Introduction

The Caribbean Community (CARICOM) comprises fifteen Member States, which are characteristically small economies with limited resources, heavily preference dependent and extremely vulnerable to natural disasters and susceptible to external shocks. These economies face seemingly insurmountable challenges as a result of the rapid and dynamic changes in the global economy characterized by the technological revolution in information, communications and transportation; the dismantling of trade preferences and tightened multilateral rules in relation to waivers; the proliferation of regional trading arrangements; the liberalization of goods and services, investment regimes and financial markets.

Regional integration has been a major imperative for this group of small economies. The Caribbean Free Trade Area (CARIFTA) came into being in 1969, evolving into the Treaty establishing the Caribbean Community in 1973.

In 1989, the CARICOM Heads of Government recognized the need to deepen the integration process, and to strengthen the Caribbean Community so that it could respond to the growing challenges and opportunities presented by the rapid globalization of the world economy. In the Grand Anse Declaration they agreed to creation of a single economic space through the establishment of the CARICOM Single Market and Economy (CSME). The single market formally entered into force in 2006 and establishment of a single economic space is expected to be completed in 2008, thus completing the CSME.
CARICOM also focused on Functional Cooperation- Human and Social Development; Foreign Policy Coordination; Security and Economic:-

However, this presentation will focus on the CARICOM Single Market and Economy, which is the flagship of the regional integration movement aimed at creating a single economic space which will support competitive production within CARICOM for both intra regional and extra regional markets. The CSME is considered critical to the future growth and development of the Region and to ensure that CARICOM effectively surmounts the challenges and difficulties that confront Member States while keeping pace with the changing global economic climate.

**Enlarged Economic Space**

The CSME is aimed at integrating the economies of CARICOM into a unified market in which goods, people, services, capital and technology can move freely across borders under the same coordinated and harmonized economic policies. The enlarged economic space is intended to minimize the inherent weaknesses resulting from small size. In addition to economies of scale, there is expected to be derived significant economies of scope.

Secondly, under the Single Market, the free movement of factors of production would result in increased efficiency in the allocation of resources for both goods and services and create a more conducive business environment that would provide greater opportunities for investment - both intra - CARICOM investment as well as foreign direct investment.

Thirdly, under the Single Economy, the achievement of macro-economic harmonization in such areas as monetary, financial, investment, incentives and fiscal policies will help to create a more conducive business environment and so promote greater production and employment opportunities.
Fourth, the greater efficiency enjoyed under the CSME for intra regional competition will serve as a platform for more enhanced international competitiveness of the Caribbean economies.

The Governance and Decision Making Structure and CSME Institutional Framework

The Governance and Decision Making Structure of the Community comprise:

The principal Organs of the Community -

(a) the Conference of Heads of Government;

(b) the Community Council of Ministers;

These are assisted by –

(a) the Council for Finance and Planning (COFAP);

(b) the Council for Trade and Economic Development (COTED);

(c) the Council for Foreign and Community Relations (COFCOR)

(d) the Council for Human and Social Development (COSHOD)and;

(e) the Council on National Security and Law Enforcement.

These are serviced by the CARICOM Secretariat, the principal administrative body.
A. **Challenges**

Since the establishment of the CARICOM Single Market and Economy, the Region has been faced with unprecedented challenges, both internally and externally. In response to these challenges CARICOM Member States have undertaken bold initiatives to strengthen and reshape the existing institutional framework and governance structure of the Community. Some of these challenges have been eloquently highlighted by the current Chairman of CARICOM, the Rt. Hon. Owen Arthur, Prime Minister of Barbados who has lead responsibility for the implementation of the CSME. He observes that while the dimension of the strategic challenges may change from time to time, what makes the challenges at this time different from the past, is the harshness and confining nature of the international environment within which the CSME is being implemented. An unprecedented scale of adjustment is required in a very short period of time that will affect every aspect of the Region’s production, fiscal, corporate and governance system.

1. **Significant geopolitical and geo-strategic shifts**

The profound changes in the structure of the global economy and the geo-political consequences arising therefrom, have presented greater challenges to the Region’s development imperatives than was ever anticipated. For example, the war on terrorism has engrossed the energies and resources of several CARICOM countries, while at the same time, brought new risks and uncertainty in the Region, where tourism is a major economic sector which is heavily dependent on international travel. This has resulted in new fiscal burdens on these economies, as a result of increased expenditure on security related matters, which previously was never a priority for the Region. Moreover, this increased expenditure comes at a time of declining revenue earnings from import duties.
At the same time, the Region is no longer in a position to attract as much financial resources, as in the past, since concessionary financing and development assistance are being diverted to other regions of interest. This is further compounded by the fact that due to the criteria for graduation, several CARICOM countries do not qualify for debt relief despite the fact that seven of the top ten countries globally with the highest ratio of debt to GDP are in the Region and only two are beneficiaries of the HIPIC initiatives.

2. **Need to improve standard of living**

Another major challenge confronting the Region is how to achieve the Millennium Development Goals (MDGs), and in particular how to address the critical need to alleviate poverty and improve the overall standard of living. This is particularly daunting, given the dominant influences that are shaping the values, lifestyles and material expectation of the population, at a time when major productive sectors are affected by current economic realities of the disruption of longstanding preferential trade arrangements for major commodities - sugar, bananas, rum and rice - along with the change in status of our preferential arrangements and the erosion of preferences previously enjoyed.

3. **Crime and Security, Disaster Management**

A further complication is the emergence and impact of a number of social and security threats, which are weakening the social capital that is important for the Region’s development, and further eroding the confidence necessary for effective economic planning. The prevalence of HIV and AIDS, the relatively high incidence of crime and violence, the use of some CARICOM countries as transshipment points for drugs between the major suppliers and markets in the hemisphere (exacerbated by gun running), pose major challenges to CARICOM as it strives to maintain the integrity of the CARICOM Single Market and Economy.
4. **Global Warming and Natural Disasters**

The threat of global warming and its effects, the degradation of the environment and the search to achieve sustainable development are important challenges faced by a Region that is particularly vulnerable to natural hazards such as hurricanes, floods (and volcanoes). When these events occur, they could affect several countries simultaneously and have a devastating impact on the regional economy as a whole.

5. **Need for Improved Regional Governance**

A major challenge is to institute a new and agreed governance structure that would address the need for improved management of the regional environment. This would require the relinquishing of national sovereignty in some areas, in order to realize the benefits from a deepening regional integration process. The sovereignty issue is partly reflected in the implementation deficit, whereby a number of agreements reached at the regional level, as well as international, are still to find expression in new national legislation. In this regard, the CARICOM Heads of Government have been seriously considering recommendations for establishing of an EU type Commission to promote a system of Community Law which would allow for decisions reached at various regional Ministerial Councils to become automatically legally binding at the national level.

B. **Strengthening of Regional Institutional Framework**

The CARICOM Community sees the strengthening of existing and emerging regional institutions, and the formalizing of the relationship between these institutions, as essential for making more effective, the CARICOM Single Market and Economy policy framework.
At the time of the coming into being of the Revised Treaty of Chaguaramas, a number of entities were already recognized as institutions of the Community by virtue of Article 21, including -

1. the Caribbean Agricultural and Research and Development Institute (CARDI)
2. the Caribbean Centre for Development Administration (CARICAD)

Since 2001, and in furtherance of the establishment of the Single Market policy framework, additional institutions were created, or are in the process of being created, including the following-

(i) Caribbean Court of Justice (CCJ);
(ii) Caribbean Regional Organisation for Standards and Quality (CROSQ);
(iii) Caribbean Community Competition Commission;
(iv) Regional Accreditation Body;
(v) Caribbean Health and Food Safety Agency (CAHFSA);
(vi) CARICOM Regional Development Fund;
(vii) Regional Development Agency;
(viii) Enhanced Regional Stock Exchange Mechanism;
(ix) Caribbean Business Council; and
(x) Caribbean Regional Negotiating Machinery.
The above institutions along with Caribbean Export will facilitate the process of free trade in goods and services and free movement of factors of production - capital and labor, and access to land - for business purposes.

In addition, in order to complement the work of the Caribbean Climate Change Centre, the Caribbean Disaster Emergency Response Agency (CDERA) was established in 2006. On 1 June 2007, a Caribbean Catastrophe Risk Insurance Facility (CCRIF) was launched and capital injections have been received from the World Bank and a number of international and regional donor institutions. The participating countries are required to pay premiums (about 50 percent reduced from international market price) and based on a parametric triggering system relating to the intensity and degree of insurance coverage of hurricane or earthquake event, payout is made within a month.

The abovementioned specialized institutions and institutional arrangements are designed to facilitate the transformation of the regional economies and contribute to the achievement of the Community’s overall objectives.

C. Further Integration Deepening and Inherent Limitations

The CSME is a very ambitious venture of which the only precedent is the EU integration experience. As mentioned above, the core of the Single Market policy framework has already been introduced; virtually all that remains to be done for completion of that process is the elaboration of a Protocol on Article 239 of the Revised Treaty on electronic commerce; treatment of goods produced in free zones and similar jurisdictions; free circulation of goods in the CSME; and contingent rights (for family members of those persons operating cross border). In addition, the institutional machinery development process that saw the introduction of the Caribbean Court of Justice and the Caribbean Regional Organization for Standards and Quality will soon give rise to the emergence of a Community Competition Commission, a Regional Accreditation Agency, and a Caribbean Animal Health and Food Safety Agency.
As mentioned earlier, a meaningful Single Economy depends on the implementation of a number of harmonized macro-economic policies and coordinated sectoral policies. In this regard, there already exists a draft CARICOM Financial Services Agreement (which, regionalizes various regulatory requirements and promotes a seamless financial space) and a draft CARICOM Investment Code (designed to make the Caribbean a single investment jurisdiction, rather than one with 15 different investment regimes) and work is proceeding on the other macro-economic policy instruments so as to have most of these in place by the target date of end 2008.

With respect to the coordination of sectoral policies, this is being conducted in the context of renewed drive for maximizing production integration possibilities as set out in a Single Development Vision that was recently endorsed by the Conference of Heads of Governments. For example, in the area of agriculture there exists a food deficit (values of food imports minus receipts from exports) of over US$1.3 billion. This deficit would be significantly reduced and food security enhanced if there is effective linkage of agricultural supply with tourism sector demand and, in this regard, investment capital of Barbados and Trinidad and Tobago and the latter's cheap energy and agro-processing/refining skills could be linked up with the not inconsiderable land resources of Belize, Guyana, Jamaica and Suriname. Niche manufacturing, including provision of handicraft and other items for the tourism industry, has the potential to stimulate small businesses.

Similarly, bauxite and alumina from Guyana and Jamaica could be smelted in energy rich Trinidad and Tobago, possibilities which had been mooted since the 1960s, and coordination and cooperation activities are planned in the energy sector, where a regional gas pipeline and liquefied natural gas projects have been designed to promote greater energy security.

With respect to services, there is continued quest for a rationalized air and maritime transport system, given the absence of contiguous borders between Member States.
Single Market liberalization also now permits cross border investment in hotels below 15 rooms capacity and typical tour operator, tour guide and taxi services, inter alia, which has been previously reserved for the nurturing of national entrepreneurship. Major construction activities lend themselves to joint venture and collaborative and technical/managerial arrangements, and an accreditation/certification protocol will stimulate cross-border trade in business and professional services.

While there exists interesting production integration possibilities in CARICOM, the interface between regionalism, on the one hand, and multilateralism, plurilateralism and bilateralism, on the other, has considerably reduced the Region’s policy space and capacity to encourage backward and forward linkages in certain areas. For example, the WTO Agreement on Trade Related Investment Measures (TRIMs) prevents the employ of linkage creating local content and export ratios as a development strategy. Also, the proliferation of free trade agreements is causing tariff barriers to dwindle to allow for free market access in an increasingly competitive global environment.

The CSME has adopted this new “open regionalism” and has completed its own voluntary process of reduction of the common external tariff to a maximum of 20% for manufactured goods and 40% for agricultural commodities. (Of course, the global liberalization process has important fiscal policy implications given the openness of the CARICOM economies and their considerable reliance on international trade taxes).

It is not surprising, therefore, that the CSME (with a market that is still small even when fully integrated) should be seen as a mere platform or pedestal for effective insertion of the Region in the global economy. The Single Market is designed to facilitate the movement of factors of production is an enlarged regional market space so as to gain increased cost efficiency, and the Single Economy provides the enabling business environment for the emergence of larger Pan Caribbean type enterprises, all for the purpose of greater global competitiveness.
The size or relative share of intra-CARICOM trade, therefore should not be the sole criterion for judging the success of the regional integration process. As stated in paragraph 2 of Article 78 of the Revised Treaty of Chaguaramas, the objective of the Community’s trade policy is, inter alia,” the active promotion of exports of internationally competitive goods and services originating within the community”. Nevertheless, the Caribbean has not taken full advantage of their preferential access to the Canadian, USA and the EU markets (which preference is rapidly eroding anyway owing to Third Party States being access to these same markets, in the case of bananas and sugar) and it also has trade deficits with virtually all Latin American countries with whom it signed trading agreements within the last decade. Supply capacity remains an intractable problem.

D. Towards Effective Insertion in the Global Economy: CARICOM’s Bilateral Trade Agreements with Latin America

Intra – CARICOM trade accounts for nearly 20% of merchandise exports and 12% of merchandise imports. Adequate data on trade in services is not readily available. The relatively modest amount of intra-regional trade (and investment) indicates the important role of economic relations with Third Party States.

Article 78 of the Revised Treaty provides _inter alia_, beneficial exchange of goods and services among CARICOM Member States and with third states. Most of CARICOM’s trade is with the USA and the European Union. However, since 1992, CARICOM had entered into various forms of trade and economic relations with Latin America through the signing of a number of bilateral trade and economic cooperation agreements.

These include –

The CARICOM-Venezuela Trade and Investment

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<th>Name of Agreement</th>
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<tr>
<td>CARICOM/ VENEZUELA TRADE AND INVESTMENT</td>
<td>13 Oct 1992</td>
<td>1 Jan 93</td>
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<td>Name of Agreement</td>
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<td>CARICOM/COLOMBIA TRADE, ECONOMIC AND TECHNICAL COOPERATION AGREEMENT</td>
<td>24 Jul 94</td>
<td>1 Jan 95 (one-way preferential treatment in favour of CARICOM)</td>
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<td>Protocol Amending the Agreement (extending coverage and introducing reciprocity by CARICOM) signed 1998;</td>
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<td>CARICOM/DOMINICAN REPUBLIC FREE TRADE AGREEMENT</td>
<td>22 August 98</td>
<td>Provisional application 1 Dec 01</td>
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<tr>
<td>Built in Agenda to be completed.</td>
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<tr>
<td>CARICOM/CUBA TRADE AND ECONOMIC COOPERATION AGREEMENT</td>
<td>July 5, 2000</td>
<td>Provisional application 1 Jan 03</td>
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<tr>
<td>CARICOM/ COSTA RICA FREE TRADE AGREEMENT</td>
<td>9 Mar 04</td>
<td>(Some CARICOM Member States completed ratification) Provisional application pending ratification by Costa Rica</td>
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<tr>
<td>CARICOM/CENTRAL AMERICAN FREE TRADE AGREEMENT</td>
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<td>Discussions at the technical level have been initiated for the negotiations of a Free Trade Agreement and an official launch at the Ministerial level is expected to take place in August 2007.</td>
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The two sub-regions, Latin America and the Caribbean, should seek to take advantage of the increasing number of trade Agreements between them.
D. CONCLUSION:

Clearly, the CSME can be seen as an instrument that creates the enabling environment which can deliver the desired social change and improved standard of living for all citizens of the Caribbean Community; stimulate endogenous growth within CARICOM economies; enhance international trade competitiveness; and the increase scale and scope of the production base for regional and extra-regional markets. The establishment and effective functioning of the attendant institutional framework is central for the success of the CSME and the achievement of its overarching goals. Moreover, the CSME and its approach to regional market building and deepening of the integration process offers a pragmatic, structured approach to integrating the region into the global economy in general and the multilateral trading system in particular.