

FRANKLY SPEAKING

Caribbean Single Market and Economy – Where Now?.

The Elusive Regional Promise.

The regional economic integration process which was progressing through the Caribbean Single Market and Economy (CSME) exercise appears to have stalled. The loss of momentum appears to have occurred because of indecisiveness, hesitation and even reluctance on the part of some territorial leaders towards advancing the next crucial phases of integration, including free movement of populations, monetary union, common investment policy, trade rationalization, revenue sharing, to name a few. Recent news releases highlight the current predicament, such as the following headlines from Caribbeannewsnow.com: “CARICOM losing momentum, says Chairman” (March 01, 2011); “Caribbean leaders grappling with problems of regional integration” (Feb. 26, 2011); “CARICOM must address governance issues, says Jamaican PM” (Feb. 26, 2011). The only significant, identifiable policy marker underlying the integration process is a commonly held premise that an enlarged market area (economic space) is preferred to the present disjointed territorial economic entities.

True, with regard to some specific areas of social policy such as health planning, education standards, border security, disaster preparedness, cooperative materials procurement, there have been encouraging attempts to benefit from combined group action. But on the basic and fundamental issue of a managed approach to the regional engines of growth and development including economic planning, resources management, investment maximization, extra-regional market penetration, human resources optimization etc. a consensus and, even less, an accepted process for coordinated action are still a long way off.

Not yet a common policy mandate that a more broadly based regional economic programming approach would better counter non-regional trade and services penetration. Not yet an acknowledgement that by integration, regional production (and productivity) would through economies of scale and consolidation of processes compete more effectively by price, quality, security of supply, volume and transportation cost-efficiencies in foreign markets. Still no consensus that trade restrictions posed by “rules of origin” might be more effectively addressed through a “Made in CARICOM” label. Continuing disregard that countervailing force in response to more dominant foreign trade partners would be more convincingly addressed by an empowered CARICOM directorate. Still awaiting implementation is an integrated CARICOM money market represented by a truly Regional Stock

Exchange which would better harness and make investment capital available, with reduced reliance on foreign sourcing or influence.

It should therefore come as no surprise that other regional (CARIFORUM) partners already imbued with those very criteria that the Caribbean consistently ignores are already well on the way to enjoying the benefits of trade and development that the CARICOM territories so desperately need. The Dominican Republic has shown the way forward in seizing the initiative on the European Union (EU) Economic Partnership Agreement (EPA) file and is reaping the benefits. It is equally not surprising that the Dominican Republic, logically and rightly, questions the wisdom of placing administration of the EPA within the inefficient, highly-politicized CARICOM machinery.

The Regional – Territorial Divide.

The efforts and attention of individual jurisdictions and the regional secretariat appear to be mired in interminable and intractable secondary and contingent issues concerning politically acceptable mechanisms for emergence of region-wide consensus on *ad hoc* projects. These are being pursued without an overt admission of the need to transfer critical elements of national control to a regional policy and programming administration, and the establishment of an effective political directorate to provide consistent and continuing leadership. Implicit in this stalemate are issues such as the policy basis for the emergence of a regional development agenda; the importance of ensuring that regional decisions result in a fair sharing of benefits and responsibilities among all participants; the sensitivity of some aspects of a truly integrated regional program (such as freedom of movement; tax liberalization; infra-structural differentials; impacts on local social services) for some jurisdictions, to mention a few. Instead, there has been a pre-occupation with and diversion of energy towards peripheral (though related) issues such as the merits of a Caribbean Court of Justice (CCJ), coordination of an integrated regional airlines system, or even the threat posed by the infiltration of narcotics smuggling and trafficking, important as these may be.

By all accounts, the patience and tolerance of the Caribbean people are wearing thin. While leaders prevaricate and dissemble (note a statement by one leader that the CSME can come into being without loss of local sovereignty!) and the economy tumbles into disarray and societies into chaos, the Caribbean people, and especially the young who comprise an increasing proportion of the population, have sought their own personal solutions to the current stalemate, including a desperate migration to destinations outside the

region if they can, or anti-social behaviors and underground economic activity, if they cannot.

So, the CSME initiative still lies beached on the shores of intransigent territorialism and buttressed by a cadre of leaders unwilling to concede elements of sovereignty for the regional good. Without such a regional consensus among member territories, opportunities for resources sourcing, rational material and product pricing, re-apportionment of customs and excise revenues, programming of free movement of technical and professional expertise and the planned emergence of primary and secondary centers of economic activity across the region, all are being washed away. As a region of islands, the realistic hurdles of transport costs, not only those of overcoming distance, but also of facilitating market readiness, production efficiencies, assembly, storage, shipping and distribution beg for some resolution before the good ship CSME can be re-floated with purpose. Indeed, the inescapable perception that one comes to on an early examination of the problem is that whatever the political sovereignty issues and concerns may be, CSME cannot proceed without a workable regional integrated economic programming framework which itself requires a political mandate.

Differentials in Level of Development.

One might state with little risk of contradiction that the individual territories of the region operate at varying levels of efficiency related, in part, to issues of size, principal economic activity, infrastructural development, entrepreneurship and political/administrative maturity. These factors in association with the relics of colonial intra-regional structuring require in-depth examination in order to rationalize how a new and invigorated common Single Market and Economy might emerge.

Firstly, it is valid to question whether or not the current approach of establishing a pseudo-regional (administrative) structure without the benefit of an effective responsible and responsive political directorate will meet expected requirements. Not only will the result of differing relative strengths and weaknesses eventually reveal themselves as causes of friction and fractures, but without explicit consideration of “compensations”, individual territorial members might conceivably find themselves disadvantaged by such an association!

Secondly, the process appears to be stalled because of differential levels and standards of services and production capacities. This includes reliability and regularity in the delivery of materials, services and products. Assuming an integrated economy, one must address the question of how to resolve the

disparities of aggregating production for centralized processing, for example, including compatibility in quality, timeliness in delivery, regularity and dependability in transportation, storage and security? Without these assurances, (or provisions for compensations), the smaller economies (with smaller production capabilities) will receive lower priority in regional investment, in production activity and employment opportunity and the resultant revenue earning stream.

Thirdly, an effective association of states as contemplated by CSME requires sound territorial and regional development planning which are both vertically and horizontally integrated. This requires evaluation of present social and economic conditions, resource development opportunities and constraints, mechanisms for utilizing strengths and bolstering areas of weakness, planned staging of implementation programs and continuing monitoring of successes and shortcomings. These should be entirely endogenous exercises, to be undertaken without external dependence or interference. They are essential for continuing good government and are the foundations for rational decision-making. (It is humiliating to note that in order to modernize its census, the OECS territories needed to seek external (EU) funding!). The basic mechanics of the Caribbean economic integration exercise should not be dependent on the goodwill and largesse of outside benefactors.

Fourthly, so long as individual jurisdictions remain stubbornly married to principles of territorial sovereignty to the extent of refusing or resisting collaboration on the trade-offs necessary for integration, the CSME enterprise will remain frustrated. At the same time, the important and acceptable place and role of territorialism within CSME must be established. This cannot proceed on an "ad hoc" basis relying on the bargaining power of each player in each policy sub-game. Consistent, acceptable compromises on compensations and delayed rewards are impossible to be maintained in such an environment. One might propose a logical alternative of linked and integrated regional/territorial plans and programs for economic activity including resource availabilities, investment allocations, output generation (at the local level) and the design of integrated policy frameworks, facilities and linkages across territorial borders to regional markets and to international markets beyond.

Hard Lessons.

Continuing promotion of CSME without addressing these and similar causes of existing and potential friction is self-delusional and a disservice to the people and businesses of the region. Experience has shown that in implementing the provisions (and taking advantage of the opportunities)

under the CARIFORUM – EU Economic Partnership Agreement, even the larger territories of Jamaica and Trinidad and Tobago are experiencing serious difficulties in maximizing the benefits of these and similar agreements. The single exception to date appears to be the Dominican Republic which has been able to assemble and co-ordinate a viable “critical production mass” and to streamline (cost, quality and efficiency) operations thereby allowing it to compete internationally.

The current policy regime within CSME territories with regard to international trade in goods and services might be summed up as follows:

- (a) Promotion of trade in goods in which local territories have a significant natural resource endowment and a proven comparative advantage, especially as to extraction and/or processing. This would include petroleum extraction in Trinidad and Tobago; and, bauxite in Jamaica and Guyana. Despite these endowments, in none of these three territories has there emerged a significant secondary processing or supplementary product stream. No aluminum products, no plastics industry, no fertilizer plants, no anything!!
- (b) Tourism and related vacation entertainment services, including hotels and resorts, restaurants, casino and nightclubs, on-shore sites and services and transportation are prevalent throughout the region. Noticeably, however, despite the relative success of promoting this sector in almost all of the Caribbean jurisdictions, to a greater or lesser extent, these investments have failed to generate significant linkages of design, construction and furnishing of the tourism accommodation physical stock or into the provisioning of the tourism clientele especially as regards to food and drink, clothing and souvenirs, the vast portion of which continues to be imported from outside the region.
- © Business Support and technical services including computer data entry and processing, financial services to individuals and corporations including banking, insurance, internet gambling. In this sub-sector, territorial initiatives have been limited, if not frustrated by efforts of developed countries and international institutions to thwart the free operation of the marketplace with off-shore jurisdictions on the alleged basis of stemming money-laundering, and frustrating the financing of terrorist and criminal (drug) enterprises.
- (d) Final assembly of imported components into market-ready exports for foreign markets. This production pattern exemplified by the Dominican Republic, Haitian, Puerto Rican experience in this region, and increasingly by the Chinese, Indian, Pakistani,

Bangladeshi, Mexican and Indonesian out-source experience pre-supposes a large labor force, low wage rates, minimal health and safety regulations, and superficial environmental protection enforcement. The success of this program, unless focused on high value commodities would be temporary in the face of transportation costs, market entry charges and overwhelming competition from the above-mentioned countries, among others.

- (e) Provision of high-end personal services to North American and European consumers including tertiary education facilities as evidenced in the proliferation of Off-Shore Medical, Veterinary, and Nursing Schools. This might be extended to Health and Wellness Centers including medical/surgical procedures, rehabilitation services, Nursing Care facilities, Sports training and Physical injury recovery clinics, much of which still remains under-explored and under-developed.**

This unfortunate litany of under-utilization of resource or processing potentials can no longer be placed at the feet of colonial protectionism. It has to be attributed to a myopic policy context for addressing the challenges of regional economic development and the stultifying decision-making framework presented by the exclusively territorial sovereignty envelope.

Wanted—A New Policy Lens!

The required change of perspective in addressing the issue of intra-regional and international economic relations, including trade, will be slow in coming, and in the meantime the smaller territories of the Organization of Eastern Caribbean States (OECS), in particular, must map out a strategy to drive their economic futures. The current discussion towards an “economic union” of the member territories is a hopeful initiative that might drive a cohesive economic agenda. To date, the likelihood is that of each unit continuing the less than stellar approaches of seeking out niches which indicate rare or distinctive advantages of natural resources, natural amenities, locational or accessibility advantages, or labour/wages advantages reinforced by financial incentives and/or subsidies or special bilateral arrangements. Historically, this has led to predominantly foreign investments in resort and nature based tourism, development of financial and business service centers, information and technology support services and high-end personal (medical and educational) services.

Attractive as these might be in the short term, and indeed they should be pursued where feasible, the question is how stable, sustainable, and development-generating are such programs? If their impacts are potentially de-stabilizing; if their duration is limited; if they are highly

intrusive into the society or highly resource consumptive, should they not be welcomed cautiously and be viewed only as a stop-gap solution while other longer term, more effective, well-crafted development-driven options are pursued? As an alternative, it would seem that the framework for acceptable twenty-first century, second decade policy programming towards a workable Caribbean Common Single market and Economy must address at least the following propositions and questions:

- (a) How significant is the issue of “flexibility” in the development of growth policies, that is, changing local conditions, the emergence of a truly responsive and adaptable regional economy and readiness to meet changing global conditions and trends?**
- (b) To what extent is the issue of territorial size (physical, resource, demographic, administrative capacity, economic potential etc) perceived to be a limiting factor to future growth? Indeed, how can “size”, in its various dimensions, be manipulated?**
- (c) How can the local labor force be made more appropriate for income generation (production) and attractive for market consumption (demand) within the new economy?**
- (d) For individual territories, there may yet be unique conditions which are unexplored and opportunities waiting to be seized. What mechanisms can be put in place to identify and take advantage of them and transform them into on-the-ground projects?**
- (e) Prospects may still exist for utilizing demographic, political and cultural assets of territories and the region as a whole and how can these be pursued?**

Some Eastern Caribbean Perspectives.

The reality of the present-day Caribbean, particularly in many of the Eastern Caribbean islands, includes the conversion of historical agricultural lands to urban, semi-urban and urban-related uses. In effect, there is widespread discontinuation of serious food production, whether crops or livestock. In its place witness the proliferation of hotels, non-national residential enclaves, golf courses and scattered holiday homes. This trend and the resulting price squeeze for land is fast rendering serious agriculture no longer viable. Related to this has been the rise, dominance even, of the Tourism sector in several territories. Whatever the benefits, the obvious disadvantages (of the current structure of this sector) in over-dependence on foreign direct investment, prevalence of low wage employment, high import levels of construction, furnishing, operating materials, high import bill for

foodstuffs, forward penetration into on-shore facilities and services, high exposures to natural disasters, fickleness of the market and high susceptibility to negative social conditions all combine to question the rationale of considering this sector as a stable foundation for future growth and development. Yet this sector offers the attractive feature of being pursued with minimum loss of sovereignty. This is despite the fact that success, in many cases, is often achieved by playing one island against the other.

More dependable options and opportunities become feasible within a larger, regional context but at the expense of loss of some degree of autonomy and the yielding of control to a common agenda. This may include such issues as what agricultural products are best grown in what areas and what incentives are required for this purpose; where should the principal manufacturing centres be located and what trade-offs are required for this to occur; what infra-structural deficiencies exist limiting individual territories in maximising their role within the larger frame of reference, and how might these be resolved; what are the revenue implications of re-assignment of functions and what compensatory policies should be put in place to address fiscal sacrifices made by individual territories.

It should be emphasized that designated centres for growth need not always be territories with larger populations or those already further up the development curve. Other factors may thrust less advanced territories forward, such as:

- (a) Lower cost factor inputs such as power supply, abundant and secure water supply, high natural resource endowment.**
- (b) Advantageous location and low transport costs in goods delivery to an international entrepot such as Guadeloupe and Martinique, Puerto Rico or Miami.**
- (c) A centralized location for assembling raw and semi-processed goods from more remote production areas (Nodal function).**
- (d) Established or potential capability in research and technology especially with regard to new product development.**
- (e) Already established links traditional with major metropolitan interests and their overseas departments.**
- (f) Good and effective administration and a relatively conducive society and amenities.**

Criteria such as those mentioned above will be assisted by infra-structural improvements, physical and electronic, necessary for the new economy. This might include reliable internet and telecommunications services, highly

functioning port and airport services, modern storage facilities, attractive business plant and servicing facilities, modern roads and transportation.

This interval or lull which has interrupted the serious march towards a true single market and economy may not necessarily spell the doom for the region's smaller economies if they are disposed to take serious stock of their condition and opportunities and build on them without dismissing future possibilities for economic regionalization. Both are not mutually exclusive in strategic planning terms. The more such efforts can be done on a cooperative basis among similar state jurisdictions, even more effective and rewarding will be the results. Shared research, shared market intelligence, shared technology and skills all hold major and tangible benefits for participating jurisdictions. One need not wait for the final grand CSME scheme to emerge before beginning to address these challenges.

Toward New Horizons.

As disadvantaged territories, the Caribbean islands must be adventurous enough to get off the beaten path to think outside the box, while taking fullest advantage of the leveling playing field offered by both the electronic revolution and available international resources. There are new products awaiting exploitation and marketability even within their limited resource areas. There are current production techniques that are not fully exploited and used. There are by-products which lie unused or under-utilized, despite their prospects for commercialization. There are lower cost technical adaptations which potentially can lower production costs. There are high value-added opportunities which go begging or are being left for outside opportunists to recognize and utilize. Foreign investors have been allowed to extend and encroach into areas of supplementary activity, which should be the preserve of local entrepreneurship, with consequent repatriation of such revenues.

Simultaneously, there are resources especially those related to human capital which are available to these economies at little development cost, but which for parochial or other reasons continue to be studiously avoided or resisted. Large pools of trained, experienced and available nationals with extensive networks and connections exist beyond these shores. This resource can be attracted back, if there is a serious resolve to put that engine to work. Most significantly, a second generation of such "exiles" are coming to the front----a pool of enterprising, business-oriented, investment-conscious young people, who might bridge the divide between economic growth in the islands and the market opportunities of the developed societies where they now reside. It needs bold and innovative thinking to design the framework for those links to be forged. These are not new themes or novel suggestions. Yet the

response by some Caribbean policy makers at both the territorial and regional level has been subdued, antagonistic even.

The Organization of the Eastern Caribbean States, even as it stands today, presents an opportunity as the first phase to an effective Caribbean Union and the establishment of a Single Market and Economy. Discussions are underway to designing and implementing a “union” of the territories concerned, though what form such a union might take and how effective it might be remain to be seen. Sufficiently hopeful is the realization that a political union is a necessary step to regional planning for effective economic growth. Already in place is an OECS secretariat as the foundation for a required administrative structure. The OECS which already comprises the substantial majority of the Eastern Caribbean Currency Union (ECCU) through a number of existing institutions including the Eastern Caribbean Central Bank (ECCB) and its various facilities such as the Eastern Caribbean Securities Exchange (ECSE) and the Eastern Caribbean Securities Market (ECSM) has the necessary instruments for addressing a regional monetary policy agenda. The Organization has already experimented with the approach of Joint diplomatic representation, the OECS High Commission in Ottawa, Canada, and trade postings in Brussels, Belgium, which pending evaluation perhaps might be expanded to other special purpose postings, such as technical, educational and cultural exchanges and tourism promotion.

While the OECS develops and matures into a truly integrated political and economic entity it must move expeditiously and with competence to implement a program for comprehensive growth and development and the strengthening of the concept of union among the people of the region. Some elements of such a program should logically include:

- (a) Instilling greater awareness and promoting extensive social interaction among the people of the OECS sub-region through ease of travel, social and cultural exchanges,, educational and scientific interactions, institutional networks and a common news and media service shared among all units and people of the area;
- (b) Cheaper and more effective transportation networks for people and goods among the OECS partners including air facilities but also highlighting regular, reliable, comfortable and swift sea travel;
- (c) Developing territorial and sub-regional development plans that coalesce one with the other and provide a publicly committed framework for public and private decision-making;
- (d) A realistic acceptance that the present status is a base line, a platform, for transforming the local and regional economy (and

society) into a more dynamic and self-sustaining environment for a new OECS.

- (e) That the issue of Food Security, maximum production of the widest range of foodstuffs in the most cost-effective manner, for the benefit of the entire region (including the non-resident population) should be high on the agenda;
- (f) The OECS Region must strive towards an objective of Energy Resilience in meeting as much as possible of its energy needs from locally produced energy sources;
- (g) The sub-region should be guided by a regard for ecological sustainability in making decisions on acceptable and compatible public and private investments. This is especially important considering the size and vulnerabilities of the territorial units;
- (h) The high exposures of the OECS societies, in the context of radio and electronic intrusions and the high levels of visitor populations should be an intrinsic consideration in the regional educational and acculturation processes, towards the goal of protecting and promoting local culture and traditions;
- (i) The need for a commitment to cooperation and collaboration among the OECS partners in their approach to and dealings with non-regional interests. This may be achieved through minimum acceptable conditions to be met (Environment Impact Statements) for large-scale developments, and through commonly accepted standards in implementation of projects;
- (j) Active and concerted promotion of knowledge sectors and industries through purposeful, subsidized research and development and the application of local transforming technologies of invention and innovation so as to reduce dependency on outside providers. This might be accomplished by instituting Centers of Excellence inside and outside academic institutions with competent staffing and adequate financial and material support;
- (k) Strengthening overseas representation to a heightened function of market intelligence, tourism promotion, networking, investment promotion, and recruitment of administrative and technical skills among nationals resident overseas.

With serious thought and common action, all is not lost and the future may yet be reclaimed. This course of action requires the knowledge, understanding and fullest participation of the affected public. It is not an essentially political commitment, though that is required. It must engage the private sector in partnership with governments at the local and regional levels in a continuing planned program of steps to the eventual emergence of progressive and self-assured Caribbean. It can, it must be done.

That's the way I see it, anyway!

(THIS IS THE THIRD IN A SERIES OF FOUR ESSAYS DEDICATED TO THE MEMORY OF DR. JOSEPH BERNARD YANKEY, ECONOMIST, PUBLIC SERVANT, COLLEAGUE AND FRIEND. MAY HE REST IN PEACE.)