

## ENHANCING CARICOM COMPETITIVENESS: CAN THE CARIBBEAN SINGLE MARKET AND ECONOMY (CSME) AND THE EU-CARIFORUM ECONOMIC PARTNERSHIP AGREEMENT (EPA) FACILITATE THIS PROCESS?

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### I. INTRODUCTION

On January 30, 2006 heads of government of six<sup>1</sup> Caribbean Community (CARICOM) countries signed the protocol for implementation of the Caribbean Single Market (CSM). The realization of this seamless regional market, which facilitates the free movement of goods, services, capital and labour, has been heralded as the first tangible step towards a fully functioning Caribbean Single Market and Economy (CSME) in 2008.

What makes this move so critical is the significance, perhaps even urgency attached to the CSME as the potential driver of economic growth, competitiveness and overall development of the region's countries. Indeed, the sentiment in many quarters is that the regional pooling of resources and markets and the harmonization of economic and related policies is the only real option available to CARICOM countries, most of which are facing severe economic crisis. Barbados Prime Minister Owen Arthur (2004) warned:

“...Some domestic economies are relatively less prosperous than they were 30 years ago. Others, faced with the loss of trade preferences teeter on the brink of collapse. Many are compelled to deal with basic, urgent issues relating to economic survival and solvency.”

Arguably, most CARICOM countries have been unable to adjust to a global economic system now premised on trade liberalisation and driven by new determinants of international competitiveness. At a time when constant innovation and knowledge inputs are key to adding value to goods and services in creating a competitive edge in higher-end activities, most of the region continues to rely on low value exports that will no longer enjoy preferential access to secure markets. Services have also been subject to liberalisation under the GATS.

What is worrisome is that most CARICOM countries continue to channel resources into strategies aimed at arresting sluggish GDP growth and building export competitiveness in the same narrow range of goods and service products. Not surprisingly, CARICOM countries, with the exception of Trinidad and Tobago<sup>2</sup>, continue to be plagued by increasing trade imbalances, high inflation rates and public sector external debt, rising unemployment and pronounced sector imbalances.

The global reach and intense competition that characterises contemporary economic globalisation has placed competitiveness at the forefront of every CARICOM government's policy agenda. Further, the decision by the European Union (EU) to forge separate regional economic partnership agreements (REPAs) to replace decades of preferential market access for the African, Caribbean and Pacific (ACP) countries signals a new dispensation in EU-CARICOM relations- one in which reciprocal trade, and collaboration based on equality- will now define the economic and political relationship between the two groups.

CARICOM states have little choice but to address the issue of increasing their international competitiveness if they are to survive and participate in this altered environment. A major concern is that although policy makers recognise the urgency for enhancing competitiveness, the conceptual underpinnings of national and regional competitiveness strategies do not seriously incorporate the created factors such as knowledge, innovation, creativity and highly skilled human capital, which have become the new drivers of competitiveness in today's global knowledge economy.

The region tends to define competitiveness in terms of cost advantages arising from scale economies, access to raw materials, cheap labour or investment capital, all of which were significant sources of firm competitiveness in the industrial economy of the twentieth century. CARICOM governments, faced with uncompetitive exports, slow growth and the reality of reciprocal trade, have turned to the CSME in the hope that pooling resources will trigger increased inter-industry trade that will facilitate the growth of baseline resources that can translate into international competitiveness.

Undoubtedly, a regional approach is critical for increasing trade and competitiveness in economies with inherent deficiencies such as small size, limited skilled human capital and investment pools and small, un-diversified product ranges. However, this paper contends that the CSME, as currently conceptualised can only be a *short-term measure* to address the critical issue of competitiveness. Competing in today's global knowledge economy requires more than cost advantages based on scale economies.

Indeed, the issue of strategic economic restructuring to support diversification into goods and services that are skill or knowledge-intensive must be given urgent attention at both the national and regional levels.

Economic restructuring is a long-term process and a monumental task for these small economies. As CARICOM countries transition from old products and production structures, increasing the competitiveness of *currently traded* goods and services will be critical for socio-economic stabilisation. The regional pooling of resources envisaged under the CSME could provide that incremental competitiveness that enables member states to cushion the inevitable adjustment shocks associated with economic diversification.

Ultimately, economic restructuring requires articulation of national and regional development policies in which the new dynamics of international competition become the cornerstone for an economic framework where industrial policy (based on the identification of specific niche products and services) is supported by targeted infrastructural, educational, legislative, research and investment policies. It calls for the synergising of industrial policy, firm strategies and trade policy based on knowledge, innovation and creativity. These are critical issues that the CSME has not adequately addressed. A major challenge for region is the institutional, human capacity and financial deficiencies that will militate against such restructuring. This is where the CSME and the EU-CARIFORUM<sup>3</sup> agreement can play a crucial role in the region's restructuring process.

CARICOM states are now at a crossroads. While CARIBCAN and NAFTA, provided new avenues for increased trade, preferential arrangements with the EU remained the engine of growth. The EPA being negotiated with the EU effectively removes this preference and introduces *reciprocal* trade, which underscores the region's competitiveness problems. The EPA provides an excellent opportunity for the CARIFORUM to leverage assistance for export diversification, increase global trade competitiveness and economic restructuring while at the same time ensuring that the EU's stated commitment to social cohesion and poverty reduction are honoured since the EU views the integration process as an instrument not only to promote growth, stability and development of the region, but also as a platform for establishing a more comprehensive EPA with the wider Caribbean region. The EPA should thus be viewed in terms of its *potential* contribution to the region's development and not as a mechanism for prolonging preferential market access for uncompetitive exports.

This paper contends that competitiveness is a major objective of the current CSME and must also be at the centre of EU-CARIFORUM negotiations. **Section I** examines the recent economic performance of CARICOM countries in the context of economic globalisation. **Section 2** identifies the new determinants of international competitiveness and analyses the competitiveness challenge for CARICOM countries. **Section 3** looks at the rationale for the CSME particularly as this relates to enhancing national and regional competitiveness within the context of the new drivers of competitiveness identified in section two. **Section 4** examines the *potential* role that the CSME can play in guiding economic restructuring in member countries with targeted assistance from the EU-CARIFORUM EPA. It underscores the opportunities and development potential that this new economic imperative can bring the region. In the final analysis however, the paper argues that unless there is a fundamental shift in the ‘mindset’ of CARICOM policy makers to accept the realities of a new trading system, competitiveness, growth and sustainable development will remain elusive goals.

## II. THE CHANGING GLOBAL ECONOMIC CONTEXT AND IMPACT ON CARICOM COUNTRIES

Since the 1990’s CARICOM countries with the urging of International Financial Institutions (IFIs), have implemented a range of policies<sup>4</sup> designed to facilitate their participation in the global economy. Notwithstanding such initiatives, these economies have found it increasingly difficult to adjust to the realities of eroding trade preferences and the liberalisation of trade in goods and services. Real GDP growth for the period 2000-2005 has been sluggish in all countries except Trinidad and Tobago where activities in the energy and related sectors continue to outperform other sectors. Indeed, Singh (2004) concluded that

“Despite openness to globalisation, strongly democratic political systems, the high quality of human capital, and natural resources, the region's per capita GDP has increased by less than two percent per annum in the past 25 years. This is lower than the average of other developing countries in the world...and is less than is needed to reduce poverty and unemployment.”

Buitelaar and Hendrickson (2007) observed that while the region could see an improvement in GDP growth over 2005, it was still growing less than other developing countries as a group. The fundamental problem appears to be one of ‘fit’. The current production structure of CARICOM economies, coupled with specific vulnerabilities, make it virtually impossible for these microstates to extract gains from a global system dominated by free trade and intense competition. Traditional economic

activities such as agriculture and natural resource extraction continue to underpin the region's economies in terms of their contribution to employment and to foreign exchange earnings. Small land size and outmoded production methods translate into high production costs, which have made sugar, rice, rum, and banana exports uncompetitive for the past two decades. These factors, combined with the impact of externalities such as natural disasters and low international commodity prices have made preferential market access negotiated under the Lomé Conventions critical to the region's economic survival.

It is apparent that the Lomé Conventions, which allowed Caribbean agricultural exports into the EU at artificially high prices, masked the problem of the region's un-competitiveness in agriculture. One ECLAC (2006) report contends:

“Even before EU market reforms many traditional Caribbean exporters of rice, sugar, rum and bananas were structurally in long term decline under price pressure from more competitive suppliers, and this in spite of substantial EU aid and trade preferences”.

Clearly, the Caribbean's agriculture sector faces overwhelming challenges adjusting to the structural changes of the global economy. Both CARICOM and ECLAC surveys of the region for 2005 revealed that agriculture continued its trend of stagnation or contraction in all countries except Barbados. The OECS countries (-12%), particularly Grenada (-52%), Guyana (-11%) and Jamaica (-7%) illustrate this trend (ECLAC 2006:8). Other factors accounting for this performance included low international prices, external shocks, particularly hurricanes and adverse climate conditions and crop diseases.

CARICOM countries are fully aware of the crisis they face. The EPA being negotiated with the EU heralds the end of preferential market access for agricultural exports and the beginning in earnest of reciprocal, unfettered trade with the rest of the world. Most governments have attempted to 'get their houses in order'. Strategies adopted include modernization and diversification of the agricultural sector<sup>5</sup> (Jamaica, Guyana and Belize) or a total shift from agriculture-dominated exports (OECS countries). Some OECS countries, whose economies were totally dependent on banana and sugar exports have now moved into tourism, while St. Kitts/Nevis chose to entirely cease production of sugar for export under the EU/ACP Sugar Protocol Agreement. After years of losses and heavy government subsidies Trinidad and Tobago closed down Caroni 1975 Limited in 2003 signalling an end to the sugar industry in that country.

On the services front, the Caribbean is the most tourism-intensive region in the world. Direct and indirect impacts of tourism account for 18% of total GDP in the region (European Commission Report 2006). Service-based economies such as Antigua and Barbuda, the Bahamas and Jamaica appear to be surpassing the agriculture-based Windward Islands in terms of trade and growth performance, which has prompted a shift into services-particularly tourism- by some of the agriculture-dependent economies.

The difficulty is that most of the countries offer the same type of tourism product, and when there is an attempt to compete on the basis of product differentiation, the idea is quickly taken up by other countries (eg. Jazz festivals in St. Lucia, Barbados, Tobago). Moreover, these small CARICOM countries must also compete with larger neighbouring destinations such as the Dominican Republic, Cuba and Costa Rica for tourists. Much of the tourism infrastructure remains foreign owned and investment is driven largely by tax and financial incentives offered by the individual countries competing amongst themselves. As such, tourism has not created strong linkages with domestic economies. The region's vulnerability to external shocks such as natural disasters and international developments<sup>6</sup> and increased competition from within and outside the region has resulted in an erosion of the comparative advantage of some of the tourism-based economies. This is most apparent in the smaller, more vulnerable OECS countries where the tourism industry has become saturated (European Commission Report, 2006).

Some countries, namely Antigua & Barbuda, Barbados, Grenada and Jamaica, in an effort to reduce heavy reliance on tourism receipts, have attempted to diversify their economies by developing other service activities-offshore banking and offshore information and communications technologies (ICT) centres. The former has experienced some setbacks mainly due to intensified efforts by the US to clamp down on illicit, offshore tax havens, money laundering and other illegal practices.

In the case of ICT centres, the tendency for monopolistic provision of telecommunications services has impacted costs and reliability of service delivery, although liberalisation of the telecommunications sector in most countries is expected to alleviate these problems somewhat. Notwithstanding these developments, it can be argued that many of these offshore ICT industries are primarily low-end, low-skilled activities and are facing increasing competition from technology powerhouses such as India, Malaysia and Costa Rica that compete on the basis of inter alia, high skilled, reliable low cost labour, excellent telecommunications infrastructure and attractive investment climate. Given the current pattern of exports and those industries targeted for export development, it is not

unreasonable to surmise that CARICOM countries appear to be merely replacing old, uncompetitive exports with 'new' uncompetitive ones.

The sluggish performance of the region's manufacturing sectors highlights competitiveness problems that arise because of inter alia, small domestic markets, high production costs, mature products and failure to diversify into higher-value added products. Additionally, the real effective exchange rates of most CARICOM countries seriously impact the price competitiveness of goods in the international market since cost of imported inputs often negate any benefits of devaluation in domestic currencies pegged to the US dollar. These factors have negatively impacted export growth in several goods-producing economies including Trinidad and Tobago and Jamaica (European Commission Report 2006).

It is not surprising that external current account deficits for the region are worsening (Singh 2004). Several countries face macro-economic challenges, and fourteen Caribbean countries are among the thirty most indebted countries in the world (Carrington 2006). At the same time, the patterns that determine the composition and level of imports have not changed. Both the manufacturing and agriculture sectors require high levels of imported inputs.

Imports in most countries continue to be driven by consumer spending with consumer goods accounting for more than 40% of total imports (ECLAC 2006:2). Within the last five years, heavy capital expenditure by governments as they prepare for the Cricket World Cup in 2007 has fuelled construction booms in the ten host nations and has added significantly to the demand for imported goods and services.

At the same time, ECLAC and CARICOM Secretariat surveys of the region reveal that high levels of public debt continue to be a major source of concern for CARICOM governments, particularly the smaller economies of the OECS, where the stock of debt increased from 35% in 1990 to 95% of GDP in 2005. Outstanding debt for the larger economies increased on average, from 60% of GDP in 1990 to 79% of GDP in 2005 (ECLAC 2006, 2).

The region's current production and export orientation are untenable in the new global trading arena. The fact that trade liberalization and increasing openness have not produced significant increases in intra-regional trade, nor has the region been able to capture a larger share of the extra regional export market points to the competitiveness challenges that CARICOM exports now face. This situation has created a "perpetual tendency towards balance of payments constraints...a constant need to attract foreign capital and a continued dependence on official aid" (ECLAC 2006).

### III. COMPETING IN THE GLOBAL KNOWLEDGE ECONOMY -NEW DETERMINANTS OF INTERNATIONAL COMPETITIVENESS

Although competitiveness is by no means a new construct, it has emerged as the major indicator and determinant of successful firms and nations in today's globalised trading environment. Competitiveness is now regarded as the benchmark by which success at the firm level is measured, and the mechanism through which socio-economic development and overall prosperity at the national level can be attained. The prosperity and viability of nations and firms now appear to be intricately linked to their ability to achieve and sustain competitiveness in the global knowledge economy. It is therefore important to recognise that the characteristics of the knowledge economy are fundamentally different from those of the industrial economy of the twentieth century and as such, the determinants driving competitiveness today are quite distinct from those required for competitive advantage under industrialisation. Skyrme (1997) warns that

“The rules and practices that determined success in the industrial economy of the 20th century need rewriting in an interconnected world where resources such as know-how are more critical than other economic resources”.

The three-pronged, interlocking drivers of change; globalisation; information and knowledge intensity, and increased networking and connectivity capabilities, are shaping a global economy that is increasingly integrated and characterised by an unprecedented rise in both the volume of trade and capital flows (Grynberg & Razzaque 2004).

The nature of globally traded goods and services is changing to reflect a proliferation of new types of products that are knowledge, skill and/or information intensive. This is not surprising since in Nusbaumer's (1987) opinion, “the utility created consists of information and communication” so that “knowledge-based activities, assisted by rapidly-evolving information technology, have become the main spring of economic activity.” Knowledge has thus emerged as *the* competitive advantage since the easy transferability of information means that products and processes can be easily and quickly duplicated. A precondition of competition now appears to be a firm's capacity to innovate quickly and to utilise its know-how to provide distinctive products or services.

Chen & Dahlman (2005:2) also contend that the nature of competition is changing, shifting away from cost-based advantages to those premised on speed and innovation. Importantly, they observed that while advantage in traditional commodity production was based on lowest cost producers, intense competition resulting from globalisation has pushed profits from commodity exports to “nearly zero”. Global players now de-emphasize “traditional” patterns of production and instead target activities



that generate higher value-added utilising a range of intangibles such as knowledge, innovation and patents that can translate into competitive strategies including innovative designs, effective marketing, efficient distribution and distinctive branding.

For nations that can quickly and effectively tap into the knowledge economy, the potential for economic growth and increased national welfare is very promising. This is particularly significant for developing countries that have been unable to capture gains from trade in the industrialized resource-based system where cost based on inherited factor endowments determined competitive advantage.

Since economics in the knowledge-driven economy is premised not on scarcity but on abundance (Skyrme 1997), emphasis is on *creating* advantage. The ongoing application of technologies, innovation, creativity, education and training to the production processes enables firms to constantly introduce new products/services or increase the value added of existing products thereby sustaining competitiveness over time. This is where the playing field becomes level and where smaller, resource deficient economies like those of CARICOM can gain advantage.

Whereas most 'traditional' resources are easily depleted, information and knowledge can grow through application. Further, the use of appropriate technologies now minimise the effect of location, creating instead, a virtual economy where virtual firms and consumers trade in a virtual marketplace, characterised by round the clock operations with global reach in real time. In the emerging knowledge economy the role of knowledge becomes increasingly significant not only as a factor of production but also in terms of its impact on skills, learning, organisation and innovation.

Houghton and Sheehan (2000) argue that cost competitiveness is a necessary but now insufficient condition for success. Creating and sustaining competitive advantage now centres on determinants such as innovation and knowledge, the role of learning for both people and organisations, the application of creativity, problem solving and openness to change; and the transformation of firms into networked entities that emphasize adding value rather than cutting costs, particularly as these relate to low-skilled labour costs. The mobility of firms to produce and sell anywhere in the world means that companies can now invest wherever they find the best and most available talent pool. Long-term competitive success involves investment in life long learning to produce a cadre of specialised knowledge workers who drive innovation and enterprise as well as a highly literate and motivated labour force to run it.

Given the changing pattern of global trade and the new drivers of competitive advantage, CARICOM's continued reliance on labour-intensive, low-skilled exports is troubling. Regional governments recognise that competitiveness is an urgent priority, especially now that reciprocal trade is on horizon. Yet policy initiatives at both the national and regional levels do not reflect a significant shift to production structures and exports that embody the new drivers of competitiveness in any significant way. While the region looks to the CSME as a means of enhancing competitiveness this paper contends that unless a concerted effort is made to restructure production into higher value added goods and services, the region will continue to experience serious competitiveness challenges.

#### IV. ENHANCING COMPETITIVENESS THROUGH THE CSME

The CSME was conceived as the region's strategic response to a changing economic arena characterised by increasing globalisation, trade liberalisation and the intensification of regional economic blocs. Recognising that intense global competition threatened not only their domestic markets but also their ability to gain market share regionally and internationally, CARICOM heads of government understood that building competitiveness was a prerequisite for meaningful participation in the global economy. Since size and resource constraints were long advanced as contributors to the uncompetitive positions of most of these countries, the Grand Anse Declaration<sup>7</sup> which set out a work programme for deepening the integration process and establishing a single market and economy as a matter of urgency, reflected the position of CARICOM leaders that 'going it alone' was no longer an option.

The CSME represents a single economic space in which people, goods and services and capital can move freely<sup>8</sup>. It builds upon the common market regime and the Common External Tariff and provides for the free movement of investment, skilled labour, goods and services and technology, as well as presenting a coordinated regional position at external trade negotiations. This requires the harmonization of social, economic, fiscal and monetary policies, the establishment of common trade and economic policy and the introduction of a common currency.

A fundamental objective of the CSME is the pooling of critical inputs so as to generate the scale economies required, both in terms of market size and product levels, to compete more effectively in the global marketplace. Another key objective is the coordination of economic policies to harness the collective strengths of the 15 member states in international trade negotiations. The CSME is supposed to offset problems of small size and structural deficiencies, and improve the region's competitiveness by

generating economies of scale and the creation of Pan-Caribbean companies and brands.

According to economic integration theory, the larger market opportunities that regional integration facilitates act as a pull factor, encouraging more firms and investment in productive activity, which can stimulate economic growth. On the competitiveness front, the regional market becomes the testing ground for firms, allowing them to refine products and strategies in preparation for the global market. Since only the most efficient firms can withstand competition at this level, ability to draw from a regional pool of labour, capital and other inputs, allows firms to compete on the basis of superior products and strategies. Potential benefits of the CSME include development of globally competitive firms offering a range of quality goods and services to consumers at competitive prices i.e. increased inter-industry trade.

The CSM(E) can be a major instrument for economic restructuring, skills upgrading and enhancing the international competitiveness of CARICOM member states. However, it is unclear how this mechanism will assist the region in meeting these specific objectives. There is no “road map” that identifies types of products/ industries that will be targeted nor have any specific industrial and trade policies been articulated that will support this new competitive framework. Several business leaders<sup>9</sup> in Trinidad and Tobago contend that the CSME will have little impact on their production and export capacities since they already export to CARICOM markets under the common market arrangement. Benefits relate mainly to accessing specific skill sets that may be in short supply, and increasing the region’s leverage at international trade negotiations.

If the CSM(E) is designed merely to pool resources in the hope that advantages based on scale will be sufficient to enable firms to compete globally, then the construct is fundamentally flawed. Unless industrial and trade policies are introduced to encourage investment in new areas of production, it is unlikely that the CSM(E) will have any significant effect on the competitive positions of domestic firms that are *already producing for the regional market*, but have been unable to transition globally.

The few Trinidadian firms that have been able to maintain their *global* market share have utilised firm-specific strategies<sup>10</sup> including brand development, marketing and importantly, securing strategic international alliances and partnerships with global players. Firms are able to access state of the art technologies, relevant skills upgrading and vital information on product and industry trends, developments in new production technologies, new markets and competitors, all of which enable them to maintain a share of the global market.

The CSM(E) may provide opportunities of scale for small or new firms seeking to expand into the regional market. However, if the underlying objective of the CSM(E) is to facilitate *global competitiveness* of CARICOM firms to support a regional strategy of export led growth and development, there is little evidence thus far that the CSM(E) can facilitate such change. There is no clear articulation of what such restructuring will entail, what products and services will be rolled out, what infrastructure will be required to support such a transition, and what role if any, the CSM(E) will play in the economic restructuring of the region.

This author proposes an integrated approach to competitiveness involving the interplay of government, industry and firms to facilitate various platforms<sup>11</sup> of competitiveness. Targeted government policies support the development of specific knowledge/creativity-intensive industries or industry segments that drive and sustain export competitiveness at the national, regional and international levels (platforms). This is complemented by firm-specific strategies that enable firms to move from national to regional and then international competitiveness. Within this framework, industry selection and firm strategies play a crucial role in building competitiveness at the various platforms. This model deviates from the usual competitiveness approaches, which emphasise macro-policies without acknowledging the important role of firms in the competitive process. As such, it offers specific recommendations that CARICOM negotiators could draw on to obtain assistance from the EU; or other agencies in the future.

Also important for the CSME are the competitiveness implications of the CARICOM-Dominican Republic (DR) free trade area<sup>12</sup> for both *inter*-industry and *intra*-industry trade. According to TradeMAP, CARICOM imports from the DR grew 7% per annum between 2000 and 2004, consisting mainly of fertilizers, plastics, soaps, furniture, iron/steel, and processed vegetables, all of which CARICOM firms produce. The DR has a broader range of products traded with CARICOM, while CARICOM's trade with the DR is concentrated in mineral fuels.

Unresolved issues in the DR-CARICOM FTA include the DR's access to the OECS markets; duty free treatment for soaps, paints, solvents and thinners, which are produced in several CARICOM countries including the OECS and which CARICOM is opposing. Meanwhile CARICOM is seeking protected status for its exports of juices containing citrus, banana and plantain chips, biscuits, aerated beverages and glass bottles which the DR opposes. With the Dominican Republic now included as part of CARIFORUM negotiations with the EU the implications for CARICOM competitiveness in this new partnership must be urgently addressed. The

scale and range of products manufactured in the DR can provide the critical mass and fillip for increased inter-industry trade, which in turn, can trigger increased competitiveness of regional firms. There is thus merit in widening the CSME to include the DR at this juncture.

Proponents of the CSM(E) maintain that the survival of the Caribbean hinges on our preparedness to face open international competition and to adapt to technological developments, yet there is little indication that strategies are being formulated to deal specifically with rolling out modified or new goods and services that embody creativity, knowledge, innovation and technology. Skilling (2001) suggests that many small economies that have implemented a targeted economic development strategy have focused on areas of existing or potential competitive advantage rather than starting in a new area. In making a case for New Zealand to develop a global leadership position in agriculture and other parts of the primary sector, Skilling cites the examples of Singapore and Ireland that have specialized in ICTs and biotechnology, and Finland that has focused on forestry and telecommunications, noting that identifying a country's areas of competitive advantage is informed by current performance of firms and industries and the destination of capital flows.

The United Kingdom, India, Australia, New Zealand and Ireland are among a growing list of countries that recognise the enormous opportunities that the new knowledge economy offers. They are focusing on policies that emphasise strong collaboration amongst universities, government and private enterprise to provide the innovating technologies for new products and processes. For the small economies of CARICOM, international partnerships should be a key component of industrial and firm strategies to acquire enabling technologies that can be applied to develop new products, services and processes. Non-technological innovation can be applied to services and creative sectors such as the region's cultural industry as the engine of growth. The knowledge economy calls for firms to understand the changing nature of competition and utilise new strategies to differentiate themselves from competitors. This will entail commitment to skills upgrading, research and development complemented by a new emphasis on market understanding and expertise. At the government level it will involve clear enunciation of an economic development path, supported by industrial policies and trade strategies that de-emphasise protectionism and promote creativity and innovation. It requires proper management of exchange rates, the efficiency of factor markets and factor prices, investment in industrial policies, promotion of effective competition policies, along with targeted marketing strategies and arrangements.

While the CSM(E) may help some small/new firms to access the regional market, it does not treat with the bigger issue of economic restructuring that must be at the centre of any initiative aimed at developing sustainable international competitiveness of CARICOM firms. This paper maintains that the current EU-CARICOM EPA provides an excellent opportunity for the region to harness much needed assistance for this structural transformation.

## V. LEVERAGING THE EU-CARICOM EPA FOR THE REGION'S ADVANTAGE.

The EU-CARIFORUM EPA currently being negotiated is critical for the region, since it will provide the model for a 'new' relationship between ACP states and Europe for the next twenty years. As the EPA moves into the last of four phases,<sup>13</sup> the outcomes negotiated during the third phase that are included in the Draft EPA, will be critical in determining the region's development thrust and viability. According to the European Commission, the principal objectives of the EPAs are promoting economic development, the reduction/eradication of poverty and the smooth integration of ACP states into the world economy. Referring to small Caribbean economies with unique challenges, EU Trade Commissioner Peter Mandelson notes the EU is committed to helping the region manage economic change through the EPA, which he describes as a genuine development tool. As such, Mandelson notes that:

"Sustained growth and real development in the Caribbean requires that our EPAs do more than guarantee preferential access to the EU market. The focus on regional integration is to build regional economies, attract inward investment and encourage economic diversification."

From the preceding analysis it is clear that building of regional economies alone will be insufficient, in the CARICOM context, to attract inbound foreign investment and to facilitate the economic restructuring required to support new competitive goods and services. The argument advanced for focusing initially on building regional markets is that this will provide the economies of scale that can strengthen trade capacity and can be a pull factor for inbound investment. This paper maintains that this approach is at best a stopgap measure that does not specifically address the issue of the region's integration in the world economy, nor does it speak to mechanisms for building and sustaining export competitiveness in a global knowledge economy.

According to a European Centre for Development Policy Management (ECDPM) 2006 report,

"The EC maintains that that EPAs, by supporting regional integration, building regional markets and including special and differential treatment on the products

and services to be liberalised, will improve competitiveness, reduce prices, create jobs and wealth and help build a transparent framework conducive to doing business in the region. This should fulfil the development component to be enshrined in the EPA. (Author's emphasis)

It is not surprising that the development dimension has been a major source of concern in the critical third negotiating phase. CARIFORUM countries maintain that development must involve more than just financial and technical assistance; it must foster real economic growth and development. The CARIFORUM group has the responsibility of devising proposals based on concrete restructuring strategies that will aid their economic development. Yet there has been no specific proposals dealing with assistance for re-engineering of existing productive sectors (agricultural, manufacturing and services) to better capture new or existing competitive advantages through knowledge and, or technology inputs. Given the limited capacities of individual countries to attempt economic restructuring, CARICOM seems to be the most appropriate mechanism for initiating this process.

Assistance should be sought for the creation of a pan-Caribbean R&D facility that goes beyond the scope of the Caribbean Industrial Research Institute (CARIRI). Such a facility could be patterned after collaborative ventures involving government, universities and firms that are now being pursued by the UK Department of Trade and Industry (DTI), New Zealand, India, Ireland and Australia to name a few. The role of government is to channel initial seed funding into R&D projects to be undertaken by universities and firms. The objective is to identify the best and brightest researchers, scientists and entrepreneurs to create think tanks and incubators where ideas and new product lines can be developed. These countries understand quite clearly that innovation and the application of new ideas will allow them to maintain the competitive edge.

Proposals can be advanced to ensure that existing competitive advantages in agriculture and services are maximised while at the same time potential areas of competitive advantage should be identified and targeted for development. In this way, these fragile economies can transition to more skills-based exports as the engine of growth and sustainable exports with least disruption to the vulnerable sectors.

The CSME has been virtually silent on the role that agriculture will play in this integration scheme. Yet food security remains a real cause for concern and will undoubtedly be a major factor in the region's competitiveness given its deteriorating commodity to manufacturing terms of trade and the value of food imports in relation to total imports. There has been little articulation of new approaches to exploit the locational and

comparative advantage of individual member states under the CSME, within the context of country specialisation of production, or production sharing along value chains.

The scale economies envisioned under the current CSME arrangement will be unlikely to materialise given the small pool of approximately six million consumers, the limited scope for the emergence of Pan Caribbean firms, and difficulties in attracting investment and generating R&D and a diverse range of product and services. Economies of scope and scale are much more likely if the economic grouping can be enlarged to accommodate countries of the wider Caribbean and Latin America. In this way, CARICOM economies can also tap into the knowledge resources of one of the emerging economic giants, Brazil.

Despite these challenges CARIFORUM has only identified two broad areas as priority under the EPA: (i) institutional strengthening and capacity building of regional bodies responsible for standardisation and certification, customs, investment and competition and (ii) development and implementation of policy strategies for services, taxes, intellectual property, government procurement and competition. The region has thus submitted eleven requests for the strengthening of regional institutional capacities, as a prerequisite for any bi-regional commitments. Yet, the European Development Fund (EDF), the main instrument for providing Community aid for development cooperation in the ACP states, has identified investment in infrastructure for development, diversification and regeneration of economic sites and industrial areas; development of endogenous potential via technology transfer, development of financing instruments, direct aid to investment, provision of local infrastructure to facilitate small and medium-sized enterprises and investment in health and education as key investment areas.

Although development funding will not be part of the EPA itself, assistance will be sourced through the EDF. The ninth EDF has an allocation of 13.5 billion for the period 2000-2007, which along with unexpended balances from previous EDFs, total 23.4 billion. Interestingly, the European Regional Development Fund (ERDF), which dovetails with the EDF, identifies three-priority areas, increasing the level of technology and innovation, aimed at boosting competitiveness and employment in ACP states; developing information societies and promoting regional integration and competitiveness through integrated development strategies. Accessing these facilities will be especially useful in aiding the region's transition from vulnerable agricultural economies.

The lack of inclusion of critical issues such as agriculture-related R&D technological assistance and technical assistance in establishing



business incubators and research centres, suggest a blasé approach to competitiveness. Here tactical negotiations by CARIFORUM can be most effective. Lewis (2007) argues that the CSME process has been externally driven since this was a precondition for the partnership negotiations with the EU. As such, there appears to be little direction within the region as to the development path to be taken and the strategies required to achieve this and a disconnect between intended objectives, strategies and implementation of the CSME.

Since the CSME was a requirements for the CARIFORUM-EU EPA and is now operational, it can be used as leverage in future EPA negotiations to garner EDF and EDRF resources to strengthen the region's economic and social integration. If development is at the heart of the partnership agreement, then it is incumbent on the region's policy makers to clearly identify strategies that can realistically engender competitiveness for growth and development in the knowledge economy and utilise the EPA, particularly the European Development Fund, to operationalise these.

## **VI. CONCLUSION**

The EU-CARIFORUM has the potential to pull the region out of the morass of uncompetitiveness and sluggish growth that has impeded its development and hindered its meaningful participation in the global economy. What is required is a thorough understanding of the competitiveness phenomenon and the factors that shape it if negotiations are to produce the outcomes required to propel the region into competing in the knowledge economy. A fundamental prerequisite will be the re-conceptualisation of development which de-emphasises traditional neo-classical constructs of increased investments and labour to engender growth, and embraces the principles of the Comprehensive Development Framework (CDF) where competitiveness and growth are means to attain economic, social and environmental development that can benefit the majority in society. The Platforms approach to competitiveness, which emphasises the collaboration of government, industry and firms to identify and develop skills and knowledge-intensive activities, is suggested as one such conceptual alternative. Without this redefinition, enhancing competitiveness will not translate into sustainable development for the region's people.

## NOTES

- <sup>1</sup> Jamaica, Barbados, Belize, Guyana, Suriname & Trinidad & Tobago. Six countries- Antigua & Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia & St. Vincent & the Grenadines followed June 30, 2006.
- <sup>2</sup> Trinidad and Tobago has experienced 12 consecutive years of robust growth driven by high energy prices. Real GDP grew by 6½ % in 2005, with the energy and construction sectors accounting for much of this growth. Despite strong economic growth, concerns are being raised about overheating of the economy, particularly the effects of mounting inflation, which was over 10% by year end 2006.
- <sup>3</sup> CARIFORUM- Caribbean Forum of ACP States includes CARICOM states and the Dominican Republic.
- <sup>4</sup> Measures included trade reforms, greater private sector involvement, monetary and fiscal reforms and regional economic integration.
- <sup>5</sup> Belize aims to modernize and diversify its agricultural sector through the development of farm-raised white shrimps, while Jamaica will focus on production of raw sugar, molasses, and ethanol.
- <sup>7</sup> Three key objectives of the Heads of Government reflected in the Grand Anse Declaration of 1989. 1)deepening economic integration through the CSME; 2) Widening CARICOM to increase economic mass and 3) increasing integration into the global economy via trading links with non-traditional trading partners.
- <sup>8</sup> The Treaty of Chaguaramas establishing CARICOM was amended to incorporate nine protocols that will give effect to the CSME. The Revised Treaty of Chaguaramas includes Protocol I-organs, institutions and procedures of the community; Protocol II -right of establishment, right to provide services & right to move capital; Protocol III -Community Industrial Policy; Protocol IV -trade liberalisation; Protocol V -the Community Agricultural Policy; Protocol VI -Community Transport Policy; Protocol VII -disadvantaged countries, regions & sectors; Protocol VIII -disputes settlement and Protocol IX -rules of competition.
- <sup>9</sup> Based on discussions with members of the Trinidad and Tobago Manufacturing Association (TTMA).
- <sup>10</sup> Based on a survey of Trinidad and Tobago firms and their export strategies undertaken by this author for the period 2000-2004-part of empirical analysis of Dynamic Model developed by author for PhD dissertation.
- <sup>11</sup> Dynamic Model of International Competitiveness developed by this author argues that competitiveness in many small economies is a sequential process. Countries must first attain domestic (Platform 1) competitiveness; then regional (Platform 2) competitiveness and ultimately global (Platform 3) competitiveness. The author outlines the elements necessary for various platform competitiveness and policy prescriptions. See “Global Competitiveness of Trinidad ad Tobago in the Services Export Sector: A Case Study of the Information Technology Industry”. Unpublished Ph.D Dissertation, 2005.
- <sup>12</sup> The Free Trade Agreement between CARICOM and DR provides the framework for development of bilateral trade relations. Provisionally entered into force in December 2001, the FTA is based on reciprocity with the five CARICOM MDCs (Jamaica, Barbados, Trinidad & Tobago, Guyana and Suriname).

- <sup>13</sup> Phase 1- April 2004 to September 2004-establishes the Priorities of EPA; Phase 2-September 2004-September 2005-establishes a common understanding on the priorities for support of Caribbean regional integration. Phase 3- September 2005-December 2006- deals with Structuring and consolidating of EPA negotiations into a draft EPA. The final phase January 2007 to December 2007 focuses on consolidating the results of the negotiations and completing the EPA negotiations by the end of 2007.

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