees (WTO [2001d]).

- CARICOM Interests and the Built-In Agenda -

CARICOM countries have pressed in particular for recognition of the needs of small economies, focusing on: adoption of a development-driven work program and a work program on smaller economies within the WTO; a binding arrangement to offer special and differential treatment to developing countries; approval of the much-delayed waiver for the Cotonou agreement;⁵⁷ and greater transparency in WTO decision-making.⁵⁸ In the WTO, small developing states are now covered by the provisions on special and differential treatment that relate to developing countries as a whole. In all, the various texts contain 72 of the 97 different provisions on special and differential treatment relating to developing member countries as a group. The conceptual basis for their inclusion lies in the observation that these countries suffer from intrinsic disadvantages and that their trade policies for sustainable development are different.

According to the 1994 GATT, these provisions can be classified into five main groups: those aimed at increasing trade opportunities through market access; those requiring WTO members to safeguard the interest of developing countries; those allowing flexibility for developing countries in rules and disciplines governing trade measures; those allowing longer transitional periods for developing countries; and those on technical assistance.⁵⁹

The main issue for CARICOM countries is whether another category of vulnerable countries can be created, entailing special and differential measures that are less than those offered to the LDCs but that meet their needs, and treatment that is transitional rather than permanent (WTO [1998]). This fundamental issue involves the restructuring of the present system of classification criteria for differentiation and graduation among developing countries. The Doha ministerial made some progress on small economies in terms of procedure. There was agreement on establishing a work program on small economies' trade under the auspices of the General Council: "The objective of this work is to frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO Members".⁶⁰

The built-in agenda in services is important for CARICOM's development since it gives CARICOM a chance to make progress in some areas and to expand commitments assumed in the Uruguay Round.

⁵⁶ According to the WTO, around 100 implementation issues were raised in the lead-up to the Doha Ministerial Conference. The implementation decision, combined with paragraph 12 of the main Doha Declaration, provides a two-track solution. More than 40 items under 12 headings were settled at or before the Doha conference, for immediate delivery; and the vast majority of the remaining items are immediately the subject of negotiations.

⁵⁷ Approval of the waiver was obtained in Doha (WTO [2001a]).

⁵⁸ RNM Update Special Issue: The Fourth WTO Ministerial Part 1. November 23, 2001.

⁵⁹ Additional provisions within these five groups relate specifically to the least-developed countries.

⁶⁰ The General Council shall review the work program and make recommendations for action to the Fifth Session of the Ministerial Conference.

CARICOM services exports face a significant number of trade barriers. This is particularly true for non-tourism services, an area in which CARICOM needs to diversify, such as entertainment and professional services. The built-in agenda in services will also be decisive for the FTAA negotiations, the post-Cotonou agenda, proposed services negotiations between CARICOM and the Dominican Republic, and other possible trade talks that might seek to go beyond the WTO in service trade. The built-in agenda is further important because of its possible implications for implementation of the provisions of Protocol II.

Hence CARICOM members face significant challenges arising from the potential introduction of new obligations in the GATS by means of further development of its norms and disciplines, and from the adoption of enhanced commitments in the current GATS negotiations. There must be compatibility between other agreements covering trade in services and the relevant GATS provisions, and GATS-plus norms and disciplines in other agreements to liberalize services trade will have to be defined. CARICOM has developed a GATS agenda on services and submitted proposals on negotiating guidelines and procedures.

In agriculture, CARICOM has a special interest in the implications of further liberalization in negotiations about the built-in agenda. The main concern is the effect of such liberalization on its traditional agricultural exports of sugar, bananas and rice, especially to the EU. CARICOM hopes for acceptance of transitional preferences for small vulnerable economies. The region is seeking a slower pace of liberalization for developing countries, especially small vulnerable countries (with special safeguards in agriculture), the abolition of tariff peaks and tariff escalation, and the creation of a "development box".

Agriculture is a substantially divisive matter in the built-in agenda because of domestic support and export credits and subsidies. The quandary for CARICOM is that it benefits from agricultural protectionism in the developed countries but it would like to see some markets open so it can expand its exports.

In conclusion, the progress made in the negotiations on the built-in agenda include a work program for small economies and a review of special and differential treatment. The negotiations on agriculture and services are complex and protracted, requiring comprehensive technical preparation and negotiating skills. Future negotiations in these areas will be decisive for CARICOM.

- CARICOM Interests and a New Round of Multilateral Trade Talks -

Long before the Doha meeting, Caribbean countries had insisted that progress be made on implementing some WTO agreements and decisions, such as those on intellectual property, agriculture, sanitary and phytosanitary measures, and technical barriers to trade. They sought attention to the difficulties and resource constraints encountered in implementing obligations in various areas. Resolution of a wide range of implementation concerns, however, is elusive. Like many developing countries, CARICOM members had insisted on progress in this area as a precondition for discussion of a further WTO round, but by the time of Doha little progress had been made. To CARICOM it was not apparent how the interests of the WTO could be best served by expanding its work program in this context.

The developing countries did not agree to launch a new round at Doha. Nor did they agree that any new round will be launched before or at the next ministerial, which is two years away. They agreed to negotiate on new issues after that ministerial, subject to agreement, among other things, on the "modalities" of the talks. CARICOM supports this position. In two years, the region's negotiating interests and options might have to be defined against the background of a wider agenda of a new round that includes implementation as well as new negotiating areas.

Conclusion: Challenges for CARICOM

The undertakings of the CSME are being developed in a context marked by CARICOM countries' acceptance of increasingly binding multilateral obligations, a growing number of bilateral and plurilateral agreements that also involve binding commitments, and regional agreements that are subject to rigorous WTO scrutiny. A major challenge for CARICOM is to ensure that treatment in agreements with third parties does not undermine the desirable margin of preference for CARICOM producers and, at worst, is not more favorable than the treatment given in the CSME. Reciprocity will doubtless make it less possible to give preferential treatment to CARICOM nationals, but in the context of open regionalism the granting of protection and incentives -especially in a small integration movement- should be tempered with moderation and a concern to introduce international competition without undue delay.

It is also important to reconcile the granting of preferences to the EU with those under the FTAA and *vice versa*. This involves sequencing the negotiations in such a way as to ensure minimum costs and maximum benefits in the granting of trade concessions. The overarching role of the WTO will doubtless determine the framework and must be considered from the outset. The search for WTO compatibility and consistency across agreements will be taxing.

CARICOM-Latin American relations present another challenge. Relative to other periods they developed significantly in the 1990s. Spurred by the need to devise a new basis for its diplomacy at the end of the Cold War, CARICOM countries took new initiatives to foster greater cooperation and mutual understanding with Latin America. The various relationships examined above are indicative of some coherent CARICOM strategies to develop links with Latin America and the wider Caribbean. A building block approach seems to be emerging, in line with the notion of open regionalism. This follows a process of opening to higher levels of competition (with priority given to the Caribbean Basin) and, simultaneously, greater integration into the hemispheric and world economies. The Caribbean Basin is at the core of that building block process, particularly the "inner Caribbean", comprising the islands in the Caribbean Sea and Central America, Venezuela and Colombia. Mexico and Central America could be consolidated into that inner core if certain diplomatic initiatives are undertaken and events unfold favorably.

One expression of this strategy is CARICOM's interest in an FTA with the Andean Community. Any extension of the CARICOM-Colombia and CARICOM-Venezuela agreements will probably be within the framework of a CARICOM-Andean Community FTA. CARICOM has also expressed interest in negotiations with the CACM. The Andean Community and the CACM, in turn, have indicated interest but in both cases other pressures divert priority attention away from CARICOM. Arrangements with MERCOSUR and Chile are more long-term prospects.

The FTAA process will force CARICOM to explore various options for linking bilateral and regional agreements. The added value of negotiating new trade agreements with Central America, the Andean Community and MERCOSUR will have to be considered carefully in light of the imminence of the FTAA and CARICOM's limited negotiating resources.

The intensification of trade negotiations and the widening range of negotiating timetables, agendas and issues pose management problems for small countries that have little influence on agenda-setting. CARICOM is conscious of this, and of the need to maximize its negotiating strength. It uses a Prime Ministerial Subcommittee to give direction to policymaking, and the RNM to provide the technical base needed to coordinate the negotiations. These instruments were designed in the interests of pooling and complementing the limited technical resources of the member states.

CHAPTER VII. INSTITUTIONAL STRUCTURE AND FUNCTIONAL COOPERATION IN CARICOM

Governance and Administrative Efficiency

In the light of trends in good governance, CARICOM governments have pledged to increase transparency, participation and accountability, as well as to reduce administrative costs and to deliver better and more efficient services to the private sector. Protocol I, which provides for the institutional structure of the Community, was adopted with the latter aims in mind. In 1997 the Community sought to restructure its organs and institutions.⁶¹

The Conference of Heads of Government, comprising the leaders of the member states, is the Community's supreme body and final authority. Its main responsibility is to determine and provide the thrust of CARICOM policies. It is the final authority for the conclusion of treaties on behalf of the Community, and for entering into relationships between the Community and international organizations and states. The Conference is also responsible for making the financial arrangements to meet the Community's expenses, but has delegated this function to the Community Council. Decisions of the Conference are generally taken unanimously.

The Community Council of Ministers, the second highest body, consists of ministers responsible for Community affairs and any other minister designated by member states at their discretion. The Council is responsible for developing the Community's strategic planning and coordination in the areas of economic affairs, integration, social and functional cooperation, and external relations. These two main Community bodies are assisted by the following four Ministers Councils:

- (1) The Council for Trade and Economic Development (COTED) manages the internal and external trade regime, policies relating to the movement of factors, and the sectoral cooperation programs.⁶² COTED promotes the Community's trade and economic development, and oversees the operations of the CSME;
- (2) The Council for Foreign and Community Relations (COFCOR) manages relations with international organizations and third countries;
- (3) The Council for Human and Social Development (COHSOD) promotes human and social development; and
- (4) The Council for Finance and Planning (COFAP) coordinates economic policy, as well as the financial and monetary integration of the member states.

Other support mechanisms instituted were a Bureau of the Conference -to take decisions on behalf of the Conference between meetings- and entrusting particular Heads of Government with responsibility for promoting and implementing areas of the integration process on the basis of the agreement of the Conference.

⁶¹ The Caribbean Community has a number of institutions: the Caribbean Disaster Emergency Response Agency (CDERA); Caribbean Meteorological Institute (CMI); Caribbean Meteorological Organization (CMO); Caribbean Food Cooperation (CFC); Caribbean Environment Health Institute (CEHI); Caribbean Agricultural Research and Development Institute (CARDI); Caribbean Regional Centre for the Education and Training of Animal Health and Veterinary Public Health Assistants (REPAHA); Association of Caribbean Community Parliamentarians (ACCP); Caribbean Centre for Development Administration (CARICAD); and Caribbean Food and Nutrition Institute (CFNI). The following are associate institutions of the Community: the Caribbean Development Bank (CDB); University of Guyana (UG); University of the West Indies (UWI); and Caribbean Law Institute/Caribbean Law Institute Centre (CLI/CLIC).

⁶² The COTED is now responsible for trade and economic development issues, which were previously dealt with by the Common Market Council. The latter has been replaced by the Community Council.

Additionally, CARICOM has developed a Charter of Civil Society that establishes standards and expectations for all members. It has created an Association of Caribbean Community Parliamentarians as a deliberative (rather than legislative) body that brings together government and opposition representatives to discuss regional matters. There are also plans for a Caribbean Court of Justice that will serve as the final appellate court for the various jurisdictions and, if eventually established, will have exclusive jurisdiction over disputes arising from the interpretation and application of the Treaty of Chaguaramas.

Cooperation to reduce administrative costs through joint action in areas such as foreign representation and customs administration has been in effect for some time. There have been some problems in the former area but efforts are continuing. National Customs Administrations, such as the national standards bureaux, have also cooperated to improve efficiency. The Community recently decided to create the Caribbean Regional Organisation for Standards and Quality (CROSQ) to assist member states on all standards matters.

Protocol I is currently in provisional force and has been ratified by nine members. All of the ministerial organs (the Community Council, COFAP, COFCOR, COHSHOD, COTED) and their subsidiary bodies have been constituted and are operational. Their effectiveness in enhancing governance is unclear; the matter requires detailed study. The experience of the first three years suggests that some adjustments might be needed, as evidenced by the critical delays⁶³ in implementing treaty commitments and important decisions of the Conference, ministerial councils and committees.⁶⁴

According to CARICOM, "the culture of delays has generated cynicism and skepticism about the seriousness of the mission and delivery of the benefits which the CSME promises; weakened enthusiasm among the social partners; encouraged frustration and complaints from stakeholders, including civil servants, regarding inadequate or outright lack of consultation at the national level; and created difficulties in mobilization at the national level". A culture of delays stems largely from inadequate regional institutions lacking the human and financial resources to take appropriate and timely initiatives.

As regards the functioning of the Councils, particularly the multi-disciplinary COHSOD and COTED, decisions are often made without the benefit of the expertise of the competent officials. Trade officials tend to be disproportionately represented among attendees at COTED, although in many instances the agenda is designed to address cross-sectoral interests. Often, moreover, many delegations have not been thoroughly briefed on the issues and are therefore unable to present positions on issues requiring a decision.

Article 16 of Protocol I requires a structured system of consultation at the national and regional levels to inform the decisions of CARICOM institutions. These structured systems, however, have not been created or adequately implemented in general terms. Important issues that remain to be addressed are: promoting sustainability in national consultative structures; creating a better understanding of the matters to which stakeholders are to respond; increasing the information flow; and securing stakeholder ownership of the initiatives.

The implementation of Protocol I has also been affected by the very nature of decision-making and implementation in Community institutions. While Protocol I does make some provision for informed

⁶³ Important examples include the program for the reduction of rates under the CET; the free movement of skills and ease of travel; notification and negotiation of restrictions and negotiation programs for their removal as provided under Protocol II; concluding arrangements for the Caribbean Court of Justice and the CROSQ; and developing the technical and financial arrangements for the Development Fund under Protocol VII. See CARICOM. Working Document for the Second Special Consultation on the CARICOM Single Market and Economy in St. Philip, Barbados November 20-21, 2000. May 2000.

⁶⁴ In its 1992 report, The West Indian Commission highlighted implementation as the "Achilles Heel" of the integration movement and made several recommendations to address this problem.

decision-making (Article 16) and resource requirement (Article 17), the problem is that these provisions have not really been applied in a way that allows decisions to be taken on the basis of the required information. The absence of a strict regime of sanctions and the ability to fall back on national sovereignty have also affected implementation.

Implementation suffers from the lack of an effective CARICOM presence and network in the member states. Protocol I encourages members to designate a minister for CARICOM affairs, who in that capacity will serve as a member of the Community Council of Ministers to have, *inter alia*, "... primary responsibility for promoting and final monitoring of the implementation of Community decisions in member states" (CARICOM [2000a]). This approach has never been comprehensively put into effect. It has been too costly for CARICOM to be physically present in all member states and, although efforts are made to work through CARICOM programs or projects located in some countries, the results have been unsatisfactory.

The CARICOM Secretariat is at the nerve center of Community institutions. It needs greater capacity to cope with the scale of the implementation agenda, particularly the technical programming aspects of the CSME. The Secretariat has faced some challenges as the internal and external environment has changed, thereby forcing it to adapt. New priorities such as good governance and macroeconomic convergence have become so important to the region that they must be more fully integrated into the Secretariat's work program. The CSME has taken on a new dimension, as have the repositioning of Caribbean countries, their integration into the world economy, external trade negotiations, and poverty reduction with an emphasis on the social sectors.

In these new circumstances, the Secretariat has had to review and restructure itself. The restructuring exercise seeks a better distribution of responsibilities, the incorporation of new tasks, an improvement in information exchange and an adjustment to the divisional structure. One aim is a better integration of the RNM in the Community structure. The RNM is no longer regarded as a temporary organization that will disappear at the end of extra-regional trade negotiations, as was initially envisaged. It is now permanent and must be made part of the Community's institutional structure so that it can develop proper links with CARICOM institutions, particularly COTED. The RNM needs operational flexibility but such autonomy can be accommodated while allowing it to function more fully within the Community.

Several institutional changes are required for implementation. These include, as a matter of urgency, establishment of the regional bodies provided for under the Protocols, such as the CROSQ (Protocol III); the Development Fund (Protocol VII); the Competition Commission (Protocol VIII); and the CCJ. There is a need for financing to secure the expertise necessary to help draft and amend appropriate laws. Additionally, resources must be mobilized at the national level to ensure that the national programs are implemented.

In conclusion, institutional reform has strengthened CARICOM in some areas of negotiation and implementation. To advance with institutional development, it must now be underpinned by a larger reform of the CARICOM Secretariat and by the creation of the several regional institutions and commissions mentioned above.

Functional Cooperation, Risk Management and Capacity-Sharing

CARICOM's long record of functional cooperation and capacity-sharing dates back to its founding. The list of associated institutions underscores the importance of such efforts in critical areas of development. Over the years, capacity-building and -sharing through regional cooperation and integration have been enhanced through a network of intergovernmental, private and non-governmental institutions. Capacity-sharing, however, is now being challenged by natural disasters. The increasing frequency and intensity of

shocks from natural phenomena -hurricanes, volcanoes and earthquakes- are forcing a review of the current arrangements for disaster planning and management. A more comprehensive approach that deals with planning, monitoring, forecasting, prevention, response, rehabilitation and reconstruction has been adopted by the Council of the Caribbean Disaster Emergency Response Agency (CDERA). Efforts are already underway to draw up, for further consideration, the institutional arrangements and strategic framework necessary to facilitate this approach. The CARICOM countries have also been collaborating to mitigate the impact of disasters by adopting measures such as a Caribbean Uniform Building Code (CUBIC).

Fundamental changes in the approach to regional cooperation are also demanded by international criminal organizations' use of the Caribbean Sea for drugs transshipments, its use by cruise ships for the discharge of waste, and its role in the transport of nuclear and other hazardous materials. Similarly, the destruction of coral reefs by local populations and visitors, over-fishing, and pollution from coastal settlements and industrial, agricultural and tourism activities also require different responses.

Cooperation has also been deepened in the area of human resource development, especially tertiary level training and scientific research and testing. The main effects have been in university education through the UWI and the Caribbean Examinations Council (CXC). Cooperation in health-related areas has also been positive. This has involved the training of health professionals, research policies, the management of health systems and the new preventive program in HIV. The work of the Caribbean Epidemiology Research Centre (CAREC) and the experience of the Caribbean Basic Health Management Project are noteworthy in this regard.

CHAPTER VIII. CONCLUSION

The review of progress towards the creation of a CSME and its overall contribution to CARICOM's development noted that the single market is on track but that progress could be faster. The internal free trade area for goods is essentially complete. Significantly, less than 1% of intra-regional trade is affected by unauthorized non-tariff measures that are maintained by four countries. Trade in a limited number of other products from the MDCs is restricted as a matter of Community policy, so as to provide some developmental protection to the LDCs.

Notwithstanding recent efforts to create a single market and economy, the pace of trade and investment integration in the region can be considered as moderate. The slow growth rate of extra-regional exports of goods and services is particularly worrying in view of the importance of trade openness for growth and development. Many countries, moreover, need to improve their performance in attracting inward investment.

In the Caribbean Community, the optimism about convergence that sprang from the stabilization and structural adjustment programs of the 1980s has been misplaced. New forms of macroeconomic linkages that were expected to stem from deeper coordination are still to emerge. While there is some broad agreement as to what constitutes a solid macroeconomic policy framework, individual policies tend to vary.

Member states' confidence about the fair distribution of benefits and losses is still lacking, as are joint decision-making systems based on converging views of the strategies, policies and measures that should be adopted in particular circumstances. Despite repeated calls to take account of the convergence criteria in national macroeconomic plans, the necessary action has not been forthcoming. The inability to deal adequately with the real and perceived problems of coordination is the most significant hindrance to macroeconomic policy coordination. Major challenges lie ahead in the area of implementation. Member states must make the necessary arrangements to ensure compliance with the obligations of Protocol II and the relevant provisions of other Protocols. Several policy initiatives, constitutional and legal action, as well as administrative measures, are required to ensure full application and non-discrimination in the fields of the right of establishment, provision of services and movement of capital; acceptance of diplomas, certificates and other evidence of qualifications; and policies to remove restrictions.

As regards a common trade policy, the sustained efforts to implement the trade provisions and policies of the Common Market Annex, particularly since 1989, as well as decisions on moving towards the CSME, have led to the creation of a free trade area for goods of common market origin. Substantially all tariff and non-tariff barriers to such goods have been removed and the process is virtually complete. There is still scope for reducing the number of authorized exceptions.

Harmonization of the CET faces difficulties attendant on the different speeds and phases of trade reform at the national level and the heavy dependence on trade taxes, especially in the OECS countries. It seems that further progress can only be made after a fiscal reform that lessens this dependence.

CARICOM has made some progress in formulating and implementing the new rules and regulations that will govern the CSME, notably in the sensitive area of the free movement of skilled persons. The road ahead is long and arduous, since implementation will determine the credibility and effectiveness of the CSME now that the negotiation of the legal framework has been completed.

Civil society and the private sector in CARICOM are yet to fully appreciate their rights and obligations under the CSME, whose effective implementation requires a commitment on the part of all stakeholders to raise awareness and to adopt regional policies in national programs and legislation. A number of institutional changes are also required. Facilitating the movement of people is crucial to the momentum and credibility

of the CSME, since it must be perceived by CARICOM nationals as easing their temporary and permanent entry into other CARICOM countries.

The convergence of Caribbean regulatory frameworks towards best practice schemes would create a more competitive environment for investment. Harmonization would reduce transaction costs and thus stimulate regional integration. Foreign investment regulations need to be modernized in this regard. Institutional and legal frameworks that facilitate investment and trade financing need to be addressed, as does effective prudential supervision. The upgrading of technical, labor, environmental and sanitary standards for products and production processes is also necessary for the purposes of establishing an integrated labor and product market.

Under Protocol II on services, some harmonization is pending in the area of recognizing professional and technical qualifications, and mechanisms have to be put in place to enable all workers to transfer social security entitlements. Tax systems also need to be reviewed. Some progress has been made in the field of competition policy but more is needed, especially at the national level.

The increase in trade and investment in CARICOM entails a need for greater harmonization in most areas, especially freedom of movement of people and capital, fiscal incentives for investment, and monetary and exchange rate policies. These are at the heart of investment decisions; they will determine the degree to which investment is rationalized in the single market and whether there is greater efficiency in allocation.

On the external front, a significant challenge is to ensure that the treatment established in agreements with third parties does not undermine the desired margin of preference for CARICOM producers and, at the least, is not more favorable than the treatment given in the CSME. Reciprocity will doubtless make it less possible to give preferential treatment to CARICOM nationals, but in the context of open regionalism the granting of protection and incentives -especially in a small integration movement- should be tempered with moderation and a concern to introduce international competition without undue delay.

It is also important to reconcile the granting of preferences to the EU with those under the FTAA and *vice versa*. This involves sequencing the negotiations in such a way as to ensure minimum costs and maximum benefits in the granting of trade concessions. The overarching role of the WTO will doubtless determine the framework and must be considered from the outset. The search for WTO compatibility and consistency across agreements will be taxing.

CARICOM-Latin American relations present another challenge. Relative to other periods they developed significantly in the 1990s. In the years ahead Latin America will become even more important for CARICOM. The FTAA process will oblige CARICOM to find the optimal path to hemispheric integration. This will involve exploring various options for linking the existing bilateral and regional agreements. The latter will obviously be subject to available negotiating resources and to the FTAA discussions. The CARICOM countries have already accepted this challenge, which will lead to significant new diplomatic initiatives in the near future.

Institutional reform has strengthened CARICOM in some areas of negotiation and implementation, but such reform will have to keep pace with all the expected developments. At this point it must be underpinned by a more substantial reform of the CARICOM Secretariat and by the creation of several regional institutions and commissions.

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