



**KEYNOTE ADDRESS
AT**

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ON**

**“FREE TRADE AND INTEGRATION
- IMPLICATIONS FOR THE CARIBBEAN BASIN”**



**"THE PROMISE AND THE PERIL:
A CARIBBEAN PERSPECTIVE ON THE FTAA"
BY**

**THE RIGHT HONOURABLE OWEN S. ARTHUR
PRIME MINISTER OF BARBADOS**

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This annual Miami Conference on the Caribbean has emerged, over the 25 years of its existence, as easily the most relevant and durable forum through which one of nature's greatest and most difficult causes – that of Caribbean development – has been advanced.

Historians however may well have to record that this Silver Jubilee conference, taking place in the shadow of the infamy of the events of September 11, assumed a significance immeasurably beyond all those which preceded it.

And this will not be because of the horrific scale of the terror which the events of September 11 unleashed on the innocent, which we all condemn.

It will more be because the response of the international community and the crusade that has been launched to create a safer, freer, more peaceful and just world, can only do good by highlighting the desirability and inevitability of our interdependence.

Those of us for whom vulnerability is a daily lived experience welcome the USA into the ranks of the vulnerable. We know only too well that our progress and security at home depend upon active and focused engagement abroad.

Such active and focused engagement on the part of all of us is required right here and right now in our own Hemisphere, where we are embarked on an enterprise of momentous implication for the global society which needs the superior example of enlightened interdependence as a guide.

The people of Barbados, by their electoral generosity, have given me the good fortune to be at all of the three Summits of the Americas.

In each of them I was in no doubt but that I was part of an endeavour that has inspired the leadership of the Hemisphere from the days of Bolivar. That endeavour is to create a Hemispheric Community in the Americas, resting on the precepts of the promotion of prosperity, through economic integration and free trade; the preservation and strengthening of the community of democracies of the Americas; the building of a just society, through the eradication of poverty and discrimination; and the building of a Community at harmony with nature through the fostering of sustainable development. It was all captured in a 23 Points of Light known as the Plan of Action of Miami.

It is against such a background that I venture today to give you a Caribbean perspective of the promise and the peril of Hemispheric Integration in the Americas, insofar as the efforts to date have affected our vital interest.

And I have set my thoughts in the wider framework of cooperation adopted at the Summits, because it is important that we keep before us the consideration that Hemispheric Integration in the Americas was not conceived to be a one dimensional process, confined to the stimulus which may emanate from trade liberalisation in a Hemispheric wide framework.

Indeed, I should say at the outset that much of the promise that has not been realized, and much of the peril that has prevailed have been triggered largely by the almost exclusive attention to but one of the 23 planks in the Summit of the Americas Plan of Action – the creation of a Free Trade Area of the Americas by 2005.

Be that as it may, the creation of a Free Trade Area of the Americas, as a single and discrete aspect of a larger process of Hemispheric integration, raises its own intriguing promises and perils especially for Caribbean society.

To begin with, the FTAA will be unique among regional trading blocs. It will bring within the same economic space, the world's largest and most powerful economies and the smallest, poorest and most vulnerable. It will encompass a regional economy resting on one of the most diverse social and cultural universes imaginable – a mosaic of cultures stretching from indigenous people of the Amazon to high-powered Manhattan executives. It will not only include two powerful developed economies, but at least three Latin American middle states which have the potential, if they wish, to pursue individual strategies for feasible insertion into the global economy, and which can become main financial markets and areas for the concentration of production by global corporations.

No other regional trade bloc offers a profile of such disparity and diversity, while at the same time amounting to such a perfect microcosm of the evolving, new global economy.

In addition, the proposed design of the FTAA goes beyond the structure of what has been contemplated in other regional trade blocs and even of the multilateral trade regime which is being evolved by the WTO. Indeed, while it is intended that its provisions should be WTO compatible, it is being designed to develop and apply rules in spheres and disciplines, such as competition policy, investment and Government procurement, which have never been successfully incorporated into negotiations under the WTO, and may yet have some difficulty finding their way into the new round of international trade negotiations.

As such, given the most favoured nation precept which enjoys general application in WTO negotiations, no country can participate in the FTAA negotiations without being sensitive to the extent to which it can compromise the positions it may wish to take in the future in a new round of multilateral trade negotiations.

The negotiation of an FTAA has also been made all the more intriguing because it has been conceived to give rise to a "Single Undertaking" – a package deal in which nothing is final until every thing has been agreed upon. Yet, the Executive of the single most powerful nation which can decide whether such a "Single Undertaking" can hold, has not been given the authority to negotiate a trade agreement without having to make that agreement subject to amendment by Congress.

The negotiation of an FTAA, on the part of all countries other than the USA, has, in such a context, to be an act of faith, that hopefully will disprove the Tip Oneil dictum that "all politics is local."

Among its other paradoxes, the FTAA is to be designed to be WTO compatible, and at the same time structured to extend special and differential treatment to the smaller economies.

Yet, there is no WTO consensus on the scope and concept of special and differential treatment in trade affairs, except as may be applied to those 44 countries classed by the UN as the LDCs of the world, most of which are not small.

We therefore proceed in the negotiations of a Free Trade Areas of the Americas, in which the principle of special and differential treatment for small states is enshrined, in the hope that American ingenuity may prevail where international fastidiousness and indifference have been stubborn barriers to progress and equitable development.

The negotiation of a FTAA also promises to be path breaking to the extent that, in making provision for the removal of the barriers among 34 countries with interests as complex and as diverse as those involved, GATT Article XXIV, requiring that such liberalisation should cover "substantially all" of the trade between the countries, and Article V of the GATS which requires that discriminating agreements should have "substantial sectoral coverage", will need to be defined and given applications in ways that can have international significance, as never before.

For all of its inherent contradictions, conceptual difficulties and imponderables, the creation of a Free Trade Area of the Americas still offers the promise of the single richest regional trade and economic prospect and programme open to man.

It offers to unlock, for the benefit of participating members, the barriers to the trade in goods and services, investment, technology flows and the movement of ideas that to date have prevented that market of the Americas, of 800 million consumers spending well over US \$12 trillion, from being the force that it could be in the development of the Hemisphere, and especially for those countries which have the fewest options to begin if they have to function on their own.

And on that hangs so much of the promise from a Caribbean perspective. For the most challenging aspect in developing small economies is that you have so few options, that you simply cannot afford not to take the fullest advantage of those that offer themselves as real opportunities, conscious always that some trade-off invariably has to be made to grasp the opportunities.

As a leader of a country of 280,000 people, in a domestic market of US \$2.5 billion, which has settled on a destiny to be an exporter of high quality high-valued services, how could one fail to be excited by selling services to a market of 800 million people, even if the trade-off is that we may lose ground in the trade of commodities to regional neighbours to whom commodity production is more appropriate?

The realization of such tremendous potential by Barbados and other Caribbean countries however requires, on the one part, a clear understanding of the extent of the adjustment that has to be made by Caribbean economies to participate in an FTAA as conceived, and a conscious decision to structure the mechanisms of a FTAA to fully accommodate and reconcile the vastly divergent interests of all, but especially its smallest and most vulnerable constituents.

The peril we face is that of a growing intolerance about accommodating the special case and the special circumstance in economic arrangements, in a world where it has now become the fashion to accentuate conformity, uniformity and one cap fits all solutions.

Let us look at some of the issues involved.

In relative terms, the Caribbean will have to make a greater economic and fiscal adjustment than any other country or group of countries participating in the FTAA exercise.

This will be because the Caribbean, by reason of the extension to it hitherto of a wider range of preferential trade agreements than to any other region, has over its evolution erected an economic structure with a higher ratio of trade- preference-induced activity to GDP than to be found any where else.

Much of that economic structure will be put at the risk of being dismantled, with no obvious replacement in site, by participation in a regional trade arrangement based on reciprocity.

A corollary is that many Caribbean countries have also evolved fiscal systems, featuring a predominant dependence on taxes on trade. In societies with small consuming markets, low populations and only rudimentary systems for fiscal administration, it will be a massive task for some to introduce successfully consumption and income-based taxes to replace taxes on trade, as will be required by participation in the FTAA.

Indeed, this fiscal maneuver, which will require an extended period to perfect, has not yet been conceived, far less embarked upon in most Caribbean economies.

In a nutshell, to participate effectively in an FTAA, most Caribbean economies will have, over the next decade, to carry out the adjustment to their production structures and their fiscal regimes that the developed countries, which participated in 8 rounds of GATT negotiations, phased in over 50 years since 1947. And the Caribbean economics will have to manage such far-reaching liberalisation without having the options or scope for adjustments those countries enjoyed.

It will be a mammoth undertaking that will pale into comparison all of the various economic and fiscal crises the region has endured in its crisis-rich history.

All of this is complicated by a number of other policy imperatives, which are peculiar to the Caribbean. First, the Caribbean not only has to be involved in negotiating an FTAA which is WTO compatible, but it will have to conclude those negotiations in advance of its negotiation of a new trade arrangement with Europe by 2008, under which it will be bound to accord to the developed states of Europe similar treatment that it gives to the developed countries in the Americas.

The Caribbean therefore has to involve itself in the FTAA with an eye to what is before it in relation to its Hemispheric commitments, and how those may prejudice its participation in a next round of WTO negotiations, as well as its negotiations with Europe. No other region is confronted with trade negotiations of this scale and complexity.

And it will have to master all of this, in circumstances where it has not yet evolved regional positions, as regards its own Single Market and Economy, on matters such as Government procurement, investment and electronic commerce, which are so much a part of the FTAA paradigm.

Indeed, ideally the Caribbean would have needed at least ten years of a functioning, fully-pledged Single Market and Economy of its own, that afforded its members broader and deeper liberalization in all of the spheres than is now being negotiated under the FTAA, for its own exercise in regional economic integration to be meaningful as the platform from which it launched its hemispheric and global negotiations.

Be that as it may, the Caribbean has no choice but to come to grips with the irreversible, fundamental trends at the heart of the global economy. Entry into the FTAA can only help the Caribbean in moving from backward, protected economies to integration into a dynamic and complex global marketplace, whether in the Americas, Europe, Asia, or elsewhere.

The critical question that remains unanswered, however, is what shall be the manner of that integration? A rite of passage is healthy when you move successfully to a new phase of your life. A rite of passage that you do not survive is an altogether different rite – a last rite.

The burden of my contention to you this afternoon is that the small and vulnerable economies of the Caribbean will not survive the rite of passage into the FTAA unless they are accorded special and differential treatment to allow them to adjust to radically changed circumstances. Moreover, special and differential treatment must be incorporated with a high degree of specificity in a set of practical arrangements, and not left at the level of broad principles.

I must confess that the Caribbean has been met by a fair amount of lukewarmness and even skepticism when it has advanced the case for special and differential treatment for the smaller economies within the FTAA process.

Smallness, vulnerability and volatility are, not for the society in the Caribbean, abstract matters on the basis of which we press irrational claims on the international community for special and differential treatment. They are essential and measurable characteristics of our way of life that reputable financial institutions take into account in measuring the degree of risk to be assigned to relationships with us.

Now, some of you may say that the leaders of the Americas have already endorsed the claims of small states in the hemisphere for special and differential treatment by mandating that the differences in size and levels of development be taken into account in the negotiations for the FTAA.

My response is twofold. First, there is a paradox. The FTAA, like all regional trade agreements, must be WTO compatible. But the WTO does not accord special and differential treatment to small economies.

The recently concluded Fourth Ministerial Meeting of the WTO, held in Doha, Qatar, did agree to a work programme on small economies “to frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading systems.” But where this general good intention may lead, no one knows. To be blunt, what I am suggesting as the only way out of the paradox, is for the governments of the Americas, led by the USA, Canada and Mexico, to agitate vigorously for special and differential treatment for the smaller economies within the WTO. You cannot espouse one set of principles in the Americas and not pursue them elsewhere. Otherwise the lofty calls for special consideration for the Caribbean and Central America within the FTAA will remain nothing but rhetoric. In other words, a sham.

The second part of my response is equally blunt. There has been little progress in the various FTAA negotiating working groups to come up with a set of specific mechanisms and arrangements to give effect to the mandate of the leaders of the Americas. Everything still remains at a level of useless generality.

And yet, the recognition of the legitimacy of small and vulnerable economies in the FTAA process is something that will work not only to the benefit to these economies, but also the FTAA process itself. For example, there could be no transcontinental land route without the participation of Panama; and no viable Hemispheric anti-money laundering regime without the participation of all countries.

I may also add that it is not only small economies which will seek differential treatment in the FTAA; indeed all states have been and are requesting differentiated treatment for sensitive products and sectors.

This, it seems to me, has to be accepted as the basis of our negotiations for special and differential treatment.

Special and differential treatment should not be seen as a concession from developed to developing countries, but as an important set of instruments deliberately designed to infuse sufficient nuance in the relationship between members in the group that all find themselves in a position where they will benefit from participation in the trading arrangement. In addition, differential treatment is a well-established concept and practice in multilateral, regional and bilateral trade agreements. It is embodied in several trade agreements and integration arrangements in our own hemisphere, such as the Caribbean Common Market (CARICOM) and the Central American Common Market, the Caribbean Basin Initiative, CARIBCAN, the Andean Trade Preferences Act, the CARICOM-Venezuela Agreement, the CARICOM-Colombia Agreement, and the Andean Pact. And it has been applied most thoroughly in what is regarded as the world's most successful trade and economic integration pact: the European Union.

Let me at this juncture spell out what might be the content of special and differential treatment for the smaller economies in the FTAA to assist them to make the adjustments that liberalization will require.

Special and differential treatment for the small economies within the FTAA must entail longer phase-in periods; special derogations from agreed liberalizations where necessary; very high thresholds in certain sectors before liberalization kicks in, for example in the area of government procurement; longer lists of sensitive industries than is usually the case; special arrangements to allow the small economies affordable access to the very costly dispute settlement mechanisms; technical assistance in relation to capacity building and institutional reform; and access to social cohesion funds.

In relation to the latter, we do not need to reinvent the wheel. The European Union already provides us with an inspiring example of how social cohesion and development funds can be used to assist less developed members of the Union to make the required adjustments.

In our Hemisphere, such special financial arrangements to support trade liberalization cannot be left to the discretionary resources of IDB, because several Caribbean states are not members of the IDB, and the rules governing its access to and use of funds do not contemplate swiftly financing economic engineering of the sort to be made necessary by trade liberalisation.

This brings me to a related point. As mentioned at the very beginning, the vision of Miami of 1994, conceived of the creation of a FTAA which itself would be part of a larger programme of economic cooperation, capital market development, the building of infrastructure and the like.

Small countries such as those in the Caribbean, in 1994 set out prepared to face the potential perils of trade liberalization fortified in the conviction that these perils would be more than offset by the compensatory benefits to be realized from robust capital flows, technology transfer and the other non-trade aspects of economic cooperation.

In practice however, the trade aspects and the financial and other economic aspects of the programme of economic integration set in train here in 1994 have been organized on parallel tracks such as not to benefit or sustain the other.

However, the fundamental difference between the trade and the other economic initiatives is that the Trade agreement will be a legally binding contact, while most of the other initiatives will consist of discretionary cooperation efforts and voluntary pledges of resources.

This difference is so fundamental that, unaddressed, it can rob the FTAA itself of such worth that it would otherwise possess.

The perils of the FTAA can therefore only be avoided if we maintain the original political commitment to the strategic alliance between trade and other economic issues that inspired the concept of an Economy of the Americas in the first instance, and which conceived of a FTAA as but one of the elements of a holistic enterprise to induce sustainable hemispheric development.

I close by dealing briefly with two controversial issues.

In all of the Summits in which I participated, I felt strongly that I was being part of an enterprise whose benefits and effects would be still being felt long after all of us involved have left public life.

Indeed, if a FTAA is created in 2005 with transitional mechanisms to phase in the measures over, say, 15 years for some economies, the FTAA will not be functioning as a full force in the Hemisphere's affairs until well into the second quarter of this century.

In such a context it is difficult to take seriously the design of a Community of the Americas that perpetuates an economic embargo and other sanctions which were intended to frustrate the Castro administration almost half a century ago.

The historic opportunity on which we are embarked to create a new Hemispheric Community requires that the concept of the Community of the Americas we act upon is one that can stand the test of both time and reason, and is not driven by power relations that are out of step with reality and enlightenment, and which did not serve their intended purpose in their own time.

The time, therefore, for constructively engaging Cuba in the building of a Community of the Americas is here and now.

The second is that in 1994, one could not fail to be impressed with the symbolism, captured by that Summit, of multilateralism at work.

Those were heady days in which images of States, coming together in institutions to which they belong, to move forward the Agenda of Hemispheric development, through new modalities of cooperation in which all had a sense of ownership, were enough to lift the spirits of even the most disillusioned regionalist.

Since then we have seen, as in the case of OECDs Harmful Tax Competition Initiative, a recourse to unilateralism on a matter that lends itself to cross border cooperation, and which could be easily dealt with by respect for international law, and reliance on the best spirit of multilateralism.

To illustrate, my country has, without blemish nor censure, maintained Exchange of Tax Information and Tax Treaties with almost all of the OECD countries over 20 years. We are prepared to strengthen and extend those Treaties to facilitate global cooperation on cross border tax matters.

Yet we are being pilloried and stigmatised as being an uncooperative jurisdiction, despite almost 20 years of cooperation in global tax matters with the very OECD countries, using in that process legal instruments known to the public international law. And this is merely because we will not give commitments to bureaucrats of an institution of which we are not members.

This should put us on our guard to pay as much attention to the governance aspects of our Hemispheric community building exercise as the trade and economic.

For in the final analysis the tide of liberalization will be a tide that lifts all boats if the dykes and the docks are deliberately engineered, following an agreed design rather than left to the workings of serendipity.

Balanced and equitable free trade will not take place in a neutral political or institutional context bereft of the application and the use of power to bring about fairness and inclusiveness. A serious commitment to build a Community of the Americas therefore requires the creation of new systems of community governance.

We, the people of the Caribbean, do not come to the table of Hemispheric cooperation as mendicants, but conscious of the overpowering promise of the contribution we can make to the creation of a Community of the Americas.

We have already enriched the culture of the Americas by the products of our creative imagination in the literary arts, drama and music. Daily, the human capital of the Caribbean, developed at a great cost to us, is helping to run things throughout the Americas.

And we do hold the promise to be an engine of growth for the Americas in our trade transactions.

For, ever become the coming into existence of a Free Trade Area of the Americas, our Caribbean Basin has already established itself, small size notwithstanding, as the sixth largest market for USA goods.

It underscores what we bring to the process that our market for US goods is greater than that of Russia, China, and India combined; and this is prior to the removal of the barriers to trade between us.

We have therefore already established that small economies can be an important part of the driving force behind the continued expansion of even the most powerful economies of the world. The essential challenge in the creation of an American community is that as to how to make such creative energy work for the benefit of all in the Hemisphere.

That was the promise when we gathered here in Miami in 1994 to make economic progress the foundation of sustainable democratic development in our Hemisphere.

It remains the promise of this Miami Conference of 2001.