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CARICOM: Challenges and Opportunities for Caribbean Economic Integration

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Summary

In 1973, the smaller, largely English-speaking countries of the Eastern Caribbean launched the Caribbean Community and Common Market (CARICOM), an integration plan intended to coordinate and enhance the collective economic and social development of 15 countries. After three decades of incremental success, CARICOM's strategy for achieving complete economic integration now rests on implementing the Caribbean Single Market and Economy (CSME), formally established on January 1, 2006, and intended to be fully in place by 2015. CARICOM is a highly trade-dependent region undergoing major changes to its economic relationships with the world. Adjusting to these changes through the CSME is its primary development challenge. To realize the CSME vision, the member countries would have to implement considerably deeper commitments to integration.

The Caribbean Basin has been a long-standing strategic interest of the United States. The success of CARICOM, as well as the continued stability of the region, have important implications for U.S. trade, investment, immigration, drug interdiction, and national security policies. Although small in size, CARICOM's trade and investment relationship with the United States may become a more prominent issue as the region adjusts to the changing external environment.

CARICOM faces dual challenges in its quest for economic integration through the CSME. First, it must complete the intraregional integration scheme, including tightening a loose common external tariff and intraregional trade policy, integrating more fully labor and capital markets, and deepening "functional cooperation" – pooling resources to improve efficiency in the delivery of public services. Second, it must devise and implement strategies for "inserting" the CARICOM economies into a dynamic and competitive global economy in the wake of expiring preferential trade arrangements with its two largest trade partners, the United States and the European Union (EU).

Two trade policy issues command immediate attention. Implementing the EU Economic Partnership Agreement (EPA), completed in December 2007, is the first. The EPA is a reciprocal, WTO-compliant accord that replaces unilateral preferential arrangements in place since 1975. Second, the Caribbean Basin Trade Partnership Act (CBTPA) preferences will expire on September 30, 2008, unless extended by the U.S. Congress. Although these preferences currently apply to only seven CARICOM members and have already been eroded considerably by U.S. free trade agreements with other countries in the region, CARICOM strongly advocates their renewal and expansion as it evaluates the costs and benefits of pursuing a reciprocal FTA of its own with the United States. This report evaluates CARICOM's development and implications for U.S. foreign economic policy. It will be updated periodically. For more on Caribbean issues, see CRS Report RL34157, *Caribbean-U.S. Relations: Issues in the 110th Congress*, by (name redacted), and CRS Report RL33951, *U.S. Trade Policy and the Caribbean: From Trade Preferences to Free Trade Agreements*, by (name redacted).

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In 1973, the smaller, largely English-speaking countries of the Eastern Caribbean launched the Caribbean Community and Common Market (CARICOM), an integration plan intended to coordinate and enhance their collective economic and social development. Initially designed as an intraregional free trade area with expectations that it would become a common market, CARICOM integration has unfolded slowly and been limited to a partial customs union.[1] CARICOM's strategy for finally achieving a "single economic space" rests on implementing the Caribbean Single Market and Economy (CSME), formally established on January 1, 2006 and intended to be fully in place by 2015. CARICOM is a highly trade dependent region undergoing major changes to its economic relationship with the world. Adjusting to these changes through the CSME is its primary development challenge. To fulfill the CSME vision, its members would have to adopt considerably deeper commitments to economic integration.

The Caribbean Basin has been a longstanding interest of the United States, and the success of CARICOM directly affects stability in the region. It therefore has important implications for U.S. trade, investment, immigration, drug interdiction, and national security policies.[2] Although small in size, CARICOM's trade and investment relationship with the United States may be poised to become a more prominent issue as the region adjusts to the changing external environment, not the least of which includes the ongoing erosion of trade preferences with Europe and the United States, as well as the concomitant rise of bilateral and regional free trade agreements in the region. This report evaluates CARICOM's development and implications for U.S. foreign economic policy. It will be updated periodically.

CARICOM: Background and Development

The United States has long considered the Caribbean Basin a strategically important region based on its proximity and unique geographic features. It straddles the divide between North and South America (see **Figure 1**), is home to important sea-lanes, raw materials, trade and investment opportunities, and historically has been a first line defense against the encroachment of foreign powers.

[1] A *free trade agreement* eliminates barriers on goods exchanged among participating countries. In a *customs union*, members adopt a common external tariff (CET) and common trade policy toward third-party countries. A *common market* goes further, allowing for the free flow of all factors of production (capital and labor) among members.

[2] For a broader overview of Caribbean issues, see CRS Report RL34157, *Caribbean-U.S. Relations: Issues in the 110th Congress*, by (name redacted).

Figure 1. Map of the Caribbean Region

Source: Map Resources. Adapted by CRS.

A broad range of U.S. interests in the region has been reflected in U.S. foreign policies dating from the Monroe Doctrine in the early 19th century, through the Cold War era, culminating in the Caribbean Basin Initiative (CBI) in the 1980s, to the current effort to thwart illegal drug trafficking, money laundering, and terrorist activities. In all cases, the United States has sought to foster social, economic, and political stability in the region, while also maintaining an eye on its own economic, commercial, and strategic interests.

Table 1. CARICOM Countries: Selected Indicators

Member Country	Population (2006)	Area (sq. km)	Per Capita Income[a] (US $)	GDP Growth (1984-04)	Life Expectancy[b]
Antigua and Barbuda	82,000	440	11,482	4.4	—
Bahamas	327,000	14,000	17,432	1.8	69.5
Barbados	270,000	430	10,381	1.4	74.9
Belize	276,000	22,960	3,977	6.5	71.9
Dominica	80,000	750	3,643	2.1	—
Grenada	104,000	340	4,386	3.7	—
Guyana	752,000	215,000	1,034	2.3	62.9
Haiti	9,317,000	27,750	557	-0.4	59.2
Jamaica	2,662,000	10,990	2,986	1.4	70.7
Montserrat	5,000	102	4,111	—	—
St. Kitts and Nevis	43,000	270	8,195	4.5	—
St. Lucia	163,000	620	4,021	3.8	72.3
St. Vincent and the Grenadines	12,109,000	390	3,512	3.9	71.0
Suriname	45,338,000	163,300	2,760	1.4	69.0
Trinidad and Tobago	13,113,000	5,130	9,545	2.3	69.9
CARICOM	15,966,000	462,472	2,800	1.8	
Non-OECS	15,368,000	459,560	[c]5,400		
OECS (in bold)	598,000	2,912	5,300	1.8	

Sources: Inter-American Development Bank. *CARICOM Report No2*, p. 81 and United Nations Economic Commission on Latin America, *Statistical Yearbook for Latin America and the Caribbean 2006*.

a. 2004 dollars.

b. at birth, 2000-05.

c. Does not include Haiti or the Bahamas. Montserrat is a British territory. Associate members include the British Virgin Islands, Turks and Caicos Islands, Anguilla, and the Cayman Islands.

CARICOM comprises a group of 12 island and 3 larger coastal nations in and around the Caribbean Sea, bordered by the Atlantic Ocean to the east, South and Central America to the south, the Gulf of Mexico to the west, and the United States to the north.[3] Although CARICOM

[3] CARICOM does not include a number of small former British territories, the former Dutch West Indies, the (continued...)

members share many cultural and historical similarities, as seen in **Table 1**, their population, land size, economies, per capita income, and social indicators (e.g., life expectancy) can vary considerably, a reality that CARICOM responded to by designating some of its members as less developed countries (LDCs), making them eligible for "special and differential treatment."

Collectively, these former British, Dutch, and French territories constitute a richly diverse cultural mosaic of European, African, and native influences that find themselves, paradoxically, "united by the very sea that also divides them."[4] The tension between unity and division is a common theme throughout Caribbean society, leading to what might be considered the "CARICOM challenge:" how to integrate a diverse area in a manner that will meet individual country and regional development goals, in a equitable and mutually supporting way, without negating national identities and aspirations.

Early Integration Efforts

CARICOM was established on July 5, 1973 with the signing of the Treaty of Chaguaramas. It was built on the trials and errors of previous unification efforts, beginning with the ambitious West Indies Federation (1958-62), which sought political and economic unification. Despite encouragement by Great Britain, it dissolved rapidly when Jamaica and Trinidad and Tobago withdrew in favor of national self-determination. In the midst of the failure to federate, the hope, if not the necessity, of economic integration remained alive and took new form in 1965 with the Caribbean Free Trade Association (CARIFTA). It marked the beginning of a free trade area and was replaced five years later by a deeper commitment under CARICOM.[5]

CARICOM began as two linked concepts: the Caribbean Community and the Common Market. Although conceptually yoked, they were devised as separate legal and institutional entities that provided a needed flexibility to accommodate differing national preferences for regional integration.[6] The Caribbean Community comprises multiple functional relationships and institutions designed to integrate the region politically, economically, and legally. CARICOM was not given supranational authority, however, dropping any pretense of another federalist experiment, which allowed for relative ease of ratification. This arrangement, however, did not lead to full regional integration. In the words of two Caribbean experts, "CARICOM is a structure created by national governments to make national policies more effective by pursuing them within a regional framework."[7]

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Dominican Republic, or Cuba.

[4] Attributed to Dr. Claire A. Neilson, President of the Institute of Caribbean Studies, Washington, DC.

[5] Pollard, Duke, ed. *The CARICOM System: Basic Instruments*. Kingston: The Caribbean Law Publishing Company. 2003. pp. 5-8.

[6] This arrangement was a necessary compromise. It accommodated Jamaica, which had little interest in joining a multifaceted regional organization, but desired to be part of a common market that would promote export-led growth, and the Bahamas, which preferred the opposite. The Bahamas is not a part of either the Common Market or CSME. Ibid., pp. 5-8 and 184-185. Ironically, Jamaica would become the largest importer rather than exporter of regional goods.

[7] Payne, Anthony and Paul Sutton. *Charting Caribbean Development*. Gainesville: University of Florida Press. 2001. p. 174.

The Common Market, on the other hand, focused on trade and investment integration and was a stretch from the start. It proceeded from a free trade area to become a limited customs union, complete with a porous (multiple exceptions) common external tariff (CET). Although the "Common Market" did not evolve much beyond a "loose trading regime,"[8] CARICOM did succeed in bringing together a diverse group of states. The smallest islands subsequently formed the Organization of Eastern Caribbean States (OECS) in 1981 to pursue an even deeper and, some would argue, more successful integration pact in part to strengthen their position vis-à-vis the larger CARICOM countries.

In 2001, CARICOM formally adopted the CSME concept in the Revised Treaty of Chaguaramas (the Revised Treaty), effectively replacing the Common Market as the economic integration standard.[9] Together, CARICOM and the CSME share the attainment of three fundamental goals: 1) economic integration; 2) coordination of foreign policies; and 3) functional cooperation (banding together to share resources in health, education, environment, science, technology, transportation, and other disciplines). In each case, overcoming the disadvantages of small scale has been a driving concern, whether seeking scale economies from an enlarged domestic market, greater intraregional trade, shared costs in the provision of public sector goods, or integration of policy responses to negotiate from a stronger unified position in the international arena (see **Small Countries: Are They Naturally Disadvantaged?**, below). Some of these goals, however, have found greater success than others, as CARICOM struggled to maintain its momentum.

[8] Pollard, *The CARICOM System*, p. 887.

[9] Pollard, *The CARICOM System*, p. 43.

Small Countries: Are They Naturally Disadvantaged?

Since first conceived, the rationale for CARICOM has been grounded on the assumption that because its members have small, geographically isolated economies, they are at a disadvantage relative to larger economies, particularly in an increasingly competitive global economy. The general argument posits that small markets limit opportunity for economies of scale, competition, and diversification of production and trade. Governments also face higher per capita costs in the provision of public goods and services. A CARICOM regional market is considered an important solution to these problems because of its potential to enlarge the market, increase returns to scale, improve competition, efficiency, and productivity, and ameliorate other problems through a common regulatory regime and transfer of technology and knowledge. This thesis has also been the primary justification for providing special and differential trade treatment to smaller states, whether applied to CARICOM relative to the world, or the smaller Caribbean states (OECS) relative to the rest of CARICOM.

Research suggests, however, that the scale thesis can be overstated. First, if small states are at a natural disadvantage relative to larger ones, it should be evident in their economic progress. A seminal article argues that if controlled for location, level of economic development, and being an oil importer or exporter, the GDP growth experience is the same for small states as large ones, and income levels are actually higher in small states. The primary reason, supported in a growing body of research, is that small domestic economies that are open to the world can still capture the benefits of a large market, which on balance improves productivity and closes the benefit gap with large states.[a] Second, research specific to CARICOM comes to similar conclusions. Small, highly open CARICOM countries are not poorer and have actually grown faster than the larger ones, supporting the idea that access to external markets can "attenuate" problems related to small domestic market size.[b] (Note in **Table 1** that if two outliers are removed from the sample – Haiti with a large very poor population and the very rich Bahamas – the average per capita income for the small OECS countries is nearly the same as that for the larger non-OECS countries.)

Third, CARICOM's historical emphasis on *intraregional* trade integration has not been fully rewarded with the anticipated gains in that trade. Together, the growing literature on small states and CARICOM's experience suggest that the "smallness" constraint can be exaggerated. From a policy perspective these insights might suggest that 1) the benefits of integration continue to grow relative to the level of outward orientation (e.g., from regional to global); 2) in general, policies good for larger states may also be so for smaller ones; and, 3) in particular, although most observers agree that addressing distributional problems is an important consideration of any integration plan, the case for prolonged special and differential treatment of small countries may be less than fully compelling.

a Easterly, William and Aart Kraay. "Small States, Small Problems? Income, Growth, and Volatility in Small States." *World Development*, Vol. 28, No. 11, 2000, pp. 2013-2027; and Alesina, Alberto and Enrico Spolaore. *The Size of Nations*: Cambridge, MIT Press. 2003, pp. 81-83.

b Mesquita Moreira, Mauricio and Eduardo Mendoza. *Regional Integration: What Is in it for CARICOM?* Inter-American Development Bank. Working Paper 29. April 2007. pp. 6-8 and 37. CARICOM itself acknowledges the vital importance of integration with the world for the development of small economies. CARICOM. *Caribbean Trade and Investment Report 2005*. Georgetown, Guyana. 2006. p. 3.

Challenges to Integration

From the start, CARICOM faced a harsh external environment. The 1970s was a time of oil price shocks, rising interest rates, and growing ideological extremism in the Caribbean that gave way to slow growth, rising debt, social unrest, and political division in the 1980s, although to a lesser extent than in Latin America. The excesses of this period discouraged deeper integration. CARICOM remained tied to Europe through unilateral preferential trade arrangements and would take up, with some controversy, the conditional U.S. offer of unilateral trade preferences defined in the 1983 Caribbean Basin Initiative (CBI). These preferences enhanced selected trade opportunities, but were ultimately limited and proved to be poor foundations for diversifying economic activity, as had trade dependence in the colonial period.[10]

[10] Payne and Sutton, op. cit., pp. 182-188. For a summary analysis of the effectiveness of CBI programs, see CRS Report RL33951, *U.S. Trade Policy and the Caribbean: From Trade Preferences to Free Trade Agreements*, by J. F. (continued...)

By the 1990s, the economies of Latin America and the Caribbean rebounded, but CARICOM actually began to experience declining growth in output and productivity in many cases, with collective GDP growth on average falling from 3.9% in the 1970s to 2.2% in the 1980s and 1.9% in the 1990s.[11] In addition, by the turn of the 21st century, the World Trade Organization (WTO) pressed the European Union (EU) to eliminate their unilateral preferences accorded CARICOM exports (e.g., bananas and sugar), and the United States entered into a string of bilateral free trade agreements (FTAs) with Western Hemisphere countries that began to erode the relative benefits of the CBI preference programs. As the benefits of trade preferences continued their relative decline, the natural structure of CARICOM's trade patterns began to shift (see next section), as did incentives to move beyond a customs union.[12]

As an inward looking strategy typical of 1970s integration efforts, CARICOM was constrained as a trade-related development strategy. Described by one Caribbean scholar as, "integrating, expanding, and protecting the regional market for goods," CARICOM did not enhance intraregional trade to the degree expected.[13] One study finds that from 1970 to 2003, although intraregional trade grew faster than extraregional trade, as a percentage of total trade, it peaked in 1998 (details are discussed in next section). Intraregional trade is also dominated by Trinidad and Tobago's oil exports. Net of oil, which is not affected much by CARICOM's preferences, intraregional exports have never exceeded 6% of total CARICOM trade. The trends suggest that CARICOM trade policies were limited in advancing intraregional integration.[14]

Many have cited the lack of progress in implementing CARICOM policies as one factor that has inhibited intraregional trade growth.[15] Structural factors, particularly the similarity in economies and high concentration of export products, however, also naturally limited the potential trade effects of CARICOM's regional market for goods, an effort recently characterized as "doomed to be a low impact activity."[16] Future growth in trade, therefore, is expected to come from exchange outside of CARICOM, which will require careful management of small-state volatility given

(...continued)

Hornbeck, pp. 15-17.

[11] The World Bank. *A Time to Choose: Caribbean Development in the 21st Century*. Washington, DC. April 12, 2005. p. 3.

[12] Pollard, *The CARICOM System*, p. 887. Many of the smaller or poorer countries dependent on the colonial banana and sugar trade, such as Dominica and Jamaica, are among the most affected. Parson, Elizabeth. *Aid for Trade: A Caribbean Perspective*. CARICOM. Caribbean Regional Trade Negotiating Machinery. Christ Church, Barbados. May 2006. pp. 6-7, 14-16, 18-19, 27-28, and 32-33.

[13] Bourne, Compton and Marlene Attzs. Institutions in Caribbean Economic Growth and Development. *Social and Economic Studies*. September 2005. p. 35.

[14] Jessen, Anneke and Christopher Vignoles. *CARICOM Report No. 2*. Inter-American Development Bank. Washington, DC. August 2005. pp. 20-26. This analysis purposely excludes trade in oil because it skews the export data upward. Also, oil trade generally is driven more by supply and demand factors than by trade pacts. See also, Wint, Alvin G. "The Economic Impact of Caribbean Regional Integration: National Policy and Intra-Regional Performance Differences," in Hall, Kenneth and Denis Benn, eds. *Caribbean Imperatives: Regional Governance and Integrated Development*. Kingston: Ian Randle Publishers, 2005. p. 136; and Pollard, *The CARICOM System*, p. 887.

[15] Bourne and Attzs, *Institutions in Caribbean Economic Growth and Development*, p. 41; and the World Bank, *A Time to Choose*, p. 89.

[16] Wint, *The Economic Impact of Caribbean Regional Integration*, p. 138. This point was raised at least as early as the 1960s in the West Indies Federation. See also, IDB, *CARICOM Report No. 2*, p. 25; and the World Bank, *A Time to Choose*, p. 89.

CARICOM's highly concentrated export base, which increases vulnerability to external shocks and erratic shifts in terms of trade.[17]

It is also important to take note of the asymmetries in trade performance among countries, with Trinidad and Tobago and Barbados having the largest growth in exports, and smaller countries, many with diminished agricultural output and increased tourism, experiencing much smaller merchandise export growth. Jamaica has experienced a marked decline in its exports, while becoming the largest intra-CARICOM importer of goods, a trend largely attributed to its macroeconomic instability that, in particular, has hurt the manufacturing sector.[18]

Although CARICOM did not induce a large real growth in intraregional trade, it succeeded in other ways. There have been significant gains to integration outside the trade area, including the benefits of shared institutional responsibilities in the provision of public goods and services.[19] In addition, complementary structures of production have been important for efficiency gains, as well as early efforts to integrate labor and capital markets, which promote efficient allocation of factors of production, cost reduction, and improved competitiveness. These non-trade gains are at the heart of the CSME, and provide a major rationale for moving beyond the limited customs union approach that CARICOM has embraced for three decades.[20]

The OECS also offers valuable lessons. Macroeconomic stability, for example, has contributed to comparatively higher growth in output and income levels of these smaller states. The fiscal and monetary discipline imposed by the monetary union is largely credited with maintaining macroeconomic policy discipline and points to one advantage of deeper economic integration. By contrast, the worse economic performance of the much larger states of Guyana and Jamaica is associated with considerable political and economic volatility and weak macroeconomic policies.[21]

Transition to the CSME

After years of preparatory work, on January 1, 2006, the CSME was formally established and adopted by 12 member countries by year end: Belize, Barbados, Guyana, Jamaica, Suriname, Trinidad and Tobago, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The current schedule calls for a formal framework to be in place by 2008, with the final completion date set for 2015.[22] CARICOM originally proposed the CSME in the 1989 Declaration of Grand Anse and legally and conceptually formalized its existence in the 2001 Revised Treaty of Chaguaramas. At that time, Belize, Suriname, and Haiti

[17] The World Bank, *A Time to Choose*, pp. 19-22.

[18] Wint, *The Economic Impact of Caribbean Regional Integration*, pp. 137-139; and Bourne and Attzs, *Institutions in Caribbean Economic Growth and Development*, p. 41.

[19] The World Bank, *A Time to Choose*, pp. 30-32.

[20] Wint, *The Economic Impact of Caribbean Regional Integration*, pp. 144-145; and IDB, *CARICOM Report No. 2*, pp. 37-40. This is not a new idea. For background, see Hall, Kenneth and Denis Benn, eds. *Caribbean Imperatives: Regional Governance and Integrated Development*. Kingston: Ian Randle Publishers, 2005. p. xv.

[21] Wint, *The Economic Impact of Caribbean Regional Integration*, pp. 140-141.

[22] Hall and Benn, *Caribbean Imperatives: Regional Governance and Integrated Development*, p. xv.

joined CARICOM. The Revised Treaty also included provisions for new institutions, such as the Caribbean Court of Justice.[23]

In the drive to make the region internationally competitive, the CSME promises a vision of much deeper economic integration than a single market. The transition to a "single economy" entails significant new commitments to the consolidation of national policies in support of CARICOM's long-term goals that have so far proven difficult to achieve. Distributive issues continue to rekindle debates over sovereignty issues, but without some convergence in economic performance and policy coordination, the CSME will struggle to expand beyond the original intraregional trade regime.[24]

Specifically, the Revised Treaty proposes to transform CARICOM from a "limited trading regime" into a "common economic space." The plan calls for a fully market-oriented approach to the regional economy, deeper macroeconomic policy coordination, increased harmonization of functional areas, the free movement of goods, services, investment, and labor, and eventually a currency union. Parts of the scheme are intended to unfold over an extended period of time. The goal remains to adopt a model of economic "competitiveness," directed in particular at overcoming the disadvantages of small firms working in economies that face economic restructuring in the face of disappearing trade preferences.[25]

The goals of the CSME also highlight lingering challenges to deeper integration. These include a high reliance on tariff revenue, hindering full commitment to the CET; a strong resistence to relinquishing national decision-making authority to a regional institution; diverse priorities among countries with export sectors heavily concentrated in either tourism, agriculture, or energy; incongruent macroeconomic policies; and divergent performance in trade and economic growth. Within CARICOM itself, developing the institutional, financial, and technical capacity to manage multiple needs in domestic and international contexts remains an ongoing challenge.[26] Capital markets are more closely integrated, but intra-CARICOM investment remains small.[27] Labor mobility has increased, but remains geographically constrained for all but a limited number of certified skilled workers.

In a comprehensive analysis of the Caribbean's development prospects, the World Bank identifies five important issues for the CSME: 1) increase productivity; 2) expand trade openness; 3)

[23] Ibid., pp. 6, 22-25, and 460-463. CARICOM policy decisions are rendered by national leaders as members of the Conference of Heads of Government and administered through the Community Council of Ministers. Remaining functions were reorganized into four councils and three committees that report to the Community Council. The CARICOM Secretariat is headquartered in Georgetown, Guyana. To help move CARICOM beyond the limited achievements of the earlier Common Market, it redefined its decision-making protocols. The strict unanimity rule of the original treaty was retained for the Conference of Heads of Government, but replaced with majority rule for the Community Council.

[24] Wint, *The Economic Impact of Caribbean Regional Integration*, p. 145.

[25] Bourne and Attzs, *Institutions in Caribbean Economic Growth and Development*, pp. 6-7. Unlike the firm, the idea of a nation's competitiveness is more difficult to define and is ultimately determined by overall economic productivity. Key roles for government involve the coordinated provision of public goods (infrastructure) and creating an standardized regulatory environment supportive of innovation. The global challenges to CARICOM small firm competitiveness are analyzed in Bernal, Richard. "Nano-Firms, Regional Integration, and International Competitiveness: The Experience and Dilemma of the CSME." In Benn, Denis and Kenneth Hall, eds. *Production Integration in CARICOM: From Theory to Action*. Kingston: Ian Randle Publishers, 2006.

[26] Ibid., p. 52.

[27] Bernal, *Nano-Firms, Regional Integration, and International Competitiveness*, p. 100.

improve public investment in infrastructure and education; 4) reduce size of government, and; 5) maintain macroeconomic stability. The anticipated marginal trade benefits may come from opening the economies further to the global marketplace. Non-trade gains (lower costs/increased efficiency) may accrue to the public sector to the extent that the CSME can eliminate redundancies and even further enhance functional cooperation.[28]

CARICOM: Trade and Investment with the World

The CARICOM countries inherited narrow production structures from their colonial economic heritage. As captive producers and consumers for the European states, Caribbean economies were developed to "complement" their counterparts across the Atlantic Ocean. Spawned by foreign investment and sustained by protected trade, plantation economies arose based largely on sugar and banana production. Minerals extraction and tourism came along much later. The colonies were equally dependent on European imports for manufactured goods and food, a relationship that endured for centuries and carried forward into the post-independence period. As a result, the Caribbean trade regime remained relatively undiversified, sheltered from competition, and poorly linked to domestic food and manufacturing production that could have promoted broader-based development.[29]

The Caribbean economies, therefore, were poorly positioned to make the leap to global competition. As trade preferences eroded, the Caribbean's high production costs and tariff rates exposed its lack of competitiveness. The encroaching global economy, however, began to force change on CARICOM's trade and investment relationships, irrespective of the region's capacity or willingness to adapt. The most significant adjustment to the trade regime has been the declining importance of trade preferences with the EU and the United States. Unilateral preferences with the EU are being replaced by a reciprocal Economic Partnership Agreement (EPA), while the relative benefit of unilateral trade preferences with the United States continues to erode as multilateral liberalization and U.S. reciprocal trade agreements, beginning with the North American Free Trade Agreement (NAFTA) in 1994, expand. At the same time, intraregional CARICOM trade shows little promise for growth and Latin America and Asia are emerging as increasingly important trade partners in the future.

The implications of these trends for CARICOM are still unfolding, but at the least suggest that for many countries, particularly the smaller ones, manufacturing and agricultural exports may continue to decline relative to services trade (tourism, financial, education). These alternatives to traditional production and trade patterns, however, are not developing fast enough to mitigate fully income, employment, and outward migration problems. Economic transition will be the greatest challenge for the CSME, and perhaps defines its reason for being. In this context, changing economic relations with CARICOM's major partners are explored after a short review of its current trade and investment profile.

[28] The World Bank, *A Time to Choose*, pp. 26-27.

[29] Griffith, Winston H. "A Tale of Four CARICOM Countries." *Journal of Economic Issues*. Vol. XXXVI, No. 1. March 2002. p. 81.

CARICOM Trade Policy: Strategy and Implementation

CARICOM trade policy is formulated by the Heads of State, but coordinated and implemented through the Caribbean Regional Negotiating Mechanism (RNM), headquartered in Kingston, Jamaica with a second trade office in Bridgetown, Barbados. The RNM was created on April 1, 1997 in response to increasing need for a system to coordinate regional trade policy. Tasked to address all external trade matters of CARICOM, it has organized trade negotiations into three "theatres" focused on: the European Union (EPA negotiations); the United States (a bilateral accord or regional FTAA); and multilateral negotiations (the Doha Round). There are also a number of limited bilateral trade initiatives with Central America and other countries.[30]

As with other aspects of CARICOM, the RNM faces a number of institutional challenges. Developing a coordinated trade policy among 15 countries requires compromise, a tall order given the sometimes diverse priorities among those countries with different economic structures, and a historical reluctance to relinquish sovereign control over important policy decisions. Most members of CARICOM, for example, are also members of the WTO and may pursue individual policies. The RNM is also generally thought to be understaffed and underfinanced for the responsibilities it maintains, but nonetheless offers a trade expertise unavailable in some CARICOM countries. Lack of trade specialization can also deter consensus building.[31]

Table 2. CARICOM Intraregional and Extraregional Trade

(US$ billions and percent)

	96	97	98	99	00	01	02	03	04
Total Exports	4.6	5.2	4.8	5.7	6.9	6.7	5.5	7.6	9.3
%Intraregional	18.9	18.1	21.5	19.3	19.0	20.0	18.2	17.8	13.4
%Extraregional	81.1	18.1	78.5	80.7	81.0	80.0	81.8	82.2	86.6
Total Imports	7.6	9.0	8.9	9.5	10.2	10.1	9.7	10.9	12.3
%Intraregional	10.3	9.7	10.2	11.6	11.5	11.2	10.3	12.2	11.8
%Extraregional	89.7	90.3	89.8	88.4	88.5	88.8	89.7	87.8	88.2

Source: CARICOM, *Caribbean Trade and Investment Report 2005*, pp. 12 and 14.

CARICOM trade patterns are evolving, but one trend remains entrenched: despite linear growth in total trade, both intraregional exports and imports have either stagnated or declined as a percentage of total trade, as may be seen in **Table 2**. Intraregional exports (including oil) peaked at 21.5% of total exports in 1998, only to decline thereafter, accounting for less than 15% of total exports in recent years. Intraregional imports have averaged between 10% and 12% of total imports, showing little change over the past decade and revealing a high dependency on foreign markets for industrial inputs, consumer goods, and food for both local and tourist consumption. The strong dependence on external markets reinforces the rationale for completing the CSME.

30 IDB, *CARICOM Report No. 2*, pp. 50-51; and RNM materials and interviews.

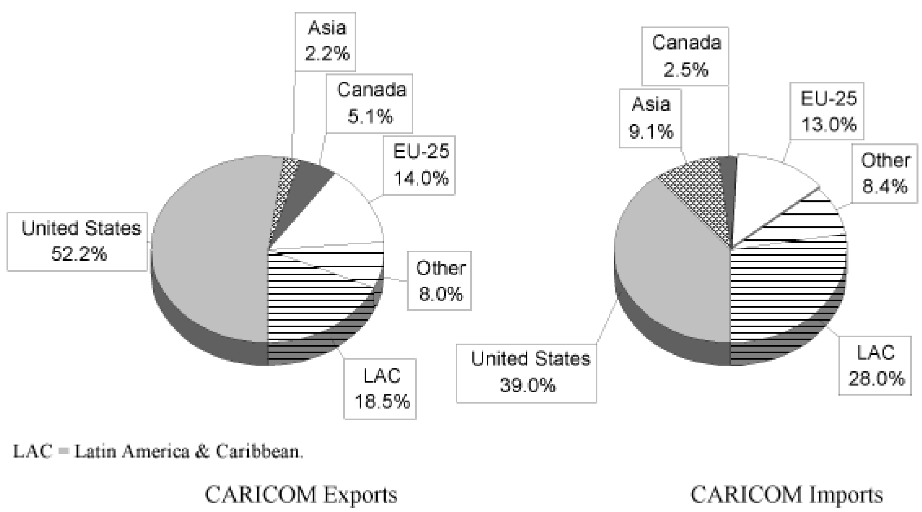
31 Ibid., pp. 51-52.

CARICOM Direction of Merchandise Trade

CARICOM's three major trade partners, as shown in **Figure 2**, are the United States, Latin America and the Caribbean (LAC), and the European Union. The United States ranks first and growth of CARICOM exports has exceeded those of the EU. Latin America is also growing as a major trade partner. Two smaller partners, Canada and Asia, have opposite trends, with export growth to Canada expanding slowly, compared to recent rapid growth to Asia, albeit from a very small base.[32] Aggregate export data, however, can be misleading, skewed by the large portion of petroleum-related products from Trinidad and Tobago. If energy exports are subtracted, trends adjust downward showing much smaller growth in extraregional exports, particularly to the United States (see section on U.S. trade below.)

CARICOM imports have slightly different trends. Although the largest portion of imports originate from the United States, recently they have grown at a below-average rate compared with the average for all countries. Imports from the EU and LAC have seen a marked above-average growth, particularly over the past five years. Imports from Canada are also expanding at a below-average rate, while Asian imports are growing well above average, all reflecting the changing global trade landscape.[33] Unlike Trinidad and Tobago, the rest of CARICOM must import energy: 13 of 15 members have signed PetroCaribe Energy Cooperation Agreements with Venezuela for the purchase of oil on deferred payment terms.[34]

Figure 2. CARICOM Direction of Merchandise Trade, 2004



Source: Estimates based on IDB and CARICOM Secretariat data.

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[32] Ibid., p. 103.

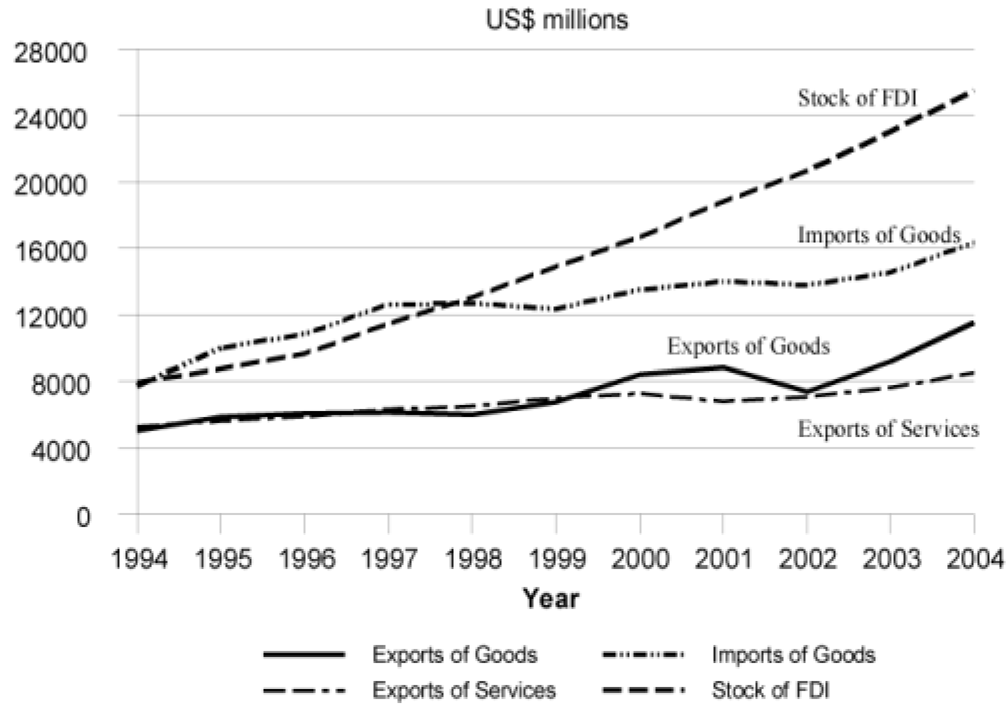
[33] Ibid., p. 103.

[34] For more on Venezuela's "oil diplomacy," see CRS Report RL33693, *Latin America: Energy Supply, Political Developments, and U.S. Policy Approaches,* by (name redacted), (name redacted), and (name redacted). "Economic Commission on Latin America and the Caribbean." *Latin American and the Caribbean in the World Economy 2006.* Santiago, August 2007. p. 145.

Trends in CARICOM's trade in goods, services, and foreign direct investment are shown in **Figure 3**. On the trade side, CARICOM runs a trade deficit (exports minus imports) with the world. The magnitude of this deficit is obscured by the upswing in exports since 2002. In fact, recent export growth is the result of energy-related products from Trinidad and Tobago. Services exports have also grown because of tourist related activities, some two-thirds of which is accounted for by U.S. spending.[35]

The stock of foreign direct investment (FDI) has been historically important since colonial times and remains a driving force in the CARICOM economies. The region's dependence on foreign capital remains high and has grown steadily over the past decade, as seen in **Figure 3**. Between 70% and 75% is concentrated in three countries: the Bahamas (financial services, tourism); Jamaica (mining, tourism, and agriculture); and Trinidad and Tobago (mineral fuels and manufacturing). The top three investors are the United States, Europe, and Canada.[36]

Figure 3. CARICOM Trade and Investment Trends, 1994-2004



Source: IDB, Regional Strategy for Support to the Carribean Community 2007-2010, Tables 7, 8, 26, and 28.

[35] Inter-American Development Bank. *IDB Regional Strategy for Support to the Caribbean Community, 2007-2010*. Washington, DC. December 2006. p. 12.

[36] Ibid., and CARICOM Secretariat. *Caribbean Trade and Investment Report 2005*. Kingston: Ian Randle Publishers. 2006. pp. 134-140.

EU and the Economic Partnership Agreement (EPA)

CARICOM's most immediate trade policy challenge is to implement the EPA concluded with the EU on December 16, 2007.[37] Europe's former colonies in Africa, the Caribbean, and the Pacific (the ACP countries) are all in the process of replacing unilateral preferential trade arrangements dating to the 1975 Lomé Convention, with WTO-compatible reciprocal trade agreements. The Lomé Convention, which defined these unilateral arrangements between Europe and its former colonies, was renewed three times (Lome I-IV) between 1975 and 2000. It provided duty-free preferences, import licensing, quotas and set prices for sugar, bananas, and rum that supported a vibrant trade for Caribbean industries that otherwise would have struggled to be internationally competitive.[38]

The Lomé Convention, however, required waivers to the Article I nondiscrimination clause of the General Agreement on Tariffs and Trade (GATT), an issue that became increasingly confrontational. For example, by the 1990s, the United States and banana-producing Latin American countries had decided to challenge the EU banana protocol in the GATT and its successor organization, the WTO. The WTO eventually ruled against the EU in 1997, and three years later a new banana agreement was signed by all parties.[39]

The nondiscrimination doctrine was further reinforced with creation of the WTO in 1995, increasing pressure on the EU and CARICOM to replace the unilateral trade preferences in Lomé IV. In response, the two parties formalized a compromise in the Cotonou Agreement of 2000. It is a comprehensive trade and development arrangement designed to be in place for 20 years. To meet WTO demands to transition toward nondiscriminatory trade, however, the Cotonou Agreement extended trade preferences only until January 1, 2008, at which point it was to be replaced with a WTO-compatible arrangement – the EPA.

The importance of the EPA for the Caribbean countries cannot be overstated. The protected banana, sugar, and rum trade has been the economic lifeblood for many of them. For example, the price paid for sugar in the EU has often been triple the world market price. Given the Caribbean's relatively high production costs, the treatment of these key traded goods in the EPA will likely determine the extent to which they will remain significant contributors to the CARICOM economies.[40]

To conform to WTO standards, the EPA had to replace discriminatory trade rules under the Cotonou Agreement with an agreement that would qualify as a reciprocal regional trade area under Article XXIV of the GATT (as U.S. free trade agreements do). Among the strict WTO requirements, the agreement forbids increasing overall protection and requires liberalization of

[37] CARICOM and the Dominican Republic have been negotiating this agreement together in the Caribbean Forum group, known as the CARIFORUM.

[38] Payne and Sutton, Charting Caribbean Development, pp. 246-248 and CARICOM. "Caribbean Regional Negotiating Machinery." *RNM Update*. April 20, 2007.

[39] The first two attempts to modify the banana regime in 1999 and 2000 were also denied. See CRS Report RS20130, *The U.S.-European Union Banana Dispute*, by (name redacted), *Charting Caribbean Development*, p. 244. In a recent turnaround, however, Ecuador won a December 2006 compliance review panel decision that found the current tariff-based system inconsistent with WTO rules. The renewed dispute is currently unresolved. See *Washington Trade Daily*, December 11, 2007.

[40] CARICOM, *Special RNM Update: Getting to Know the EPA*. December 5, 2007; and *Inter Press News Service*, October 2, 2007.

"substantially all trade." The EPA calls for all CARICOM products to enter the EU duty-and quota-free as of January 1, 2008, with the exception of sugar and rice, which will face tariffs until 2010.[41]

To meet WTO guidelines, the EPA requires that CARICOM reciprocate with full trade liberalization. The EU, however, conceded to a "development component" in the EPA, designed to help ease CARICOM's adjustment. CARICOM has been given a grace period of up to 25 years for a select group of "sensitive" products. CARICOM tariffs on EU exports of these goods will be phased out over an extended period of time. In addition, the EU will also provide aid for business and export capacity development. The EPA must be applied provisionally by April 15, 2008 and each country's legislature is required to ratify the agreement. The ratification process could prove controversial given some industries, such as banana production, have expressed dissatisfaction with the accord.[42]

U.S.-CARICOM Trade Relations

CARICOM is a small trade partner of the United States. In 2006, it was the 23rd largest export market for U.S. goods and ranked 30th in U.S. imports. Major U.S. exports include mineral fuels, manufactured goods, and foods. U.S. export trends have been weak; growth has lagged behind average growth of U.S. exports to the world. As shown in **Figure 4**, over the past decade, U.S. exports have largely stagnated until 2004, when they began to grow more sharply. The aggregate figures, however, disguise the skewed nature of U.S.-CARICOM trade. The Bahamas, Jamaica, and Trinidad and Tobago absorb 70% of U.S. exports to the region.

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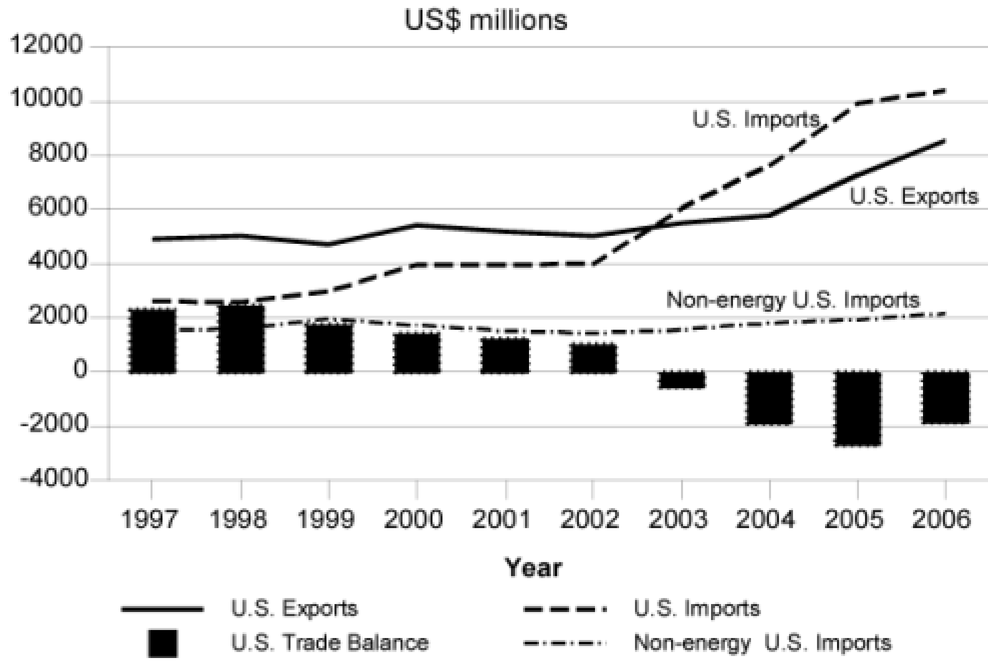
[41] Caribbean Regional Negotiating Mechanism. *RNM Update*. December 19, 2007.

[42] CMC. *Caribbean Inks Controversial EPA Accord with Europe*. December 23, 2007.

Figure 4. U.S.-CARICOM Merchandise Trade, 2000-2006



Source: U.S. Department of Commerce as presented in the World Trade Atlas.

Figure 4 also points to uneven growth in U.S. imports from CARICOM since 1997. As with the export data, the sudden rise in U.S. imports after 2002 also reflects highly concentrated trade patterns, in this case the price and volume effects of energy-related goods (petroleum, oil, natural gas products from Trinidad and Tobago). The significance of this effect may be seen by comparing growth in total U.S. imports with that of non-energy imports in **Figure 4**. The lackluster growth of non-energy goods points of the dominance of energy goods in the aggregate U.S. import line and weak performance of most other products. U.S. energy imports also explain much of the steady decline in the U.S. trade balance with CARICOM.

These trends have important implications for U.S.-CARICOM trade. First, 14 of 15 countries account for only 20% of U.S. merchandise imports from CARICOM, despite targeted U.S. tariff preferences provided to the region (discussed below). Second, U.S. merchandise trade is not likely to be a significant growth area for most of the CARICOM countries. This point reflects not only the stagnant growth in non-energy U.S. imports, but changes CARICOM countries are undergoing, including a shift toward services-based economies, the major sector for U.S. investment.[43] Third, the importance of the U.S. economy as a trade partner will likely hinge, in part, on how U.S. trade policy responds to changes in CARICOM countries, particularly given diminishing role of the U.S. preferences.

[43] The Bureau of Economic Affairs (BEA) at the U.S. Department of Commerce collects U.S. services trade data. BEA staff have indicated that Caribbean data have not been disaggregated in a way that would allow for isolating trends for individual CARICOM countries.

Table 3. U.S. Foreign Direct Investment in CARICOM

(US$ millions)

Member Country	2002	2003	2004	2005	2006
Antigua and Barbuda	93	30	26	22	17
Bahamas	7,645	8,643	11,985	15,659	26,130
Barbados	1,817	984	3,146	3,865	4,756
Belize	52	54	96	102	95
Dominica	45	a	a	37	25
Grenada	7	7	7	7	7
Guyana	157	165	169	183	211
Haiti	63	74	84	a	154
Jamaica	3,097	3,406	3,586	1,006	884
Montserrat	b	b	b	b	b
St. Kitts and Nevis	-1	-1	-1	2	a
St. Lucia	17	a	a	a	117
St. Vincent and the Grenadines	6	6	6	6	a
Suriname	97	176	a	a	a
Trinidad and Tobago	2,326	2,392	2,450	2,883	3,848
CARICOM	15,421	15,936	21,554	23,772	36,244

Source: U.S. Department of Commerce. Bureau of Economic Analysis (BEA). Stock of direct investment on a historical cost basis.

Notes:

a. Information has been suppressed by BEA to avoid disclosure of individual company data.

b. Individual country data unavailable, but assumed to be very small.

Trends in U.S. foreign investment are actually more robust than for trade. The stock of U.S. foreign direct investment in CARICOM has more than doubled over the past five years, and the U.S. remains one of the largest investors in the region (see **Table 3** for data). Like trade, investment patterns are far from uniform, with 96% of U.S. stock of FDI concentrated in the Bahamas, Barbados, and Trinidad and Tobago. The rest of CARICOM attracts little investment and Jamaica appears to have experienced a significant loss in U.S. investment since 2004. Interestingly, the United States has bilateral investment treaties only with Grenada, Haiti, and Jamaica.

Trade policy discussions between the United States and CARICOM are conducted through a Trade and Investment Council (TIC). The TIC is a formal arrangement, but less structured than a Trade and Investment Framework (TIFA) that usually implies agreeing to regularly scheduled meetings and deadlines. The United States has suggested moving from a TIC to a TIFA as a way to enhance and re-emphasize the priority of U.S.-CARICOM trade talks and relations. CARICOM has yet to respond to this proposition.[44]

[44] Discussion with USTR staff.

Redefining the U.S.-CARICOM Trade Relationship

The key U.S. policy issue for U.S.-CARICOM trade relations is deciding whether to continue with unilateral trade preferences or begin negotiations with CARICOM for a reciprocal free trade agreement. In general, CARICOM has supported U.S. trade initiatives, including designs for a regional Free Trade Area of the Americas (FTAA).[45] Support for a bilateral agreement, however, has been less enthusiastic. The United States and CARICOM are discussing trade policy options in the Trade and Investment Council (TIC).

Currently, the trade relationship is covered by two U.S. unilateral preference programs: the original CBI program as defined in the Caribbean Basin Economic Recovery Act (CBERA) of 1983, and the Caribbean Basin Trade Partnership Act (CBTPA) of 2000. Although the original CBERA program is in place permanently, the preferences apply only to a small portion of CARICOM goods. The CBTPA covers more Caribbean products, but only seven countries qualify and the preferences are set to expire at the close of FY2008. The CBTPA is also being challenged in the WTO by Paraguay, which would like to obtain similar preferences. Both U.S. and CARICOM policymakers have at least three (not necessarily mutually exclusive) options: renew and expand the unilateral preferences; initiate discussion for a reciprocal FTA; or let the CBTPA preferences expire.[46]

U.S. trade policy in the Western Hemisphere has emphasized replacing unilateral preferences with reciprocal FTAs. One benefit of a permanent FTA with the United States is the predictability of trade rules. The end to periodic congressional reauthorization of unilateral programs eliminates a major uncertainty for foreign investors. Second, the trade benefits tend to apply to a broader range of goods under FTAs than under unilateral preference arrangements. Third, for many countries, guaranteed U.S. market access is another enticement, although one with less appeal for the smaller Caribbean countries because they export so little to the United States.

The CARICOM countries disagree over the desirability of the FTA option. The larger countries with significant merchandise exports tend to support the idea, whereas the smaller service-based economies remain highly skeptical. Another policy question concerns the issue of special and differential treatment. CARICOM strongly advocates that some type of development component be included in an FTA with the United States, including lengthy tariff phase-out periods for sensitive products and financial assistance for trade adjustment and export capacity building.

The major costs to CARICOM of a reciprocal FTA involve the risk of opening the economy to greater competition from U.S. firms and potentially failing to meet the obligations of a complex and comprehensive agreement. In particular, CARICOM countries worry about the cost and their ability to comply with sanitary standards, intellectual property rights, government procurement, and investment provisions. Many CARICOM countries do not consider the overall tradeoff to be to their advantage at this point, and prefer to initiate discussion over extending and expanding unilateral preferences. Others note that the transition to a fully open economy is a core element of the CSME development strategy and that a bilateral FTA may be one way to proceed. Failing to gain a consensus, CARICOM has deferred making a decision on a U.S. FTA, focusing its

[45] For more on the FTAA, see CRS Report RS20864, *A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations*, by (name redacted).

[46] For details on the effects of and policy options for the preference programs, see CRS Report RL33951, *U.S. Trade Policy and the Caribbean: From Trade Preferences to Free Trade Agreements*, pp. 17-18.

attention and resources on completing the EPA with the EU, negotiating the Doha Round in the WTO, and lobbying for an extension of trade preferences with the United States.

Internet Gambling Dispute

A second major issue has been the trade dispute between the United States and Antigua and Barbuda over cross-border Internet gambling services. In 2003, Antigua and Barbuda requested consultations with the United States under the WTO dispute settlement system over U.S. federal and state laws that, it argued, discriminated against foreign cross-border gambling provided through Internet services. It considered these laws to be in violation of U.S. commitments under the WTO General Agreement on Trade in Services (GATS). A protracted dispute settlement process ensued in which the WTO ruled against U.S. arguments that it had made no specific obligations to gambling in its GATS commitment. The United States eventually acquiesced to comply with an April 2005 appellate body ruling, but in subsequently failing to do so, found itself subject to an adverse WTO compliance review panel ruling in March 2007.[47]

On May 4, 2007, the USTR announced that rather than comply with the WTO ruling, the United States would instead modify its services commitments to exclude Internet gambling, relying on a provision in GATS Article XXI that is rarely invoked. The United States maintained that it had never intended to include Internet gambling as part of its GATS commitments. Although technically permitted to make these modifications, under GATS the United States is compelled to compensate affected WTO members. It has or is negotiating settlements with the EU, Japan, Canada, India, Costa Rica, and Macao.[48]

In addition, on June 21, 2007, Antigua and Barbuda requested authorization from the WTO dispute settlement body to suspend the application to the United States of concessions and obligations made under GATS and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) equal to an annual value of $3.4 billion. The United States countered that an annual amount of suspended obligations (trade sanctions) of $500,000 was a more equitable figure, and that it was inappropriate to allow for cross-retaliation through TRIPS obligations. On December 21, 2007, the WTO ruled that Antigua and Barbuda was entitled to impose $21 million annually in trade sanctions against the United States. It also found that because Antigua and Barbuda's economy is so small and dependent on U.S. services imports, imposing services trade sanctions was not a feasible alternative. Hence the WTO also allowed for Antigua and Barbuda to be compensated by suspending intellectual property rights commitments.[49]

The final award ruling is controversial for many reasons. First, the dispute settlement body expressed a distinct lack of confidence in the methodology used to determine the level of potential financial loss (nullification or impairment of benefits) and thereby the amount of

[47] For legal details, see CRS Report RL32014, *WTO Dispute Settlement: Status of U.S. Compliance in Pending Cases*, by (name redacted).

[48] "U.S. Extends WTO Talks in Compensating EU, Others for Internet Gambling Exclusion." *International Trade Reporter*. October 25, 2007; and Pruzin, Daniel. *Antigua Allowed to Impose $21 Million Annually as Sanctions on U.S. in Gambling Dispute*. International Trade Daily. December 24, 2007.

[49] Ibid., and World Trade Organization. *United States – Measures Affecting the Cross-Border Supply of Gambling and Betting Services: Recourse to Arbitration by the United States under Article 22.6 of the DSU.* December 21, 2007. pp. 1-3, 67, and 74-75.

compensation. Second, Antigua and Barbuda argued that the dollar figure was extremely low, letting the United States off lightly and raising broader questions about smaller countries' ability to obtain equal recourse as larger ones under the WTO. Third, the United States argued that suspending TRIPS obligations is a poor cross-retaliation precedent, particularly given WTO efforts to reinforce intellectual property rights in multilateral agreements. Because both parties view suspending TRIPS obligations as sub-optimal, they continue to negotiate to find a bilateral solution that likely will effectively render the WTO ruling moot.[50]

WTO and the Doha Round

The CARICOM countries view the WTO as a critical mechanism for ensuring fairness in a global rules-based trading system that applies to members of unequal economic and political power. All but the Bahamas and Montserrat are members of the WTO, but few CARICOM countries are in a position to finance a permanent office in Geneva. Although the countries vote individually, the collective trade expertise is housed in the RNM, which for practical purposes, is the main negotiating body for CARICOM.

CARICOM's perspectives are highly linked to the positions of developing country groups operating within the WTO framework. These involve finding a favorable balance with respect to agricultural and non-agricultural market access, providing flexibility for small countries on services commitments, and most importantly, ensuring there is adequate special and differential treatment for developing countries in terms of scope, depth, and timing of commitments.

CARICOM also has very specific preferences within the developing country groups based on perceptions that their "small vulnerable" economies warrant different treatment than that afforded larger developing countries. In particular, CARICOM argues that its members face two unique hurdles in the global trading system: far more difficulty in adjusting to trade liberalization and a less than equal voice in the negotiating process. Brazil and India, for example, have emerged as leading voices in the Doha Round, yet because of huge differences in market size and diversity with smaller developing countries, their priorities can often diverge from those of CARICOM and others. Whereas the EU has incorporated a development component in the EPA, the WTO has not yet acquiesced to a similar request.

CARICOM is also concerned with how the Doha Round will treat their highly concentrated export regime (bananas, sugar, oil), particularly with respect to provisions in the new EPA. They are ultimately seeking differentiated provisions that will lengthen their adjustment time to reducing trade barriers, while ensuring their key exports are given the greatest flexibility in retaining preferences.

Bilateral Agreements

CARICOM has initiated bilateral trade agreements or negotiations with Canada, Costa Rica, Central America, the Dominican Republic, Colombia, Venezuela, and Cuba. All are limited in scope and many are still in preliminary stages of negotiation. None are comprehensive in the sense of the bilateral FTAs undertaken by the United States, again reflecting CARICOM's

[50] Ibid., and Pruzin, Daniel. *Antigua Allowed to Impose $21 Million Annually as Sanctions on U.S. in Gambling Dispute*. International Trade Daily. December 24, 2007.

concerns over its members' abilities to meet obligations of highly complex comprehensive agreements.[51]

CARICOM-Canada trade relations are currently covered by the CARICOM-Canada Trade and Economic Co-operation Agreement, a unilateral preferential trade arrangement, and bilateral investment treaties with Barbados and Trinidad and Tobago. Both Canada and CARICOM have expressed interest in expanding to a reciprocal trade agreement. CARICOM has received a mandate from the Heads of State to commence negotiations, but a similar commitment from Canada has yet to be made.

Costa Rica and CARICOM signed a limited product reciprocal trade agreement in March 2003. The framework entails specific lists of products for which each country is willing to reduce tariffs and other barriers to trade. It provides a mechanism to increase market access on an incremental basis, but does not move significantly beyond the limited products list approach. In August 2007, members of the Central American Common market (CACM) launched negotiations with CARICOM for an accession agreement to the CARICOM-Costa Rica FTA.

The Dominican Republic signed a limited market access agreement with CARICOM in December 2001. Efforts have been made to expand the agreement, but fundamental differences have kept negotiators from reaching an understanding over deeper commitments. A similar agreement was signed with Colombia in July 1994 that has allowed for incremental growth in market access commitments on a product-by-product basis. CARICOM currently has a non-reciprocal trade and investment agreement with Venezuela, in place since 1992. In July 2000, CARICOM signed a Trade and Economic Co-operation Agreement with Cuba. It too is in the mold of a limited market access agreement based on selective product lists. It has allowed for some incremental expansion of products to be given reduced tariffs, but has not expanded to a broad-based agreement of any kind.

Outlook

CARICOM views its long-range development strategy as critical for addressing unemployment, poverty, out-migration, and other economic problems that affect political and social stability. The CSME, as a framework for deepening integration both within the region and with the world at large, sits at the center of this strategy. Intraregional integration is incomplete, but plans call for deepening the effort and progress has been made in achieving greater functional cooperation of the public sector. The trade and investment rules need significant tightening, new public revenue sources to replace lost tariff revenue must be identified, and there is much to be done before a grand scheme of full factor mobility and macroeconomic policy coordination could be realized.

Managing the process of "insertion" into the global economy is the overriding task. As much as Caribbean leaders have identified the need for CARICOM to increase productivity by opening the economies to global competition, the region has hesitated to adopt fast-paced change in its trade regime. CARICOM insists on a measured, if not protracted transition to full trade liberalization whether addressing the Doha Round, EPA, or bilateral talks with the United States. Special and differential treatment is considered necessary in all cases.

[51] Information reflects updates on the RNM trade website, see http://www.crnm.org.

The region's historically privileged trade relationships with Europe and the United States, however, have not helped CARICOM prepare for trade liberalization with the world. CARICOM's insistence on a lengthy transition to full trade liberalization could even delay policy reforms it considers central to the success of the CSME. Contradictions such as these are inherent in a diverse region attempting to unify economic policies of 15 countries, and may naturally resolve slowly. This prospect points to the need for decisive collective action to move ahead meaningfully with the CSME.

Circumstances may already be forcing the region to action. Choices will have to be made in which a lack of decisiveness can be costly. Adjustment to the recently negotiated EPA with the EU will be a challenge and invite procrastination. Similarly, U.S.-CARICOM trade relations may be redefined for the 21st century by a lack of clear action on trade policy if nothing is done to renew or adjust to the expiring CBTPA preferences.

These raise potentially important questions for the United States as well, both within and beyond trade and investment policy. The United States has long turned to trade policy as a foundation for supporting economic development and political stability in the region. The rationale is predicated on the belief that growth and stability breed conditions conducive for deeper cooperation in such important policy areas as countering illicit drug trafficking, immigration, and terrorist activity. Congress has had, and may continue to have, a deep and broad policy agenda in mind as it contemplates the next step in formulating U.S. trade policy toward CARICOM.

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