

Prime Minister Speaks on CSME in New York

Mr. Chairman,

Elected Officials of New York State and New York City,

Distinguished Members of the Diplomatic and Consular Corps,

The Hon. Sylvia Radix,

Dr. Edison Jackson,

Assistant Secretary-General of the CARICOM Secretariat,

Specially Invited Guests,

Ladies and Gentlemen,

We share a world that is caught up in dramatic change, much of which have to do with the supplanting of long standing social and economic systems and the erosion and re-definition of time honoured relations.

It could either become the best of times, or the worst of times.

This will, in large measure, depend on whether we develop the new, enlightened capacity to manage change by being able to communicate effectively with the entire civil society as to the purposes of change, its intended effect, its likely impact.

In our Caribbean region, the need for such illuminating and effective communication is nowhere more urgently required than in relation to matters concerning the conception and implementation of the Caribbean Single Market and Economy (CSME).

Indeed, it is still very much a fair charge that despite the efforts of a consistent and valiant few, matters concerning the CSME continue to be regarded by a wide cross section of the society as closely guarded secrets, best left to public officials, or to that handful of businesses which ply their trade in the region or to an even smaller and select group of academics who delight in dabbling in things that are incomprehensible to the ordinary mind.

It is in such a context that I welcome the opportunity to be part of this special symposium which holds the promise of initiating an important engagement with members of a community whose actions can have a significant bearing on the fortunes of the CSME itself.

I submit to you at the very outset that the creation of a Caribbean Single Market and Economy is a historic necessity which must be brought to full fruition, no matter how

ardous the task may at times appear, no matter how negligible the immediate returns may appear, or how vast the pitfalls and obstacles that threaten to ensnarl it.

It offers the societies of the region, individually and collectively, the only realistic and viable option by which to achieve sustainable development, and in the process the prospect of erasing the two great economic deficits which confront the region at the start of this new century.

The first economic deficit is the wide gap between the material progress which our region can, with effective resource use, attain as compared to what has so far been achieved; the second is the gap between the material expectations and needs of our people and our capacity thus far to meet them.

The CSME also represents the most effective means by which the individual economies of the region can be successfully integrated into the proposed new Hemispheric economy and the evolving global economic system on terms that will enable them to minimise the costs and dislocations that ensue from that integration, while maximizing the potential benefits.

It further offers a wider field of opportunity than is made available by any individual economy for growth and expansion of businesses of all description, across all sectors, and the ideal setting in which they can come to terms with and overcome the long standing problems of uncompetitiveness, deriving from small scale, with which they have always been plagued.

It portends a new relationship between the ordinary Caribbean man and woman and enterprises to the regional economic system, in the form of new rights of establishment of enterprise, greater economic mobility and choice, and the exposure to new systems of competition among themselves through which, hopefully, they can lift themselves to world class standards.

Before I delve into the design features of the CSME to outline how they are intended to accomplish the grand purposes, as just described, I will first establish context.

The 15 Caribbean economies involved in the exercise to reconstitute themselves as a Single Caribbean Market and Economy have, over an extended period of over 400 years, incorporated into their structure and functioning certain systemic features which bear directly on their capacity to achieve a CSME.

The first is that they have evolved as economic systems distinctly separated from each other, but closely and effectively integrated into the economies of the metropolitan, advanced economics with which they have been associated.

In such a context, they have evolved inheriting few natural indigenous economic

impulses for the maximization of resource use or domestic valued added, and with it increased employment and national welfare. This has been due to the fact that in the wider economic arrangement in which they have been embedded, they largely performed the role of suppliers of primary agricultural, mineral exports and light manufactured commodities depending heavily on the rest of the world for capital, entrepreneurship, skills, markets, technology and transforming mechanisms of all forms and at all levels.

Secondly, over an extended period, the respective Caribbean economies have put in place a formidable array of barriers to the easy and free movement of goods, services, skills and capital among their respective economies. Indeed, it might well be said that foreign enterprise and entities have, in the main, being traditionally afforded a more accommodating and potentially profitable environment within which to do business than the typical Caribbean enterprise.

Much of the economic potential of the respective Caribbean economies has been stifled by their arrangements.

Thirdly, and perhaps of overwhelming significance, has been the extent to which the structure of most Caribbean economies have been shaped until recently by two reinforcing set of policies and circumstances.

The first has been the deployment everywhere across the region of a wide array of tariff and non-tariff devices to afford high levels of protection against external competition to domestic and especially infant enterprises.

The second has been the widespread reliance of the respective Caribbean economies on preferential one-way duty free access to the markets of their main trading partners under the auspices of trade agreements such as the CBI, CARIBCAN and the LOME Agreements.

While those trade arrangements have provided some elements of stability and assuredness of market for traditional industries in manufacturing and agriculture, they have always locked the region's economies into patterns of resource use that militate against nimbleness in resource deployment in the rapidly changing costs and demand conditions such as exist in today's world.

As a consequence of the deep-seated dependence on these two peculiar instruments of economic development - high levels of domestic protection internally, and a high level of dependence on trade preference externally - the Caribbean has come to this particular juncture in the evolution of the global economy, which is itself exemplified by an almost total commitment everywhere to the precepts and practice of economic, financial and trade liberalization, facing a new profound and unique development dilemma.

For not only is the region the world's smallest and most vulnerable economic bloc, but it also contains that set of societies which have to undertake a more drastic and comprehensive restructuring of their economic systems than any other set of economies.

In a very short order, and indeed by way of a process that has to be compressed into no more than a decade, these economies will have to adjust their production systems to reduce their dependence on trade preferences. In addition, some will have to make radical reforms of this fiscal system to reduce their extraordinary dependence on taxes on trade. Quite considerable efforts at corporate restructuring on the part of the private sector will have to be initiated and sustained to afford our domestic enterprises, the largest of which are micro-businesses by world standards, a fair chance of successfully competing in the same, liberalized economic space, such as the FTAA, with some of the most powerful and largest enterprises in the world.

It also goes without saying that the nature of adjustment required will entail that the state itself transform how it does its own business, and how it relates to the productive private economy, all with a view of reorienting formerly inward-looking, highly protected economic systems to become externally driven, technologically dynamic and highly competitive.

The task ahead not only raises the spectre of a collision between the ends being sought and the resources to accomplish them. It will also be a desperate race against time.

For while the developed world has had the benefit of over a half of a century of economic conditioning, stretched over 8 rounds of multilateral trade negotiations, to prepare themselves for viable existence in today's globalised economy, the Caribbean economies will have to carry out the equivalent adjustment to their fiscal, productive and corporate systems in hardly more than a decade.

It is the confluence of all of these peculiar and pressing conditions and circumstances which confers upon the creation of a Caribbean Single Market and Economy its essential urgency and irresistibility as a force in Caribbean affairs.

DESIGN OF THE CARIBBEAN SINGLE MARKET AND ECONOMY

The scope, governing precepts and the institutional arrangements of the proposed Caribbean Single Market and Economy are best understood by reference to the attempts at Caribbean economic integration which preceded it.

The contemporary enterprise to integrate the economies of the Caribbean goes back to 1968, with the establishment of the Caribbean Free Trade Area (CARIFTA) to serve the limited purpose of removing the tariff and other barriers to intra-regional trade in goods only.

It was, by its very nature, a very limited exercise in integration whose transforming effects were reflected in a modest way only in the growth in intra-regional trade, which hovered at around 10% of the trade transactions engaged in by Caribbean economies.

Five years later, the integration process was deepened, through the Treaty of

Chaguaramas, by the provisions to create a form of Common Market in the region. To the pre-existing arrangements to support the liberalisation of trade in goods was added the establishment of a common external-tariff, designed to provide some measure of protection to regional industries. The 1973 Treaty also contained provisions - though token in nature - relating to the removal of restrictions in respect of the establishment of businesses, provision of services, the movement of capital and the coordination of economic policies.

Again, this relatively limited approach to economic integration yielded only limited economic benefits and returns.

It made hardly a difference to the volume of intra-regional trade, which continued to hover at around 10% of total trade. It was hardly a stimulus to major new investments. And by its design and intent to support regional import substitution, it scarcely served as a means by which evolving and intensely pressing issues concerning international competitiveness and export penetration could be addressed.

In the ensuing years, some of the principal Caribbean economies, under the auspices of multilateral lending institutions, implemented structural adjustment programmes having at their core, programmes of economic, financial and trade liberalization that far exceeded their commitments as expressed in the Treaty of Chaguaramas.

In addition, by the end of the 1980s, through the proliferation of new trading blocs, and the rapid onset of economic globalization accompanied by its legitimising ideology of economic and financial liberalization, economic systems everywhere was being reconfigured to more accommodate the working of free, private market forces, to facilitate robust capital and other factor flows, and to promote export-led growth and international competitiveness to an extent not contemplated in the 1973 design of the instruments of Caribbean economic integration.

As such, at Grande Anse, Grenada in 1989, Heads of Government, convinced of the need to expeditiously deepen and strengthen the Caribbean Community in all of its dimensions to seek equitable and sustainable development, and respond to the challenges and opportunities presented by the global economy, decided to transform the limited Common Market, as originally conceived in 1973, into a fully fledged Single Market and Single Economy in the shortest possible time.

In relation to its design features, as are embodied in the Revised Treaty of Chaguaramas of 2002, it is intended that the respective economies of the Caribbean should be reconstituted through the removal of existing barriers, as a Single Market space in which not only goods, but services, capital, technology, and skilled persons should freely circulate, and Caribbean citizens should enjoy new and unfettered rights of establishment of enterprise anywhere in their region.

The provisions relating to such market liberalization have been drafted to enable Caribbean countries to confer on each other faster, broader and deeper market access in

relation to capital flows, the provision of services and the like that it has, hitherto, or is prepared to confer on any other region to which it relates.

It would also be appropriate to point out that CARICOM is only an integration scheme, save and except from the European Union, to explicitly make provision for the free movement of people.

The provisions of the Revised Treaty of Chaguaramas are also designed to reconfigure the hitherto separate domestic economies into a Single Economy through the harmonization, coordination and convergence of macro-economic policies, the implementation of a common external trade policy, the harmonized and coordinated development of the productive economic sectors and small and micro-enterprises, and collaboration in relation to the management of monetary and exchange rate affairs. The Revised Treaty also makes provision for joint regional actions in relation to the development of capital markets, standards setting and enforcement, the enforcement of a community-wide competition policy and consumer protection measures, and of course, the creation of new regional institutions to implement region policies in the areas concerned.

Importantly, the arrangement for the creation of the CSME, in pursuit of the objective of equitable development make explicit allowance to accord special and differential treatment to those countries, specially the OECS countries, that enter the process as LDC's. It also sets out the processes by which countries, regions or sectors which experience disadvantage as a result of workings of the regional integration process can seek and attain redress.

Finally, to bolster consumer and investor confidence in the certainty, predictability and fairness in the application of the measures relating to the CSME, new modes of mediation and dispute settlement have been embedded in the Revised Treaty. At the apex of these is the proposed creation of a Caribbean Court of Justice, vested with the compulsory and exclusive jurisdiction to hear and determine disputes concerning the interpretation and application of the Treaty which creates the CSME.

The CSME now exists essentially as a legal entity, embodied in the provision of the Revised Treaty of Chaguaramas. The task ahead is that of transforming it into a lived reality.

As regard the implementation of the provisions to create the CSME, a specific timetable has been set (2005) by which member states will remove, in accordance with a phased and agreed programme, the existing 350 odd restrictions on capital mobility, the rights of establishment of enterprises, the movement of skills and the provision of services. Three countries have also signalled their capacity to remove such restrictions, which are at the heart of creation a Single Market by the end of 2004, and are making the necessary legislative arrangements so to do.

It is of course understood that the measures to harmonize and coordinate the setting of

economic policies, to cooperate in the development of productive sectors and common economic services, and to build and to operate supporting institutions are and will be ongoing activities that will extend well into the future.

The institutional arrangements to facilitate the conduct of a common external trade policy have been put into effect in the form of the Regional Negotiating Machinery which is marshalling the region's external trade negotiations in the multiplicity of theatres in which new trade agreements affecting the region are being considered.

And all of the agreements and other institutional arrangements to support the operation of a Caribbean Court of Justice and to support and sustain its juridical and financial independence and integrity are in place, and the Court is to be inaugurated in the very near future.

Before I leave the matter of the implementation of the CSME, I would wish to touch on a few issues which have led to distorted perceptions about what the CSME is and what it has achieved.

The first is to make clear that the CSME will never appear in any one place or time as a finished or finite entity. Rather, it will evolve. Indeed, at Article 239 of the Revised Treaty, there is a built in Agenda to support the elaboration of future Protocols in areas where the region is conducting external negotiations but have no equivalent regional regime (electronic commerce and government procurement). The built-in agenda also requires that future regional regimes be formulated to deal with the treatment of goods in free zones and similar jurisdictions, the free circulation of goods and rights contingent on the provision of the movement of capital and the establishment of enterprises, to give certainty and completeness to the liberalization provisions.

There are also major omissions in the design of the CSME which early experience suggests require an immediate and urgent response. For example, unlike the situation which pertains in the European Union, the provisions for the creation of a CSME makes no allowance for a Regional Fisheries Policy and Regime.

Yet, the Caribbean Sea is arguably the most vital component of the single economic space that the CSME is intended to create. There is therefore a crucial need for rules to be devised and implemented governing access to its resources, and the management of those resources, if a dispute that has not yet subsided between two otherwise happily interdependent neighbours is anything to go by.

The incorporation of a Regional Fisheries Policy and regime, together with provisions relating to Labour Law, Property Law and a regime for Community Transnational Enterprises will help to bring fullness to the design of the CSME.

The implementation of the CSME has also raised issues relating to the relevance of the governance of the economic integration movement. The CSME constitutes by far the single most ambitious economic endeavour ever contemplated by the region. It is

exceeded in its scope and depth only by the European Union.

Yet it is intended to be implemented by recourse to mechanisms of governance, which draw their designs and power from the concept of the Caribbean Community as a family of sovereign states. In such a context, the nation state is effectively the locus of decision-making and implementation on regional matters and sovereignty is not intended to be transferred to supranational regional institutions.

It is quite simply the most difficult way by which an undertaking as complex and far-reaching as that of the reconstitution of 15 separate domestic economies into one single market and economy can be approached. The matter of Regional Governance is therefore now the subject of the work of a Special Task Force.

And then there is the issue as to whether the CSME will be subsumed in or made irrelevant by other integration processes in which CARICOM is engaged, such as the FTAA.

The facts are that the main provisions for the CSME are intended to be in place by 2005. Those relating to the FTAA, if agreement can be reached, will be phased in over a decade or more beginning in 2005.

As long as the CSME provides its participating territories with faster, broader and deeper liberalization in every sphere and discipline than that which is afforded to them by the FTAA, it is conceivable that it should only co-exist with the FTAA, but continue to be a major driving force behind Caribbean economic transformation well into this century.

It is against this background that I turn to issues related to the implications of the creation of the CSME for Caribbean relationships with the Caribbean.

It would be my judgement that such implications as may arise from the implementation of the CSME will draw their substance predominantly from two points of reference:

- The first, of course, relates to the provision of Chapter Five of the Revised Treaty of Chaguaramas for the execution of a coordinated external trade policy.
- The second set of issues derives from the significance attached to the creation of the CSME as the institutional vehicle that will be called upon to promote equitable regional development, and the desirability and willingness of the United States of America (USA) to be part of the endeavour of engendering strong and equitable development in the Caribbean, not only in search of a secure third border, but in the interest of making our immediate Hemisphere a successful neighbourhood.

Having said that, it would be a folly not to begin by recognizing that USA relations with the Caribbean have been traditionally grounded, less in the diplomacy related to economic development, but by reference to a set of interests and power relations that at times have elevated matters such as security, the fight against narcotics trade and immigration to places of relative preeminence.

It would also be useful to point out, by way of context that the USA is, in its relation to our region, often willing to acknowledge that it is a Caribbean State. As such the changing roles, forced by shifts in the design of the world order on the USA and the various countries of the Caribbean in their capacities jointly as Caribbean States, has served and will continue to entangle their respective destinies in a more intense and complicated way than ever before.

If I may go to the specific matter at hand to the extent that CARICOM's economic relationship with the USA beyond 2005 will be transformed by our participation together in the new FTAA, it stands to reason that much of the economic consequences of this new partnering will depend on whether the USA views the newly integrated hemispheric economy mostly as a base from which to export even more competitively to other distant markets within the ambit of expanded WTO rules, or an opportunity for greater Hemispheric economic engagement.

It is my judgement that the coming into existence of the FTAA will not change the cold and vital reality that the most important dimensions of the USA's trade, financial and investment relationships will continue be set within the crucible of its economic dealings with an expanded European Union, Japan and the South Eastern Economies, and the emerging potential powerhouses in India and China, rather with our immediate region.

A strictly Caribbean perspective, USA economic relations with the Caribbean have, over the past two decades, been shaped by the provisions contained in one general regional trade agreement, (the CBI) and a number of bilateral investment, double taxation and tax information exchange agreements with respective Caribbean States.

The measures as set out in Chapter Five of the Revised Treaty of Chaguaramas, which present the elements of a coordinated external trade policy for the CSME, in essence introduce new rules of engagement for our external economic relations, including those with the USA, that suggest that more of these relations will in the future, even if negotiated bilaterally, have to take their bearings from the regional regimes.

They certainly will also have to conform to the spirit and letter of Article 8 of the Revised Treaty which requires that each member state of the CSME should accord to another member state treatment that is no less favourable than that accorded to an extra-regional third state.

Beyond that statement of general principle, the Treaty establishing CSME, at Article 80, while providing for the coordination of our external trade policy, acknowledges that bilateral agreements may be negotiated by Member States in pursuance of their national interests, but such terms should be without prejudice to their obligations under the Treaty, and should be subject to certification by the CARICOM Secretariat that the agreements do not prejudice or place at a disadvantage the position of other CARICOM States.

Another such instance of "constrained flexibility" that can be enjoyed by individual Member States in their bilateral relations with the USA is expressed in the General Exceptions Clause at Article 226. This, inter alia, prescribes that nothing shall be construed as preventing the adoption or enforcement by any Member State of measures to give effect to international obligations, including treaties on the avoidance of double taxation, but only if such measures do not constitute arbitrary or unjustifiable discrimination between Member States where like conditions prevail, or constitute a disguised restriction on trade within the community.

In the context of such explicit Treaty obligations, it is therefore to be anticipated, for instance, that the negotiation of future bilateral investment treaties between the USA and respective CARICOM States, will have to fit within the contours of the regional investment code which is being developed, and all bilateral Transportation Agreements ought to emerge from jointly and regionally negotiated "Open Skies Agreement."

The CSME also envisions the building of new regional capacities, such as the Regional Organisation for Standards and Quality, the Regional Accreditation of education programmes for skills and the Regional Competition Commission.

Such institutions will need to be accepted by the USA as having the capacity and authority to fill national obligations, and hence worthy of its engagement.

The creation of the CSME may now also make it possible for the specification of a sugar quota by the USA, which has historically be determined on a bilateral basis, to be now assigned to the region as a whole, and hence facilitate coordinated rationalization of this industry within the Caribbean.

The creation of the CSME will also introduce new people-to-people dynamics in the Caribbean relations to the USA. There is a large Caribbean population in the USA. The CSME provides new opportunities for Caribbean nationals wherever located. It is therefore to be envisioned that one of the decisive differences that the CSME will cause will take the form of the enlarged role that the USA-based diaspora can now play in the future development of our regional economy, and in so doing, in strengthening the general CARICOM-USA relationship.

In the broadest context, the most important future transformation of CARICOM'S economic relations with the USA will be shaped by the nature of the Caribbean's integration into the FTAA, and the role that is played by the USA in making that transition smooth and successful.

The Caribbean already enjoys the duty free access for most of its goods exported to the USA market that most of its Hemispheric neighbours are seeking through the FTAA. On the face of it, it therefore has less to gain and more to lose than any of its neighbours in its trade and economic relations with the USA from the liberalization of hemispheric trade. This matter is compounded by the fact that unlike most of Central and Latin

America, in its relations with the USA under the auspices of the FTAA, the Caribbean will have to replace a pre-existing preferential trade relationship with a reciprocal one, given that our trade preferences under the CBI are set to expire either in 2008 or on the coming into being of the FTAA.

It is this special circumstance that warrants the call by the Caribbean to be accorded a regime of special and differential measures to govern its participation in the FTAA.

I should also use this occasion to underscore the fact that to the extent that our Revised Treaty of Chaguaramas acknowledges the distinction between the more developed and the lesser developed members of the CSME, our case for special and differential treatment in our relations with the USA under the proposed FTAA, should be sufficiently nuanced to urge more concessional and favourable terms to be extended to our OECS neighbours and the LDC's of the Caribbean Single Market and Economy than to our region's more developed countries.

This call for special and differential treatment with the USA in the context of our FTAA, is not a call for the deferment of the inevitable, but its appropriate phasing in to make our new economic relationships work harmoniously in the relatively unequal conditions that stretch across the Hemispheric economy that the FTAA is seeking to create.

And this brings me to my final point.

Ever since the conclusion of the Uruguay Round, Caribbean States have understood that the application of the principle of non-discrimination in international economic affairs will in the future preclude our trading partners in the USA and Canada and in Europe extending to us preferential trade arrangements that they are not willing to extend to countries of our equivalent circumstances.

We are attempting in part to adjust to this new international economic reality by the pursuit of a coordinated external trade negotiation stance that hopefully will allow us to manage the transition from one set of external economic relations to another.

Successful external trade negotiations will set the broad context within which our future development will take place.

We do however recognize that our overall and ultimate success will hinge not only on the effectiveness of our trade negotiations, but on the strength of the programme of transformation and adjustment which we must undertake in relation to the structure of our domestic economies to fit them more comfortably into the new global economy.

The creation of a CSME is the central, vital, strategic component in that process of Caribbean contemporary economic restructuring.

We need now to recast our economic relations with the USA, not just to satisfactorily conclude our hemispheric trade relations under the FTAA. We need more urgently to

open up new modalities of cooperation with the USA in relation to technology flows, human resource development, private direct investments, institutional development and capacity building to support the domestic economic reforms that must accompany our external trade negotiations.

In a relationship that has perhaps become too bedeviled by irritants, missteps and misundertaking, a new partnership, based on new modalities of cooperation to support a new Caribbean Single Market and Economy holds the promise of offering a new, fresh way in our relations with the USA.

The first decade of the twenty-first century finds the Caribbean somewhat trapped between two economic worlds; one that is swiftly vanishing, the other that is struggling to be properly conceived. The new economic dispensation that we are seeking to conceive and create is one that integrates the Caribbean successfully into the new global economy as a competitive, prosperous economy which, through that nexus, and through its own indigenous efforts, creates a stronger capacity to enable it to meet the needs and expectations of its citizens for a better quality of life.

The Caribbean looks to new fresh relationships among its members to bring that new world into existence. Hence the CSME.

We look no less to new, fresh relationships with valued and long standing friends to aid us in this endeavour - to be not the third USA border, but an integral and active part of a successful neighbourhood that the Caribbean, including the USA as a Caribbean State, can become.

Submitted by: Press Secretary, Sylvan Greenidge