THE MOVEMENT OF CAPITAL

CARICOM Single Market and Economy (CSME)

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INTRODUCTION

Regional integration comprises four main pillars: Economic Integration, Human and Social Development, Foreign Policy Coordination and Security Cooperation. Economic Integration means the CARICOM Single Market and Economy (CSME). The States participating in the CSME include:

Antigua and Barbuda,
Barbados,
Belize,
Dominica,
Grenada,
Guyana,
Haiti,
Jamaica,
St. Kitts and Nevis,
Saint Lucia,
St. Vincent and the Grenadines,
Suriname, and
Trinidad and Tobago.

The Caribbean Community (CARICOM) agreed in 2006 to start operating the CSME, focusing on the Single Market. At that point, twelve Member States declared they were ready to put into operation the CARICOM Single Market (CSM). Haiti signed on in 2010, but is not yet able to participate in all the regimes.

"We the Heads of Government of the Caribbean Community Solemnly declare that our Governments, in compliance with the provisions of the Revised Treaty of Chaguaramas establishing the Caribbean Community including the CSME and with relevant Decisions of the Conference of the Heads of Government, have taken the steps necessary to comply with the programme for removal of restrictions and for participating fully, as from the first day of July, 2006, in the Single Market component of the CSME.....And Resolve that we shall, in concert with the other members of the Community, do all that is necessary to attain the earliest possible establishment of the Single Economy component of the CSME".

(From the "Declaration by the Heads of Government of the Caribbean Community on the Participation of their Countries in CARICOM Single Market", 3rd. July, 2006)

WHAT DOES THIS DECLARATION MEAN

A person or company from any one of those Member States would now be able to:-

Produce and Trade in Goods
Provide Services
Move Capital

Establish Business Enterprises and
Move Freely without a work-permit to another Member State.

In addition, Member States would have implemented policies and laws that would:

regulate competition;
set standards and technical regulations;
allow transfers across each others' borders of Social Security and other associated benefits;
avoid double taxation of CARICOM nationals and;
enable qualifications earned in one Member State to be accepted in another Member State through national accreditation councils.

All these provisions are specifically mandated under the Revised Treaty in order to facilitate the full implementation of the CSME.

This publication is about the CSME generally, and the Movement of Capital, in particular.

PROVISIONS IN THE REVISED TREATY FOR THE MOVEMENT OF CAPITAL

The Revised Treaty (Article 40.1) calls on Member States to ensure the removal of the following:-

restrictions on the movement of capital payments;
restrictions on all current payments including payments for goods and services and other current transfers.

Capital and related payments and transactions include:

equity and portfolio investments;
short-term bank and credit transactions;
payment of interest on loans and amortization;
dividends and other income on investments after taxes;
repatriation of proceeds from the sale of assets;
other transfers and payments relating to investment flows.

Treaty Language	…In other words
Equity and Portfolio Investments	Equity investment is acquiring a percentage ownership of an enterprise, usually in the form of stocks or shares, whilst Portfolio Investment is solely for earning income from the stocks and shares purchased
Short-term bank and credit transactions	Includes paying for goods and services through the bank

Payment of interest on loans and amortization	Amortization is the gradual repayment of a debt over a period of time, such as monthly payments on a mortgage loan or credit card balance etc.
Dividends and other income on investments after taxes	Money earned from such transactions
Repatriation of proceeds from the sale of assets	Repatriation means the ability to convert a foreign currency (from the sale of property, stocks etc. in that country) into the currency of one's own country
Other transfers and payments relating to investment flows	Any other funds that result from one's investment

In order to comply with the Revised Treaty, concerning the Movement of Capital, Article 44 Paragraph 1(c), states that Member States should adopt measures for the "abolition of exchange controls in the Community, and free convertibility of the currencies of the Member States". These provisions apply only to intra-regional transactions. .

WHAT CURRENTLY OBTAINS IN MEMBER STATES THAT ARE PART OF THE CSME

Barbados and Belize currently practice exchange control with respect to some intra-CARICOM transactions.

Guyana, Jamaica, Suriname and Trinidad and Tobago – (the CARICOM Member States with floating exchange rate systems) have for some time operated with nominal foreign exchange control.

Suriname in particular, requires approval by a Foreign Exchange Commission of all outward remittances of foreign exchange on capital account.

Members of the OECS (Antigua & Barbuda, Dominica, Grenada, St. Kitts & Nevis, Saint Lucia, and St. Vincent and the Grenadines) maintain that their foreign exchange system is fully liberalized.

INSTITUTIONAL ARRANGEMENTS FOR THE FREE MOVEMENT OF CAPITAL

At the CARICOM Level

(a) The Council for Finance and Planning (COFAP) – functions include: to promote and facilitate the adoption of measures for fiscal and monetary co-operation among the Member States; the establishment of mechanisms for payment arrangements; and pending the establishment of a monetary union in the Community, recommend arrangements for the free convertibility of the currencies of the Member States on a reciprocal basis;

(b) The Committee of Central Bank Governors – advises the COFAP on matters relating to Capital, including Free Movement of Capital.

At the National Level

(a) The Ministries of Finance in individual Member States who are obligated to work with other relevant government agencies to ensure the policies, laws and regulations are in place for the Free Movement of Capital as envisaged in the Revised Treaty;

(b) The Commercial Banks in individual Member States whose main functions are to facilitate savings under various types of deposit accounts; provide personal and business loans; permit overdrafts for preferred clients and allow for the transfer of funds from one bank to another.

Currency convertibility and abolition of exchange controls on intra-regional transactions would not be necessary if CARICOM Members had a single currency or a monetary union. But, only the OECS Member States have one, with the EC dollar as their common currency. It is essential that the currencies of all Member States are convertible and able to circulate freely.

CURRENCY CONVERTIBILITY AND THE MOVEMENT OF CAPITAL

The Movement of Capital for the full functioning of the CSME depends to a large degree on two conditions already pointed out in the Revised Treaty provisions –

abolishing exchange controls and
the free convertibility of currency within the CSME

Currency Convertibility means the ability to freely exchange the currency of one Member State into the currency of another Member State.

For example, a Barbadian should be able to easily purchase goods in a store in Port of Spain with his Barbadian dollars and receive his change in Trinidad and Tobago dollars.

However, this does not always happen because of the existence of two different exchange systems in CARICOM – Fixed and Floating.

FIXED AND FLOATING EXCHANGE RATES

The Fixed or pegged rate is a rate the government (central bank) of a country or group of countries sets and maintains as the official exchange rate.

For example one Barbadian dollar has a fixed exchange rate to the one Eastern Caribbean dollar.

Barbados, Belize and Members of the OECS have fixed exchange rates and these are administered by their respective Central Banks.

The Floating rate, on the other hand, is the opposite of a fixed exchange rate regime and is a flexible or "floating" exchange rate. The value of the currency fluctuates according to market forces and can change from day to day. There is also a "managed float" that permits the value of the currency to move within a set range.

Guyana, Jamaica, Suriname and Trinidad and Tobago operate on a floating exchange rate regime. These countries agree that their currencies can be converted but their Central Banks do not guarantee the rate at which they will be exchanged and do not undertake to repatriate their currency.

THE REMOVAL OF RESTRICTIONS ON FINANCIAL SERVICES

The Movement of Capital is closely integrated with the provision of Financial Services. Therefore, under Article 38 of the Revised Treaty, Member States are required to remove discriminatory restrictions on banking, insurance and other financial services.

CARICOM Financial Services Agreement (CFSA)

The main objectives of the proposed CARICOM Financial Services Agreement are to:

Streamline and facilitate the cross border operations of financial institutions;

Create the environment for enhancing competitiveness of the Single Market in financial services;

Reduce explicit or hidden barriers to cross border financial flows while ensuring transparency with respect to the rules of the game;

Reduce payments system and portfolio risks, while ensuring stability and soundness of the financial system and the integrity of financial markets in the CSME;

Provide for the harmonisation of essential definitions of principles in order to avoid loopholes and different approaches, thereby, minimising regulatory arbitrage;

Provide a mechanism for ongoing consultation and review to assess the implementation of the financial integration and to resolve problems affecting the delivery of cross border financial services and;

Strengthen the process of Capital Market Integration.

CAPITAL MARKET INTEGRATION

The Revised Treaty, Article 44.1 (d), mandates “the establishment of an integrated capital market in the Community”.

An **Integrated Capital Market** means: a Stock and Bond Market to which all Member Countries have access. However, the facilitating measures are not currently in place.

But, there are Stock Markets in Barbados, Guyana, Jamaica, OECS and Trinidad and Tobago.

CURRENT STOCK MARKETS IN THE CSME

Barbados Stock Exchange (BSE): The original trading facility, the Securities Exchange of Barbados (SEB), was established in 1987, under the Securities Exchange Act of 1982. The BSE was re-incorporated on August 2, 2001 simultaneously with the enactment of the Securities Act 2001 which repealed and replaced the original Act of 1982.

Eastern Caribbean Securities Exchange (ECSE) is a regional securities market established by the Eastern Caribbean Central Bank and licensed under the Securities Act of 2001- a uniform regional body of legislation governing securities market activities.

Guyana Association of Securities Companies & Intermediaries Inc. (GASCI): The Guyana Stock Exchange was officially opened on September 25th, 2003. The securities industry as a whole is regulated by the Guyana Securities Council, deriving its powers from the Securities Industry Act 1998

Jamaica Stock Exchange (JSE) was incorporated as a private limited company in August 1968. The Jamaica Stock Exchange began operations in February 1969 with one of its main roles being to promote the development of a vibrant capital market and to ensure orderly trading in listed securities, that is stocks, shares or bonds that are traded on a stock exchange.

Trinidad and Tobago Stock Exchange (TTSE) was established under the provisions of the Securities Industry Act 1981 and the Stock Exchange was formally opened on the 26th October, 1981. The 1981 Act was repealed and replaced with the Securities Industry Act of 1995 which brought into operation the establishment of a Securities and Exchange Commission.

CARICOM DOUBLE TAXATION AGREEMENT

The Double Taxation Agreement ensures that income earned within the CSME will only be taxed once, that is, in the place where the income was earned.

The CARICOM Double Taxation Agreement was signed in 1994 by all CSME Countries except Suriname. It states in part that, “Irrespective of the nationality or State of residence of a person, income of whatever nature accruing to, or derived by such person, shall be taxable only by the Member State in which the income arises”.

The following are exempted from double taxation under the Agreement for **Individuals** and **Companies**:

Individuals	Companies
Taxes on Income	Taxes on Capital Gains
Taxes on Business Profits or Gains	Taxes on Shipping and Air Transport
Taxes on Shipping and Air Transport	Dividends
Dividends	Interest
Interest	Royalties
Royalties	
Management Fees	
Dependent Personal Services	
Independent Personal Services	
Director's Fees	
Entertainers and Athletes Fees	
Pension and Annuities	

(See the CARICOM Secretariat’s website www.caricom.org for full details of the CARICOM Double Taxation Agreement)

LIST OF CENTRAL BANKS

OECS Countries
Eastern Caribbean Central Bank(ECCB),
ECCB Headquarters,
P.O. Box 89, Basseterre, St.Kitts
e-mail: info@eccb-centralbank.org

Antigua & Barbuda
ECCB Agency Office
P.O.Box 741,
Sagicor Financial Centre,
factory Road, St. John's
e-mail: eccbanu@candw.ag

Barbados
Central Bank Of Barbados,
Tom Adams Financial Centre,
Spry Street, Bridgetown, Barbados
e-mail: supervision@centralbank.org.bb

Belize
Central Bank of Belize,
P.O Box 852,
Belize city, Belize
e-mail: govcenbank@btl.net

Dominica
ECCB Agency Office,
P.O.Box 23,
3rd Floor, Financial Centre,
Kennedy Avenue,
Roseau
e-mail: eccbdom@cwdom.dm

Grenada
ECCB Agency Office,
Monckton Street,
St. George's
e-mail: eccbgnd@spiceisle.com

LIST OF CENTRAL BANKS (CON'T)

Guyana
Bank of Guyana,
P.O. Box 1003
Lot 1 Church and Avenue of the Republic,
Robbstown,
Georgetown
e-mail: communications@bankofguyana.org.gy

Jamaica
Bank of Jamaica,
P.O Box 621,
Nethersole Place,
Kingston,
e-mail: info@boj.org.jm

St. Kitts and Nevis
Eastern Caribbean Central Bank(ECCB),
ECCB Headquarters,
P.O. Box 89, Basseterre
e-mail: info@eccb-centralbank.org

St. Lucia
ECCB Agency Office
P.O.Box 295, Unit 5, Colony House,
John Compton Highway,Castries
e-mail:eccbslu@candw.lc

St. Vincent and the Grenadines
ECCB Agency Office,
P.O.Box 839, Frenches House,
Frenches, Kingstown
e-mail:eccbsvg@vincysurf.com

Suriname
Centrale Bank van Suriname,
Waterkant 16-20,
Paramaribo
e-mail: info@cbvs.sr

Trinidad and Tobago
Central Bank of Trinidad and Tobago,
P..O. Box 1250,

Port of Spain
e-mail: info@central-bank.org.tt

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CSME Unit,
6th Floor,
Tom Adams Financial Centre,
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Telephone: +1-246-429-6064
Fax: +1-246-437-2689
Email: info@csmeunit.org

Editor: W. Salas Hamilton
Consultant: Rovin Deodat (Ph.D, Communication)

Editorial:
Desiree Field-Ridley
Leonard Robertson
Ivor Carryl
Evelyn Wayne
Desiree Mitchell

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The Caribbean Community Secretariat,
P.O.Box 10827,
Turkeyen,
Greater Georgetown,
Guyana.

Telephone: +1-592-222-0001-75
Fax: +1-592-222-0171
Email: carisec2@caricom.org; carisec3@caricom.org
Website: www.caricom.org