



ORGANISATION OF EASTERN CARIBBEAN STATES

SPECIAL MEETING OF THE OECS AUTHORITY ON THE ECONOMY

**Eastern Caribbean Central Bank
St. Kitts/Nevis**

10th October 2002

COMMUNIQUE

The Special Meeting of the OECS Authority on the economy was held at the ECCB Auditorium in St. Kitts and Nevis on October 10, 2002 under the chairmanship of Hon. Dr Denzil Douglas, Prime Minister of St. Kitts and Nevis.

Heads of Government in attendance were Prime Ministers Hon. Lester Bird of Antigua and Barbuda, Hon. Pierre Charles of the Commonwealth of Dominica, Hon. Dr. Kenny Anthony of St. Lucia, and Hon. Dr. Ralph Gonsalves of St. Vincent and the Grenadines. The other Heads of Delegations were Hon. Gregory Bowen, Deputy Prime Minister of Grenada, Hon. Lowell Lewis, Deputy Chief Minister of Montserrat, Hon. Victor Banks, Deputy Chief Minister of Anguilla and Mr. Otto O'Neal, Director of Development and Planning of the BVI. Also in attendance were the Governor of the Eastern Caribbean Central Bank Sir Dwight Venner, and CARICOM's Assistant Secretary General for Foreign and Community Relations, Ambassador Colin Granderson.

CURRENT SITUATION

The Authority commenced their discussions on a programme to stimulate growth and transformation in the sub-regional economies by first reviewing the current situation confronting the Member States. The Heads of Government recognized that the States were now at crossroads in their economic history with the external and domestic environment and circumstances placing enormous pressure on countries to stabilize and transform their economies. During the early eighties when there was a similar world recession, concessional aid flows and preferential trade agreements were able to cushion the impact. Today, however, there are some fundamental differences. Aid and preferential markets have declined and new trade agreements threaten the revenue bases of the economies. These international circumstances have resulted in declining flows of investment, a slow down in the number of tourist arrivals and expenditures and higher oil prices. These circumstances therefore present a clear and present danger to the economic prospects of OECS countries.

The impact of the current international situation has led to the following:

- Declining growth in export earnings;
- Declining growth in output and GDP;
- Increasing fiscal deficits; and
- Debt burdens in some states that are not sustainable.

The OECS must now respond urgently in a very clear and strategic way in order to survive and prosper. The adjustments required in today's circumstances are of a different and higher order than in the early 1980s, as they will involve the transformation of the economic structures of these economies.

VISION

The Authority agreed that acceptable outcomes in the medium-term of a programme for growth and transformation should be:

- Sustainable real growth of 6% per annum;
 - High quality employment with unemployment less than 6%;
 - Poverty levels below 6%;
 - Human Development Index (HDI) targets should be consistent with international standards;
 - and
- The sub-regional economies should all be diversified, productive competitive.

The Heads of Government agreed that the reform and transformation process will begin in January 2003 and the first phase will end in December 2007. They further agreed that critical time frames for identified programmes and prospects will be set within the very near future.

RESPONSES

The Heads of Government agreed that the Member States should respond to the current situation at two levels:

- i. overall response; and
- ii. specific and targeted responses

The overall response would seek to move the Treaty of Basseterre to a higher level of political cooperation and coordination. The Authority will appoint a Committee chaired by an eminently qualified Caribbean national to review the Treaty and make recommendations aimed at aligning it with the requirements of the OECS Economic Union. In particular, the following decisions were adopted by the Economic Summit:

- To implement the provisions necessary for the free circulation of goods and services within the

OECS in the quickest possible time but at the latest, within one year beginning January 2003;

- To have freedom of movement of labour within the OECS by December 2007, with the provision that those States which are prepared to do so, should implement the required provisions by January 2004. The Authority also urged the Member States to operationalise without delay, all the necessary arrangements to give effect to the recent initiatives for the movement of OECS Nationals; and
- To support the money and capital market programme of the ECCB by passing legislation and giving administrative, practical and moral support to the ECCB in facilitating the free movement of capital. It was recognized that support for the Stock Exchange and the Regional Government Securities Market is particularly critical at this time; and

The Heads of Government agreed that the specific policy and targeted responses would be directed at stabilization, stimulation and transformation. Priority will be given to:

1. **MONETARY POLICY** -The main objective of which will be to maintain a stable currency and low inflation through a fixed exchange rate system. The parity of the currency has been fixed and maintained at EC\$2.7 to the US for the past 26 years and this has contributed significantly to macro economic stability and investment. OECS Governments have made a firm commitment to exchange rate and banking stability. The backing of the currency remains strong at over 90% of foreign exchange reserves.
2. **FISCAL POLICY** – The adjustment programmes aimed at reversing the deteriorating fiscal situation with particular emphasis on:

A. Tax Reform

As part of the institutional mechanisms for reforming the revenue systems, the OECS Governments have created a Tax Commission to advise on fundamental tax reform and the appropriate administrative arrangements at both the national and regional levels. The basic aim is to develop a tax system which creates incentives for the private sector for taking risks; encourages savings and investment; is efficient; and raises sufficient revenues to meet government's obligations and also provides adequate services for the general public.

B. Public Sector Reform

A public expenditure review to address the appropriateness of the expenditure system and 'value for money' expenditure is underway. The programme will, among other things, examine the framework for overall expenditure management, the efficiency and effectiveness of expenditure particularly in the social sector, and the development and management of the Public Sector Investment Programme. The Governments have initiated a project on the fiscal machinery which should lead to a more effective budgetary process with improved efficiency and accountability.

C. Debt Management

A Regional Debt Coordinating Committee has been established to advise the Member Governments on the management and restructuring of the public debt.

3. **TRADE POLICY** – To promote the interests of the OECS Member States as small vulnerable island states in the following negotiating arenas:

- CARICOM
- FTAA

- COTONOU
- WTO

4. **INCOMES POLICIES** – To be executed through the Tripartite Committees, comprising representatives from government, trade unions, and the private sector. These Committees will discuss and advise on wages, prices, employment and productivity issues. The Heads of Government recognized that there will have to be trade offs and compromises between the parties but the bottom line must be increases in productivity and the distribution of these productivity gains in a fair and equitable manner.

5. **INVESTMENT POLICY** – To mobilize the resources required to expand and increase production, which were recognized as being extremely critical for growth and transformation process. It was accepted that individual Member States would drive their own investment initiatives. However, there were certain essential elements that were common and would require immediate attention to ensure successful investment policies and strategies. These included:

- Macro economic Stability
 - Currency Stability
 - Financial Stability
 - Fiscal Balance
 - Sustainable Debt
- Law and Order
 - Review and upgrade of the legal system; and
 - Vigorous pursuit of crime and violence through, among other things, a regional police and prison service.

- A clear and strategic energy policy;
- An appropriate regulatory regime for electricity and water along similar lines as has been adopted for telecommunications.
- A more efficient and cost effective port system.
- Manpower and labour policies emphasizing skills training, worker development and labour market issues.
- Multi-country production of goods and services through the establishment of industries and firms in various sectors across the entire economic space of the OECS.

6. **DEVELOPMENT POLICIES** – These must be consistent at the national and sub-regional levels.

The key elements of this strategy would include the following:

- Identification of new activities;
- Restructuring of existing activities;
- Changing the incentives structure to encourage investment and risk taking; and
- An improvement in the competitiveness of the region's export sectors with the focus on both price and non-price factors.

STRATEGIC OPTIONS AND DIRECTIONS

The Authority agreed that the strategic priorities for the immediate transition period would focus on implementation of sectoral strategies in Tourism, Agriculture, Manufacturing/Processing and Information and Communications Technology. These would be pursued within the framework of advancing the OECS Economic Union, which would provide the coherent context. The private sector was expected to play a central role in the implementation of the individual initiatives. Attention would have to be paid to the creation of a new and dynamic cadre of entrepreneurs and firms and a world class private sector in the quickest possible time period.

A. The Tourism Sector

The immediate action in this sector would be aimed at increasing the number of both air and sea passenger arrivals; upgrading and expanding accommodation establishments and the stock of rooms; and diversifying the tourism product. Specific attention would given to:

- Developing and implementing sub-regional marketing and promotion strategies jointly with the private sector, that are geared towards creating increased awareness and demand of the OECS tourism product in the key markets.
- Investigating options for OECS governments and private sector to assume greater control and ownership over critical areas of the sector, such as distribution channels, in an attempt to influence the supply of visitors to the Member States more effectively.
- Developing strategies and policies that will engender greater synergies between cruise tourism and land base tourism.
- Improving the quality of the infrastructure and related facilities directly linked to tourism and investigate means of reducing input costs.

B. *Agriculture Sector*

The focus of the strategies for the agriculture sector will be on intensifying the diversification of the sector and increasing production and trade to both traditional and non-traditional markets. Specifically, activities will be geared towards:

- Enhancing production and marketing levels through diversification, improved competitiveness, research and development, investments, joint marketing and market information systems.
- Continuously improving production and the competitiveness of the banana industry to cope more effectively with the removal of trade preferences attached to this commodity in 2005.
- Improving the institutional structures and arrangements, including the capacity of the Ministries of Agriculture to address on-farm and farmer issues more effectively. Attention will be given also to reviewing legislation, enhancing networking and communicating among government agencies and other stakeholders.
- Formulating specific strategies for fisheries and marine resources and separating these from agriculture to take advantage of the significant investment that has been devoted to these sub-sectors.

C. *Manufacturing Sector*

The Authority agreed that notwithstanding the trend of the declining contribution of this sector to overall economic activity, manufacturing could still make a positive contribution to employment and economic growth. The strategy for this sector will concentrate on:

- Improving production and marketing through such initiatives as identifying and pursuing select activities in which the sub-region could be competitive. Support for these will be provided through supportive action in areas of marketing intelligence systems, joint marketing initiatives, reviewing the regulatory framework and trading agreements;
- Mobilizing investment by enhancing the capacity of the national Investment Promotion Offices and developing and financing and investment policies; and rationalizing incentives for the introduction and utilization more efficient technologies;
- Continuously examining means of reducing the costs of inputs; and
- Improving linkages between the education system and the skill requirements of the sector and actively encouraging in-plant training to bolster productivity.

D. *ICT Sector*

The Authority agreed that there were opportunities for developing this sector given its growing prominence in international commerce and potential for engendering growth and transformation of the national economies. As a new and emerging sector, attention would need to be focused on enhancing the infrastructural, legal and policy framework; human resource inputs; and levels of investment.

E. *Creating an Appropriate Environment*

The Heads of Government agreed that in order to ensure success of the overall strategy for growth and transformation, an appropriate political and economic management framework should be erected. Accordingly, action will be taken to:

- Develop a genuine socio-economic accord at the sub-regional level based on a broad-based consensus forged between Governments, opposition parties, the private sector, the trade unions and civil society; and
- Expedite the public sector reform process through the creation of an innovative, technically capable and professional public service to interface with the regional and international environment, provide efficient services to the public and facilitate the process of economic reform through efficient and effective economic management. Serious thought must be given to regionalizing some of the critical functions in order to make them more cost effective.

IMPLEMENTATION AND DECISION-MAKING FRAMEWORK

The Authority agreed that appropriate machinery for implementing the various strategies and sub-strategies will be integral to the successful achievement of the basic objectives of stimulating economic growth and transformation of the OECS economies. The Secretariat was mandated to prepare an implementation plan for the overall strategy within six weeks, identifying the specific institutions and agencies that will assume responsibility for specific activities. In addition, the Authority agreed that creation of a Commission system, along the lines of European Union, should be examined, possibly employing three Commissioners to be responsible for monitoring and facilitating implementation of decisions and mandates related to the Economic Union, the OECS Development Strategy and external relations.

Setting policy objectives and targets, monitoring and evaluating the implementation strategies will be the responsibility of both national and sub-regional institutions. At the national levels, the three principal bodies will be, **Cabinet Committees** assuming primary responsibility for national economic management; **National Economic Councils** to advise Governments on questions of economic policy; and **Tri-Partite**

Committees, responsible for monitoring the industrial relations environment and wage levels to ensure increasing levels of productivity.

At the sub-regional level, the **OECS Authority** will provide overall policy guidance. The **Monetary Council** will be responsible for fiscal and monetary issues, particularly those promoting the stabilization of the economies. The **Economic Affairs Committee** will monitor the implementation of the Economic Union, the OECS Development Charter and Strategy.

ADDITIONAL AGENDA ISSUES

The Authority took the opportunity of the Summit on the OECS Economic to address some additional and related issues:

1. OECS DEVELOPMENT CHARTER

The Heads of Government adopted a final version of the **OECS Development Charter** as a common vision for the development of the region. They agreed that the text of the Charter should be widely disseminated to the various stakeholders.

2. PRIVATE SECTOR MEETING

The Meeting reviewed the agenda for the Meeting with High-Level Representatives of the OECS Private Sector scheduled for the following day (Friday 11th October) and agreed that the issues for discussion should focus on:

- Promotion of Economic Growth and Transformation in the OECS
- Strengthening the public/private sector partnership
- Participation of the Private Sector in external economic negotiations
- OECS Economic Union

- Sustainable financing for OECS Private Sector organizations

3. VISIT OF PRESIDENT OF THE WORLD BANK

The Meeting was informed of the visit of the President of the World Bank to St. Kitts-Nevis. He is scheduled to arrive on 26th November 2002 and certain activities were being contemplated including a roundtable discussion with OECS Heads of Government on matters of mutual interest during the morning of the 27th November.

4. DATE OF NEXT AUTHORITY MEETING

The next Authority Meeting is scheduled to be held in January 2003.