

**TOWARDS A SINGLE ECONOMY AND A SINGLE  
DEVELOPMENT VISION**

**REPORT**

**By**

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# **TOWARDS A SINGLE ECONOMY AND A SINGLE DEVELOPMENT VISION**

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# TOWARDS A SINGLE ECONOMY AND A SINGLE DEVELOPMENT VISION

## INTRODUCTORY NOTE

This report has been prepared with inputs from a wide range of stakeholders in the regional integration process. A Brainstorming Session on the Single Market and Economy held in Barbados in May 2005, convened and chaired by Prime Minister Arthur of Barbados in his capacity as Prime Minister with responsibility for the CSME, set the framework for the work that followed. Following this, a *Concept Paper on the Vision for the CARICOM Economy for the year 2015* was prepared by Professor N. Girvan of the University of the West Indies and submitted in December 2005. This report drew on a large number of regional, sub-regional and national policy documents prepared in recent years by international, regional and national agencies<sup>1</sup>.

Since January 2006, at the instance of Prime Minister Arthur, a number of consultative symposia have been organised by the CARICOM Secretariat which have fleshed out the vision for the future of the regional economy and the CSME in considerable detail. The first of these, on Enhanced Monetary Cooperation, took place in Jamaica on May 18. *Caribbean Connect*, a High-Level Symposium on the CSME, was held in Barbados on June 28-30, dealing with Production Integration, Capacity Building and Institutional Strengthening<sup>2</sup>. The Symposium was attended by over 300 stakeholders in the regional integration process and featured over 30 technical presentations, all of high quality. Two significant publications were also launched during the Symposium: the *Caribbean Trade and Investment Report 2005* from the CARICOM Secretariat, and a collection of papers on *Production Integration in CARICOM: The Way Forward*, edited by Professor D. Benn of the UWI. The Symposium provided convincing evidence that that the Caribbean Community has within it the human resources with the

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<sup>1</sup> See Annex 2

<sup>2</sup> See Annex 1

knowledge, expertise, experience and wisdom needed to advance its own development and integration. It also marked a significant step in the development of a regional consensus on the direction of the Community's development and the priorities for implementation of the CSME.

A report on the above process was made by Prime Minister Arthur to the Conference of the Heads of Government of the Caribbean Community held in St. Kitts and Nevis in July 2006. The Conference agreed that Professor Girvan would be tasked with producing a revised version of the Concept Paper integrating the Symposium submissions, for consideration at a Special Meeting of Heads of Government on the CSME. The revised report received detailed comments at a follow-up symposium chaired by Prime Minister Arthur in Barbados on October 6. It was further revised in the light of those comments and considered by a special Task Force of stakeholder representatives (CARICOM Secretariat, UWI, CDB, CAIC, OECS, CCL) convened by the CARICOM Secretariat on October 21. The final version was prepared by the CARICOM Secretariat in consultation with Professor Girvan for submission to the Special Meeting of the Heads of Government on November 6-7.

The report is meant to serve as the basis for decisions by the Heads of Government on the direction, content and priorities of CSME implementation, as the Community moves from Single Market to Single Economy. It is organised into five sections; the Scope and Development Vision, the Sectoral Economic Drivers of Regional Development, the Enabling Environment for Regional Development, and the Sequencing of Further Implementation of the CSME.

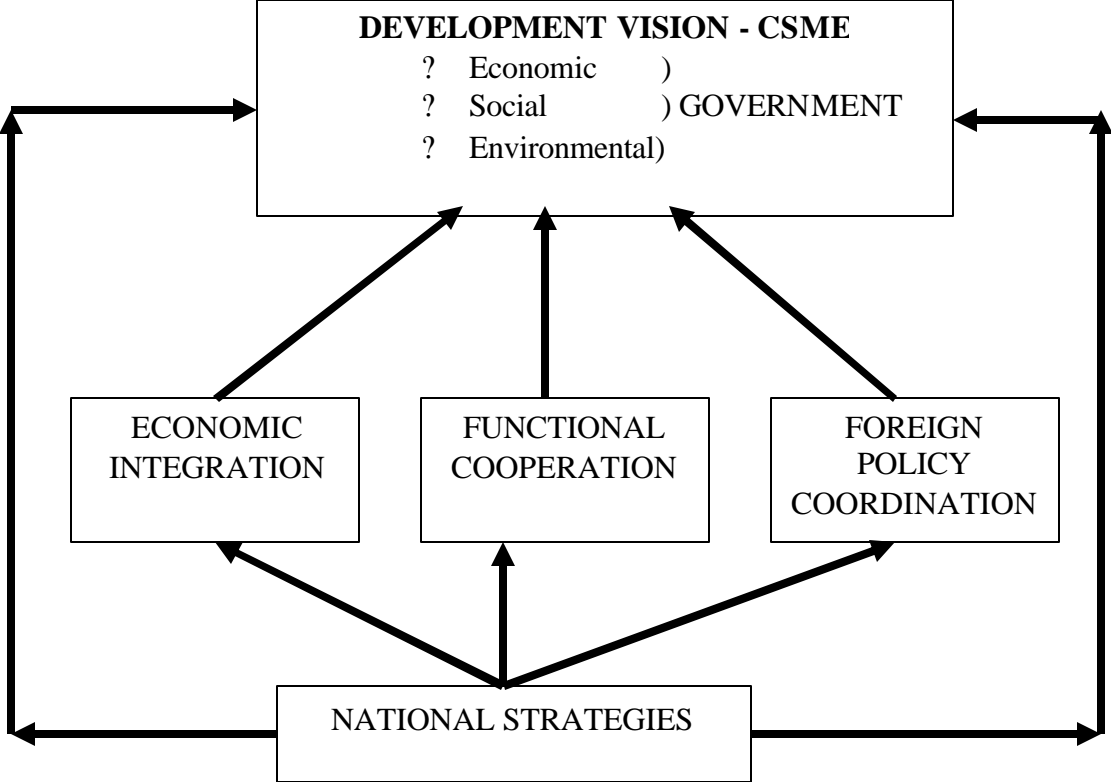
# **1. SCOPE AND DEVELOPMENT VISION**

## **I. 1 CONTEXT AND BACKGROUND**

The CARICOM Single Market consists of freedom of movement of goods, services, capital, business enterprise and skilled labour within an area bounded by a customs union. The Revised Treaty requires harmonisation of policies, laws, and regulations; enhanced monetary cooperation, and common external economic policies. The CSME in its totality establishes a single, seamless economic space and economic environment within which business and labour will operate. Its expected benefits include greater efficiency in both the private and public sectors, higher levels of domestic and foreign investment, increased employment, and growth of intra-regional trade and of extra-regional exports.

However, stakeholders generally agree that there is a huge 'information deficit' regarding the CSME among the ordinary citizens of the Community. Some citizens are cynical about the slow pace of implementation, while others are apprehensive about the possible adverse effects of increased competition for jobs and markets. It is obvious that a much greater effort at public education and consciousness-raising is necessary. Articulating a single development vision offers an opportunity to show the regional public that the CSME can be an instrument for achieving, in a regional framework, certain development goals that are difficult or impossible to achieve individually by member states. A single vision also provides a framework of shared objectives to guide policies, priorities and sequencing as CARICOM moves from implementation of the Single Market to implementation of the Single Economy. However, at present credibility gaps exist and need to be closed and if implementation of the vision lags behind commitments undertaken, credibility will be further compromised.

**Figure 1. THE DEVELOPMENT VISION AND REGIONAL INTEGRATION**



Stakeholders also agree that the Vision should not be exclusively economic; that is, concerned only with, trade, investment and business opportunities; as the CSME is often perceived to be. The people of the Community need to be assured that the economic benefits of integration will be broadly spread across and within countries, as well as across social groups. They also need to be assured that integration will make a difference to 'quality of life' issues such as crime, health and education. Functional cooperation in the non-economic spheres of integration, therefore, needs to be recognised as an integral part of the CSME (see Figure 1 above). This is necessary both to realise the potential benefits of the CSME itself (economic rationale) and to ensure greater popular support for the integration process as a whole (political rationale).

## **I.2 A SINGLE DEVELOPMENT VISION**

There is broad consensus that a single vision for sustainable development should be holistic, encompassing development in all its dimensions. Here we have singled out the economic, social, environmental and governance dimensions; grouping these into six broad elements:

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

The role of the CSME is to assist in the attainment of the economic dimension (elements 1 to 3) within a framework that takes account simultaneously of the non-economic dimensions (elements 4 to 6). Three caveats are in order here. First, the CSME cannot be 'all things to all men': as already mentioned, it goes hand in hand with functional cooperation in non-economic matters. Second, we should be careful not to expect or promise more from the CSME than it can realistically deliver; so as not to create disappointment at a later stage. The CSME cannot be a cure-all for the region's economic problems, and its benefits will take time to be realised. Most of the development effort of member states will continue to be made nationally and sub-regionally, which is where much of CSME implementation actually takes place. As a general rule the CSME will not substitute for national strategies, rather it will complement them by facilitating the

kind of economic expansion that would otherwise be out of the reach of individual Member States.

Sections I.3 to I.6 outline out the content of the Vision in slightly greater detail. Following this, the rest of the report elaborates on the economic dimension of the Vision: Sectoral Economic Drivers of Regional Development (Section II), the Enabling Environment for Regional Development (Section III and IV) and Sequencing (Section V).

### **1.3 THE ECONOMIC DIMENSION**

The main features of this are:

- ? A goal of accelerated economic growth through adjustment and transformation of regional economies, greatly improved international competitiveness, sustained innovation and productivity growth;
- ? Levels of per capita income and productive and social infrastructure vary widely among Member States; and the goal will be for these economies with lower per capita incomes to grow at the highest rates, so that some movement towards income convergence takes place;
- ? Regional policies for growth and transformation will be adopted within the framework of a dynamic, sustainable development-oriented social partnership of the public and private sectors, labour and civil society. Governments will:
  - ✍ Establish the framework within which strategic goal-setting and monitoring will take place by means of consultation with the social partners,
  - ✍ Provide the enabling environment for private sector activity through policy harmonisation, and common policies and support measures for productive activity

- ✍ Act as an ‘entrepreneurial state’<sup>3</sup> through direct involvement in activities, where this may be justified by the existence of market failure and of high positive externalities.

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

- ? The main drivers of economic growth and transformation are expected to be clusters of goods and services industries centred on the energy sector; agriculture, forestry and fishing; sustainable tourism; and other export services. These will be particularly important for the adoption of common Community policies and support measures<sup>4</sup>.
- ? Common sectoral policies will be complemented by common regimes or harmonised policies in human resource utilisation; fiscal, monetary and incentives policies; transport; investment; financial services; capital market integration; competition; regional quality infrastructure; small and medium enterprises; and corporate governance<sup>5</sup>.
- ? Member States will prioritise the upgrading of human and social capital, and the promotion of an entrepreneurial culture at all levels of the society, as areas for functional cooperation.

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

- ? Institutional machinery for coordination, management and monitoring of the process will need to be strengthened. This issue is not addressed in the present report.

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<sup>3</sup> The entrepreneurial state is here distinguished from the interventionist state, which involves detailed government regulation and direction of private sector activity.

<sup>4</sup> Common policies and support measures are provisions of the Revised Treaty of Chaguaramas.

<sup>5</sup> Most of these are also called for under the terms of the Revised Treaty.

- ? It will become necessary to prepare a detailed Regional Development Strategy containing indicative targets for economic growth, exports and infrastructural investment; in order to refine scenarios for the growth of the regional economy, to guide to common policies and support measures, and for negotiation with external stakeholders.
- ? For monitoring purposes, indicators of production integration would need to be identified. These could include:
  - Intra-CARICOM shares in total trade in goods, total trade in services, and total cross-border investment flows .
  - Growth in number of cross-border investors.
  - Ratios of regional assets to total assets for financial intermediaries and other institutional investors
  - Growth of extra-regional exports by pan-Caribbean firms.
  - Growth in number of Skill Certificates Issued.

#### **I. 4 THE SOCIAL DIMENSION**

A consensus on several features of the social dimension of the Vision have emerged out of the regional symposia:

- ? Legal entrenchment of the CARICOM Charter for Civil Society, with regular reports on its implementation by an independent body involving Civil Society stakeholders.
- ? Adoption of a Regional Human Rights Convention, now in draft form.
- ? Adoption of an indicative target for investment in human capital by member states, centred on the revamping of education and training systems to meet the needs of economic drivers and to equip the youth of the region with a sense of regional identity and pride of accomplishment and with the attitudes, skills and work habits needed to participate successfully in a modern globalised economy.

- ? Adoption of models of 'best practice' of public policy in labour-management relations, health, security, justice, local government, youth empowerment and gender equality; to benchmark progress in these areas in Member States.
- ? Adoption a decent minimum wage and conditions of work as a common standard applied by law throughout the Community.
- ? Adoption of a model of Corporate Social Responsibility as a common standard applied by law throughout the Community.
- ? Establishing a Community Social Compact, based on the foregoing elements, among the four principal social partners of governments, business, labour and civil society.
- ? Designating the Caribbean Diaspora as the fifth social partner; and on that basis developing and adopting the principles of a Community Diaspora Policy in which the Diaspora is encouraged to partner with the Caribbean resident community in the supply of skills, entrepreneurship, capital, export marketing, and social capital.

## **I. 5 THE ENVIRONMENTAL DIMENSION**

Two steps proposed under this rubric are:

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

coastal and marine environment, forestry and watershed management, waste disposal and recycling, climate change impact analysis and adaptation, and natural disasters impact and management.

## **I. 6 THE GOVERNANCE DIMENSION**

Governance will need to address the Community's 'implementation deficit'—the gap between decisions taken and the degree and rate of the implementation—and the related need to strengthen popular involvement in the integration process. To this end, priority should be given to the implementation of the *Rose Hall Declaration on Governance and Mature Regionalism*, particularly:

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

The symposia also proposed that the Community extend the developing system of regional governance by giving official recognition to the following mechanisms of particular relevance to the CSME:

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

## II. ECONOMIC DRIVERS OF REGIONAL DEVELOPMENT

### II. 1 ECONOMIC DRIVERS: CONCEPT AND ROLE

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

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

## II. 2 ENERGY

The energy industry cluster is here defined to include:

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

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

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

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

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

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

*Fourth*, a common approach to energy development will encourage fossil fuel exploration in other member states with actual or potential energy resources<sup>6</sup>.

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

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

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<sup>6</sup> Among these are Barbados, Belize, Guyana and Suriname.

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

Constraints of the sector are identified as:

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

## **II. 3 AGRICULTURE, FORESTRY AND FISHING**

### **AGRICULTURE**

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

- ? Agriculture spans all activities in the value chain from production of inputs to primary production, transformation and sale of value added products.

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

Among the important constraints of the sector identified are

- ? Research and Development
- ? Land and land use
- ? Water distribution and management systems
- ? Investment and Financing
- ? Marketing information
- ? Infrastructure, including transport
- ? Technical Barriers (e.g. Sanitary and Phytosanitary Food Safety Systems (SPS))

The main priorities for regional action will be:

- ? Upgrading of facilities for intra-regional agricultural trade and transport.
- ? Strengthened regional collaboration in agricultural R&D and in SPS by cooperation among national R&R bodies and revitalisation of existing institutions with increased funding of regional bodies.
- ? Completion of a Food Needs Study to indicate potential investment opportunities, and convening of an investors/donors conference involving

traditional, non-traditional, development and commercial financial institutions and regional agri-entrepreneurs.

- ? Market intelligence - sharing of information with respect to demand and supply for agricultural commodities

## **FISHERIES**

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

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

The regional plan for collaboration among Member States will include:

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

## **FORESTRY**

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

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

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

## **II. 4 SUSTAINABLE TOURISM AND AGRO-TOURISM**

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

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

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

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

Key policy issues are:

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

Stakeholders have also identified the need for:

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

## **II. 5 EMERGING EXPORT AND OTHER SERVICES**

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

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

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

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

The main constraints on the development of services exports are:

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

Policies to address these constraints will be:

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

### **III. ENABLING ENVIRONMENT: ECONOMIC POLICY**

#### **HARMONISATION**

##### **III.1 INVESTMENT**

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

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

enterprises, including SMEs, in the growth sectors, while enhancing the attractiveness of the region to foreign investment.

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

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

### **III.2 TAXATION AND INCENTIVES**

Harmonisation of the tax regime will focus on:

- ? Implementation of Articles 7 and 8 of the Revised Treaty, which prohibits discrimination on grounds of nationality, or more favourable treatment of non-CARICOM taxpayers vis-à-vis CARICOM taxpayers; so that CARICOM firms and individuals can operate in all member states on an equal footing.

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

### **III.3 FINANCIAL SERVICES**

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

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

- ? Tendency towards the convergence of interest rates.
- ? Larger and more efficient financial institutions .
- ? Increased investment, production and employment.

### **III.4 CAPITAL MARKET INTEGRATION**

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

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

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

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

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

### **III.5 ENHANCED MONETARY COOPERATION / MONETARY UNION**

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

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

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

**Phase I – 2006-2008:**

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

**Phase 2 – 2009-2015:**

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

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

## **IV. ENABLING ENVIRONMENT: SOCIAL AND INSTITUTIONAL STRUCTURES**

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

### **IV.1 SOCIAL PARTNERSHIP**

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

## IV. 2 HUMAN RESOURCES

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

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

- ? **Streamlining of the CARICOM Skills Certificates arrangements.** This involves agreement on automatic and mutual recognition of Skills Certificates issued by member states, arrangements for on-line application and granting of Certificates, and targeting of the Caribbean Diaspora in areas of skill shortages

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

### **IV.3 RESEARCH AND DEVELOPMENT**

CARICOM will require both a regional policy on Research and Development (R&D) to encourage the development, adaptation and diffusion of technology in production, and a regional institutional mechanism to drive the process. The relationship between investment in research and development and the rate of economic growth is now clearly established empirically; but CARICOM spends only 0.016 percent of its GDP on R&D, compared to 2-3 percent for the developed countries. In the Caribbean, industries where R&D can play a significant role include domestic and export agriculture, agro-processing, energy, information services and telecommunications. Product innovation is a key strategy in winning market niches in export agricultural products such as sugar, rum, exotic products such as tropical fruit extracts and spices, and ethnic food products for supply to the tourism sector and the Caribbean Diaspora. Process innovation can increase the capacity of firms, including SMEs, to process indigenous products. Adaptation and diffusion of technology, whether locally generated or imported, is an integral part of maximising productive efficiency and maintaining international competitiveness. Consideration will therefore be given to the feasibility of establishing a Caribbean Research and Competitiveness Funding Agency, based on the proposal recently prepared by UWI for the CARICOM Secretariat<sup>7</sup>.

R&D is an area where close collaboration between the public and private sectors is highly relevant. Governments need to provide incentives to private firms, for example tax write-offs for approved R&D activities. Governments and the financial sector need to work out mechanisms of venture capital financing to support the development and commercialisation of new technologies, including SMEs. Regional cooperation in R&D also has potential synergies; by allowing critical mass to be attained in the development of new technologies, avoiding costly duplication of effort and promoting technology sharing. For example,

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<sup>7</sup> Concept Paper on the Establishment of a Caribbean Research and Competitiveness Funding Agency available on request

regional technology networks in product clusters can be a mechanism of R&D collaboration and diffusion of new technologies. The regional universities and local research institutes should be encouraged to work closely with industry in science and technology. Intellectual Property policy, for example vis-à-vis patents and industrial designs will need to be modernised with these goals in mind, and adequately implemented. The proposed Caribbean Research and Competitiveness Funding Agency (CRCA) is specifically designed to achieve these synergies and outcomes. External donor agencies should be asked to support the regional policy by providing direct subventions to approved R&D by regional and national R&D institutes and/or by supporting the establishment and operation of the proposed Agency if this option is pursued.

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

#### **IV.4 SMALL AND MEDIUM ENTERPRISES**

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

wide range of services including accounting, engineering consultancy, information services and information technology.

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

***Co-ordination of technical assistance***

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

***Application of quality systems and standards and industry benchmarks***

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

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

### ***Wider availability of services***

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

### ***Facilitating Equity Investment in SMEs.***

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

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

## **IV.5 CORPORATE GOVERNANCE**

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

demand for improved governance by institutional investors and stakeholders; underline the importance of having a CGF as part of the CSME

The absence of legislation to protect the interests of minority shareholders' interests is a major obstacle to development that needs to be addressed. Adoption of the new International Financial Reporting Standard IFRS 7 will provide minority shareholders with a great deal of information and analysis; enabling them to ask questions that directors should be obliged by company law to answer in the presence of the auditors at the General Meeting. For example, the return on capital to one particular set of shareholders should not be disguised as payment for services, and majority shareholders in control of the Board should be accountable for declaring income in cash and in kind that is above what they could otherwise earn in similar employment.

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

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

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

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

The Principles are consistent with international standards, while being appropriate to the developmental context of the Caribbean and supportive of the

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

#### **IV.6 COMPETITION POLICY**

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

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

- ? *Surveillance*: identifying anti-competitive conduct with cross border effects: e.g., dividing up markets, barriers to entry and predation.
- ? *Ensure compliance*: Assess complaints and select those that merit investigation; issue judgments and enforce rules.
- ? *Issue guidelines and interpretation of rules* so as to foster confidence and certainty in the private sector: need to tailor rules to local conditions as gain experience;

- ? *Research:* sponsor and undertake studies to monitor structure of production and distribution and assess the impact of concentrations on competition
- ? *Public education and advocacy:* educate the consumer and promote the development of consumer organizations; encourage the business sector to monitor and report anti-competitive conduct of other businesses; encourage competition legislation and compliance programmes; educate the press, labour unions, NGOs; advocate competition in governments of member states; provide opinions on. Laws and regulations that stifle competition; monitor the conduct of state owned enterprises; and interface with authorities in regulated sectors to extent that cross border trade is affected
- ? *Facilitate new entry into Caribbean Markets;* and
- ? *Cooperation\_*with competition authorities within and outside of the CSM:

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

#### **IV.7 REGIONAL QUALITY INFRASTRUCTURE**

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

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

The RQI is based on

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

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

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

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

## **IV.8 TRANSPORT**

### **MARITIME TRANSPORT.**

Adequate and efficient maritime transport will be vital to realising the potential benefits of the CSME, by facilitating the expansion of intraregional trade and the competitive positioning of the region's producers in international markets. Intra-regional trade of perishable agricultural products and, also, of small scale manufactures and handicraft products are adversely affected by the inadequate nature of the regional stock of ocean going vessels. The containerisation revolution that had occurred in international shipping (containers now carry approximately 90 percent of world trade in goods) has impacted unevenly on the region. Some regional ports have become major and secondary transshipment points for container traffic<sup>8</sup>, with feeder services to smaller and less well-equipped locations. For the countries with these ports, extra-regional and intra-regional trade and the needs of large exporters are reasonably well served by existing facilities and by international shipping lines. Port productivity, customs and trade facilitation remain issues in these locations. Other locations--principally the mainland countries and several O.E.C.S. states—face higher shipping costs; as do SMEs in all states that ship in less-than-container loads (LCL) quantities. Hence, availability of low-cost maritime transport to these countries and to small firms is crucial to ensuring their equitable participation in the benefits of integration and help counter regional disparities.

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

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

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<sup>8</sup> The paper by Roland Malins-Smith lists Kingston and Freeport as major transshipment ports and Point Lisas, Port of Spain and Vieux Fort as secondary transshipment ports.

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

## **AIR TRANSPORT**

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

- ? CARICOM will continue to negotiate air transport agreements with third parties with the aim of attracting additional service to the region and increasing access of regional airlines to extra-regional markets
- ? Caribbean airlines, whether in government or private ownership, will be encouraged to aggressively pursue functional cooperation to the creating synergies, reducing costs, improving the range and quality of services, avoiding wasteful competition and improving profitability.
- ? CARICOM governments will be willing to consider private investment and even control of regional carriers on terms that ensure the investor operates within the context of the Community's strategic direction and its socio-economic goals.

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

#### **IV.9 CARICOM DEVELOPMENT FUND AND REGIONAL DEVELOPMENT AGENCY**

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

The CDF will be established and governed as a separate legal entity, but will be housed in the Caribbean Development Bank to minimise its overhead costs. It will be capitalised at US\$250m, with \$120 million contributed from member states<sup>9</sup> and the remainder sought from the region's development partners, the regional private sector, and other sources. It will provide both loans and grants to eligible recipients, and possibly interest subsidies on loans from other institutions.

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

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<sup>9</sup> Of the \$120 million, \$20 million will be in the form of a one-time contribution from the Petroleum Stabilisation Fund of Trinidad and Tobago and \$100 million from all member states.

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

## **V SEQUENCING OF FURTHER IMPLEMENTATION OF THE CSME**

A Log frame which presents the sequencing of further implementation of the CSME is presently being developed.

### **V. 1 PHASE 1 (MID 2005 – MID 2008): CONSOLIDATION OF SINGLE**

#### **MARKET AND INITIATION OF SINGLE ECONOMY**

This phase was initiated by the Brainstorming Session on the CSME held in Barbados in May 2005 and would culminate with the Heads of Government Conference in July 2008, at which time firm decisions should be taken on the content and implementation schedule of the Single Economy and the Single Development Vision. It consists of technical work, consultations with stakeholders, political deliberation and political decision-making on the specifics of the programmes laid out in this document. Its main elements would be:

- ? Political approval of the broad outline and thrust of the Development Vision and the Regional Development Strategy.
- ? Extension of categories of free movement of labour and streamlining of existing procedures, including contingent rights.
- ? Full implementation of free movement of service providers, with streamlined procedures.

- ? Preparation and agreement of a regional Human Resource Development Strategy.
- ? Implementation of Legal status for the CARICOM Charter for Civil Society
- ? Implementation of the provisions of the Rose Hall Declaration on Governance and Mature Regionalism.
- ? Forging of social partnership by agreement among the social partners on a Regional Social Compact.
- ? Establishment and commencement of operations of the Regional Development Fund.
- ? Political approval of the CARICOM Investment Regime and CARICOM Financial Services Agreement, to come into effect by January 1, 2009.
- ? Establishment of the Regional Stock Exchange.
- ? Further technical work as needed, in collaboration with stakeholders, on regional policy frameworks for:
  - Energy-related industries
  - Agriculture
  - Sustainable tourism and agro-tourism
  - New export services
  - Transport
  - Small and medium enterprises;

Leading to political agreement by July 2008 and implementation schedules beginning no later than January 1, 2009.

- ? Negotiation and political approval of the Protocol on Enhanced Monetary Cooperation, to come into effect no later than January 1, 2009.
- ? Agreement among Central Banks on common CARICOM currency numeraire, to come into effect no later than January 1, 2009.
- ? Detailed technical work on harmonization of taxation regimes and fiscal incentives, with proposed implementation schedule commencing January 1, 2009.

- ? Detailed technical work on harmonisation of financial regulatory environment, with proposed implementation schedule commencing January 1, 2009.
- ? Further technical work and consultation with stakeholders as needed, leading to political approval no later than July 2008 on:
  - Regional Environmental Regulatory regime
  - Common policy framework on Small and Medium Enterprises
  - Regional Competition Policy
  - Technical Standards
  - Regional Intellectual Property regime
  - Principles of Corporate Governance

## **V.2 PHASE 2 (2009-2015): CONSOLIDATION AND COMPLETION OF SINGLE ECONOMY**

During this Phase there would be a phased implementation of the decisions taken in Phase 1. The details will depend on the results of the technical work, consultations with stakeholders, and political decisions taken during that Phase. In broad outline, Phase 2 will consist of:

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

## **ANNEX 1**

Programme of Caribbean Connect Symposium.

## **ANNEX 2**

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