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MULTILATERALISM AND REGIONALISM: THE NEW INTERFACE

Chapter X: Addressing Market Access and Entry Barriers through Regional Integration to Maximizing Development Gains: The CARICOM Experience



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Chapter X

ADDRESSING MARKET ACCESS AND ENTRY BARRIERS THROUGH REGIONAL INTEGRATION TO MAXIMIZING DEVELOPMENT GAINS: THE CARICOM EXPERIENCE

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Background

On 4 July 4 2004, the Caribbean Community (CARICOM) celebrated its 31st anniversary as a Community and the 36th year since its Member States took the first step towards integration through the creation of a Free Trade Area (CARIFTA) in 1968. This makes CARICOM the longest surviving integration movement among developing countries and is only surpassed by the European Union in longevity. Today it has 15 full Member States¹²⁵ and five Associate Members.¹²⁶ More than half its members are microstates and are among the smallest in the world. In recognition of this reality, the CARICOM arrangement makes a distinction between its More Developed Member States¹²⁷ and its Lesser Developed Member States¹²⁸ and provides for special measures to assist the latter category.

At the beginning of the integration process all CARICOM Member States shared a common language, similar economic and social structures, a common legal system and a common colonial heritage that provided the building blocs for the regional integration process. With the entry of Suriname in 1996 and Haiti in 2002, today CARICOM is a more linguistically, legally and culturally diverse Community.

Notwithstanding the numbers of CARICOM Member States, they are challenged to overcome critical constrains relating to:

- An undiversified range of economic resources;
- Openness with a heavy reliance on external trade, foreign investment, technology, and overseas development assistance;
- A narrow export base, mainly sugar, rice, bauxite, petroleum products, tourism and financial services and in some economies such as Trinidad and Tobago, a growing light manufacturing sector;
- High dependency on trade taxes;
- High dependency on preferential trading arrangements in the US, European and Canadian markets;
- Limited administrative and managerial resources;
- Costly provision of socio-economic infrastructure and services;

¹²⁵ Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago.

¹²⁶ Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Turks and Caicos Islands.

¹²⁷ Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago.

¹²⁸ Antigua and Barbados, Belize, Dominica, Grenada, Haiti, Montserrat, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines.

- High per unit transport costs; and
- Extreme vulnerability to natural disasters;

CARICOM Member States recognized that as individual entities they faced serious constraints in stimulating economic growth at a level and pace that would meet the expectations of their populations for a better standard of living. Regional integration was therefore conceived from the outset as an essential element in the economic development strategies of CARICOM Member States. It was perceived that the pooling of resources, markets and bargaining positions could lead to higher levels of economic and social benefits than the individual efforts of Member States. Today the creation of the CARICOM Single Market and Economy (CSME) seeks to make this a greater reality.

In 1989, five years before the WTO was established, CARICOM Heads of Government, conscious of the changing global environment and the need for CARICOM countries to become more competitive in a rapidly liberalized global economy, took a decision to create the CARICOM Single Market and Economy (CSME). While earlier integration efforts were designed in the import substitution mode, the CSME today seeks to remove remaining intraregional barriers and promote the free movement of goods and services, capital and labour. It also provides for the freedom of CARICOM nations to establish enterprises anywhere in the community thereby expanding the production frontier and providing the scope for CARICOM regional entrepreneurs to become more competitive and to integrate more effectively into the global economy.

The CSME also seeks to put in place a number of other measures as the Region seeks to deepen the integration process these include:

- The revision of the Treaty establishing CARICOM and making the single market and economy an integral part of the Community Arrangements.
- More comprehensive harmonization of laws affecting commerce and regulation of economic activities within the market area, including customs laws, intellectual property, competition, government procurement, corporate taxation and commercial legislation in such areas as dumping and subsidization. As all but one CARICOM Member States are WTO Members, these laws have to be WTO compliant. These elements are still in the embryonic stage of development intraregionally and Member States are developing their national capacities to implement these arrangements.
- Reform of the Community's institutions, including its administrative systems and procedures, and the establishment and joint management of common services with particular reference to customs services and data and information services.
- More intensive coordination of macro-economic policy and planning, external trade and economic relations.
- Completion of the application of the Common External Tariff (CET).

In order to effectively implement the Single Market and Economy, new arrangements have been put in place, new institutions have been created including the establishment of a Regional Standards Body in 2003 and the establishment of the Caribbean Court of Justice, which is to serve in its original jurisdiction, as the court for settling disputes arising from the CARICOM Treaty.

One of the major elements in the CSME is the implementation of a process for the removal of restrictions and barriers to the trade in Services. This process is being undertaken in phases

and at least four Member States have undertaken to complete the process by the end of the current year. The services sector share of Gross Domestic Product (GDP) for CARICOM countries averages approximately 73 per cent, ranging from Antigua and Barbuda with 88 per cent to Guyana at 28 per cent. It is however, difficult at this time to differentiate and compare Member States' trade with the rest of the world and trade with other CARICOM countries.

Implementation of the elements required to establish a fully functioning CSME has proceeded at a slower pace than originally scheduled but there has been steady progress. The process of creating an internal Free Trade Area for trade in goods is essentially complete. The Community has jettisoned the use of quantitative restrictions (QRs) as a protective policy device. Ten Member States have fully implemented the Common External Tariff.

Assistance is being provided to Member States in the drafting of legislation, an area that was identified as major bottleneck in the past. At the political level the realization that the deadline set for the establishment of the FTAA and the onset of negotiations with the European Union has spurred some Member States to accelerate their implementation procedures

Assessment of trade

CARICOM has had a rather checkered trade pattern over the years. The process of the liberalization of trade in goods among member States of the Caribbean Community began with the creation of the Free Trade Area (CARIFTA). CARIFTA encouraged the flow of intraregional trade through the removal of virtually all tariffs on intraregional goods and the use of very rudimentary rules of origin. The major sector that benefited from this process was the light manufacturing sector but the industries produced products with very little value added. Given the structure of the Caribbean economies, the liberalization of goods in the intraregional market resulted in only modest gains. Despite a doubling of the ratio of Intra-regional trade to total trade between the pre and post free trade era, intraregional trade only accounted to 10 per cent of total trade. The decision was therefore taken five years later to deepen the integration process through the formation of the Caribbean Community (CARICOM).

CARICOM was formed in 1973 with economic integration through the establishment of a Common Market regime, being one of the three pillars of the Community. The Common Market arrangements also proved to be of limited benefit. New rules of origin were introduced with required a higher level of processing in order to qualify for entry into the Common market. Many Member States failed to implement the agreed CET in keeping with the agreed timetable, especially among the Community LDCs claiming severe revenue dislocation. Some critics have described the CARICOM Common Market as the most uncommon market.

During the 1980s at least two of the larger economies experienced severe balance of payments problems and imposed quantitative restrictions on imports. Intraregional products were not exempted from such measures and as consequence the flow of intraregional goods declined to less than half of its 1981 level. The impact of this development was felt in many factories across the region as some firms downsized and many jobs were threatened by this development.

It was therefore recognized that the region's producers had to begin to seek international markets rather than depend on the protection of regional marketplace. These firms had to become internationally competitive and focus on penetrating extra-regional markets. Member States as part of their structural adjustment agreements with the IMF also agreed to improve

their public sector management, to reform their fiscal systems and to remove their subsidies to agriculture and industry.

During the 1990s the intraregional flow of goods improved and by the beginning of the new decade accounted for about 20 per cent of total exports.

Some the lessons that can be learnt from this experience are:

- The removal of tariff and non tariff barriers is a necessary, but not a sufficient condition for the expansion of intraregional trade.
- It is important to have appropriate rules of origin to stimulate investment and production.
- Companies needed to be competitive in order to provide a quality product at international standards in order to compete with extra-regional goods despite the protection offered by the CET.
- In times of crisis in the intraregional economies, firms have to be flexible and that marginal and less efficient firms may go out of business.
- In the case of CARICOM market size matters. The small-undiversified intra-regional market of six million people prior to the entry of Haiti and now 14 million, is not large enough to stimulate the economies of scale and the demand for products to significantly raise the level of trade in the Region. It is for this reason that the region has begun to look for new markets and to put in place the CSME to provide the economic and administrative platform to equip regional economies to effectively take advantage of the additional extra-regional market access.

While gains from intraregional trade have been modest, economic integration has benefited Member States though the provision of other joint actions such as a collective approach to the improvement in standards, a joint programme to improve private sector competitiveness through the Caribbean Export Agency and a collective voice in international negotiations. CARICOM economic cooperation arrangements also include programmes that address the sectoral and supply side of the equation in areas such as agriculture, tourism, transport and industry.

A major challenge facing the Caribbean Community is the need to find effective ways of making its collective voice heard on the hemispheric and global stage. In seeking to advance its causes beyond its boundaries, the effective coordination and management of its foreign policies and external economic relations is critical. Central to this process is the ability to draw on the best skills that each individual member state has to offer, in order to harness the collective diplomatic and negotiating strengths. As a result of our collective and strategic lobbying efforts, CARICOM member states were able to play key roles in the negotiation of the Conventions between the African Caribbean and Pacific (ACP) countries and the European Union.

Today CARICOM is faced with a rapidly changing global environment in which the preferential access to the markets of Europe, the United States and Canada is rapidly being eroded or will be dismantled by 2008. In order to be able to operate more effectively in this new environment, CARICOM is simultaneously negotiating to deepen its integration process and, at the same time, is negotiating bilateral trade arrangement with its neighbours – Dominican Republic, Cuba and Costa Rica. It is now examining the elements for the enhancement of its trade arrangements with Canada and considering an offer by MERCOSUR

to negotiate a trade agreement. Concurrently, the Region is actively participating in the negotiations for the creation of a Free Trade Area of the Americas (FTAA), a new Partnership Agreement with the European Union and negotiating in the WTO for the implementation of the Doha Development Agenda.

In order to strengthen the CARICOM position for these complex and varied negotiations, CARICOM Heads of Government agreed to establish a Caribbean Regional Negotiating Machinery (CRNM) in 1997. The CRNM was established to design strategies for the major negotiations facing the Region and to prepare, through a coordinated approach, a trade negotiating strategy for the Region. This process includes conducting studies to guide the Region's positions on trade issues, recommending technical and political negotiators and coordinating the various negotiating processes to ensure consistency.

The CRNM operates under the political direction and supervision of a CARICOM Prime Ministerial Sub-Committee on External Negotiations. It also provides technical and other support to three spokespersons appointed in 2002 by Heads of Government, to spearhead the various negotiations at the Ministerial level, in each of the major negotiating theatres.

In addition to CARICOM Member States, Cuba and the Dominican Republic are members of the CRNM.

The CRNM has spearheaded CARICOM's efforts in the negotiations among "unequal partners", as well as to ensure that the special circumstances facing the smaller economies are addressed; this is in line with CARICOM treaty arrangements, which provides for special measures for the CARICOM LDCs.

In the CARICOM negotiations with Colombia, Dominican Republic, Cuba and more recently Costa Rica, CARICOM has been able to negotiate for the CARICOM LDCs to retain the tariffs against the goods of these third countries, while benefiting from market access with these countries.

CARICOM has successfully negotiated in the FTAA for a Consultative Group on Smaller Economies to be established. It has also successfully negotiated to have language inserted in the Ministerial declarations which gives due recognition to the issues affecting smaller economies. However, negotiating groups have yet to provide any follow up to this commitment. CARICOM also supported MERCOSUR efforts to modify and re-examine the scope and ambitions of the FTAA. In the WTO, CARICOM along with other smaller economies, successfully obtained agreement to have a work programme developed in the WTO. However, WTO Member States did not agree to establish a new category of countries.

CARICOM initially entered into the FTAA negotiations in a very defensive mode as the threat of the erosion of its market shares in the traditional preferential markets loomed large. However it was recognized that the FTAA, if appropriately designed, had the scope to provide access to new markets especially for the region's emerging services sector, and could contribute to creating the enabling arrangements to attract additional new investments especially from within the Hemisphere. CARICOM has invested a considerable amount of time, finance and negotiating talent on the FTAA process and would like to see the negotiations resume as quickly as possible. CARICOM is not wedded to the 2005 deadline for the negotiations, but would like to see an outcome that has a balanced ambition and that builds

appropriate flexibility to accommodate smaller economies in a way which will promote their development.

Some of the key provisions related to the needs of smaller economies the region would like to see included in the FTAA include: differentiated obligations; phased implementation of obligations; best endeavour commitments in some areas; exemptions for sensitive products; technical assistance and training; and adjustment facilitation through the creation of a Regional Integration Fund. The FTAA must also be compatible with, and respect the, integrity of the integration process.

In assessing the CARICOM experience in the FTAA there are a few lessons that can be learnt:

- The need for coherence between the intraregional and the external negotiating processes — The CARICOM treaty requires deeper integration among its members than that granted to third countries. In the FTAA the internal and external negotiation processes were not always in sync. This was particularly evident in the disciplines which were being negotiated in government procurement, competition policy and intellectual property where the hemispheric process was requiring obligations in areas in which the Region had not yet gained the competence.
- Similarly in the case of services, the hemispheric process helped to galvanize implementation of the intraregional regime.
- Some of the smaller CARICOM countries are still unsure a FTAA would be in their interest and would result in economic growth rather than further impoverishment of the population.
- The ten years of negotiation of the FTAA has proved to be a useful training ground for a cadre of regional trade specialist and has helped to build the Regional and national capabilities to formulate trade policies and to negotiate new trade issues. The negotiations have also helped the Region to identify its trade capacity needs and to identify the gaps in meeting these needs.

The Caribbean will not be seeking a traditional Free Trade Agreement in the negotiations with Europe. The Economic Partnership Agreement is expected to be a net contributor to growth and development in the region. The first phase of these negotiations is expected to focus on strengthening integration in the Caribbean Region.

CARICOM is still very supportive of the WTO despite the negative impact on the economies of the Eastern Caribbean especially Dominica following the decision on the EU bananas regime and the current threat to the Caribbean sugar industry. It considers that the WTO and the multilateral system still has the potential to develop fair and predictable rules for the promotion of international trade. CARICOM, with the support of the Commonwealth Secretariat, has been working with Pacific Forum and the Indian Ocean Secretariats on the small states/smaller economies issue. It has also been working along with the other countries in the G-90 to ensure that a mutually acceptable framework can be developed to restart the WTO process in July 2004.

CARICOM is very appreciative of the work done by UNCTAD on small states. One output of this effort is in the publication *“Turning losses into gains – SIDS and the Multilateral trade Liberalization in Agriculture”* which has been made available at his meeting. Too often in the past, issues of interest/concern to smaller economies have been trivialized in the work carried out in other multilateral agencies. In focusing on the empirical data and experience in the

agriculture sector, this UNCTAD study has indicated that Caribbean concerns are well founded but has gone further proposing alternatives in the negotiating positions. The region will continue to support UNCTAD and its work programme.