

TRANSCENDING CRITICAL CONSTRAINTS

ADDRESS BY

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TO

**THE 38TH AUTHORITY MEETING OF THE ORGANISATION OF EASTERN
CARIBBEAN STATES**

CASTRIES, ST. LUCIA

Mr. Chairman, Colleagues, Director General, Distinguished Ladies and Gentlemen:

This 38th Meeting of the OECS Authority is taking place against the sad background of the loss of a dear friend and colleague, the late Prime Minister of Dominica, the Honourable Pierre Charles. His passing, in the middle of a historic and courageous fight to restore fiscal viability, growth and economic development to his country, brings a certain poignancy to the struggle we all have in these times to bring our countries individually and collectively to new levels of economic and social development.

We shed tears for Pierre Charles. Now we must wipe the tears away, and welcome his successor, our colleague, Hon. Roosevelt Skerrit, the youngest Prime Minister in the CARICOM Family. Prime Minister Skerrit has displaced Prime Minister Douglas and of course the Prime Minister of Saint Lucia. I also extend a warm welcome to Dr. Smith, the Chief Minister of the British Virgin islands, who is attending a meeting of the Authority for the first time.

A PERIOD OF UNCERTAINTY

The OECS countries now have to face some of the most challenging times and circumstances in our recent political and economic history. The current international environment can be summed up in one word, **uncertainty**. The 21st century at its very beginning was transfixed by the possibility that the very computer technology which had engendered such spectacular technological progress could lead to world wide chaos as the world turned, so to speak. We can all recall, of course, the Y2K problem. In the year 2001, on September 11, the unthinkable happened and the United States was attacked on its own soil leading to some of the most fundamental changes both within that country and the rest of the world.

Those attacks and the subsequent wars in Afghanistan and Iraq have in a sense overtly replaced the norms in international relations which are now having significant repercussions on the international body politic. These circumstances have vividly

illustrated and highlighted the extremely difficult circumstances in which very small states like ours exist and have to exercise, and if possible maintain, our sovereignty.

The fight against terrorism now raises major issues for the international community and states like our own, as the international community now seeks to establish a meaningful balance between allocating resources to defeat terrorism or to eradicate poverty and disease.

To compound the problem, major issues in the arenas of trade and finance have also illustrated our vulnerability to external circumstances. The change in trade regimes has had a negative impact on our major agricultural export commodities, bananas, sugar, and the FSF, FATF and OECD have placed significant obstacles to the development of our off shore financial services sectors. Our tourism sectors have been affected by the events of 9/11 through the increased costs and inconvenience of travel, not to mention the higher costs we have had to incur for increased security at our airports and seaports. The war against Iraq and instability in the Middle East always have the potential of raising the price of our most critical import commodity, oil.

The countries of the OECS have always had to operate in the most challenging of circumstances. As we moved towards the attainment of our independence in the 1970s this was undertaken against the background of two major oil crises, world recession and the debt crisis of the 1980s. Our fledgling countries were exposed to the harsh realities of the international system having not yet quite recovered from the political disappointments of the 1960s when all efforts of regional political union had failed.

BUILDING ON THE PLATFORM

It would be difficult to contemplate the fate of these countries if the institutional arrangements first established through the West Indies Associated States and then consolidated in the Treaty of Basseterre in 1981 had not been in place to support these countries in such difficult circumstances. The preamble to the Treaty of Basseterre has two very significant and far reaching assertions as follows:

The governments of the contracting states -

"Affirming their determination to achieve economic and social development for their peoples as enunciated in the Agreement of the 11th day of June 1968 establishing the East Caribbean Common Market."

"Inspired by a common determination to strengthen the links between themselves by uniting their efforts and resources and establishing and strengthening common institutions which could serve to increase their bargaining power as regards third world countries or groupings of countries."

The fact that the OECS arrangement has lasted for almost twenty-three years and has been strongly supported by all OECS Governments of all political persuasions, clearly signifies that the two premises as laid out above still hold and in fact may be even more relevant in the current circumstances.

The OECS countries under their current leadership must now assess the need for significant changes in the arrangements, building on the substantial platform that has been created by the original treaty arrangements.

The objective situation is that since the independence of the OECS countries, some thirty years ago in the case of Grenada and twenty one years ago in the case of St Kitts/Nevis, there has been a remarkable record of liberal democracy with one temporary exception. There has been political and social stability, free and fair elections, respect for the rule of law, impressive social indicators under the Human Development Index as well as currency and financial stability.

RECONFIGURING TREATY OF BASSETERRE

There were many who doubted decades ago whether these states could prosper much less survive as they launched out on their independence in those turbulent times. That the Treaty of Basseterre played a significant part in the progress of these states there can be no doubt. That it must be reconfigured in some way to meet the new challenges is certainly unquestionable.

Article 3 (1), outlines the purposes of the Treaty and while underlining the need for unity and solidarity among the member states to defend their "sovereignty, territorial integrity and independence", clearly establishes the need for cooperation with the rest of CARICOM and the international community.

Article 3 (2) sets out seventeen areas in which the member states pledged to coordinate, harmonise and pursue joint policies. These seventeen areas can be broken down into five basic subjects as follows:

1. Law and Order
2. Foreign Affairs
3. Public Administration
4. Management of Human and Natural Resources
5. Economic Cooperation and Management

These two sections place in a certain context the particular and peculiar position of the OECS arrangements viewed both internally and externally.

Internally, the areas of cooperation if fully implemented will lead to a new form of both government and governance which will require new political, constitutional and

economic arrangements.

Externally, the OECS will have to identify its particular and peculiar interests which may not be at any particular junction consistent with those of the wider CARICOM and the international community.

It is clear that the two are significantly correlated as without a much deeper form of solidarity and integration the OECS countries' interests either singly or collectively could not prevail in CARICOM or the international community.

The current economic circumstances of the OECS underscore the need for a higher and deeper form of integration as set out in the Treaty and as is being provided by the Authority. The fiscal situation in most countries has deteriorated significantly in the last few years following a series of external shocks and natural disasters. Fiscal deficits have increased and correspondingly debts have risen to new levels. A more fundamental issue, however, has been the long run trend towards stagnation which requires significant adjustment measures for the transformation of our economic structures.

The issues of production, productivity, and regional and international competitiveness have now assumed major proportions for us as we transition from highly protected and low productivity economic structures to a more open and competitive environment.

Economies, however, do not automatically transform themselves and in today's environment many of the avenues open to countries in the past are not available to us now. For example, development behind protective tariff walls is not now an option and the most we can hope for in today's climate is a holding operation. This illustrates quite clearly that while we need time to effect our economic transition, external circumstances are inimical to our requirements.

Our countries are therefore placed in the most difficult of situations trying to balance the demands of the regional and international communities, through trading arrangements and standards and codes, for particular kinds of actions on one hand against the legitimate demands of the local populations for improved economic and social welfare on the other. This poses enormous challenges for our countries both individually and collectively, as the OECS. What kind of economic activities, what kind of productive structures, what kinds of markets will allow us to transcend these critical constraints? Logic would seem to suggest that the aggregation of natural and human resources across countries would lower transaction costs and raise output. However, this is not as simple as it seems and must take into consideration the impediments, physical, cultural and insular, not to mention the lack of information which people possess.

BALANCING SOVEREIGNTY AND EFFICIENCY

We have now come to the very delicate point where the attributes of both sovereignty and efficiency must be carefully balanced. This will require not only very careful thought but

wide and constructive discussion at every level in the OECS so that our people are made aware of the trade offs and the choices which they have in looking to the future not only for themselves but for generations to come. We must stop living in world of fiction.

It all comes down to a vision of the future for these countries and the leadership which is required to engage in a societal dialogue with our people both within each island and between the islands. In looking to this future

it is necessary to define in concrete terms the essence of the OECS arrangements and what we desire them to provide us with.

The OECS can be described as a treaty arrangement which has a political and geographic domain. The objective in the final instance as in all integration arrangements is to create a single economic and financial space leading to increased production and productivity which results in higher incomes and increased welfare.

The OECS Heads of Government at a special meeting held in Basseterre in November 2002 set out a number of objectives which they hoped to achieve by the year 2007. These were:

1. A growth rate of at least 6 per cent.
2. An unemployment level of a minimum of 6 per cent.
3. A poverty level of a minimum of 6 per cent.
4. Acceptable targets on the human development index.
5. A broad based, adaptable and internationally competitive economic structure in each island and across the OECS.

These targets are daunting and will require considerable effort and significant changes to our present modus operandi.

Their achievement requires a strategic and disciplined approach to policy making and implementation based on three critical processes, namely –

- (i) Stabilisation
- (ii) Stimulation
- (iii) Transformation

The Stablisation process is well under way with Dominica making significant strides under their structural adjustment programme. All countries have established programmes with performance guidelines.

At the Monetary Council of the ECCB we have set for ourselves fiscal and debt benchmarks which the countries have agreed to have convergence on over finite time periods.

With respect to Stimulation we need to establish the appropriate public sector investment

programmes to initiate growth directly as well as to provide the infrastructure for private sector investment and growth.

In the case of Transformation there are critical factors which need to be assessed. For instance, incentive regimes and tax systems, the facilitation of the export of goods and services, the investment climate, and the creation of a cadre of dynamic domestic entrepreneurs.

The coordination of economic policies must be buttressed by suitable political arrangements. Some of the required changes need constitutional amendments. Our relations with CARICOM and the rest of the world also needs to be clearly defined.

We need to balance the need for change against what the political traffic can bear and the need to retain the distinctiveness of each of our countries which should not be seen in negative terms but as a positive asset to the sub-region. Integration is not about mindless uniformity.

The question of new or upgraded political arrangements must take into consideration the tenor of our current constitutions and political culture.

The OECS arrangements have been characterized by the significant role of the Authority. This institution operates very much in the spirit of a quasi cabinet. Critical decisions and appointments are made by this body in an exercise of joint sovereignty.

Another political institution within the OECS, the Monetary Council, comprising Ministers of Finance, exercises joint sovereignty in monetary policy and through their efforts have maintained the stability of the currency, low inflation and the safety and soundness of the domestic banking system.

The external threats and shocks to the economic system as well as the domestic circumstances of increasing fiscal deficits and debt servicing obligations and the need for growth and structural transformation require an enhanced form of political collaboration to ensure continued progress.

STRATEGIC PLANNING AND CONSTRUCTIVE NEGOTIATIONS

With the continued trend towards liberalisation and globalisation, small states need to identify and secure their interests through strategic planning and constructive negotiations. These states have to be very clear and unapologetic about their particular interests which can only be attained through consistent and principled negotiations. The OECS countries are now engaged in a series of negotiations with respect to the Caribbean Single Market and Economy (CSME), the FTAA, the COTONOU Agreement and the WTO. There are particular interests which we have which may not be well served by particular segments of these arrangements.

The OECS holds a special position within CARICOM which must be recognized by all parties if either are to make significant progress. The OECS are the smallest countries within CARICOM and within the international system. Recognising this, they have, through treaty arrangements, sought to address the critical issues associated with their very small size.

1. The acquisition of the economies of scale and scope in administration, production and marketing.
2. The mitigation of risk by spreading assets and efforts over a larger geographic and political space.
3. Increasing their negotiating capacity with third countries or groups of countries.

Within CARICOM the special problems of the OECS were recognized by special access to resources at the CDB and special arrangements through the Agricultural Marketing Protocol and Article 56. The new arrangements under the new protocols and the CSME do not speak eloquently enough to these circumstances which is ironic since the wider region in their negotiations with other countries consistently speak to the issue of special and differential treatment.

The further irony is that the OECS as currently constituted has attained a higher level of integration than CARICOM. The OECS has a common judiciary, a common currency and central bank, a common directorate of civil aviation, joint diplomatic arrangements in Canada, common procurement of pharmaceuticals and many other areas of close cooperation. These are the assets which the OECS takes into any arrangements with CARICOM. The OECS must therefore set out a clear and unequivocal position with respect to CARICOM as a whole and some of the participating states of CARICOM like Trinidad and Tobago and Barbados with which we have significant reciprocal interests. It is important for instance that we have conversations with Trinidad and Tobago on matters concerning Oil, Air Transportation, Trade in Manufacturers and Agricultural Products, Banking and Finance, Education and Training. Similarly with Barbados we need to discuss Trade in Manufacturing and Agricultural Products, Finance, Education and Training, and Air Transportation. With both countries, matters of Security and Immigration are of vital importance.

With respect to the FTAA, COTONOU and the WTO our special circumstances need to be forcefully communicated through the Regional Negotiating Machinery (RNM).

To get to these positions requires deep thought and introspection by the political leaders of the OECS and purposeful discussions with our people. We will have to devise a structured and deliberate way of plotting our future which is appropriately sequenced bearing in mind our own circumstances. Each island has its own distinctive features which we should treat as significant assets. These distinctive features we must seek to bring to levels of excellence which our own citizens can enjoy and which we can share with other members of the OECS, the region and the world. For instance, if there are

aspects of St Lucian culture of which we are justly proud we should not be opposed to sharing them with our fellow citizens of the OECS.

TRANSLATING SENTIMENTS INTO CONSTITUTIONAL CONSTRUCTS

There is the urgent need to translate these sentiments into constitutional and political constructs which will strengthen them and make them more meaningful and valuable to us as a people. To extend this thought further, unless there is law and order, peace and justice and economic progress it is unlikely that a broad range of our citizens in each island will be able to enjoy the patrimony of the land. The administration of justice and the preservation of law and order are critical matters for this to be so. There are proposals before us for the consolidation of the justice system by incorporating the magistracy and for strengthening law and order by re-configuring the Police and Prison Services. Sober and constructive thought needs to be given to these proposals to consider whether they are that important to our existence to utilize our political capital to seek constitutional amendments for their implementation.

Another area of significance is the freedom of movement of capital and labour which are fundamental to the deepening of the integration process.

The movement of labour has been a contentious area in a region where unemployment has been high and resources scarce. The labour market, however, needs to be more flexible to allow for increased production and productivity. Our experience has been in the region that people only move when there are economic prospects in the destination they are headed to. Immigrants, if the truth is told, work very hard and contribute in great measure to the local economy. There needs to be some regulation of the labour markets but this can be done only if the labour market information systems are accurate and timely.

We have already made considerable progress in this area through reciprocal arrangements in Social Security Schemes, and a first phase involving relaxed immigration procedures. Further progress needs to be made through the identification of specific skill requirements in each country and training schemes throughout the OECS, to facilitate the manpower requirements for our economic transformation.

In the area of capital movements we have made significant strides and are not subject to some of the constraints faced by the rest of CARICOM. We now have a Common Currency, an Inter-bank Market for liquid funds, a Regional Government Securities Market, a Securities Market and a Secondary Mortgage Market. These are vital platforms on which the free flow of capital can be built and so we need to remove the other impediments such as Alien Landholding Restrictions among OECS States.

The freedom of movement of capital will facilitate the increased mobilization of savings and their more efficient allocation. It will give the citizens of the OECS greater choices

with respect to savings instruments and a more appropriate means of financing for their investments. The possibility of the establishment of OECS wide firms will increase substantially under such a regime. Already there is significant cross border investments in government securities and equities.

The Monetary Council has proposed that the Eastern Caribbean Securities Exchange is the logical precursor of a wider regional stock exchange. It is in fact a regional exchange having the technology to support cross border exchanges. We are now in the process of preparing the necessary legislation to expand its operations.

The OECS countries form part of an archipelago of islands and for integration to be successful a realistic Air Transportation policy needs to be conceived to address this most critical and complex of issues.

The OECS countries need to address the need for a coherent Social Policy which takes into consideration both country and OECS circumstances. We have achieved fairly decent social indicators but their maintenance and improvement are quite a challenge given the current fiscal and debt profiles in some of our countries. Education, Health, Social Protection and Pensions are areas which are vital but costly. The scourge of HIV/AIDS by and of itself can place our entire social and economic structures at extreme risk.

COURAGE TO TREAT CHALLENGES

In the final analysis we will have to think deeply about the costs and benefits of how we are to proceed in an environment which is not only uncertain but fraught with dangers. We have to balance our country and individual sovereignty as well as our distinctive differences against the need to present a collective political and economic posture to treat with third parties both in the region and beyond. The people of the region in general and the people of the OECS, in particular, have been very creative in their responses to difficult circumstances over a long history of slavery, colonialism and a host of natural disasters and external economic shocks. The very creation of the OECS was in response to constitutional, political and economic challenges. We are now once again faced with tremendous challenges which require a substantial effort and creative responses from our politicians, our civil servants, our private sector, our trade unions, our youths, civil society and the public at large.

There is an **urgency** to our current discussions which must not be lost on us or our people. The pace of change and the fundamental and structural nature of our problems do not provide much breathing space or degrees of freedom for continued procrastination. The issues before us must all be squarely faced and we must devise the necessary societal consensus within our individual countries and across the OECS to be able to address our domestic issues successfully, and having done that to treat with third parties to our advantage.

We must have the courage to treat with our challenges definitively. To quote Lloyd George:

"Don't be afraid to take big steps

You can't cross a chasm in two small jumps."

January 22, 2004