

7. The Establishment of the CSME: A Manifestation of Sir Arthur Lewis's Vision for the Caribbean

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Although Sir Arthur Lewis never engaged in the debate for the creation of the CSME, since he unfortunately died in 1991 before it became an issue, efforts of intellectuals like him were the inspiration for pursuing deeper integration in the Caribbean and for the realisation of the CSME. Sir Arthur's direct involvement in exploring alternative forms of a constitution for the creation of a federation of Caribbean states was perhaps the deepest manifestation of his commitment to regionalism.

This chapter will focus on three themes. First, the CSME: what it is, how it is likely to affect our lives, and why Caribbean leaders are pursuing it at this stage of our development. Second, some of the works of Sir Arthur, in particular areas of relevance to the CSME. Third, a synthesis of the objectives of pursuing the CSME with some elements of Sir Arthur's work, to show that indeed a significant part of his work can be interpreted as an inspiration for the creation of the CSME.

I. The CSME: What is it? How is it likely to affect the lives of Caribbean people? Why pursue it at this time?

The CSME, when it comes into effect on January 1, 2006, will represent the strongest expression of CARICOM governments to deepen the integration process and strengthen the Caribbean Community in all its dimensions. CARICOM governments first expressed their intention to create the CSME at the 10th Conference of Heads in Grand Anse, Grenada, in 1989. At the 13th Conference of Heads in 1992, the necessary technical work for, and conceptualisation of, the CSME was completed and presented to the Conference of Heads for their endorsement. In many ways, the CSME was then seen as a vehicle for expanding the domestic markets in each member state.

But in addition to facilitating economic development of the member states of CARICOM, a driving exogenous force behind the need to create the CSME has been the increasingly liberalised and globalised international environment. When the endogenous

and exogenous factors are taken together, the CSME can be seen as CARICOM's member states response to finding strategies for their growth and development in a global environment propelled by efficiency and competitiveness. Its key objectives include to:

- bring about full employment of all the factors of production;
- improve upon the standards of living and work for citizens of CARICOM;
- result in an accelerated, coordinated and sustained economic development for CARICOM member states;
- increase economic leverage and effectiveness of CARICOM in relation to other states, groups of states and entities;
- expand trade and economic relations with other Caribbean countries, and Central and Latin American countries;
- achieve increased levels of competitiveness; and
- result in more efficient organisation for increased production.

CARICOM member states had already all progressed beyond the creation of a Free Trade Area (FTA) and Common Market by 1992, as evidenced by the virtual elimination of intra-regional barriers to trade and adoption of appropriate Rules of Origin.¹ At the turn of the century more than 95 per cent of intra-regional trade was free from all restrictions. Additionally, member states committed themselves to implementing a Harmonised System (HS) based on Common External Tariffs (CETs) and a common trade policy. Completing the arrangements for a full customs union requires the implementation of uniform customs legislation and documentation that has been prepared and is under consideration by member states. Full implementation of harmonised customs legislation and further consideration of the issue of free circulation are the two outstanding actions required before all aspects of the customs union are complete.

Yet, realising the implementation of the CSME requires CARICOM member states to go a few steps beyond implementation of the customs union. These additional steps are as follows:

- add the free movement of services to free movement of goods within the existing Common Market;
- introduce the free movement of the factors of production, including particularly capital and labour;
- recognise the right of establishment;
- introduce measures to create a monetary union, such as co-ordination of macro-economic policies, monetary and fiscal policies, and a single currency, with a view to convergence of macro-economic performance of member states; and
- introduce support mechanisms, including institutions and structures, a scheme for disadvantaged countries, regions and sectors, and a public education initiative.

Recognising this, CARICOM member states embarked on the process of revising the Treaty of Chaguaramas in order to incorporate additional protocols that are necessary to realise the above objectives. The nine additional protocols that have been incorporated into the Revised Treaty of Chaguaramas cover the following areas: institutions and structures; establishment, services and capital; industrial policy; trade policy; agricultural policy; transport policy; disadvantaged countries regions and sectors; competition policy, consumer protection and dumping and subsidies; and disputes settlement (see CARICOM Secretariat, 2001).

In terms of how the CSME will affect the lives of ordinary CARICOM citizens, a few examples might best illustrate this. The right of establishment implies that any CARICOM citizen will have the right to set up a business in any other CARICOM member state under conditions no less favourable than those enjoyed in that member state by its own citizens. Similarly, capital mobility implies that any firm can source capital from any member state under terms no less favourable than those under which citizens of that member state can access capital. Additionally, labour mobility (for eligible categories) implies that labour will be free to move to any member state for the purpose of engaging in gainful employment under terms and conditions similar to those enjoyed by citizens of that member state. Notably, the requirements for work permits shall be abolished.

It is important to stress that ratification of the Revised Treaty of Chaguaramas by all CARICOM member states represents only the beginning of the process, that is provision of the Treaty-basis for the CSME. Full establishment of the CSME will only be realised when the nine new Protocols have been implemented, along with the supporting mechanisms and parallel initiatives. Whether or not the CSME is successful will depend in part on its potential for optimal production of goods, both quantity and quality, both of which are required for competitiveness in the global market. As such, whether or not firms in CARICOM member states can take advantage of opportunities in the increasingly liberalised global market will significantly determine the success of the CSME, given the relatively small size of CARICOM's internal market. Therefore, the external orientation of the CSME is critical. Such external orientation includes both its bi-lateral economic relations, with countries like Venezuela, Colombia, Costa Rica, Cuba and the Dominican Republic, and its inter-regional economic relations, such as those being negotiated too create the Free Trade Area of the Americas (FTAA) within the Western Hemisphere, and an Economic Partnership Agreement (EPA) with the European Union.

So, to summarise, whereas CARICOM's integration process has so far been inward and focused on trade in goods, the CSME focus is both inward and outward and will span trade in both goods and services. Moreover, in addition to treating with the free movement of goods and services, the CSME will incorporate free movement of the factors of production, particularly labour and capital, and in the case of land the right to its access by citizens of CARICOM for the purpose of establishing firms. Entrepreneurs will be allowed to trade freely without hindrance, to establish and service markets or clients in other CARICOM member states, to attract capital, invest, or other-

wise use funds in another member state, to hire labour from or work in another member state, all with the objective of creating an internationally competitive system of production. Some of the works of Sir Arthur Lewis are particularly relevant to this subject.

2. Sir Arthur Lewis – A brief overview of literature

Sir Arthur was no ordinary scholar. In his own words he had ‘never meant to be an economist’, however, after obtaining first class honours in his Bachelor of Commerce degree at the London School of Economics and his subsequent receipt of a fellowship to do a Ph.D. there in Industrial Economics, his destiny had been defined for him. In his autobiography he explains how he emerged as an expert on British industrial organisation, the subject which had preoccupied him for his Ph.D., and on which he subsequently published a thesis at Manchester in 1948 (an update of his thesis, called *Overhead Costs*. Thereafter, Sir Arthur continued to build an academic career that culminated in the publication of ten books and approximately eighty other academic pieces. Included among these works are his Nobel Prize-winning classic *Economic Development with Unlimited Supplies of Labour* (1954); *Industrialisation of the British West Indies* (1951); *The Theory of Economic Growth* (1955); *Aspects of Tropical Trade 1883–1965* (1969); *The Evolution of the International Economic Order* (1977); *Growth and Fluctuations 1870–1913* (1978); *The Agony of the Eight* (1965); and *Labour in the West Indies*; among others.

Perhaps it would be fair to describe Sir Arthur as an economist whose initial interest and mentorship was in industrial organisation, hence the direction he took for his Ph.D. However, it seems clear that throughout his life he was persistently concerned with the economic development of the so-called Third World – a concern that he appears to have addressed using two techniques. First, by analysing particular problems in the developed countries at the time and deriving explanations that could be generalised. Second, by undertaking empirical work in selected developing countries, out of which he was able to develop a model for development. An extension of the second is found in his very involvement in attempting to save the West Indies Federation, an analysis of which he subsequently wrote in his ‘The Agony of the Eight’.

The Great Depression typifies the first of his analyses of world problems. In general, Americans appeared to have persuaded themselves that their economy was more prosperous than ever before in the second half of the 1920s. Hence, they found it difficult to understand why their economy had slipped into a recession in 1929, which would become so prolonged and acute that it is known as the Great Depression today. But Sir Arthur argued that such a contention could not be supported by statistics, which instead revealed only average performance for the American economy. The explanation that he advanced for the Great Depression is the convergence of a number of weaknesses in the world economy at the time. Three of these can be isolated, and are relevant to the CSME. First, prosperity in the US economy tended to coincide with a railway-construction-immigration-housing cycle. As such, when the US Congress restricted immigration from 1924 it resulted in a weak construction boom during the

second half of the 1920s. Moreover, the abnormal weakness of the first half of the 1930s further weakened the entire economy. Second, both domestic and international agricultural prices had been in decline since the mid-1920s because capacity had been growing much faster than demand. Additionally, consumption in the rural areas was low and the US witnessed the failure of a number of rural banks. Third, countries abandoned the gold standard, replacing it with exchange controls and raised tariff levels which resulted in a 30 per cent reduction in the volume of international trade.

Another of the problems that preoccupied Sir Arthur's academic life and which is relevant to the creation of the CSME is the following. What determines the terms of trade between industrial and primary products? He proceeded to answer that question starting with the observation that a constant relationship existed between an index of world industrial production and an index of world trade in primary products.² Sir Arthur concluded that while the short-run determinants of the terms of trade for tropical crops had to be demand and supply, the long-run terms of trade were likely to be determined by the infinite elasticity of supply of tropical produce. He argued that such infinite elasticity of supply derives from the fact that tropical agricultural exports constitute only a small part (less than 20 per cent) of tropical agriculture output, which can be expanded or contracted at constant cost over a long time horizon. The implication of this finding, Sir Arthur argues, is that farmers would do better to grow more food than to put more resources into export crops. Such a recommendation derives from the very small cost of expanding exports given that the yield in food cultivation is very small. Let me now turn to the second of the techniques that Sir Arthur deployed in his pursuit of answers for the economics of development in the so-called Third World, that is the empirical work that he conducted on selected developing countries. First is his book *Labour in the West Indies*, in which he gives an account of the emergence of the trade union movement in the 1920s and 1930s. Among other things that book highlights the violent confrontations between the trade unions and government in the 1930s, and was inspired by Sir Arthur's resentment of the imperialistic order of the day. He was an exponent of the view that 'what matters most to growth is to make the best use of one's resources and that the exterior events are secondary'. Despite the accelerated pace of globalisation and greater trade liberalisation, his view is still relevant today. Globalisation and trade liberalisation might both be seen as hostile to especially small open economies. Yet, the extent to which small open economies might be adversely impacted by these processes depends in part on the efficiency of organisation of resources at the national level.

Another example to demonstrate the second of his techniques is found in what culminated in his Nobel Prize-winning classic. Sir Arthur was puzzled by the fact that although a number of developing countries had been developing for a very long time, the standard of living of the 'masses' remained extremely low. Conventional thinking at the time, the neoclassical doctrine, posited that the industrial revolution should result in an increase in urban wages as national income rises, since the share of profits in national income would remain constant. Yet, the observed evidence was that the share of profits in national income actually increased. The neoclassical doctrine was

premised on the assumption that the elasticity of supply of labour was zero. Therefore, any increase in investment would result in increase in the demand for labour and wages would rise. Sir Arthur posited the contrary view – that in many developing countries the elasticity of supply of labour is infinite, and because of this growth raises profits for capitalists at the expense of persistent low wages for the urban ‘sea’ of proletariat. Sir Arthur’s model is helpful in understanding the problem of migration, whether it be between the rural and urban parts of a country, or from a poor country to a rich country. Still another example is found in Sir Arthur’s *The Agony of the Eight* in which he recalls how the Federation of the West Indies fell apart: first with the withdrawal of Jamaica and subsequently Trinidad and Tobago. Sir Arthur discusses how, after the withdrawal of Jamaica, he pursued the possibility of creating a federation guided by the principles that were enunciated in Dr Eric Williams’ *Economics of Nationhood*. When that also failed with the withdrawal of Trinidad and Tobago, he pursued the possibility of a federation of Barbados and the Eastern Caribbean. But federation seemed doomed not to work at that time, and Sir Arthur’s agony over its failure is captured in his statement ‘If each little island goes off on its own, its people must suffer’ (1965). The state of economic progress in the Caribbean today bears testimony to that statement.

So can the establishment of the CSME be seen at least in part as a fulfilment of Sir Arthur’s vision for the Caribbean?

3. The CSME as a fulfilment of Sir Arthur’s vision?

Unfortunately Sir Arthur died before any real debate on the CSME had begun, and as such there exists no direct reference to the CSME in any of his works. However, Sir Arthur’s ideas can be revisited and recast in the context of some of the fundamental objectives for creation of the CSME.

We have seen that a fundamental pillar of the CSME is the freedom of movement of labour across member states of CARICOM. Although CARICOM member states do not envisage completely free movement of labour in the initial stages of the CSME, the labour market will be liberalised with respect to certain categories of employment: university graduates, media workers, sports persons, musicians, artistes, managers, supervisors and other service providers.³ While this represents some attempt at liberalisation of the labour market, in reality it will constitute a very small percentage (perhaps less than 10 per cent) of the regional labour force. In other words, the vast majority of the ‘masses’ will not be in a position to benefit from the liberalisation opportunities created by the CSME, initially. What might have been Sir Arthur’s view on this issue if he were still alive? In discussing the reasons why there was a Great Depression from 1929 into the early 1930s, Sir Arthur isolated restrictions imposed on immigration to the US as a major factor that contributed to the initial depression, as the vital ‘construction sector’ could not secure the much-needed labour to fulfil market demand. Experience in Caribbean economies typically suggests that these economies enter periods of ‘boom’ when there is intense construction activity and ‘economic

slowdown', or even slumps, after major construction periods are over. It would seem, therefore, that the logical direction to follow in the CSME would be to further liberalise at least labour attached to the construction sector.

Additionally, prior to developing his seminal piece, Sir Arthur was puzzled by the fact that despite significant sums of investment in several developing countries over several decades, the 'masses' simply could not lift themselves out of poverty, while the share of profits of capitalists in national income increased – something that he abhorred. Despite fluctuations in unemployment levels across the Caribbean, the region as a whole cannot be typified as a zone with unlimited supplies of labour. Instead, what seems to be more distinct is the demand for labour of certain types at certain times of the year, for instance for the sugar cane harvest in St. Kitts and Nevis and Barbados. That does not mean to suggest that structural unemployment is not on the rise in some states, like those that are being forced into adjustment as a consequence of banana trade liberalisation in Europe. It seems, however, that such structural unemployment problems can be overcome, or at least alleviated, if some Caribbean states were to specialise in production of agricultural produce both for immediate consumption and their associated industrial linkages (i.e., intermediate inputs) within the new regional economic space. If labour is fully liberalised then it can move freely to the member states that specialise in agricultural production, for instance. However, given the limited size of the regional labour supply relative to market demand for agricultural produce and its value added derivatives, as its use is intensified, i.e., as demand for its output increases, wages will rise.⁴

In consequence the CSME would simultaneously achieve two objectives that Caribbean states have long pursued. First, because the region's labour supply would be focused in the member states with a comparative advantage and higher levels of productivity, economies of scale can be realised. Thus national income will increase. Second, as labour is used more intensively its demand will increase, resulting in a higher wage, and thus a larger share of national income. Sir Arthur was very sympathetic to the rural poor and one of his concerns about economic development has been that its benefits should redound to the masses, that is their share of wages in national income should rise, as opposed to increasing the share of profits for the capitalist class. It is for these reasons that Sir Arthur, were he alive today, would have called for greater liberalisation of the labour market throughout the Caribbean than the regional leadership has committed itself to in the context of creation of the CSME.

Another pillar of the CSME is the liberalisation of trade in goods and services, i.e., elimination of all barriers that would make it difficult to move goods from one CARICOM member state to another, or to deliver or receive a service from one CARICOM member state to another. As mentioned earlier one of the causes of the Great Depression as far as Sir Arthur was concerned was that countries simultaneously increased tariff levels, resulting in a significant decline in international trade. This suggests that Sir Arthur saw a relatively liberalised trading environment as conducive to economic growth, although he was equally concerned that the terms of trade tended to move against the primary commodities supplied by developing countries. Trade in

However, liberalisation of trade in services across CARICOM member states is yet to be realised. When discussing what Sir Arthur refers to in his seminal work as surplus labour, he isolates not only labour to be deployed in agriculture, but also labour engaged in domestic work, including nurses and maids. Services had not yet evolved as a major concept in the literature on cross-border trade in Sir Arthur's time, hence the reason why he referred to the concept only in the context of trade within an economy. The CSME envisages the immediate liberalisation of trade in services of skilled labour, but what about the unskilled masses who are also service providers? Should not they too benefit from the creation of the CSME? The answer has to be yes. However, it seems to be a 'hard sell' for CARICOM leaders at this time, since the Revised Treaty of Chaguaramas only provides for self-employed persons and not employees (CARICOM Secretariat, 2001, Art. 32(3) - Prohibition of New Restrictions on the Right of Establishment).

The problem with the unskilled masses is not that they too would not like to make a contribution to regional development, but it is that they may not know how to do it. That problem is therefore one of failure of domestic policy – failure to train and educate the 'masses' for their employment in specific sectors of the economy. Hopefully, the protocols on: 'institutions and structures' and 'disadvantaged countries, regions and sectors' of the Revised Treaty of Chaguaramas can be implemented in a sufficiently creative manner to provide the much-needed solution to this problem.

CARICOM has made progress since its inception in 1973, but there remains much room for improvement. One of the pillars for success of any such integration movement is ensuring that some degree of convergence can be achieved between national economies. Such convergence can be achieved through the establishment of a structural convergence fund, perhaps the best example of which is found in the European Union. The Revised Treaty of Chaguaramas makes provision for a 'Development Fund' (CARICOM Secretariat, 2001, Art. 158 - The Development Fund), which might seem to provide the scope for serving that purpose. Among the CSME objectives reference is made to the need to create institutions and structures for 'disadvantaged countries'. One component of that definition of 'disadvantaged countries' is the less-developed countries of CARICOM as defined under Art. 4. It seems as if CARICOM sees some of its member states as being permanently disadvantaged (CARICOM Secretariat, 2001, Art. 4 - Less Developed Countries and More Developed Countries), a dangerous conception for the success of the CSME. In fact, such a conception is actually enshrined in the Revised Treaty of Chaguaramas, which nevertheless can be changed by majority decision of the Conference (CARICOM Secretariat, 2001, Art. 5 - Modification of the Status of Member States). Instead, the proper way to conceptualise member states is that they are at different levels of development initially, hence the need for structural convergence. It must not be forgotten from the lessons of federation that it was precisely such conceptual misunderstandings that led to the demise of the federation. However, success in achieving structural convergence requires clear objectives and targets for convergence. That necessitates the existence of a development plan for the region, on the basis of which industries can emerge.⁵

So, to conclude, there is little doubt that the present direction of CARICOM member states, that is the creation of a single market and economy, is in accord with Sir Arthur's vision for the Caribbean. Sir Arthur was an integrationist - he stuck to the cause of integrating the Caribbean through thick and thin, as one country followed by another left the federation in 1962. Rather than giving up on the idea prematurely, he shared in the agony of the smaller Eastern Caribbean States, exploring alternative constitutions for federation until the remaining states were too few to make it viable.

Sir Arthur was also genuinely concerned with the plight of the masses, and it was in his pursuit of a solution to that problem that he won the Nobel Prize for economics. The questions for CARICOM leaders today are, 'To what extent do they see the CSME as a mechanism for lifting the masses of humanity within the region out of poverty?'. If they do, what concrete steps do they envisage in that process and how do they plan to implement them? Not enough thought and attention has been given to these questions, notwithstanding the fact that they are the most important questions if the CSME is to be successful. Caribbean states continue to be insular: many of them seem to be concerned that liberalisation of the regional labour market will result in waves of migration from the relatively poorer member states to the relatively more affluent ones. However, such apprehensions are not borne out from the practical experience of integration in the European Union, for instance. In reality, providing there exist reasonable similarities between countries, legislation that provides for the free movement of their citizens does not result in massive migration. Those who are likely to migrate are the ones who perceive significantly superior opportunities in another member state and who know that they are sufficiently competitive to become gainfully employed. In practice, this means a concrete offer of employment in another member state. Certainly, this cannot be inimical to the interest of either the worker or the firm in the other member state in a competitive market: the firm receives the best qualified labour and has the best opportunity of maximising profits, while labour receives the wage that is commensurate with the demand for its skill.

If there exists an impediment to free movement of labour in the CSME then it is of our own making. Conceptually, the benefits to be realised from the creation of the CSME are realistic, but there is a need for a change in the mindset of Caribbean people to realise such benefits. Sir Arthur always contended that what matters most to economic growth is how well one exploits one's own resources. Increasingly, it seems the Caribbean's comparative advantage will lie in its ability to become an efficient service-oriented economy, at the core of which is its labour supply. Difference in levels of development of Caribbean states should not be seen as obstacles to the integration process, but opportunities. CARICOM leaders must initially minimise such differences through the creation and implementation of a programme for structural convergence, and should simultaneously realise that levels of development are dynamic and not static. Once a reasonable degree of structural convergence exists across member states, the regional labour market should be fully liberalised.

In terms of the future of Caribbean integration, Sir Arthur concluded his *The Agony of the Eight* with the optimistic phrase that 'It will begin with confederation rather than

federation, a common nationality, a common currency and common representation abroad' (1965, p.37). Thus, the CSME is the first step in fulfilling of this prophecy.

Notes

1. In fact, this integration movement can be traced back to 1965 when the Caribbean Free Trade Association (CARIFTA) was created, followed by the signing of the Treaty of Chaguaramas, which established the Caribbean Community and Common Market (CARICOM) in July 1973.
2. The relationship was as follows: a 1 per cent increase in world industrial production was associated with a 0.87 per cent increase in world trade in primary products.
3. At a recent inter-sessional Conference of CARICOM Heads it was realised that the categories of labour need to be expanded to include several others. Work on this is still on-going, so a revised list is yet to be published and agreed.
4. The argument developed here is along the lines of the factor endowments (Heckscher, 1919, pp.497-512; and Ohlin, 1933) and factor-price equalisation theorem of Paul Samuelson (1948, pp.163-85).
5. CARICOM Heads reportedly identified this as a priority area for attention at their last Inter-Sessional Conference in Trinidad and Tobago, however work is yet to commence.

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