THE CARICOM SINGLE MARKET AND DEVELOPMENT IN A SMALL TOWN IN ST. LUCIA

Clarence Henry

Introduction

Since the federation era (1958-1962), the integration process in the English speaking Caribbean has been dominated largely by economic aspirations (Brewster 2000). The efforts of the post federation leaders were manifested through the establishment of CARIFTA (1968), CARICOM (1973) and today, the establishment of the CARICOM Single Market and Economy (CSME) (CARICOM Secretariat 2005). While they embodied a deep desire for Caribbean unity, it must also be said that they were largely the outcome of the Caribbean’s response to the economic environment of the time. Vaughan Lewis (2008: 4) highlighted this reality, asserting that the assumptions that underlay the integration arrangement had changed between the establishment of CARICOM and the Heads of Government Conference which produced the Grand Anse Declaration in 1989 which gave birth to the CSME.

Arguably, the decision taken over 19 years ago to form the CSME was primarily in response to the intensification of the process of globalization. Globalization as alluded to in this paper is seen as a ‘process in which barriers to the international flow of goods, services, capital, money and information are being increasingly eroded and/or eliminated’ (Bernal 2000). Classical economic theorists, building on the work of Adam Smith in his Wealth of Nations (1776), argued that the unfettered movement of productive resources that globalization will encourage will lead to greater efficiency, thus promoting faster growth and development throughout the world. Many have suggested however, that those benefits have for the most part been experienced mainly in the more developed countries of the OECD evident by the intensification of global inequality and the widening of the gap between the ‘have and the have not’ (Stiglitz 2002; Cornia 2003). This is particularly the case, because their extensive resource base and large market sizes make them more globally competitive in comparison to developing economies such as the Caribbean. Thus, while this process has the potential to create developmental opportunities for the peoples of the Caribbean such as creating access to new markets (Bernal 2003; Mounsey 2002) and so on, it has also posed a tremendous challenge to their efforts at securing sustainable economic development. In this regard, a Commonwealth report highlighted that the process of globalization is the greatest source of vulnerability for small developing states (Byran 2005). This is particularly the case, as developing countries like those in the Caribbean lack the necessities for global competitiveness to stand
along side the developed countries in this hostile environment and further, because the new environment is no longer supportive of the kind of protectionist and non-reciprocal trading arrangements which existed during the time of CARIFTA and during the initial period of CARICOM such as what was provided under the Lomé (1975) and Cotonou (2000) Agreements. The most widely referred to example of the ills of this environment therefore, is the case of the banana industry in the Caribbean. The lost of the preferential arrangement in the EU market for bananas led to a massive drop in export quantity and revenues and with it came large scale unemployment and economic unrest as seen in St. Lucia, for instance, where banana production and revenues decreased by approximately 70% and 67% respectively, between 1995 and 2005. Elsewhere in the Caribbean, the new environment led to declines in the manufacturing sector particularly because of the pace at which firms were able to relocate to more lucrative markets, the so called footloose industry concept in this environment (Kennedy 2000).

Thus, during the 1990s and beyond, the developmental ideals of equitable opportunities for the realization of people’s potential, building self confidence and living lives of dignity as expressed by the OECS (OECS 2002) faced a serious setback. Over the period so identified, the Caribbean region’s developmental efforts were reversed as exemplified by falling GDP growth rates, higher unemployment and higher poverty levels. An IMF Staff Report for St. Lucia for instance, highlighted that St. Lucia’s growth rate had fallen from an average of 7% in the 1980s to an average of 2% annually in the 1990s and 2000s (IMF 2008). Venner (2008) highlighted a similar situation for the rest of the member states of the ECCU.

The decision to form the CSME therefore, represented the Caribbean’s latest and probably the most obvious response to the challenges and opportunities of globalization. Accordingly Owen Arthur, referring to the island of Barbados asserted that, “it (CSME) is the first realistic initiative that allows Barbados the prospects of escaping the constraints imposed by smallness in land, market and population size and by limited natural resources” (UWI – CARICOM Project 2007). As an economic union it will represent the highest form of economic integration ever attempted in this region and when it is fully established it will be made up of two significant components; the CARICOM Single Market (CSM) and the CARICOM Single Economy (CSE). The former created a single market of approximately 14 million people for the trade in goods, services, labour and capital among the members of CARICOM, while the latter when established will provide for the harmonization of economic and monetary arrangements such as common economic policies and a single currency.

With the full implementation of the CSME, it is hoped that each member country’s capacity to better achieve their macroeconomic objectives of full employment, improved standards of living, economic development convergence, enhanced international competitiveness, increased production and productivity, trade and economic expansion and thus the reversal of the misfortunes of the 1990s and early 2000s will be enhanced (Roberts 2007). Therefore, although the CSME in comparison to other regional economic arrangements such as the EU is by no measure a large economic space, it is still expected to strengthen the Caribbean’s resolve to the challenges of globalization (Girvan 2000; Bernal 2000) and thus improve the region’s chances of prevailing in this new economic dispensation.
In addressing the role of the CSME, this paper also highlights the challenges of the Caribbean integration efforts. The tensions surrounding the CSME speak to the issues of financial resources, sovereignty and economic differentiation (Girvan 2004). The latter in particular, remained an issue of vital importance especially to the Lesser Developed Countries of CARICOM such as the OECS and Belize, who separately or collectively have expressed the concern that given the current levels of differentiated development among its membership for instance, that the CSME may fail to bring about those benefits so highlighted. Such sentiments have in the past been brought to the fore by some OECS leaders. The Prime Minister of St. Vincent and the Grenadines Hon. Dr. Gonsalves for instance, while expressing continued support for the CSME cautioned that

... even as we (OECS) are integral to these processes, so too do we expect that these very processes will ensure that we are fully accommodated and that all necessary measures to assure that accommodation must be in place as provided for within the revised treaty of Chaguaramas (Gonsalves 2006).

Therefore, differentiated development within the CSME arrangement is an issue that continues to occupy the energies and efforts of Caribbean leaders and policy makers. This paper adds to the above discourse as it seeks to examine the potential of geographical areas such as towns and cities to benefit from the provisions of the CSM. It is expected that the higher levels of public and private investment which such an arrangement may bring may, if channeled through these towns, promote economic growth and development which could spillover to the national level.

The Context of the Study

Since independence on 22 February 1979, the St. Lucian economy has grown and social conditions have improved as seen by its current Human Development Index middle income ranking. However, as with many small island developing states in the Caribbean, St. Lucia has experienced a phase of economic dualism. Castries, the capital city, has benefited largely from public and private investments at the expense of the development of other towns like Vieux Fort and Soufriere.

Vieux Fort town, the area of interest in this study, is located on the southern tip of the island and despite being one of St. Lucia’s most progressive towns it is far less developed in comparison to Castries. In an effort to break the traditional unbalanced economic development policy of the past decades, the socio-economic development of the town was therefore brought to the fore during the 1990s under the umbrella of the ‘New Frontier’ initiative. Former St. Lucian Prime Minister and current MP for the area Kenny Anthony, in referring to this initiative asserted that Vieux Fort town was to become the “tip of our promised land” as the public and private investments highlighted below were expected to promote socio-economic development in the town.

1This explains the separate integration process which had begun with the West Indies Shipping Association (WISA) in 1966.

2Speech delivered at the ground turning ceremony 11 September 1998.
A critical element of the New Frontier initiative was the expansion of the productive capacity of the town through the construction of a multi-million dollar ‘Free Zone Area’, to serve as a complement to the industrial estate which was established decades earlier. Anthony believed that such development provided businesses in Vieux Fort town with the opportunity to develop and foster greater business and trading relationships with their regional and international counterparts. Therefore, to support this development the St. Lucian government (GOSL) through the passage of the Free Zone ACT #10 of 1999 provided some fiscal incentives to businesses established at these commercial developments such as exemptions from import, export and income taxes. It was hoped that these fiscal incentives would encourage more domestic and foreign investment and in the process create employment and income opportunities for nearby residents. Today, however, there is excess capacity in both the industrial and free zones particularly because of the high cost of production which is associated with high rental fees and high wage rates for unskilled labour relative to other competing towns in places like the Dominican Republic or Haiti. Such factors have therefore hindered the competitiveness of these commercial developments.

In addition to these fiscal incentives, earlier attempts were made by the St. Lucian government to improve the important transportation infrastructure through the expansion of the nearby seaport and the Hewanorra International Airport. Furthermore, the capacity of the town to support the tourism industry was also enhanced through the increase in the number of hotel or guest house establishments, some of which was made possible due to government’s fiscal incentives which were provided ahead of the ICC Cricket World Cup 2007 (GOSL 2006).

Emphasis was also placed on the educational development of the town’s residents. Therefore, from the mid-1990s additional effort was made to add more diversity and depth to the education system servicing the south of the island and in the process complementing efforts already started in the north. Such efforts included; the establishment of a technical and vocational facility in the Vieux Fort Technical Vocational Institute, the introduction of tertiary level education through the southern extension department of the Sir Arthur Lewis Community College and through the introduction of Post Secondary and Advance Level education at the Vieux Fort Comprehensive Secondary School Campus B. Such efforts were also complemented by the number of private educational institutions which emerged particularly during that time.

Collectively, these efforts formed essential components of the ‘New Frontier’ initiative. This was particularly the case as such efforts were expected to enhanced the potential for the growth in commerce and output, thus, further enhancing the potential of the town to create employment and income opportunities and to alleviate socio-economic conditions among residents. However, the prevailing socio-economic condition of the town leaves much to be desired. Recent statistics showed a poverty level of 23.1%³ which is only slightly lower than the national poverty level (GOSL 2006). It also showed an indigent level of 4.8% which is above the national level, thus indicating that the Vieux Fort district where the

³There are no previous studies available to facilitate comparisons.
town is found has a large number of people who remain vulnerable to the effects of poverty (GOSL 2006), an issue of critical importance to policy makers. At 30.9%, the district also has the highest rate of unemployment in St. Lucia (GOSL Statistical Department 2001).

The CSM through its many provisions could potentially provide the impetus for enhancing the development of the town. In this regard,

1. The larger market for goods created by the arrangement could create the opportunity for corporate growth and enhance competitiveness for exporting firms, while also creating greater and easier access to cheaper inputs to local importers, thus reducing the cost of production, the benefits of which could redound to the local, regional and foreign buyers. Thus, this study examines the extent to which businesses in Vieux Fort town may actually benefit from the larger market size created by the CSM.

2. The larger market for skilled labour could benefit businesses demanding more skillful labour, while also providing skilled professionals in Vieux Fort town with the opportunity to put a claim on the wider option of employment opportunities throughout the region. It examines therefore, the extent to which participation in the free labour market will be beneficial to residents and local firms.

3. The ease of travel created by the arrangement could promote regional tourism in Vieux Fort town.

4. The right of establishment provision could promote more investment in terms of local firms establishing in other member countries and in terms of regional firms establishing in Vieux Fort town which could lead to the growth of ancillary type businesses in the town. To what extent therefore, would businesses benefit from this provision?

The potential economic impact of the CSME arrangement on businesses and residents in Vieux Fort town are in fact, key potential benefits of the CSME arrangement (West Indian Commission 1992; UWI-CARICOM 2007). Thus, given the expected boost to economic activity brought about through participation in the CSME, a platform will be created for enlarging the socio-economic capabilities such as alleviating the impoverishment of residents through job and income creation.

Over the past years, a voluminous literature which sought to share some light on the potential of the arrangement emerged. A comprehensive CSME impact assessment study commissioned by ECLAC on behalf of the OECS highlighted that the greater the level of intra regional trade of a given grouping, the greater is the potential for growth and development of member countries such as the OECS (ECLAC, n.d.). This benefit is the central basis for forming an economic union such as the CSME. As it currently stands, over 90% of intra-regional trade is already freed from tariff and non tariff barriers (UWI-CARICOM 2007). However, although intra-regional trade doubled since the 1970s, such trade accounted for a very small percentage of regional trade (CARICOM 2005). It further noted that as a percentage of total trade, intra regional trade in the case of most economies and certainly in the case of the OECS
economies stagnated or declined over time (ECLAC, n.d.).

Therefore, intra-regional trade generally tended to benefit the More Developed Countries (MDCs) such as Trinidad and Tobago, Jamaica and Barbados (ECLAC, n.d.; Lewis 2003). During the period 1981–2001 for instance, Trinidad and Tobago dominated intra-regional exports accounting for 56.7% of such trade, while the other member countries such as the OECS, Barbados, Jamaica and Guyana accounted for 14.1%, 12.2%, 10.4% and 4.2% of intra-regional exports, respectively (CARICOM 2005) and statistics for earlier periods showed a similar story. Given this vast disparity between OECS members and the MDCs, between 1980 and 2003 the balance of trade between the OECS and CARICOM widened from EC$214.9m to EC$481m (EC$ 2.70 to US$ 1.00) representing 6% and 6.5% of their combined GDP for 1990 and 2003, respectively (table 4.1).

### Table 4.1
Balance of Trade between OECS and CARICOM (EC$000)

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<tr>
<td>Antigua and Barbuda</td>
<td>-72,844</td>
<td>-58,271</td>
<td>0</td>
<td>...</td>
</tr>
<tr>
<td>Grenada</td>
<td>-38,231</td>
<td>-20,705</td>
<td>-78,322</td>
<td>-134,987</td>
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<tr>
<td>St. Kitts and Nevis</td>
<td>-13,894</td>
<td>-10,767</td>
<td>-56,312</td>
<td>-100,316</td>
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<tr>
<td>St. Lucia</td>
<td>-31,721</td>
<td>-36,903</td>
<td>-137,309</td>
<td>-138,567</td>
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<tr>
<td>St. Vincent and the Grenadines</td>
<td>-26,749</td>
<td>65,424</td>
<td>-23,444</td>
<td>-68,233</td>
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<tr>
<td>Total</td>
<td>-213,733</td>
<td>-78,433</td>
<td>-326,608</td>
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The balance of trade between the OECS and CARICOM worsened during the period, with the exception of the mid-1980s which showed a slight improvement. In fact, OECS countries such as Grenada, St. Kitts and Nevis and St. Lucia registered a worsening of the trade deficit with the MDCs of CARICOM, with a decline of 35.3%, 72.2% and 43.6%, respectively. The above analysis therefore, brings to question the very basis for the OECS’ participation in the CSME and perhaps, also calls for more generous implementation schedules for the LDCs from the MDCs (Lewis 2003). Therefore, the study observed that the key to ensuring the operational success of the CSME is the need to soften or overcome these Balance of Payments (BOP) constraints (ECLAC, n.d.).

Despite the clear unfavourable intra-regional trade position, the ECLAC study highlighted the potential for further growth. An export similarity index calculated for member
countries revealed that Trinidad and Tobago among the MDCs and Grenada and St. Kitts and Nevis among the OECS showed the greatest potential for expansion in intra-regional trade (ECLAC, n.d.), while Dominica, an OECS member country, showed the least potential (ECLAC, n.d.). In keeping with the above, the study identified that firms in Barbados and Trinidad and Tobago are optimistic about the CSME arrangement and are looking forward to expanding their trade with the rest of CARICOM including that of the OECS (ECLAC, n.d.). Thus, the potential may exist for towns like Vieux Fort to benefit from this arrangement.

However, the extent to which St. Lucia and in particular, the town of Vieux Fort will be able to benefit from the arrangement will depend on the current competitive levels of exporting firms supported by appropriate fiscal policy measures. In fact, a business performance survey carried out by the St. Lucian Chamber of Commerce highlighted that 84% of firms surveyed considered that the business community was not prepared for the CSME (including establishments in Vieux Fort town). In this regard, this study sought also to establish the factor(s) that would help improve the readiness of businesses in Vieux Fort town so that they could directly benefit from this provision of the arrangement.

The ECLAC study also examined the potential for growth in intra-regional trade in services. The OECS economies are highly specialized in services at both the regional and international levels (ECLAC, n.d.) thus making this sector an important sector to the OECS economies, accounting for 66% of the OECS combined GDP between 2003 and 2004 and within CARICOM, accounting for 90% of intra-regional trade in services. Thus, unlike the trade in goods which has over the years been dominated by the MDCs, the trade in services has been dominated by the OECS economies. In fact, a number of reports including this study identified that the OECS economies possess comparative advantage in the trade in services (ECLAC, n.d.) with countries like Grenada, St. Kitts and Nevis and St. Lucia ranking very high in the global ranking for comparative advantage in commercial services. In keeping with this finding, a CARICOM Secretariat publication observed that the CSME offers the best prospects for the service based small economies of the OECS in areas such as accountancy, engineering and building construction (UWI-CARICOM 2007). Of course, the potential of OECS firms benefiting from a larger market for services within the CSM arrangement depends largely on the availability of capital for investment and on the growth of the economies of member countries to absorb an increase in value added from growth in the OECS services sector.

Furthermore, the ECLAC study highlighted that the member countries of the OECS can benefit from greater access to skilled labour (ECLAC, n.d.: 5), thus meeting the high demands from both the public and private sectors for technical experts in numerous fields. Such potential is further enhanced due to the willingness of people from the MDCs to migrate in search of jobs throughout the CSM. In this regard, a study by SALISES (2003), UWI Mona Campus, identified that 87.9% of Jamaicans surveyed were willing to work in another CARICOM country. Nationals from the OECS can also benefit from this arrangement due to greater access to employment opportunities throughout the Caribbean region as previously existed in the pre-independence era (1930s-1960s). In fact, the ECLAC study also noted that employees in the MDCs such as Trinidad and Tobago and Barbados are willing
to employ skilled nationals from the OECS as is already happening. There are however legitimate concerns that the OECS' chances of benefiting from the free movement of skilled labour may be impeded due to the lack of a physical campus of the University of the West Indies at any of its member states. This explains partly the low skilled level of OECS nationals and also explains the high cost of higher education in the OECS in comparison to the main campus territories of Jamaica, Trinidad and Barbados, as nationals look externally for higher education. This study also attempted to establish the current level of training as well as the willingness of residents in Vieux Fort town to migrate in search of employment opportunities in another member country, in order to determine the extent to which this aspect of the CSM will both immediately and in the future benefit residents. In the process, current developments in tertiary education availability in St. Lucia are of critical importance. Notwithstanding the aforementioned potential benefit, the ECLAC study also identified that in order to promote the single labour market effectively, there needs to be an adequate system of incentives such as the transfer of social security benefits which currently is a critical aspect of the efforts at pension reform.

Furthermore, capital mobility according to the study is complementary to labour mobility (ECLAC, n.d.). However, in this respect, the study identified that the potential for capital mobility in the region is rather restricted due primarily to

1. a financial sector which is debt driven with an investment portfolio heavily dependent on foreign direct investment

2. the extreme disparity in the degree of implementation among member states

3. a lack of currency convertibility, while other currencies are just not acceptable.

These constraints to capital mobility within the CSME therefore, highlight the importance of the Single Economy component to the operational success of the CSME.

As clearly articulated in this section of the paper, there are areas of the proposed arrangement which can potentially benefit the LDCs in general and commercial districts found therein in particular. The extent to which this may become a reality depends heavily on the effectiveness in implementation.

Implementation remains what the Time for Action Report called the 'Achilles Heel' of the Caribbean integration process (West Indian Commission 1992). Some Caribbean scholars have lamented on the slowness in which the CSME is being implemented observing some fundamental weaknesses in the process. Girvan (2004: 5) for instance, observed that 2/3 of the actions for full implementation of the arrangement are yet to be carried out such as the full establishment of the CCJ and a Competition Commission. Brewster (2003: 6) placed issues such as these under one heading, identifying what he saw as an institutional limitation in the process.

He argued that, in comparison to the EU process (which also had and continues to address challenges such as economic differentiation) where the Single European Act (1992) incorporated the concept of the internal market and radically altered the legislative decision making machinery through the establishment of supranational bodies such as the European Parliament and Commission, CARICOM Heads of Government on the other
hand kept the old Common Market concepts of frontiers and state liberalization of market access. He argued therefore, that “while declaring their commitment to high levels of regional economic unity, governments continue to operate in a mode of full sovereignty” (Brewster 2003). Being cognizant of this fact, Owen Arthur, in his capacity as lead Prime Minister for the implementation of the CSME at the time, highlighted the magnitude of this challenge asserting that, “the creation of a Caribbean Single Market and Economy will unquestionably be the most complex, the most ambitious and the most difficult enterprise ever contemplated in our region” (UWI-CARICOM 2007).

The slowness in which the process has been implemented therefore brings back memories of the ill fated West Indian Federation where the desire for sovereignty and the issue of economic differentiation were predominant and for the most part explains the road traveled by the LDCs in CARICOM from WISA in 1966 to talks of an OECS Economic Union in 2008. To address the problem of economic differentiation for instance, C. Y. Thomas suggested that within the CSME there should be some form of compensatory mechanism (UWI-CARICOM 2007) so as to ensure that it addresses both winners and losers in the process, thus ensuring that socio-economic development experienced in the MDCs is also experienced in the LDCs, particularly given the widening of the gap between the MDCs and LDCs over the years. Brewster observed further that the issue of financing the CSME (such as a compensatory mechanism) remains an important concern in terms of sourcing finance and management of the fund (Brewster 2003; Girvan 2004) among other factors. Chapter 7 of the revised treaty therefore, addresses this issue, giving the leaders the mandate to establish a Regional Development Fund (RDF) similar to the road traveled by the Europeans (UWI-CARICOM 2007). It is hoped that such a fund can be established with out fail and that the financial resources would be channeled to aid the further development and CSME readiness of towns such as Vieux Fort town so that they can become an engine of growth throughout the LDCs.

Methodology

This study was based on a mixed research design. This consisted of two surveys: a business survey and a household survey, an elite interview with an official from the OECS as well as various official publications. The business survey included 100 business establishments of various sizes and represented an appropriate sample size of 50% chosen using a random sampling methodology. (The number of businesses had to be counted as there are inadequate information from the relevant authorities on registered businesses.). The household survey involved 108 households. While I consulted the 2001 Census Report for St. Lucia to establish the number of households in Vieux Fort town, a sample size of 10% was selected randomly.

Findings

Access to a Larger Market

The fundamental benefit of the CSM is the creation of a larger market of approximately 14 million people for trade in goods, services, capital and labour among the fourteen states that are expected to participate. It was purported that a larger market will create the critical mass that will encourage more intense competition for market dominance among regional firms and greater competition for the scarcity of employment and income opportunities within the
CSM among CARICOM nationals. By so doing, a platform for enhancing their readiness to integrate into a highly competitive global economy will be created, an imperative in order to protect and improve the standard of living of the Caribbean people.

In order to benefit from the larger regional market therefore, the towns or cities within participating countries must actively trade between and among members. The study revealed however, that only 17.4% of the businesses surveyed are currently exporters, while 51.4% are importers. Therefore, trading firms are mainly importers due primarily to the many speculator businesses found in Vieux Fort town. Furthermore, 47% of the exporters and 46% of the importers trade with the nearby North American market, while 29% of exporters and 16% of importers trade throughout the world including the EU market and equally 24% of exporters and importers alike trade within the CARICOM market. Exports to the European market were not significant since Vieux Fort town is neither a major producer of bananas nor a major tourism area.

Suffice it to say that the CSM is currently not the most utilized market for businesses operating in Vieux Fort town. This is particularly the case as many of the firms in the free zone area where most of the exporting firms are found are subsidiaries of North American companies, while many of the importing firms are speculative stores who source their consumer items mainly from the nearby US market, primarily as they seek to take advantage of lower prices and greater variety. Therefore, in the interim at least, the larger market for goods and services created by the establishment of the CSM will only potentially benefit a few businesses in Vieux Fort town.

This is consistent with the views of business owners on the ability of the arrangement to benefit their respective businesses. Only 39.6% of businesses surveyed saw the CSME as beneficial to their establishments, while 17.5% and 42.9% felt that there will be no benefit and were not sure of the benefit respectively. This is also consistent with the literature which indicated that for the most part intra-regional trade in goods does not currently benefit the LDCs.

The data therefore, suggests that a common market between CARICOM (of which Vieux Fort town is a part) and the United States for instance, may perhaps, benefit the businesses in Vieux Fort town most in comparison to the CSME. However, the obvious asymmetric economic position of the United States economy with a GDP of approximately 13,807.5 (US$b) (US Department of Commerce 2008) versus the CARICOM with a combined GDP of approximately 3,3048 (US$b) may make such economic arrangement a very difficult one in which businesses in Vieux Fort town for instance, can compete. This is even more so, given that the exporting firms in Vieux Fort town such as Baron Foods Ltd, given their size and limited resources, are like micro enterprises in comparison to US firms such as Walmart.

Notwithstanding, this study also attempted to examine the future prospects of existing and

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4 An argument similarly made by Brewster (2003) in relation to the EPA between the CARIFORUM grouping and the EU.
future businesses in Vieux Fort town of benefiting from the larger market for goods and services created by the CSM. Some 51.3% of the businesses surveyed identified that increase market access is the main potential benefit to their participation in the CSME arrangement, while 15.4%, 7.7% and 25.6% identified cheaper inputs, increase access to technical expertise and a mixture of such factors respectively, which are all expected benefits of economic unions. The study therefore attempted to examine factors which may impede the greater use of this market by current and future exporters in Vieux Fort town. A large number of businesses surveyed i.e. 71.7% felt that it was not difficult to penetrate the CSME market despite the fact that only 24% of traders currently utilized the CARICOM market. However, of the 28.3% of businesses which viewed this issue otherwise, 22.2% identified high cost of transportation and 11.1% identified lack of quality competitiveness as the main factors which currently hinder the ease of access into the CARICOM market. Fifty five point six percent (55.6%) of businesses were unsure. The lack of quality competitiveness for instance, demonstrates the fact that St. Lucia continues to have a weak manufacturing sector whose contribution to GDP has averaged approximately 7% in recent years (GOSL 2008). This reality may continue to impede the potential of St. Lucian businesses including those in Vieux Fort town from benefitting from a larger regional market created by the CSM, particularly, as present production structures tend to support extra regional exports more. The greater use of the regional market by present and future exporters will therefore depend largely on the creation of a more viable export product and on the present and future growth potential of the CARICOM market. This study revealed that among the individual markets in CARICOM, the OECS, Barbadian and the Trinidadian markets are the most valuable to St. Lucian exporters in general. The OECS Trade Summary (1994–1998) for instance, highlighted that both exports and imports to and from these economies accounted for a significant amount of St. Lucia’s intra-regional trade and such a trend continued over the most recent period. Thus, growth in these economies will tend to promote growth in exports (food items, roofing, windows etc.) from St. Lucia to the CARICOM region, just as growth in the US market will tend to promote growth in the tourism sector in St. Lucia. In this regard, over the last five years, growth in these economies has been impressive and in the case of Trinidad and Tobago, given the oil boom, it has averaged about 9%. Such positive growth was expected to continue over the last quarter of 2008 (Venner 2008).

The growth in the manufacturing sector in these economies, particularly that of Trinidad and Tobago’s, is important as they can potentially provide a market where some of the imports (e.g. gift items and clothing) of local speculative firms in Vieux Fort town can be accessed. This may in turn give rise to lower prices for consumer items as firms take advantage of the full elimination of import duties and lower cost of transportation due to proximity in location. However, such a benefit will also depend on the extent to which this may give rise to a trade creation result as oppose to trade divergent, an issue outside the purview of this brief inquiry.

The ability to penetrate such a larger market at present or sometime in the future will

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5 An issue further raised by Mr. Allister Mounsey during interview with author, Castries, St. Lucia, 18 August 2008.
also depend on the ability of local businesses to
be price and product competitive within the
CSM. This will require expansion and
improvement in the production structures and
on an overall rise in the productivity of our most
productive resource, our human resources. The
former will require significant capital investment
which businesses in Vieux Fort town may not
currently possess. This is particularly the case,
as the research noted that 80% of the businesses
surveyed were established recently in the 1990s,
while 53.4% were established as recently as a
few years ago. Therefore, these businesses may
not have amassed significant capital resources
(see below). The latter factor on the other hand,
will call for extensive public education to reverse
a cultural practice which has plagued the
productivity of both the private and public
sectors in the Caribbean and certainly in St.
Lucia.

Enhancing competitiveness of businesses
in Vieux Fort town within the CSM therefore,
will require combined efforts on the part of the
private and public sectors. Policy makers should
therefore, consider the possibility of providing
some kind of fiscal incentive to support
businesses in Vieux Fort in an effort to boost
their regional and global competitiveness. Such
assistance will provide resources necessary for
investing in modern production techniques
(improving the technical know how) and in the
training of employees so that these businesses
could produce quality and price competitive
products for the regional and international
markets. This is more relevant as the study
revealed that many of the entrepreneurs who were
pessimistic and unsure of benefiting from the
arrangement had less that 10 years in business,
with many existing for less than a year.

In this regard, the study also revealed that
currently 86.7% of the businesses surveyed
received no form of government assistance. Of
the few businesses currently receiving govern-
ment assistance (mainly businesses in the
industrial estate and free zone areas) 36.4%
receives subsidies or some kind of financial
assistance. It was also revealed that among the
businesses which currently do not receive
government assistance, 25% have requested
financial assistance, 3.9% have requested tax
holidays and 9.2% have requested technical
support, while a significant number of businesses
have requested a mixture of such assistance or
are unsure of the type of assistance required.

As expected, the study identified that
manufacturing firms engaged in export related
trade more than any other type of business in
Vieux Fort town. It was found that of the
exporting firms, 56.3% were manufacturing
firms, 18.8% were service providers, 12.5%
were retailed firms and 6.3% were in the tourism
industry. The study also revealed that for
manufacturing businesses in Vieux Fort town, the
OECS market was the major market which is
consistent with the discussion earlier. On that
basis, the establishment of an economic union
among the members of the OECS and Trinidad,
as is currently being discussed, may redound to
the benefit of manufacturing businesses in Vieux
Fort town should such businesses become more
price and product competitive. As such, should
the government provide financial assistance,
much of this assistance should be channeled
towards boosting the competitiveness of
manufacturing businesses in Vieux Fort town so
that they are able to penetrate the OECS and
Trinidad markets.

However, in examining the option of
providing financial assistance, it is imperative to
address this issue within the local and wider
international context. First, the provision of tax
incentives in the free zone area has failed to
promote extensive industrial investment in that area and thus, such financial assistance must take a different form. Further, while in both developed and developing countries alike, financial assistance such as subsidies have been a popular fiscal incentive aimed at protecting and enhancing the competitiveness of local businesses and industries as the examples of the farm subsidies in Europe and the US illustrate, the current international environment may hinder its future use. Today, such form of assistance is highly discouraged under the relevant articles of the WTO arrangement of which St. Lucia is a signatory and should the government of St. Lucia sign on to the EPA, the use of subsidies or some form of financial assistance is also limited as the EPA arrangement is in keeping with the WTO national treatment clause. Given current fiscal constraints other means of sourcing scarce resources are preferred.

Chapter 7 of the revised treaty of Chaguaramas makes provision for the financial support of businesses and disadvantaged industries through the RDF. The RDF along with the East Caribbean Enterprise Fund (ECCU 2007) will therefore provide the financial resources which could be accessed by both the public and private sectors in St. Lucia so as to boost the current investment levels of businesses in Vieux Fort town in particular and St. Lucia in general.

Rights of Establishment

In addition to the larger market for the exporting and importing of goods and services that this arrangement will create, regional firms through the rights of establishment provision of the arrangement are also able to establish branches of their businesses in any member state.

It is expected that not only would this provision encourage a higher level of regional investment, but so too will it enable the growth of ancillary type businesses, thus creating employment and income generating opportunities for residents in the process. Not surprising, only 14.4% of the businesses surveyed intend to establish a similar branch in another member country of the CSME, particularly because of their resource limitations. Nonetheless, the town does possess the capacity for taking advantage of this provision due primarily to the significant infrastructural development which formed part of the new frontier initiative. Such capacity is further enhanced by the following factors:

(i) Cost of Operation

The study identified that 53.4% of business owners viewed the cost of doing business in Vieux Fort town as acceptable. This is further supported by relatively low rental fees currently being paid by most business establishments. The survey revealed that 81.1% of the businesses surveyed are occupying rented accommodation and out of these, 83.8% currently pay less than EC$3,000 a month for such accommodation. However, rent in the industrial estate and the free zone areas are being viewed differently. Currently, rental fees which are dependent on the amount of sq. ft. usage, ranges from EC$5,000 to EC$14,000 a month. This provides further explanation of the reason for the current excess capacity at these facilities, despite the fiscal incentives being provided, thus the need to reexamine rental fee structures. Of course, the current hikes in electricity prices in St. Lucia, a consequence of the high prices for crude oil on the world market, has the potential to increase the overall cost of operation and thus, can further weaken the regional and global competitiveness of businesses in Vieux Fort town.
(ii) Ease in Establishing Business Operation

The study also revealed that 63.3% of the businesses surveyed felt that it was not difficult to establish operations in the town of Vieux Fort, a very important factor in determining the world ranking for places for doing business, where St. Lucia is currently ranked 3rd in the Latin American and Caribbean region (http://www.doingbusiness.org).

(iii) The Availability of Unskilled and Relatively Cheap Labour

Labour cost is often a significant part of the cost of operation for many firms. Thus, this factor may also encourage the establishment of light goods manufacturing firms throughout CARICOM to the town, creating income and employment opportunities for many.

(iv) Strong Dollar

Despite the slowdown in the economic growth within the ECCU, the continuous strength of the EC dollar may inspire confidence in both regional and international investors (Venner 2008).

Nonetheless, there is also the need for government to adopt or maintain appropriate fiscal policy measures aimed at further enhancing Vieux Fort town as a place conducive for doing business, such as facilitating the creation of additional business places (outside the free zone) through the construction of a mega mall (perhaps through a public private partnership arrangement) in order to house new firms and also to facilitate the growth of ancillary type firms. Also, the further development of the educational opportunities available to the town’s residents can promote more high tech industries to its shores as was the case with India (Bernal 2003).

Opportunities for Residents

The research revealed that residents from Vieux Fort town have a positive view of the free movement of skill labour initiative, for 76% of households surveyed had at least one member who was willing to work in a member country of the CSME should the opportunity arise. Nonetheless, the study also showed that residents from the town of Vieux Fort will not immediately benefit from the free movement of skilled labour provision of the arrangement. This is particularly the case due to the relatively low skilled levels of residents and further, as a result of a small number of households, 20.2%, with at least one member currently pursuing higher education. In this regard, 68.3% of households surveyed indicated that the highest level of education obtained by a household member was a secondary education and/or Primary education and only 15.4% and 1.9% of households indicated that the highest level of education obtained by at least one of its members was university and professional education such as ACCAs respectively. As such, very few households in Vieux Fort town have a member who can benefit from the larger market for skilled labour under the current arrangement. However, should this group of skilled persons be extended to include holders of the Caribbean Secondary School Certificate (CXC)s [currently under consideration] then a larger percentage, 78.8% of households surveyed will now have at least a member who can directly benefit from the free movement of labour provision under the CSM.
Having established the potential of residents benefiting from this CSME arrangement, it is also important to note that qualification and willingness to work although necessary factors, are not always sufficient to encourage people to take advantage of this provision. The study revealed that 61.2% of households surveyed have had at least one member of their household who has migrated (as expected in socially and economically depressed regions). Further, the Caribbean remains one of the most popular regions receiving these migrants with 55.6% of households surveyed having a member who has migrated to a Caribbean country, while 36.5% of households surveyed reported to have had a member who has migrated to North America (a very popular region for Caribbean nationals as seen by the ever growing West Indian Diaspora there).

Therefore, despite the fact that very few residents can immediately benefit from the free movement of skilled labour, such a factor as identified may speak to their willingness to pursue employment opportunities created in the CSME. Thus, in the medium to long term, policy makers must focus their attention on the continued advancement in educational opportunities available for Vieux Fort town residents in particular and St. Lucian’s generally. In a speech to the nation, former PM Sir John Compton highlighted the importance of higher education asserting that St. Lucians have to educate themselves to compete for employment not only with their fellow countrymen, but with others from other CARICOM countries where educational standards are higher. He argued further that their birth certificate and residence in St. Lucia will give a head start, but it will not give protection, as such, the birth certificate is not the only certificate to have, in making reference to St. Lucia’s participation in the CSME.6

Over the last five years, the government of St. Lucia has increased the per capita expenditure on education in an effort to advance the quality and quantity of the educational system (GOSL, 2007). It is the hope that such effort will enhance St. Lucia’s participation in the CSME. These efforts have been complemented by the many universities and institutions of higher learning which have opened its doors to St. Lucia, many establishing in the Vieux Fort town area, over the last ten years.

Further, these efforts are essential due to the fact that educational pursuit is the key in ensuring the successful participation of the residents of Vieux Fort town in the CSM arrangement. The study noted that the economic status of the town’s residents appears to be positively related to the pursuit of education. In this regard, of the household heads surveyed, 48.1% are currently unemployed. In addition, 89% of the households make EC$2,000 or less monthly with more than half of those households making less than EC$1,000 monthly. Therefore, the town’s residents are still relatively poor as those two indicators appear to suggest. This finding was consistent with observations made during the field work phase of the research. Common among the small residential areas visited was the sight of many small houses, mostly wooden structures clustered together with minimal infrastructural development. The study also revealed that while 22% and 54% of the households with at least one unemployed member had a member with primary and

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6 Address at Independence Rally, Castries, St. Lucia, 22 February 2007.
secondary education as the highest level of education in the household, only 6% and 12% of households where the highest level of education of a member was post-secondary and university respectively, had at least one member who is unemployed. This certainly supports the claim that has been reiterated by many, least among them Sir Arthur Lewis who, in correlating poverty and education, argued that ‘the fundamental cure for poverty is knowledge not money.’ Thus, educational pursuit is important to the personal development and growth of residents. However, the movement of a few skilled persons in Vieux Fort town can potentially add to the socio-economic hardship of the town should there not be a balance in terms of skilled nationals leaving in search of employment opportunities and those coming for the same purpose. In this regard, growth in the industrial sector in Vieux Fort town may serve to encourage well qualified professionals from CARICOM to our shores and thus creating the well needed balance.

In addition to assessing the extent to which residents may benefit from the free movement of skilled labour, this study also assessed the ability of residents to generate income and employment due to the free movement of goods, services and the right of establishment provisions of the CSME. The study revealed that only 18.4% of households are engaged in some form of business activity, particularly those of a cottage industry type. Further, although 41.2% of households who are engaged in some form of business activity showed interest in expanding this activity elsewhere in the Caribbean, only 6.5% reported to have the capital necessary to facilitate such expansion, thus a further basis for sourcing financial resources to expand their capacity to participate.

What we have shown thus is that currently, the CSM through its many provisions does not provide the best prospects for addressing development issues such as creating employment and income opportunities and reducing poverty levels. Nonetheless, the prospects for enjoying the benefits of this arrangement can certainly be enhanced.

**Conclusion**

This paper attempted to inquire into the extent to which the provisions of the CSM will promote socio-economic development in Vieux Fort town in terms of promoting higher levels of economic activity in the town which may result in more employment and income opportunities for both residents and business establishments and thus, over time, lead to a reduction in poverty and an overall improvement in the standard of living of residents in the town and outer districts.

The study revealed overwhelmingly, that the CSM does not currently present the best prospects for socio-economic development in Vieux Fort town. This is particularly the case as:

1. The CSM is not a popular market for exporting firms as only 24% of such firms in the survey currently export to the CARICOM market while an equal number of firms in the survey currently import from this market.

2. A few of the businesses surveyed have intentions to export and/or establish another branch of their respective businesses in another member country of the CSM. Thus, most businesses in Vieux Fort town may not immediately benefit from the rights of establishment provision of the CSM.
3. the small percentage of households with degree holders (15.4%) or who have some tertiary level education (11.5%) or some form of certified skill, means that very few residents could immediately take advantage of the free movement of skilled labour in search of employment and income generating opportunities within the CSM.

The study also revealed however, that although businesses currently established in the town may not immediately take advantage of the rights of establishment provision of the CSM, the current business environment is relatively conducive to investment, which may encourage Caribbean businesses to its shores, resulting in some employment and income generating opportunities for residents along with the growth of existing and future businesses. Nonetheless, the fact that the study suggest that the CSM arrangement may not immediately benefit the businesses and residents of Vieux Fort town does not only bring into question St. Lucia’s chances of benefiting from this economic union, but also calls into question the extent to which the entire LDCs including Belize and the rest of the OECS will benefit from this union. This reality explains the reasons behind the efforts of the OECS since the fall of the West Indies Federation to group together economically and quasi-politically. The thinking behind the current effort towards the formation of the OECS Economic Union was crystallized in the words of former Prime Minister Dr. Anthony who asserted in 2004 that ‘externally, the OECS will have to identify its particular and peculiar interests which may not be consistent with those of the wider CARICOM and the international community.’

Of course the concerns of the OECS for instance is very relevant given the continuous polarization of the economic integration process, where MDCs like Trinidad, Jamaica and Barbados currently account for approximately 72.8% of CARICOM’s combined GDP, while the LDCs which make up more than half of the membership of CARICOM, currently account for approximately 10.7% of CARICOM’s GDP with St. Lucia accounting for a mere 1% (CARICOM Secretariat 2008). Certainly, such concern is also reflected in the context of the study and in the findings of this paper which, if anything, provides a mere summary of the current position of the LDCs relative to that of the MDCs in CARICOM.

In moving forward however, the goal of economic convergence is a very critical one. Thus, the issue of economic differentiation must be addressed. The CSME have made provisions for dealing with this issue through the Regional Development Fund (RDF) and thus, all effort must be made for the effective operation and use of the RDF. In terms of this study, the chances of businesses and residents in Vieux Fort town benefiting from the developmental objectives of the arrangement such as increase opportunity for employment, increase economic activity, increase regional investment and increase exports etc. in the future, will depend fundamentally on two issues: (1) improvement in the competitiveness of existing and future exporting businesses and (2) on continued advancement in educational opportunities for residents.

The research revealed that financial assistance must be part of any effort aimed at enhancing the competitiveness of businesses in Vieux Fort town in the CSM. Given the limitations (budgetary constraints and international obligations) in providing financial assistance such as subsidies (which have not worked in the case of the free zone) access to the RDF and Eastern Caribbean Enterprise Fund is critical in obtaining capital to improve...
and expand production activities of those businesses so that they are both quality and price competitive in the CSME and the wider global economy.

Further, the study revealed that educational advancement is critical to ensuring that residents benefit from the free movement of skilled labour. Thus, the government of St. Lucia must continue along the path of expanding such opportunities to St. Lucians in general and Vieux Fortians in particular. For instance, a lot more must be done to ensure that Universal Secondary Education (USE) works to meet the objectives that it was set to achieve and that the Sir Arthur Lewis Community College is transformed into a full fledge university which offers competitive first degrees at an affordable price and thus, complementing the other colleges and universities both in the Caribbean and internationally, where nationals pursue higher education.

Finally, given the fact that the CSM recently became a reality (on paper), there is need for a follow up study to examine the experiences of businesses and residents within the arrangement and to establish further, whether there have been socio-economic development in terms of rising economic activity, employment and income creation and reductions in poverty levels. If so, such a study must also determine to what extent was such a development a result of the towns’ participation in the CSM and/or due to effective micro and macroeconomic policies.
References


