

WHITHER CSME?

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I. Introduction

The Caricom Single Market and Economy (CSME) aims to create a single economic space among the 15 member states of the Caribbean Community (CARICOM). As a grouping of small states¹, CARICOM sees the CSME as a key instrument in responding to the challenges of economic globalisation. The CSME is meant to stimulate and facilitate improved competitiveness in regional economies and to heighten bargaining power in the different theatres of international economic negotiations². CARICOM is generally regarded as one of the most advanced forms of regional integration among the developing countries. Nonetheless considerable difficulty has been encountered in meeting target dates set for the establishment of various aspects of the CSME. This paper reviews the state of CSME implementation as of early 2005 and the issues involved in resolving the problem of the 'implementation deficit'. It concludes by suggesting a range of scenarios for the future course of the CSME.

¹ With 15 million people, the average population of member states is around 1 million. 12 of the 15 members have a population of less than 1 million.

² These include the WTO, the FTAA and the EU-ACP relationship, as well as number of bilateral trade negotiations.

Box 1. Grand Anse Declaration and Work Programme: A Summary

Establishment in the shortest possible time of a single market and economy for the Caribbean Community. With the following steps to be taken are taken not later than 4 July 1993:

- (1) The Common External Tariff, the Rules of Origin, and a Harmonised Scheme of Fiscal Incentives to be fully revised, agreed and effective by January 1991;
- (2) Customs cooperation and strengthening of Customs Administrations to prepare for a Customs Union;
- (3) Signature of Agreement establishing the CARICOM Industrial Programming Scheme (CIPS) by 30 September 1989;
- (4) The enactment, by January 1990 of the legislation required to give effect to CIPS and the CARICOM Enterprise Regime (CER);
- (5) A scheme for the movement of capital introduced by 1993 starting with the cross-listing and trading of securities on existing stock exchange;
- (6) Technical work on the establishment of a regional Equity/Venture Capital Fund;
- (7) The CARICOM Multilateral Clearing Facility to be strengthened and re-established by December 1990;
- (8) Intensified consultation and cooperation on monetary, financial and exchange rate policies by July 1990;
- (9) The removal of all remaining barriers to trade by July 1991;
- (10) Consultation, cooperation and coordination of policies at the macro-economic, sectoral and project levels;
- (11) Arrangements by January 1991 for the free movement of skilled and professional personnel as well as for contract workers on a seasonal or project basis;
- (12) Action to develop, by 4 July 1992, a regional system of air and sea transportation including the pooling of resources by existing air and sea carriers
- (13) Collective effort for joint representation in international economic negotiations and the sharing of facilities and offices to this end, with immediate effect.

Extracted from document sourced on the CARICOM website www.caricom.org on 6 March 2005.

II. Short history of the CSME

At their meeting in Grand Anse in July 1989 the CARICOM Heads of Government declared their intention of establishing a Single Market and Economy by July 1993 (Box 1). The sense of urgency was due to the formation of regional trading blocs in the wider world (EU, NAFTA, MERCOSUR, ASEAN, ETC.) and the thrust towards wide-ranging global liberalization in the Uruguay Round of negotiations under the GATT. Subsequent developments were to show the difficulty of achieving this ambitious goal in the time frame indicated (see Appendix 1). In July 1993 progress had been made in only a few of the 13 areas identified for time-bound action by member states in the Grand Anse Declaration; mainly those relating to establishment of a Common External Tariff and common Rules of Origin and of a regional stock exchange. These areas, complemented by the removal of tariff and non-tariff barriers on the movement of goods, and the freeing the movement of certain categories of skilled persons, were to form the focus of the Community's efforts at market integration during the decade of the 1990s.

One conclusion derived from the difficulty of meeting the Grand Anse targets was that the CSME required a comprehensive legal framework in order to be put into effect. This would involve fundamental revisions to the Treaty of Chaguaramas that had provided the legal foundation of the Community since its inception in 1993. The need for revision was first mooted in terms of reforming the governance structure of the Community, as called for by the report of the West Indian Commission in 1992 (WICOM 1992). Eventually the process was extended to address the entire range of subject areas proposed for the CSME, in the form of nine Protocols of Amendment to the Treaty (Box 2). The procedure calls for the Protocols to be drafted, and their texts negotiated, amongst all member states; followed by their signature by Heads of Government, ratification by their respective national parliaments, and their coming into force when ratification by a sufficient number of member states have occurred. The process is complicated, time consuming, and much demanding of legal expertise. The drafting and negotiation of the agreed texts of the nine

Protocols among the twelve Member States occupied most of the period from 1992 to 1998. In the latter year, a new target for the establishment of the CSME was fixed for the year 1999. This target was itself set back on a number of occasions. In the course of reporting on progress on meeting CSME targets several possible sources of confusion were to become apparent.

Box 2. Protocols for the Revised Treaty of Chaguaramas and the establishment of the CARICOM Single Market and Economy (CSME)

Protocol	Subject
I	Organs and Institutions of Governance
II	Provision of services, rights of establishment and movement of capital
III	Industrial Policy
IV	Trade Policy
V	Agricultural Policy
VI	Disadvantaged Countries, Regions and Sectors
VII	Transportation Policy
VIII	Competition policy
IX	Disputes settlement

Source: CARICOM website, www.caricom.org

First, in setting the 1999 target CARICOM did not initially make a distinction between legal establishment of the framework for the CSME and the actual implementation by member states of its provisions. The process of implementation is itself complicated and time-consuming, requiring as it does changes in legislation, regulations and administrative procedures in each of the Member States. The distinction between legal establishment and actual implementation only began to be made in CARICOM statements in 2000, when the legal process was coming to an end. Second, it has never been made clear in official statements precisely what condition has to be satisfied for the establishment of the legal framework. Does it for example mean the signing, ratification

and bringing into force of all nine protocols, or only some, and if the latter, which are regarded as essential? In February 2002 the Heads signed a 'Declaration of Provisional Application of the Revised Treaty of Chaguaramas', and, although several legal processes still remain to be completed, the Governments appear to regard this as sufficient legal basis on which to proceed with a variety of actions aimed at implementing the provisions of the Revised Treaty.

Another possible source of confusion has been the failure to distinguish clearly between implementation of the *Single Market* and that of the *Single Economy*. Key elements of the legal and institutional infrastructure are common to the CSME as a whole. But whereas Single Market provisions give effect to complete freedom of movement of goods, services, capital and skilled persons throughout the Community, the provisions of the Single Economy envisage much wider and deeper forms of integration. They involve, for instance, the coordination of macroeconomic, fiscal, monetary and sectoral policies of governments of member states, the establishment of a Caribbean Monetary Union and the harmonisation of laws governing the operation of businesses and the treatment of labour. The failure to make this distinction until recently may have led to some misunderstanding on the part of the public, and even some officials, since the current implementation programme of the CSME but relates almost entirely to the Single Market. The current target is to have the Single Market operational by January 1, 2006, with an 'indicative time line' of 2008 for the establishment of the Single Economy (CARICOM 2004b). The latter date will mark 19 years since the Grand Anse Declaration..

III. Current status of the CSME

The current status of CSME implementation can be assessed in greater detail by examining the extent to which specific actions required for implementation have been completed. The CARICOM Secretariat (CCS) lists 79 'action elements' in the CSME programme, divided into 12 categories that correspond broadly to the Protocols amending the Treaty of Chaguaramas (see table 1). We have also grouped these into the three main

broad areas of legal and institutional infrastructure, single market provisions and single economy provisions.

Most of the action elements indicate specific actions that each member state should undertake to meet its CSME commitments. A small number refer to actions that correspond to one of the organs of the Community or to the CCS. An action element may be regarded as having been completed when all the member states and other responsible organs states have fulfilled the particular undertaking. Hence, the overall degree of implementation could be measured by computing the total number of actions that need to be carried out by all the entities concerned, then by identifying the number *actually* carried out so far, and finally by expressing the latter as a proportion of the former.

The results of this exercise are shown in table 1. It refers to the situation as reported by the CCS in October 2004. Only the 12 member states that are presently participating in the CSME and are fully constitutionally capable of carrying its commitments are included. Not included in the exercise are the Bahamas, which has not yet taken a decision on CSME participation; Haiti, which is a political and constitutional hiatus; and Montserrat, whose constitutional status as a U.K. Overseas Territory requires that some commitments correspond to the administering power. Since the 79 action elements are not all equal in their significance for the completion of the CSME³, the exercise will need to be supplemented by qualitative evaluation.

³ For instance, issuance of national passports using a common CARICOM format may be of less legal significance than removal of Work Permit requirements for CARICOM nationals.

Table 1. CSME Implementation Summary

Category	No. of action elements	Total required actions¹	No. completed	% completed
A. Legal & Institutional Infrastructure	15	168	136	81.0
1. Treaty Revision	5	60	52	86.7
2. National Administration²	3	24	24	100.0
3. Enforcement, Regulation and Supporting Institutions	7	84	60	71.4
<i>3.1 Caribbean Court of Justice</i>	<i>3</i>	<i>36</i>	<i>31</i>	<i>86.1</i>
<i>3.2 CROSQ (Standards & Quality)</i>	<i>3</i>	<i>36</i>	<i>26</i>	<i>72.2</i>
<i>3.3 National Competition Auths.</i>	<i>1</i>	<i>12</i>	<i>3</i>	<i>25.0</i>
B. Single Market	29	336	215	64.0
4. Free Movements of Goods	5	60	44	73.3
5. Free Movement of Services	2	24	19	79.2
6. Free Movement of Persons	14	156	93	59.6
<i>6.1 Free Movement of Skills</i>	<i>5</i>	<i>60</i>	<i>44</i>	<i>73.3</i>
<i>6.2 Contingent Rights</i>	<i>1</i>	<i>n.a.³</i>		
<i>6.3 Facilitation of Travel</i>	<i>4</i>	<i>48</i>	<i>12</i>	<i>25.0</i>
<i>6.4 Mechanism for Accreditation & Equivalency</i>	<i>2</i>	<i>24</i>	<i>15</i>	<i>62.5</i>
<i>6.5 Transfer Soc Sec Benefits</i>	<i>2</i>	<i>24</i>	<i>22</i>	<i>91.7</i>
7 Free Movement of Capital	6	72	46	63.9
<i>7.1 Removal of Restrictions</i>	<i>2</i>	<i>24</i>	<i>12</i>	<i>50.0</i>
<i>7.2 Capital Market Integration</i>	<i>2</i>	<i>24</i>	<i>14</i>	<i>58.3</i>
<i>7.3 Double Taxation Agreement</i>	<i>2</i>	<i>24</i>	<i>20</i>	<i>83.3</i>
8. Right of Establishment	2	24	13	54.2
C. Single Economy	35	222	17	7.7
9. Common External Policy	3	36	14	38.9
10. Harmonisation of Laws	14	168	2	1.2
11. Sectoral Programmes & Enabling Environment	6	6	1	16.7
12. Common Support Measures	12	12	0	0.0
Total	79	726	368	50.7
Notes				
1. Number of identified action elements multiplied by the number of entities (countries or agencies) required to take each element. Only 12 countries are counted. Rows 6.1, 11 and 12 relate to actions by a single CARICOM organ identified in the source document.				
2. Three action elements are listed, but implementation information is not available for element 2.2				
3. A protocol is being prepared. When negotiated, this will require signature and ratification by all member states				
<i>Source: author, compiled from document <i>Establishment of the CARICOM Single Market and Economy: Summary of Status of Key Elements</i>. Dated as of October 2004. Sourced from CARICOM website November 2004.</i>				

According to the data shown in table 1 approximately one-half of the actions required to establish the CSME have been completed. Given the enormity of the task involved, this may be considered to be a not inconsequential achievement. But the degree of completion

varies widely between the three main components of the CSME architecture. The establishment of the legal and institutional infrastructure is reasonably far advanced. The notable exceptions to this are that the majority of the member states have yet to enact the Revised Treaty into domestic law; and the majority have yet to establish national competition authorities⁴.

With regard to the Single Market, the greatest progress has been registered in freeing the movement of goods, some services and skilled persons. Most of the legal impediments to the free movement of skilled persons have been removed, but much remains to be done regarding arrangements for the accreditation and equivalency and the transfer of social security benefits to facilitate such movement. There is a significant shortfall in giving effect to the free movement of capital and the right of establishment, where approximately one-half of the identified restrictions in each category are still in force.

The Single Market programme in respect of services, capital, and right of establishment involves three stages. First, each member state inventorises its existing restrictions in force and notifies the CCS. Second, a scheduled programme for the removal of restrictions by each member state stage is negotiated and then approved by the Community. Third, each member state carries out its scheduled programme, notifying the CCS at regular intervals of the actions undertaken. The first two stages have been completed and schedules approved for each member state on annual basis over 2003-2005. A summary is provided in table 2.

⁴ One possible solution to the latter requirement is the establishment of a regional competition authority empowered to act as the national authority in those member states that find it financial difficult to set up their own national authorities.

Table 2

Summary of Scheduled Removal of Restrictions on Services, Capital and Right of Establishment

Country	Existing restrictions by Mode						Scheduled removal				
	1	2	3	4	Legal	Total	2003	2004	2005	Total	Percent
Antigua & Barbuda	9	0	14	14	18	55	4	7	2	13	24
Barbados	37	24	41	40	30	172	31	0	3	34	20
Belize	4	0	30	28	35	97	8	2	19	29	30
Dominica	10	1	38	37	45	131	22	1	4	27	21
Grenada	3	0	52	24	53	132	5	1	15	21	16
Guyana	12	6	25	42	39	124	5	8	30	43	35
Jamaica	9	1	68	74	60	212	34	26	9	69	33
St. Kitts & Nevis	3	1	6	7	11	28	2	0	4	6	21
St. Lucia	6	0	50	20	52	128	25	12	9	46	36
St. Vincent & Gren.	3	0	14	5	16	38	5	4	2	11	29
Suriname	16	6	22	25	12	81	10	1	24	35	43
Trinidad & Tobago	10	1	13	15	19	58	2	4	4	10	17
TOTALS	122	40	373	331	390	1256	153	66	125	344	27

Mode 1: Cross Border 2: Consumption Abroad 3: Commercial Presence 4: Movement of Natural Persons

Source: Author, compiled from CARICOM Document "Programmes for the Removal of Restrictions" , October 2004

Three observations may be made on the data shown in table 2. First, the number of restrictions in force in each member state averages 104. This is substantial in light of the administrative, regulatory or administrative changes involved in removing each restriction in respect of CSME members. Second, the scheduled removal over 2003-2005 applies only to 27 percent of the total number of the restrictions that are actually in force. Presumably the selected restrictions are the most significant in terms of the implementation the Single Market. Nonetheless the fact that a relatively small proportion of existing restrictions are scheduled for removal raises questions about the complete achievement of a Single Market in those areas even when member states meet their scheduled obligations.

Third, detailed information is not published on how far member states have actually met their scheduled removals of restrictions for the years 2003 and 2004. CARICOM statements indicate that there was some slippage in meeting the targets on the part of several Member States⁵. Three countries were said to be Single Market compliant at the end of 2004 and the remainder are expected to be so by the end of 2005. Given the frequent references to the need for technical assistance to enable member states to meet their implementation commitments, there is some doubt as to the feasibility of meeting this target. Reference to having in place the ‘core elements’ of the Single Market may reflect this doubt.

⁵ The Communique of March 2004 noted that ‘Trinidad and Tobago has met its 2003 commitments while Antigua and Barbuda, Guyana and St Vincent and the Grenadines have gone part of the way. A number of Member States have indicated that they are now treating their 2003 and 2004 commitments as a package for removal in 2004’. (CARICOM 2004a: 4). The Communique of November 2004 also stated that member states on target for their 2005 commitments ‘will be able to do so with some technical assistance and facilitation by the CARICOM Secretariat....a realistic assessment of the implementation of the CSME by Member States indicates that overall, the *core measures* relating to the establishment of the Single Market would be in place by December 2005’. (CARICOM 2004c: 7; emphasis added).

So far little progress has been made with regard to the establishment of the Single Economy. In the area of Common External Policy the majority of the required actions are still outstanding. Virtually nothing has been accomplished in the harmonisation of laws and the implementation of common support measures for productive enterprise. Only one action has been completed out of six in sectoral programmes and enabling environment. The achievement of a Caribbean Monetary Union with a common currency and common exchange rate regime would appear to have been indefinitely deferred. As stated by Prime Minister Arthur of Barbados, who has portfolio responsibility for CSME implementation, 'CARICOM has never had an agreed programme for the implementation of the Single Economy' (cited by Richards 2004). Such a programme will therefore involve a much greater number of action elements than those presently identified. The degree of effort required to complete the Single Economy may turn out to be significantly greater than that for the Single Market. To put it another way, the extent of the implementation deficit may actually be much greater than suggested by table 1.

III. Trade and differentiation

It is useful here to consider two features of the regional economic context for the CSME process; viz., the pattern of intra-CARICOM trade and of economic differentiation within the Community. Intra-CARICOM trade is highly skewed by exporting country and by product traded. One member state, Trinidad and Tobago, is responsible for virtually all of the growth in intra-CARICOM exports in recent years, accounting for 82 percent of such exports in 2001 (tables 3 and 4). Most of the growth in Trinidad and Tobago's exports to other CARICOM countries is in respect of petroleum and energy-related products, which are said to be non-Single Market related (Brewster 2003). Table 3 shows that during the 1990s Barbados's exports to CARICOM increased only marginally; Jamaica's fell steeply; and those of the OECS members also declined.

Table 3
Intra-regional exports, 1990-2001

	US\$M			Percent total		
	1990	1995	2001	1990	1995	2001
TOTAL	509	843	1207	100	100	100
BARBADOS	66	89	87	13	11	7
GUYANA	14	3
JAMAICA	70	59	46	14	7	4
TRINIDAD & TOBAGO	265	604	990	52	72	82
BELIZE	9	5	11	2	1	1
OECS	86	73	73	17	9	6

Table 4

Distribution of CARICOM exports, 2001
Percentages

CARICOM exports	Total	Intra-Caricom	EU	USA	Canada	R.O.W.
TOTAL	100.0	20.2	12.6	38.6	5.0	23.7
MDCs	100.0	20.1	11.1	38.8	5.3	24.8
BARBADOS	100.0	49.6	20.2	17.8	3.3	9.1
GUYANA	100.0	13.5	28.2	32.7	19.4	6.2
JAMAICA	100.0	3.3	29.3	32.5	15.9	18.5
TRINIDAD & TOBAGO	100.0	23.4	5.6	41.4	2.3	27.3
LDCs	100.0	22.0	35.4	35.7	0.5	6.5
BELIZE	100.0	6.7	31.7	52.7	0.5	8.3
OECS	100.0	33.2	38.1	23.1	0.4	5.1
DOMINICA	100.0	58.2	25.8	3.6	0.1	12.2
GRENADA	100.0	17.5	37.8	40.1	1.2	3.5
ST. KITTS & NEVIS	100.0	2.8	22.8	72.4	0.1	2.0
SAINT LUCIA	100.0	24.9	61.0	11.5	0.3	2.3
ST. VINCENT & GRENADINES	100.0	60.2	34.4	1.1	0.3	4.0

Source: Author, compiled from trade database on CARICOM website. Sourced 28/02/05

Such a pattern of intra-trade is likely to lead to wide differences among member states in the perceived benefits of completing the Single Market. Recognition of the potentially

harmful effects of this imbalance on the integration process is reflected in initiatives taken by the Government of Trinidad and Tobago in 2004 to provide financial assistance to other CARICOM member states in the form of the CARICOM Trade Support Programme and the Petroleum Stabilisation Fund ⁶.

Furthermore in the past two decades growth rates among member states, and hence per capita incomes, have diverged significantly (ECLAC 2003: 20). Differentiation is associated with the shift into services exports, mainly tourism and offshore banking, a development that has been most marked among the smallest CARICOM economies. The majority of member states now exhibit a high degree of export specialisation in services (table 5). There is now a marked differentiation within CARICOM between 'service-based economies' and 'goods-producing' economies (ECLAC 2002: 333). This fact must be taken into account in assessing the degree of reliance on the regional market among member states. Thus, although Barbados and the OECS countries have a higher share of their merchandise exports oriented to the regional market than Trinidad and Tobago, their effective export reliance on the region is relatively small because their service exports are geared principally to extra-regional markets and these exceed their merchandise exports by a wide margin. One consequence of this is to underline the importance of completing the Single Market in services as a possible dynamic element in intra-CARICOM trade.

Differentiation has also been heightened by the accession to the Community of two relatively low-income countries, Haiti and Suriname, in 1995 and 2002 respectively. The income gap between the richest and poorest member of CARICOM (Bahamas and Haiti respectively) is now in the order of 38 to 1, which represents a considerable widening compared to the situation at the beginning of the 1980s. Differences of this magnitude

⁶ The Government of Trinidad and Tobago's CARICOM Trade Support Programme, which is funded in the amount of TT\$100 million, aims to provide interest-free loans to non-Trinidad and Tobago CARICOM companies to enable them to improve their competitiveness and export capability. The Petroleum Stabilisation Fund was set up in July 2004 and is described as "a grant facility capitalized at a maximum of TT\$25 M per month", generated as a function of the purchase by CARICOM countries of the products of Petrotrin, the state-owned oil refining company. It is to be used for poverty eradication in other CARICOM member states and is administered by the Caribbean Development Bank. See Manning (2004).

can be expected to put a strain on the attainment of free movement of certain categories of persons within the Single Market.

Table 5. Export specialization in services, selected CARICOM member states

Ratio of services exports to goods exports

Country	1980	2000
Antigua & Barbuda	150	4060
Barbados	144	390
Belize	-	80
Dominica	60	172
Grenada	105	362
Guyana	4	29 ¹
Jamaica	39	153
St. Kitts & Nevis	40	310
St. Lucia	68	767
St. Vincent & the Grenadines	90	248
Suriname	32	21
Trinidad & Tobago	9	21 ²

Notes.

1. Data for 1995
2. Data for 1999.

Source: Extracted from United Nations Economic Commission for Latin America and the Caribbean; Subregional Headquarters for the Caribbean: Caribbean Development and Cooperation Committee; *The Development of Services in the Caribbean*. LC/CAR/G.717. 17 January 2003; table 4, page 14. The table is based on WTO data with the caveat that they “should be treated with caution because of the current inadequacy of the services data collected” (Note to Table 4. p. 14)

III. The sovereignty dilemma

Brewster (2003a, 2003b) has argued that the implementation problem in CARICOM is due to the mode chosen to effect integration, which is that of ‘discretionary inter-governmental cooperation’. He points out that this method was tried in the European Community and eventually abandoned in favour of a degree of supranationality, embodied in the arrangements for decisions by qualified majority voting leading to European Directives whose enactment into national laws is obligatory on member states. In support of Brewster’s proposition we may observe that the majority of the 79 action elements listed by the CCS for completion of the CSME is the subject of a discrete, as

well as discretionary, action by each member state for it to be carried out in full.

Theoretically, there are a total of 726 separate actions to be taken by 12 member states.

Viewed in this light, the complexity of the task of completing the CSME is thrown into sharp relief. Most of the action elements require member states to devote scarce resources of one sort or another for implementation. These may be political capital expended to secure the support of critical constituencies; the time and attention of the political leadership devoted to communication and persuasion; legal expertise used in the drafting of laws; legal, scientific and technical personnel employed in the staffing of institutions; and fiscal resources to support new institutions. Revenue may be foregone by reducing tariffs and removing specific taxes. Most measures involve the surrender of some degree of sovereignty. There will be a tendency for each action to be subjected to a calculus of political and economic costs and benefits by government decision-makers. CARICOM member states generally dispose of small numbers of technical and administrative personnel and limited budgets subject to a multiplicity of competing demands. Implementation costs are likely to be not insignificant, and occur in an immediate or short-term time frame, such as the current fiscal year. On the other hand expected benefits--expanded trade and economic growth and heightened bargaining power—accrue to the Community as a whole. They are more difficult to quantify for any given member state and they occur in the long-term. Such considerations are likely to apply with especial force in the smaller member states.

CARICOM statements over the years have referred to the onerous legal and technical demands of implementing the legal changes and implementation commitments of the CSME and to the need for technical assistance to member states in these areas (1995a, 1995b, 2003a, 2004c). Recently O.E.C.S. countries have been pressing for the establishment of a Development Fund to help the smaller member states meet their Single Market deadline (BBC Caribbean: 2004). Article 157 of the Revised Treaty on Disadvantaged Countries, Regions and Sectors calls for technical and financial assistance to these entities 'to allow them to participate effectively in the CSME and to administer international trade agreements' and Article 158 establishes a Development Fund 'for the

purpose of providing financial and technical assistance' to them (CARICOM 2002: 99, 100). The O.E.C.S members and of CARICOM and Guyana have now been formally designated as Disadvantaged Countries and at the November 2004 Special Session of the Conference the decision was taken to establish the Development Fund and to make it operational by July 2005 (CARICOM 2004b). Given the time normally taken for such financial institutions to be properly established and become operational, this time-table seems to be a dubious proposition. There is also the question of the relationship to such a Fund of the Caribbean Development Bank lending programme to the Less Developed Countries of CARICOM and of the Government of Trinidad and Tobago's Trade Support Facility and Petroleum Stabilisation Facility. Yet one possibility is that the absence of such a Fund in an operational sense could become a reason for the non-compliance of the designated CARICOM members with the Single Market deadline of December 2005.

CSME implementation difficulties can therefore be attributed to the inter-play between the economic context in which integration is being attempted on the one hand, and the mode of integration employed on the other hand. Underlying that mode is the principle of national sovereignty that is enshrined in the Community's arrangements. It seems likely that the difficulties will be exacerbated as the Community seeks to move from the Single Market to the Single Economy. It is one thing to remove restrictions on the movement of factors of production. It is quite another to agree on the coordination of macroeconomic, fiscal and monetary policies, on common policies and support measures for agriculture, industry and services, and on the unification of national currencies and of exchange rate regimes. These involve difficult and complex negotiations and agreement on the distribution of adjustment costs and benefits among at least 12 member states of widely different production structures and levels of development. They imply a considerably greater degree of restriction of national freedom of action than is implied by the Single Market. Hence Prime Minister Arthur's candid statement

As the Prime Minister responsible for the creation of a Caribbean Single Market and Economy, I must say to you that the single market and economy in the

Caribbean cannot truly become a reality unless we create the political power structures to make it a reality.

It will not be easy or automatic. It will probably take place long after I have left active politics. In today's age, it will probably be perceived as a diminution of the national sovereignty that many Caribbean societies have struggled to achieve. But to create the new Caribbean society that can succeed in the new global society, we simply must give attention to the political dimension of Caribbean integration. (Arthur 2000: p. 629).

CARICOM's 'sovereignty dilemma' lies in the contradiction between the principle of national sovereignty on the one hand and achievement of the goals of the CSME on the other hand. This is further highlighted by the current discussions within the highest organs of the Community of the issues of implementation, governance and the financing of Community institutions.

IV. Governance and financing

In response to implementation problems in general and in particular vis-à-vis the CSME, CARICOM leaders have been deliberating on the reform of governance of the Community. The Fourteenth Inter-Sessional Meeting in February 2003 and the Twenty-Fourth meeting of Heads of the Conference of Government in July 2003 were devoted to a discussion of governance options; the latter leading to the *Rose Hall Declaration on Regional Governance and Integrated Development* (CARICOM 2003b). An Expert Group of Heads of Government was appointed to elaborate on the proposals of the Rose Hall Declaration; its recommendations were to have been considered, and decisions taken, at a Special Meeting of the Conference on the CSME to be held later in 2003. However, the subject was deferred to the Tenth Special Meeting of the Conference held in November 2004, at which time the Expert Group had not yet met. The Expert Group eventually met in January 2005 and made its report to the Sixteenth Inter-Sessional

Meeting of the Conference held in February 2005, which decided to forward recommendations to the Twenty-Seventh Regular Meeting of the Conference scheduled for July 2005. The prolonged and somewhat inconclusive nature of the process so far is itself indicative of the difficulty in securing consensus on these issues.

On the face of it the Rose Hall Declaration marked a significant advance in thinking on the governance and financing of the Community. It agreed in principle to the ‘...development of a system of mature regionalism in which critical policy decisions of the Community...will have the force of law throughout the Region’, to the establishment of a CARICOM Commission or other executive mechanism ‘whose purpose will be to facilitate the deepening of regional integration’ and to ‘exercise full-time executive responsibility for furthering implementation of Community decisions’, principally in relation to the CSME; and to the ‘adoption of the principle of automatic resource transfers for the financing of Community institutions’ (CARICOM 2003b). At the same time it reaffirmed CARICOM’s character as ‘Community of Sovereign States... that the deepening of regional integration will proceed in this political and juridical context’ and that the system of mature regionalism will take into account ‘the constitutional provisions of member states’ (CARICOM 2003b). The report of the Expert Group presented to the February 2005 meeting well illustrates the difficulty of reconciling these contending principles.

The Group advances the idea of the ‘collective exercise of national sovereignty’ as a means of advancing to mature regionalism ‘that recognises the ultimate sovereignty of the Member States’ (CARICOM 2005b: 5). The report goes on to explain:

... the basic system by which Community decisions are translated into Community law will rely on national legislation giving legal effect to Instruments of Implementation, themselves approved by Heads of Government or other organs of the Community...we attach much importance to the concept of a ‘single CARICOM Act’ in each Member country giving legal effect in that country to rights and duties arising under Instruments of Implementation. At every stage of the process, Member Governments and Member States acting together will be the final arbiters. *Community law will rest not on a pillar of supra-nationality but on*

one of national sovereignty, albeit sovereignty exercised collectively (CARICOM 2005b: 7; emphasis added).

In practice this appears to differ very little from what obtains under the present arrangements, for it preserves the essentially discretionary character of the implementation of decisions by Member States.

With regard to the Commission, it is notable that such a mechanism to facilitate implementation of CARICOM decisions had been proposed by the Report of the Independent West Indian Commission in 1992 and rejected by the Heads of Government⁷. Instead, the leaders opted for two mechanisms: a Bureau consisting of the current, immediate past and incoming Chairs of the Community; and the assignment of portfolio responsibilities to different Heads of Government. That the proposal for a Commission was revived eleven years later indicates dissatisfaction with the way these arrangements have worked. As stated candidly in the Report of the Expert Group, “...they have not ensured that we move as far or fast as we should have done.” (CARICOM 2005b: 13). The Bureau appears to have functioned mainly as an enhanced mechanism of consultation among leaders in between their scheduled meetings, a kind of a steering committee of the Conference of Heads of Government. As regards the assignment of portfolio responsibilities to Lead Heads, some appear to have functioned better than others. Much has depended on the amount of interest, time and resources that the particular Head has been willing and able to put into his portfolio responsibility. The central factor, however, is that the responsibilities do not carry concrete powers of decision-making or implementation.

The Expert Group has proposed a four-person Commission whose responsibilities will be divided between five main areas in the CSME and external trade negotiations. The Commission ‘...will be accountable to the Conference of Heads of Government and will be responsive to the authority of the other organs of the Community within their area of

⁷ The Conference of Heads of Government in August 1990 had actually taken the decision to appoint such a Commissioner from October 1990; but this was deferred pending the report of the West Indian Commission.

competence” (CARCOM 2005b: 15). It will draw its technical and administrative support from the CCS, whose Secretary General will be one of its four members. It was recommended that the Bureau and Portfolio arrangements should continue; the former ‘for the time being’, the latter because this ‘would be prudent’ (CARICOM 2005b: 13)⁸. The thrust of the recommendation is to interpose another organ of governance within the existing already complex system whose actual authority is unclear and whose responsibilities overlap with those of several existing organs⁹. It is difficult to understand how such a mechanism could function effectively without changes in legal arrangements in the direction of a form of supranationality¹⁰.

A related issue is that of financing. Given the mode of integration adopted, CARICOM lacks a means of financing regional institutions that is independent of direct subventions provided by member states, or ‘own resources’ in the jargon of the EU. Hence, the Caribbean Court of Justice (CCJ) has been set up with financing from the proceeds of a Trust Fund administered by the Caribbean Development Bank (CDB). Financing will be critical as integration is extended from Single Market to Single Economy, as the latter will require a wide array of new institutions. A total of 17 new regional institutions could be involved in completing the CSME, in addition to the seven existing regional bodies that rely on government financial contributions¹¹. The annual recurrent cost of these bodies has not been quantified, but they will obviously be significant. The project costs for the implementation of the CSME have been estimated at US\$72 million for the period 2004-2010, of which US\$27 million would be necessary in 2004-2005 (Richards 2004; Carryl 2004). The project list was presented to external donors in mid-2004, who requested prioritisation. Donors will naturally question the strength of member states’ commitment to the CSME if they are asked to finance virtually the entire project costs of its completion. From the CARICOM point of view this procedure places donors in a strong negotiating position to determine CSME priorities. The content and priorities of

⁸ The wording of the Report suggests a distinct lack of enthusiasm for these arrangements but political sensitivity to colleague Heads of Government concerned.

⁹ These include the Council for Trade and Economic Development (COTED), the Prime Ministerial Subcommittee on External Trade Negotiations, the Caribbean Regional Negotiating Machinery (CRNM), the Single Market and Economy Unit in the CCS, and the CCS itself.

¹⁰ On this point see also Brewster 2003b.

¹¹ The number is based on the institutions identified by Brewster (2003b)

regional integration strategy are already the subject of negotiations with the European Union within the framework of the proposed Economic Partnership Agreement (EPA).

In that context the adoption of the principle of automaticity of financing in the Rose Hall Declaration is a positive development. A Technical Working Group set up to study how to give effect to the principle made proposals to the effect that (i) the Heads of Government decide on which entities shall be financed by this method, (ii) Member States' contributions should be GNP-based, (iii) contributions should be generated by earmarking specified percentages of import tax revenues, (iv) and contributions should be deposited in CARICOM accounts established in each Member States to ensure minimum delay in paying them over (CARICOM 2005b). The Expert Group was unable to agree on these proposals, other than that the Heads of Government should themselves decide on the entities that will be financed by this method, and recommended that follow-up work should be undertaken '...which would enable decisions at the July 2005 Conference of Heads of Government on the choice of resource base, the percentages for allocating contributions of Member States to the total quantum of resources to be transferred annually, and the choice of revenue sources or other means of members financing their individual contributions.' (CARICOM 2005b: 19). Much technical work and political negotiation therefore remains to be done before agreement can be reached on this issue. Furthermore if and when agreement is reached on the specifics it will be left to member states to implement the required legislative and administrative arrangements to make it effective.

V. Whither the CSME?

We conclude with some speculative comments on possible trajectories for the future of the CSME process. We discuss these under four broad scenarios characterised as the 'optimistic', the 'pessimistic', the 'realistic' and 'realistic variant'.

A scenario in which the Community achieves its current targets of establishing the Single Market by the end of 2005 and the 'indicative time line' of 2008 for the Single Economy must necessarily be seen as optimistic. Doubts have already arisen on the ability of the majority of the member states to meet their Single Market commitments in the time indicated without additional financial and technical assistance. Stronger doubts arise in respect of the indicative target for the Single Economy. Financing of the projects in the CSME implementation programme has not yet been arranged and the Community is far from agreement on how to implement automatic resource transfers. Furthermore it seems clear that completion and operation of the Single Economy require legal arrangements embodying some degree of supranationality exercised at the regional level. CARICOM Heads of Government remain wedded to the principle of national sovereignty; and it is not clear that the newly invented notion of collective exercise of sovereignty would represent a substantive change from the present arrangements. In the event that CARICOM were to reach agreement on incorporating a measure of Supranationality into its integration arrangements, there will be a need for further amendment to the Treaty of Chaguaramas, and for legislative and possibly constitutional changes in all participating member states. This could well involve negotiations with parliamentary oppositions and possibly national referenda. As the experience of CCJ has shown, this is a lengthy process and success can by no means be assured. A more likely time line for completion of the Single Economy might be a period of 5-10 years into the future.

Over this period the rest of the world will not be standing still. It is possible to envisage hemispheric and global developments in which trade liberalization is of such scope and depth that the CSME is rendered virtually irrelevant. This is not to argue for the abandonment of the CSME process. It is also possible to envisage a world of halting progress in global liberalisation and the strengthening of regional blocs. In either case, a single market and economy with 15 million people is in a better position to cope with globalisation than a collection of 15 entities with an average population of 1 million and in which the majority have populations of far less than that.

The pessimistic scenario is for fragmentation of the Community and eventual abandonment of the CSME as an objective. This could result with loss of momentum in the integration movement due to the difficulties discussed in this paper, the growth of 'implementation fatigue' among governments and of 'implementation cynicism' in the regional public, waning political support for integration, and increased economic divergence. Feeding this scenario is the lack of resolution of the issues of financing of CSME institutions and of supranationality and the complications of securing consensus on macroeconomic, sectoral policies and external trade policies in a Community of growing economic differentiation¹².

Yet it seems improbable that regional leaders would easily abandon a project to which so much time and other political and economic resources have been devoted in the past 16 years. The likely occurrence of this scenario is also contradicted by the noticeable growth in recent years of 'CSME awareness' among political leaders, the media, the private sector and in the wider public. Nonetheless the centrifugal tendencies will need to be more explicitly addressed if they are not to become a danger to the viability of the integration process.

The realistic scenario is for the CSME process to continue with its present direction and content and with continued adjustments in the time frames of completion. A variant of this would be to have more conscious determination of priorities for implementation, the setting of realistic deadlines, and more through thinking through of the implications of targets. For instance, the Community might choose to focus on perfecting the Single Market arrangements while deferring the Single Economy pending comprehensive review and agreement on the legal, constitutional, financial and organisational implications.

¹² For instance, with regard to merchandise exports the main interest of some CARICOM members' is in access to the EU market while others have a greater interest in access to the US market. This could lead to differences over the negotiating stance in the FTAA or on the desirability of a bilateral agreement with the United States.

An optimistic slant to the realistic perspective would suggest that with the passage of time the integrative forces will gradually predominate over the disintegrative factors, through the emergence of critical 'constituencies of support' created by the process of integration itself. Examples of such constituencies are the formation of regional firms through cross-border investment, already evident in the financial sector; the growth of communities of CARICOM professionals in member states resulting from the free movement of skilled persons; and the impact on public consciousness of the movement of media workers, artists, sportspersons and cultural workers. In this scenario support for the CSME project percolates outwards from state-centred structures to wider strata in the private sector and civil society; providing political support for political leaders to address the need for supranationality in regional arrangements. This scenario will appeal to those who recognise the limitations of the integration process in its present forms but who believe that the benefits of more intense regionalism will become more and more evident over time.

One should be cognisant, however, of the risks of proceeding too slowly with the CSME. The processes of hemispheric and global liberalisation, represented by the FTAA, EU-EPA and WTO arrangements, could progress more rapidly than the corresponding arrangements in the CSME and thereby limit its economic significance. It is possible to imagine a situation in which investment by extra-regional firms results in the displacement of regional and national firms in critical goods and service sectors, and the influx of extra-regional professionals exceeds the cross-border movement of CARICOM professionals. In other words, the growth of CSME consciousness and of CSME constituencies could be overtaken by the wider processes of hemispheric liberalisation and globalisation.

A fourth scenario is that CARICOM's development as a regional grouping continues with the main emphasis on political cooperation in foreign policy and in functional cooperation than on economic integration. This could occur with growing awareness of the constitutional and financial obstacles to completing the CSME while its perceived benefits continue to be elusive. In this scenario, the CSME aspect of CARICOM recedes

into the background or is quietly shelved. But political cooperation continues to strengthen, as the Community's voting power in international relations gives it significant leverage in international fora. For example, in the OAS and of the FTAA CARICOM has less than 2 percent of the population but 41 percent of the number of votes. The sense of political and economic vulnerability of the small states of CARICOM has been heightened by global developments in the trade, security and the environment. Hence, this scenario posits that CARICOM states will find it increasingly advantageous to negotiate *en bloc* in hemispheric and global fora. Since this involves the intensification of some trends that are already in existence, this could be regarded as a variant of the 'realistic' scenario.

Only time will tell which of these scenarios will eventuate, or which others not imagined here will emerge. Our purpose here was not to make predictions or to suggest probabilities of occurrence of one or other scenario. Rather it was to identify some of the underlying issues and trends that condition the CSME process and that will affect its future course.

(ends)

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APPENDIX 1.

THE CSME: A LONG AND WINDING ROAD.

Highlights from Press Releases on Regular, Inter-Sessional and Special Meetings of the Conference of Heads of Government of the Caribbean Community, 1989-2005.

July 1989

Grand Anse Declaration pledges establishment of CSME by July 1993

August 1990

Deadline for Single Market of January 1 1994

Implementation date of January 1, 1991 for Common External Tariff, Rules of Origin and Regional Stock Exchange.

AFFIRM – Arrangements for Freer Intra-Regional Movement of skilled persons - endorsed

July 1991

Cross listing and cross trading of securities on stock exchanges of Barbados, Jamaica and Trinidad and Tobago noted.

Portfolio responsibilities assigned to Prime Ministers in six priority areas

July 1992

New set of measures for establishment of CSME approved.

Proposals for Caribbean Monetary Union. Endorsed.

October 1992

Report Of The West Indian Commission Considered. Decisions on (i) Bureau Of Heads Of Government, (ii) CARICOM Secretariat, (iii) Community Council Of Ministers, (iv) Joint Overseas Representation, (v) Assembly Of Caribbean Community Parliamentarians, (vi) CARICOM Charter Of Civil Society, (vii) CARICOM Court, (viii) Collective (ix) Amendment of Treaty of Chaguaramas (x) Association Of Caribbean States
Decision on Common External Tariff.

March 1993

Revised CET and Rules of Origin and removal of all remaining barriers to intra-regional trade set for 30 June 1993.

Urgent action needed for integration of services and free movement of labour and capital to achieve CSME.

July 1993

Grand Anse deadline for CSME passes. Progress reports considered

July 1994

Concern at slow pace of execution of work programme of CSME adopted in February 1992 and at rate of implementation of decisions.

Signature by eight Member States of the Double Taxation Agreement

Reports on Travelling in the Region, Free Movement of Skills and Establishment of Common Currency.

February 1995

Need to enact legislation for CSME and problem of shortage of human resources noted
Revision of Treaty of Chaguaramas being prepared
Revised Rules of Origin implemented in 1993
Second phase of CET implementation under way
Progress reports on Free Trade, Right of Establishment and Provision of Services, Right to Transfer Capital, Dividends and Profits; Effective Payments For Goods And Services and for Capital Transactions; Avoidance Of Multiple Taxation and Application of a Single Rate Of Tax, and Movement Of Skilled Persons
Mechanism to monitor the degree of convergence in macro-economic policies and performance accepted

July 1995

Pace of implementation CSME still below expectations. Desire for technical support to Member States in the implementation of decisions.
Free Movement of Skills to be expanded
Progress on removal of import licenses on intra-regional trade
Second phase of CET implemented by four members
CARICOM Enterprise Regime terminated.
Suriname admitted to CARICOM

February 1996

Barbados to host special consultation on CSME
Draft model legislation on free movement of University graduates approved

July 1996

Agreement to extend free movement to artistes musicians, sportsmen and media personnel.
Significant progress made in implementation of CET Phase II and in elimination of non-tariff barriers.

February 1997

Signing of Protocol I amending Treaty of Chaguaramas by member states. First in series of instruments being elaborated in accordance with decision of October 1992.
Signing of Charter on Civil Society

July 1997

Target for establishment of CSME set for 1999
11 member states have signed Protocol II

March 1998

Protocol I being applied provisionally
Target for Single Market for 1999 re-affirmed

July 1998

Protocols III and V signed
Protocol II provisionally in force
CET Phase IV to be implemented by end 1998
Progress reports on Caribbean Court of Appeal, Assembly of Parliamentarians, and CARICOM Stock Exchange
1999 target date for CSME confirmed

July 1999

Protocols IV, VI VII signed

October 1999

'Consensus of Chaguaramas' notes achievement of Grand Anse goals in 11 areas and identifies 10 additional areas for substantial progress by January 2001. Assigns portfolio responsibilities to eight Lead Heads of Government.

March 2000

Protocols VIII and IX signed
Attention to be directed to implementation of Single Market Treaty provisions and the coordination of external economic policy.
Programmes for the removal of removal of restrictions on rights of establishment, provision of services and movement of capital to be established by July 2000.
Regional Consultation on implementing the CSME to be convened in September, 2000.

July 2000

Legal framework for CSME to be in place by December 2000.
Priority given to implementation of Protocols II and VII.

February 2001

Revised Treaty expected to be finalized by Third Quarter of 2001
Priority given to implementation of free movement of agreed categories, hassle-free travel, arrangements for mutual accreditation, establishment of Standards Organisation, and public education programme.

February 2002

Approval of Programmes for the Removal of the Restrictions on the Right of Establishment, the Provision of Services and the Movement of Capital from March 2002 to end 2005.
Signing of three additional Protocols on (i) transition from Community and Common Market to the Community, including the CARICOM Single Market and Economy; (ii) Declaration of Provisional Application of the Revised Treaty pending ratification; and (iii) the Inter-Governmental Agreement Establishing the CARICOM Regional Organisation for Standards and Quality (CROSQ).

July 2002

Agreement on the need for more urgent and comprehensive effort to fully establish the CSME.
Prime Ministerial Sub-Committee on the CSME to meet to deal with issues important to speedy implementation of the CSME
Accession of Haiti to the Community

February 2003

Recognition of the 'urgent need' for establishment of CSME given FTAA timetable. December 2005 latest date for implementing the defining elements of the CSME.
Work Programme for CSME implementation by 2005 accepted
Special attention to meeting the technical and financial assistance needs of Member States and the CSME Unit of the Secretariat.
Focus to be on completion of provisions for free movement of persons and on enormous legal agenda required for CSME implementation.

July 2003

Free movement of graduates, media workers, musicians, artists and sportspersons to be effective on August 1, 2003
Arrangements to be finalized for free movement of self employed CARICOM nationals establishing businesses, providing services, moving capital, and their managerial, technical and supervisory staff and spouses and immediate dependent family members.
Third Special Consultation on CSME and Special Session of Conference on CSME to be hosted by Barbados later in 2003.
Signing of Protocols establishing Caribbean Court of Justice.
The Rose Hall Declaration On 'Regional Governance And Integrated Development' agrees on (i) establishment of CARICOM Commissioners or other executive mechanism to facilitate implementation of CSME, (ii) automatic resource transfers to finance Community institutions.

November 2003

11 of 12 Member States have implemented arrangements for free movement as per July 2003 decision.
Member States working towards meeting the December 2003 deadlines for the removal of legal and administrative restrictions on the Right of Establishment, the Provision of Services and the Movement of Capital.
Reports of the Technical Sub Groups on Governance received and to be published for public participation.

March 2004

Barbados, Jamaica and Trinidad and Tobago to complete basic key elements for CSME in 2004
Dedicated attention required by all Member States to meet the 2004/2005 deadlines for Single Market.
Several Member States ensuring that Revised Treaty enshrined in domestic legislation.
Free movement of specified categories of skilled persons in effect in all but two Member States.
Removal of restrictions for establishing enterprises, providing services and moving capital met by one member state in respect of 2003 commitments and three others in part. Several others treating 2003 and 2004 commitments as a package for removal in 2004.

July 2004

Special Session to be convened in November 2004 to ensure meeting of December 2005 deadline for Single Market.

November 2004

Port-of-Spain Statement on the CSME.

Three States committed to meeting the 2004 timeline on track.

Other states require technical assistance and facilitation by the CARICOM Secretariat. Legal amendments prepared and submitted to each Member State.

'Core measures' for establishment of Single Market to be in place by December 2005.

Key complementary elements include (i) financing of the CSME Work Programme (ii) establishment of the Development Fund for Disadvantaged Countries, Regions and Sectors.

Agreement to expand the categories of workers for free movement.

February 2005

Three countries are Single Market compliant; others expect to be so by December 2005; Single Market to be in operation by January 1, 2006.

CCJ to be inaugurated April 2005.

Recommendation of Prime Ministerial Group on Governance to be considered at July 2005 Conference

Sourced from CARICOM website www.Caricom.org