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ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN

# FOCUS

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## TRADE RELATIONS IN THE CARIBBEAN



## ABOUT ECLAC/CDCC

The Economic Commission for Latin America and the Caribbean (ECLAC) is one of five regional commissions of the United Nations Economic and Social Council (ECOSOC). It was established in 1948 to support Latin American governments in the economic and social development of that region. Subsequently, in 1966, the Commission (ECLA, at that time) established the subregional headquarters for the Caribbean in Port of Spain to serve all countries of the insular Caribbean, as well as Belize, Guyana and Suriname, making it the largest United Nations body in the subregion.

At its sixteenth session in 1975, the Commission agreed to create the Caribbean Development and Cooperation Committee (CDCC) as a permanent subsidiary body, which would function within the ECLA structure to promote development cooperation among Caribbean countries. Secretariat services to the CDCC would be provided by the subregional headquarters for the Caribbean. Nine years later, the Commission's widened role was officially acknowledged when the Economic Commission for Latin America (ECLA) modified its title to the Economic Commission for Latin America and the Caribbean (ECLAC).

### Key Areas of Activity

The ECLAC subregional headquarters for the Caribbean (ECLAC/CDCC secretariat) functions as a subregional think-tank and facilitates increased contact and cooperation among its membership. Complementing the ECLAC/CDCC work programme framework, are the broader directives issued by the United Nations General Assembly when in session, which constitute the Organization's mandate. At present, the overarching articulation of this mandate is the Millennium Declaration, which outlines the Millennium Development Goals.

Towards meeting these objectives, the Secretariat conducts research; provides technical advice to governments, upon request; organizes intergovernmental and expert group meetings; helps to formulate and articulate a regional perspective within global forums; and introduces global concerns at the regional and subregional levels.

Areas of specialisation include trade, statistics, social development, science and technology, and sustainable development; while actual operational activities extend to economic and development planning, demography, economic surveys, assessment of the socio-economic impacts of natural disasters, climate change, data collection and analysis, training, and assistance with the management of national economies.

The ECLAC subregional headquarters of the Caribbean also functions as the Secretariat for coordinating the implementation of the Programme of Action for the Sustainable Development of Small Island Developing States. The scope of ECLAC/CDCC activities is documented in the wide range of publications produced by the subregional headquarters in Port of Spain.

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## SPECIAL EDITION ON TRADE RELATIONS

*This issue of FOCUS puts the spotlight on trade relations. The articles address recent developments in regional integration in the Caribbean, including progress made by the OECS at the subregional level. A closer look is also given to the challenge of fulfilling trade agreements and the need to engage in regional and global value chains. Each article recommends the next steps that Caribbean nations will need to take to continue to profit from the ever-growing number of free-trade agreements being concluded in the region.*



*Ms Diane Quarless, Director, ECLAC subregional headquarters for the Caribbean*

Photo courtesy ECLAC

Basseterre includes proposals to centralize decision making and to create a single Eastern Caribbean economy. These efforts are steps in the right direction and may well give just the right impetus to the wider integration movement.

For both the OECS and the broader CARICOM, however, it is essential that efforts at further economic integration be advanced. Specific undertakings should include removing barriers to the free movement of Caribbean people, as well as those which diminish trade with countries outside the region.

While further strengthening regional ties is necessary, countries of the Caribbean should also explore synergies through South-South and other forms of cooperation. Indeed, such arrangements should take advantage of regional and global value chain networks which now dominate production.

Bilateral and multilateral trade agreements are welcome. Several of these have been concluded in recent years, including those with the United States and Canada. Latin America is, of course, the unquestioned regional space within which CARICOM should broaden its trade network. To deepen trade ties with Latin America, Caribbean nations will need to develop bilateral agreements which better

account for the goods and services in which they have a comparative advantage.

Opportunities exist for Caribbean nations to take advantage of the Economic Partnership Agreement (EPA) signed with the European Union in 2008. Since then, trade complementarities with CARICOM have grown little and, in some cases, declined. The markets of the European Union represent a huge opportunity to increase exports, diversify imports and deepen economic connections beyond the Caribbean region. The time is right for CARICOM nations to develop mechanisms to monitor the implementation of EPAs, and to take advantage of this trade framework.

As the world moves closer to developing a sustainable development agenda, trade will be an important vehicle in this process. The Caribbean should not delay in seizing every opportunity to take advantage of trade agreements that will increase its competitive capacity and foster production, cooperation and integration.

Yours in FOCUS,

Diane

The vulnerability of Caribbean States to negative external shocks and natural disasters underscores the need for strength in unity. In seeking to build international partnerships, Caribbean countries have recognized the need to first look to each other. In this region, the Caribbean Community (CARICOM) Single Market Economy is acknowledged as an ambitious effort to form an integrated economy and, despite many challenges, important progress has been observed.

Since the global economic crisis, the Organization of Eastern Caribbean States (OECS) has taken steps to further accelerate its integration efforts. The 2010 Revised Treaty of

# THE INTEGRATION MOVEMENT IN THE ORGANIZATION OF EASTERN CARIBBEAN STATES

*Since independence, the Caribbean region – and the Eastern Caribbean subregion in particular – has pursued policies of integration with varying degrees of success and enthusiasm. The Eastern Caribbean took two notable strides towards integration with the 1981 Treaty of Basseterre, establishing the Organization of Eastern Caribbean States (OECS), and then the 2010 Revised Treaty of Basseterre, which formally established an economic union between the OECS members. With a shared central bank, a common currency and uniform standards on issues like telecommunications and aviation, it can be argued that the OECS has made more progress towards integration than the Caribbean Community (CARICOM) as a whole.*

The OECS is a union of six sovereign states and three overseas territories of the United Kingdom. In all, the subregion has a population of less than 700,000. GDP per capita in the sovereign members, as of 2013, ranged from US \$6,634 in Saint Vincent and the Grenadines to US \$13,710 in Saint Kitts and Nevis. In general, OECS countries face large public debts (more than 75 per cent of GDP in each of the sovereign members of OECS), high unemployment (for example, of nearly 24 per cent in Saint Lucia) and, since the financial crisis of 2008, stagnant economic growth. In the years following the economic crisis, nearly every member experienced economic contraction. In 2013, Anguilla, Dominica, Montserrat and Saint Lucia posted negative growth while Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines posted small GDP gains, in all cases less than 3 per cent.

The economic performance of this region has been challenged by its vulnerability to natural hazards, which occur, on average, every few years and cost the OECS countries several percentage points of their GDP. To illustrate, in 2010, Hurricane Tomas cost Saint Lucia US \$588 million and Saint Vincent and the Grenadines US \$288 million. In

December 2013, in just a few hours, heavy rainfall, flash floods and landslides caused damage costing Saint Lucia US \$99 million, or 8 per cent of its GDP, and Saint Vincent and the Grenadines US \$108 million, or 15 per cent of its GDP.

Integration can be a positive force in the region if it helps the countries involved to better resolve their economic and social challenges. Efforts at increased integration are intended to contribute towards strengthening the economies of the OECS by offering, inter alia:

- Lower transaction costs, resulting in increased trade and factor mobility among OECS countries, based on each country's comparative advantage. This leads to greater efficiency and lower consumer prices.
- Pooled resources to create more credible and sustainable economic policy.
- Increased negotiating power with the outside world through unified foreign relations and trade negotiations.

The degree to which these goals have been achieved varies considerably. Evidence exists that trade within the region is

strong and efforts to coordinate economic policy are promising. The coordination of trade policy however, is at best mixed.

## INTEGRATION AND ITS POTENTIAL TO CONTRIBUTE TO ECONOMIC DEVELOPMENT

Intra-regional trade is important to the OECS, since approximately 39 per cent of OECS goods exports are to other members of the OECS (as of 2012). Concomitantly, only four per cent of OECS goods imports are from the OECS region. The export share reflects a higher degree of integration than in CARICOM as a whole, where only 12 per cent of exports go to other CARICOM members. Nonetheless, the low proportion of imports reflects low intra-industry trade in the region, indicating that opportunities for OECS countries to cooperate for value chain formation remain unexploited.

Factor inputs also trade relatively easily between countries, as existing agreements allow for people to travel and establish businesses within the OECS region. All of this can only help the OECS as a whole to continue to recover and improve its economic performance.

Increased integration carries with it the need to coordinate policies to

## THE WAY FORWARD

address shared priorities. A shared central bank means a shared pool of foreign reserves and a common direction in monetary policy. The Eastern Caribbean Central Bank (ECCB), which sets this policy, is perhaps the greatest example of integration in the OECS. The ECCB is also moving forward with an eight-point plan to establish coordinated policies for economic recovery in the OECS region.

This intergovernmental plan is intended to help countries to pay their debt, attract foreign investment and develop institutions which will allow businesses to grow. Interestingly, the economic crisis may have spurred further integration, as countries in the OECS realize that there are advantages to policy coordination. However, this programme is still in its preliminary stages, and only time will tell if it can be executed in a way that genuinely contributes to economic recovery. In 2014, the ECCB also initiated an annual consortium of major trading partners and regional and international institutions to obtain commitments for financial

resources and technical assistance for development.

OECS tariffs on goods from the outside world are largely harmonized and based on CARICOM's Common External Tariff. However, the success of OECS collaboration in trade and other negotiations has been mixed. In trade disputes with countries outside the region, the OECS has not always been able to present a united front. Furthermore, bilateral negotiating power within the World Trade Organization remains pervasive, as the organization itself often has limited options if individual countries, especially large ones, ignore its decisions. OECS member States, acting alone in such circumstances, have limited negotiating power.

Challenges in effective coordination manifest themselves in other ways as well. For example, OECS countries may well have reaped huge dividends had they made a common appeal to donor nations for help in recovery immediately after the economic crisis.

The OECS has made important strides in integrating its policies and institutions in recent decades, and continues to do so. The elimination of barriers to the movement of goods, services, labour and capital in the OECS region is a significant achievement. Coordinated monetary and economic policy has already borne fruit, though some of the most ambitious initiatives are yet to begin.

Ideally, OECS integration should help pave the way for deeper integration with the rest of the world, including the CARICOM region. The advantages OECS members would gain from further integration would be enhanced with integration over a larger region. In light of the fact that there are several challenges to implementing agreements within CARICOM, progress in the OECS may well encourage the resumption of discussions on the full implementation of the Caribbean Single Market Economy.



Photo courtesy: ECLAC

# THE EMERGENCE OF GLOBAL VALUE CHAINS AND IMPLICATIONS FOR THE CARIBBEAN

Perhaps the most profound change to have occurred in the global production and distribution system in the last two decades has been the emergence of global and regional value chains. According to Kaplinsky and Morris (2000)<sup>1</sup> the value chain refers to the “the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use.” In a global or regional value chain, these activities are distributed across a number of countries.

Our interest is in understanding how Caribbean economies can be part of this process, and the extent to which firms can be upgraded to find higher value niches in the international value chain process.

Richard Baldwin (2013)<sup>2</sup> argues that value chains emerged as a response to difference in wage levels and the rise of information and Communication Technology (ICTs). While differential wage levels provided the motivation to move production bases across the world, ICTs and related technologies allowed for the coordination of production activities globally. To illustrate their rapid emergence, figure 1 shows that the vertical index of specialisation declined after 1990 for the West and increased for Asia with the rise of global value chains. At the same time, the G7's share of world manufacturing GDP fell from 2/3 in 1988 to 50 per cent in 2010, in a region that hosts 1/10 of the world's population. During the same period, China's share of world manufacturing GDP increased from 4 per cent to 17 per cent. What this implies is the de-industrialisation of the developed countries and rapid industrialisation of the South. Recently, there is also evidence of some reinsuring, as global companies return home due to changes in the structure of incentives.

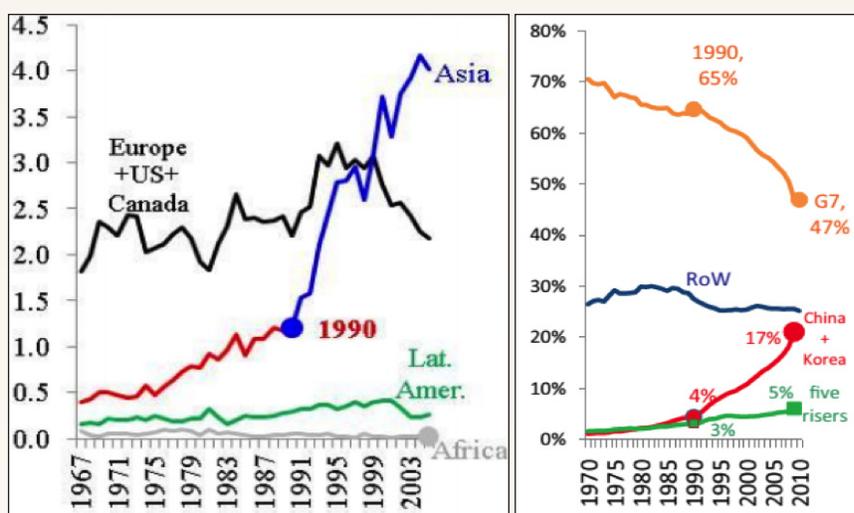


Figure 1:  
Vertical specialization index by region, 1967-2003. Share of world manufacturing GDP 1970-2010

These changes, together with a growing middle class in the global South, will create additional market opportunities for the production and export of Caribbean goods and services.

## REGIONAL CHALLENGES

For the Caribbean, the signing of the Economic Partnership Agreement with the European Union marked a fundamental shift in the nature of engagement with its major international trading partners. It

demonstrated that the era of non-reciprocal trade was over, and this was accompanied by a decline in international overseas assistance, given that the countries in the region were categorised as middle income based on their GDPs. However, this shift was not backed up by a clear industrial strategy that would allow local firms to engage in value chains upgrading. Given that most Caribbean firms are small, the issue of how such firms can be best served in this global process must be considered. In this context,

<sup>1</sup> Kaplinsky, R and M Morris. (2000)

<sup>2</sup> Richard Baldwin, Global Supply Chains: Why they emerged, why they matter, and where they are going. In Deborah Elms and Patrick Low (Eds). (2013) Global Value Chains in a changing world. Temasek Foundation Centre for Trade and Negotiations, Switzerland. A manual for Value Chain research. [www.ids.ac.uk/ids/global](http://www.ids.ac.uk/ids/global).

## WHAT IS TO BE DONE

In light of the issues raised above, it appears that there are considerable challenges to be faced at both the domestic and regional level. At the same time, given the scarce resources and the lack of a consistent approach to trade facilitation, priorities must be identified and addressed in terms of their strategic importance. In addition, the sequencing of interventions is important in light of the inter-relations that exist. Moreover, as Ferrantino<sup>4</sup> points out, improvements in one area will likely yield limited results if they are not supported by efforts in other areas.

Caribbean economies cannot operate independently of the system of global and regional value chains, but must respond positively by building the required infrastructure for regional interconnection and production cooperation. The fundamental challenge is to develop activities in areas that will add value and can be upgraded over time. This means beginning at the domestic level by developing a business climate that fosters such cooperation, while at the same time encouraging production integration at the regional level.

At the domestic level, efforts to enhance the business environment could include the upgrading of infrastructure, such as ports and related facilities, as well as soft reforms in customs facilitation and standards in areas related to non-tariff measures. In addition to improved trade facilitation and procedures for exports, access to technology is also very important,

*(continued on page 10)*

the role played by governments in facilitating business becomes a central part of the equation.

While it is not clear how regional and global value chains will eventually evolve, multilateral trade arrangements are giving way to a series of new agreements at the global level aimed at deepening the development of regional value chains. Among the more important are the Trans-Pacific Partnership (TPP) between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Viet Nam; the Transatlantic Trade and Investment Partnership between the United States and the European Union; and the Regional Comprehensive Economic Partnership between Australia, China, India, Japan, New Zealand, Republic of Korea and the ten members of ASEAN.

It appears that new trade rules will be set outside the WTO by a limited number of countries, primarily those most heavily involved in value chain trade. This in itself should be a cause for concern for the countries of Latin America and the Caribbean, which, with some exceptions, are little involved either in production networks or in mega-regional negotiations. More importantly, the countries involved in these negotiations account for 70 per cent of the region's goods trade, and are the main foreign investors of Latin America and the Caribbean.

### CONSTRAINTS FACING CARIBBEAN FIRMS

An examination of the Caribbean business environment indicates that considerable changes are needed. For example, the World Economic forum report suggests that when



the Caribbean is compared with other small economies, its businesses incur higher costs in terms of time to start-up, deal with construction permits, enforce contracts, and resolve insolvency. Furthermore, the World Bank's enterprise survey highlights that business persons in the Caribbean identified limited access to finance and land as factors constraining their efficiency, in addition to problems of crime, theft, disorder, and practices of competitors in the informal sector.

While there are institutional barriers to firms' efficiency, the poor performance of the private sector relative to other small economies has also been a concern. For example, the World Bank's enterprise survey suggests that sales and employment growth for Caribbean firms were only 26 per cent and 37 per cent, respectively, of the average for firms in other small economies over the period 2006-2010. Even after adjusting for lower growth of Caribbean economies, firms in other small economies still perform better.<sup>3</sup> In addition, many Caribbean SMEs generally complain a lack of finance despite falling interest rates and considerable liquidity in the banking system. In light of these challenges, it is clear that much effort needs to be made to create a better business environment.

<sup>3</sup> Indar Ruprah et al. (2014). Is there a Caribbean Sclerosis? Stagnating Economic growth in the Caribbean. IADB.

<sup>4</sup> Michael Ferrantino (2013). Policies to improve the supply chain. What needs to be done? In Deborah Elms and Patrick Low ibid.

# AN ASSESSMENT OF THE PERFORMANCE OF CARICOM'S EXTRA-REGIONAL TRADE AGREEMENTS

*Between 1992 and 2008, trade arrangements were created between the Caribbean Community (CARICOM) and countries in North, Central and South America, as well as with the European Union. While the major non-reciprocal trade arrangements such as the Caribbean Basin Initiative with the United States of America, the Caribbean-Canada Trade Agreement (CARIBCAN) with Canada, and the Lomé Conventions and Cotonou Agreement with the European Union (EU) have generally received extensive coverage in the literature, relatively little consideration has been given to the other bilateral trade agreements that CARICOM members have signed with western hemispheric developing economies. This article assesses the performance of these extra-regional trade agreements and sheds light on issues not often discussed.*

In an effort to strengthen economic integration with non-traditional partners, CARICOM has signed partial scope trade agreements<sup>1</sup> with Venezuela (1992), Colombia (1994) and Cuba (2000). Such agreements offer exporters preferential access to markets beyond that of CARICOM, broadened consumer choice and wider investment opportunities for firms. Free trade agreements (FTAs) were also concluded with the Dominican Republic (1998) and Costa Rica (2004). The Trade and Economic Co-operation Agreement with Cuba removed regulatory and administrative barriers to bilateral trade and addressed issues related to investment, taxation, trade

promotion and facilitation, tourism and intellectual property rights.

In addition, member States of the Organization of Eastern Caribbean States (OECS), as well as Belize, were exempted from granting reciprocal preferential access to Cuba. Similarly, the Community's FTA with the Dominican Republic afforded special and differential treatment in respect of reciprocity to the OECS member States and Belize. The agreement also promotes investment protection, harmonizes technical regulations, and deals with double-taxation and government procurement issues.

Further, the agreement establishing a Free Trade Area between CARICOM

and Costa Rica has provisions for duty free treatment for all goods, with the exception of a list of products on which most-favoured-nation (MFN) treatment is maintained. The OECS Member States and Belize are not required to provide reciprocal preferential market access to Costa Rica. It is equally noteworthy that the Agreement on Trade, Economic and Technical Cooperation between CARICOM and Venezuela is a non-reciprocal preferential arrangement in favour of the member States of CARICOM.

**In spite of the presence of the partial scope and free trade agreements, CARICOM's export performance to Latin America has not improved significantly. It accounts for only a small share of the regions' total exports over the period 2001-2013.** The United States and the EU jointly accounted for in excess of 64 per cent of the subregion's exports, while Costa Rica, Columbia, Venezuela, the Dominican Republic and Cuba accounted for a mere 3.9 per cent in 2001 and 4.83 per cent in 2012. A further disaggregation by export market reveals that Venezuela accounted for the majority (4.24 per cent) of this share – a spillover effect of the oil for food programme of PetroCaribe initiative – while the markets of the other four countries collectively accounted for less than 1 per cent of the subregion's exports (see Figure 1).

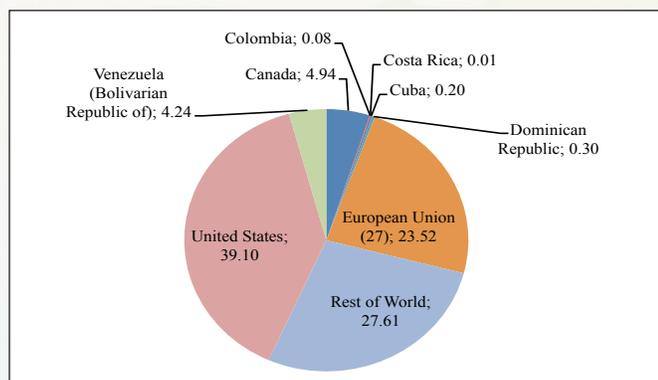


Figure 1: Share of CARICOM exports by destination, 2012 (per cent)  
Source: World Integrated Trade Solution Database (Accessed October 2014)

and Costa Rica has provisions for duty free treatment for all goods, with the exception of a list of products on which most-favoured-nation (MFN) treatment is maintained. The OECS Member States and Belize are not required

<sup>1</sup> A Free Trade Agreement is contractual arrangement between two or more countries under which they provide each other with preferential market access, usually referred to as free trade. In practice these agreements tend to allow for time-bound exceptions to cover sensitive products. A Partial Scope Agreement is a trade agreement which covers some traded sectors only.

**The CARICOM trade balance has steadily declined with most of its bilateral trade partners during the past decade. Trade surpluses have been generated only with Cuba during the period 2010-2013** (see Figure 2). With the exception of Venezuela, CARICOM's total exports to each of its bilateral partners considered in this article have declined over the period 2001-2013. Concomitantly, imports from all the listed countries declined with the exception of the Dominican Republic and Venezuela. Trinidad and Tobago (55 per cent) and The Bahamas (40 per cent) dominate CARICOM's exports to the Dominican Republic, while Trinidad and Tobago (57 per cent) and Guyana (36 per cent) are the major exporters to Cuba. The OECs countries account for only four per cent of CARICOM's exports to the Dominican Republic and have marginally exported to Cuba. Nevertheless, the Community has some unexploited opportunities in both markets. For example, in the case of Cuba, the Caribbean has a comparative advantage in non-alcoholic beverages, pesticides and disinfectants, organic chemicals, and wood products (Mc Lean, Duran et al, 2014).<sup>2</sup>

### WHAT ARE THE SUBREGION'S KEY COMMODITY EXPORTS?

The region's exports to the developing countries with which it has trade agreements are dominated by a narrow range of products, with Trinidad and Tobago being the leading exporter. Moreover, CARICOM's top three exports to Colombia (mineral fuels, mineral and oils, fertilizers and organic chemicals), Costa Rica (iron and steel, mineral fuels, mineral and oils and fertilizers), Dominican Republic (iron and steel, mineral

fuels, mineral oils and fertilizers), Cuba (inorganic chemicals, organic or inorganic, miscellaneous chemical products and fertilizers) and Venezuela (cereals, mineral fuels, mineral and oils and ores, slag and ash) are dominated by petroleum and petrochemicals, metals and agricultural commodities. This suggests that the CARICOM countries have been unable to transform their production systems in order to take advantage of the market access opportunities provided by these trade arrangements. Furthermore, if CARICOM is to be placed on a path towards sustainable development, trade policy has to be linked to industrial development policy, and the former cannot be a substitute for the latter.

### WHAT ACCOUNTS FOR THE REGION'S POOR TRADE PERFORMANCE?

**Even though CARICOM has negotiated trade agreements with the primary objective of increasing the region's exports, the preliminary evidence suggests that there has been limited success thus far.** The inability of subregional economies to penetrate markets even where free or preferential trade agreements govern bilateral trade may be attributable to several

factors. Here, two sets of factors are examined: first, issues relating to the nature of comparative advantage and trade complementarities between CARICOM countries and their trading partners, and secondly, other structural gaps which may impede trade flows.

The existence of complementarities between the trade and production structures of CARICOM countries and their respective bilateral partners is an important ingredient in determining how effectively FTAs can enhance trade between two parties. Theory suggests that if countries share a high level of bilateral trade complementarity, then greater trade can be generated from FTAs. To empirically examine this issue, we constructed trade complementarity indices, which relate the comparative advantage of the exporting country (CARICOM countries) to the comparative disadvantage of the importing partner.

In respect of goods, most CARICOM countries show a low level of trade complementarity with Venezuela and Columbia. In particular, the trend in trade performance indicates that complementarity between CARICOM countries and Venezuela has weakened over the past decade. A similar situation is

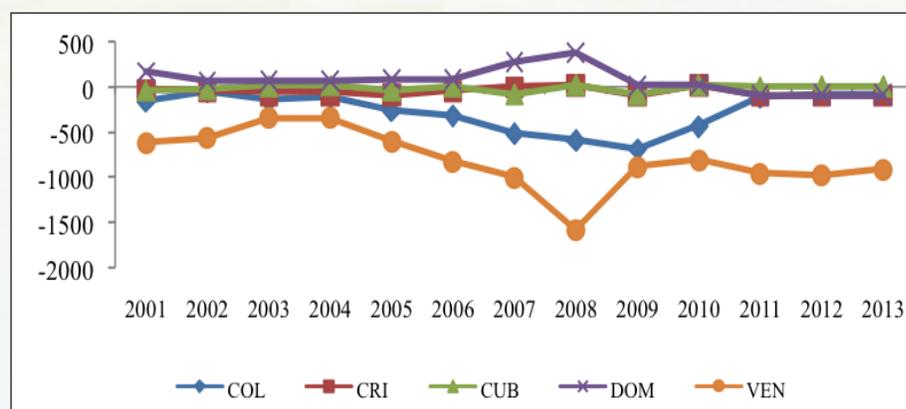


Figure 2: CARICOM's Trade balance with selected countries Source: World Integrated Trade Solution Database (2014)

<sup>2</sup> Mc Lean and Duran, PANINSAL 2014, Chapter IV, Fostering Regional Integration in the Caribbean to Strengthen External Trade Relations, ECLAC.

also observed for CARICOM and Colombia. Instead, Costa Rica, the Bahamas, Barbados, Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines have indicators which suggest that there may be areas that can be further developed to improve bilateral trade. It is noteworthy that, partially fuelled by oil-for-food initiatives under the Petrocaribe arrangement, the subregion's exports to Venezuela have been increasing. However, there have been questions regarding the sustainability of the Petrocaribe initiative over the medium-term given the economic challenges in Venezuela. It appears that at least four countries have recently reduced their purchases to the agreement, partly in response to reduced energy prices and economic instability in Venezuela.

The structural issues impacting trade performance in the Caribbean have been exacerbated by gaps in regional interconnection, trade facilitation and technical know-how, which require bridging

the production of key regional public goods. These limitations have consistently undermined CARICOM's integration efforts. Indeed, the lack of a harmonized pan-Caribbean sanitary, phytosanitary (SPS) and quality framework undermines the ability of subregional exporters to meet the increasingly stringent food safety and product standards in key export markets. Further, high transportation and logistics costs coupled with inadequate infrastructure have emerged as substantive non-tariff barriers to the subregion's exports.

### THE WAY FORWARD

CARICOM's performance under its trade arrangements with other developing economies suggests that for the subregion they are a necessary but not sufficient condition for increasing exports. For the latter to occur, countries of the Caribbean Community need to urgently address structural rigidities, including improving the business environment, since it is

firms that will ultimately engage in trade. Putting in place these necessary conditions will allow trade to become an important engine of growth for CARICOM.

A critical first step in this direction, however, is to create the incentives to rationalize production on the basis of the comparative advantages offered by aid-for-trade resources, South-South development cooperation and public-private partnerships. These efforts should be geared at producing key competitiveness enhancing public goods in the areas of transport, information and communication technology (ICT) and energy. In this regard, the establishment of a pan-Caribbean maritime corridor, the commissioning of a fast-ferry service for the southern and eastern Caribbean, and the development of the subregion's renewable energy potential are initiatives that could generate substantial economic gains.

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especially for small firms. However, trade facilitation cannot be advanced without complementary changes at the production level. Thus, systems of innovation must be developed to tinker with and in some cases advance existing production processes. In addition, addressing high energy costs and promoting energy reliability and sustainability will have large impacts on efficiency. The important question is what policies to pursue first, since public resources are scarce given the current fiscal stresses in the region. This will depend on what policies will yield the greatest

benefits over the medium term. In some cases, the changes do not require considerable outlays but are constrained by interest groups wanting to maintain the status quo.

With respect to general upgrading at the regional level, a number of issues should be high on the agenda. Technology developments due to scale issues are best pursued at this level. Interconnection must be regional in scope, since it is vital to value chain development. Improving regional transportation of all forms is also important in advancing value chains development and in reducing costs, time and uncertainty along the supply chain.

Finally, the regional economy is largely based on services and there are advantages in promoting the region as a single space for tourism. This, however, would require removal of the barriers to the free movement of persons, especially those within the Caribbean region.



Photo courtesy ECLAC

## THE EVOLUTION OF CARIBBEAN REGIONAL INTEGRATION: AN INSTITUTIONAL COOPERATION PERSPECTIVE

*Different approaches to Caribbean integration have been pursued over the last century, but perhaps the most significant has been the Caribbean Community (CARICOM), which includes English- and Dutch-speaking territories. In addition, the Spanish-speaking Dominican Republic and the Dutch islands of the Netherlands Antilles (i.e., Saint Maarten and Curacao) are formally pursuing membership in CARICOM. The French regions of Guadeloupe, Martinique and French Guiana have also signalled their interest in securing Associate Membership in the Caribbean Community.*

This integration process has seen the amalgamation of CARICOM and the Dominican Republic to form the Caribbean Forum of African Caribbean and Pacific States (CARIFORUM), while an even wider umbrella of all the countries washed by the Caribbean Sea has resulted in the Association of Caribbean States (ACS). These two groupings are not as deeply integrated as CARICOM, which has been pursuing the establishment of a CARICOM Single Market and Economy (CSME). CARICOM also maintains strong programmes of functional cooperation in human and social development and pursues coordinated foreign policies in some areas, the latter of which allows for collectively negotiated trade agreements and for voting in blocs on issues of common interest in international forums.

Established 40 years ago, CARICOM is one of the longest surviving integration movements among developing countries. Its creation was stimulated by the recognition, by the British colonies, that political independence was not sufficient to create economic independence. The path towards CARICOM came via a short-lived Federation and a Caribbean Free Trade Area (CARIFTA).

To demonstrate the desire for integration, when Trinidad and



Tobago announced its intention to withdraw from the Federation in 1962, its leader, Eric Williams, proposed the creation of a Caribbean Community, consisting of the three Guianas (British, French and Dutch, later Guyana, Cayenne and Suriname) and all the islands of the Caribbean Sea, although this was never vigorously pursued.

The ACS, which is a wider grouping of countries, was established in 1994 with a remit to advance trade, transportation and tourism cooperation among the members. Disaster risk reduction was later added to its responsibilities. The organization has also been instrumental in promoting the concept of the Caribbean Sea as a "Special Area in the Context of Sustainable Development".

A number of important regional organs and institutions have also emerged. Examples include the Caribbean Tourism Organisation (CTO), which promotes the interests of Dutch, English, French and Spanish speaking members in the tourism sector; and the Caribbean

Examinations Council (CXC), which is an important examination body that has expanded its reach beyond the English-speaking Caribbean to provide services to the Dutch territories, as well as to Haiti in the near future. Functional cooperation has also been effective in the area of disaster management through the Caribbean Disaster Emergency Management Agency (CDEMA).

Perhaps one of the most effective integration mechanisms established in the Caribbean has been the Pan Caribbean Partnership against HIV and AIDS (PANCAP). Concerned about the high rate of HIV in the Caribbean, CARICOM Heads of Governments established PANCAP in 2001 to address this pandemic. PANCAP moved swiftly to incorporate the widest possible participation across the Caribbean, and put together a governance structure which ensured an all-inclusive arrangement for decision-making and implementation. Its success can be measured by the relatively sharp decline in the rate of infection, and by the imminent elimination of mother to child transmission. As a result of this success, the United Nations has declared PANCAP an international best-practice.

Notwithstanding these achievements, the region has lagged in crucial areas of economic integration. After 20

years, the CSME is only 68 per cent complete. The CSME aims to create an environment conducive to economic development through competitive production and investment. For CARICOM, the regionalism-driven CSME offers a framework for strengthening integration and cooperation among its member economies, and a basis from which individual member States can integrate into the global economy.<sup>1</sup> In spite of these advantages, the small scale of production and exports, dependence on a few external markets, and disproportionate exposure to natural disasters of Caribbean countries has hampered deeper integration.

While from a regulatory perspective the intra-regional movement of goods is almost totally free, the lack of consistent rules at ports of entry and the absence of reliable transportation (maritime and air) networks has hampered the growth of intra-regional trade. Not surprisingly, intra-regional trade accounts for only 15 per cent of the Community's total trade in goods. Concomitantly, intra-regional exports continue to be dominated by the larger economies, particularly Trinidad and Tobago (72 per cent), underpinned mostly by hydrocarbons. In contrast, the OECS countries accounted for only 5 per cent of intra-regional trade.

Similarly, challenges persist in the movement of skilled and unskilled workers. Individuals continue to move with great difficulty across the region. Further, while it was proposed that the CSME be finalized by 2015, the CARICOM Heads of Governments have recognised that its full implementation will take longer than initially anticipated.

The establishment of the Organization of Eastern Caribbean States (OECS) Economic Union has added an interesting dynamic to the region's integration process. With regard to economic integration, the countries of the OECS have progressed further than CARICOM, in part because of the similarity in the size and structure of their economies.



Analysis has shown that the islands of the eastern Caribbean possess stronger trade complementarity among themselves than with other economies of the Caribbean Community.<sup>2</sup> Accordingly, intra-regional trade within the OECS is more balanced among member States.<sup>2</sup> The OECS member States thus appear to be more natural trading partners.

OECS member States also enjoy more opportunities for intra-industry trade in consumer, intermediate and capital goods relative to other CARICOM countries. However, there is a need for significant investment in private sector development, economic infrastructure and trade financing, among other things, if this potential is to be harnessed. Unsurprisingly, the deepening of the OECS integration through the revised Treaty of Basseterre has been seen as a critical step towards creating a new platform for increasing the

region's trade competitiveness, and for leveraging the requisite resources necessary for instituting development projects. This is particularly important given that many of these countries face mounting debts and slow, albeit, improving economic growths.

The one area in which there has not been noteworthy progress towards integration has been the political arena. This aspect has likely been hindered by the relatively recent independence of the English-speaking countries, and the evolving constitutional situations of the Dutch- and French-speaking countries, as well as some of the islands that remain under British rule. Moreover, in the absence of a Community-wide organ similar to that of the European Commission, CARICOM has experienced considerable problems in policy implementation given the challenge of enforcing penalties on offending States.

Regional integration embraces a range of areas including trade, which has immense scope for supporting the sustainable growth and development of Caribbean economies. However, there are connectivity, trade facilitation and technology gaps that have consistently constrained CARICOM's production integration efforts, and which can be bridged through the production of key regional public goods. Investment in regional public goods in areas such as transport, customs, information and communication technologies and innovation infrastructure is crucial to optimal value chain participation<sup>4</sup>, and for taking advantage of trade and production complementarities where they currently exist. ●

<sup>6</sup> McLean et al., 2014, Regional Integration in the Caribbean: the role of trade agreements and structural transformation. LC/CAR/L.448. Santiago, Chile., ECLAC.

<sup>7</sup> McLean and Duran, PANINSAL 2014, Chapter IV, Fostering Regional Integration in the Caribbean to Strengthen External Trade Relations, UNECLAC.

# REFLECTIONS ON ECONOMIC PARTNERSHIP AGREEMENT IMPLEMENTATION IN CARIFORUM\*

*The Economic Partnership Agreement (EPA) between the Caribbean Forum of African Pacific States (CARIFORUM) and the European Union (EU) was formally signed in October 2008. The EPA is a trade and development arrangement that provides CARIFORUM's exports favourable, reciprocal and asymmetric access to EU markets, and reciprocal market access into CARIFORUM for EU exports. The wide-ranging agreement, which marked a fundamental shift in the nature of the thirty-year trade and development relationship between CARIFORUM countries and member states of the EU, sought to satisfy the requirements of Article XXIV<sup>1</sup> of the General Agreement on Tariffs and Trade (GATT), as well as to bring the EU's regime governing trade with CARIFORUM countries into conformity with the World Trade Organization (WTO) most-favoured-nation (MFN) principle.*

The EPA also provides for development support to strengthen trade-related institutions and enhance the competitiveness of economic operators in CARIFORUM. The aim of the agreement is to promote trade, investment and development cooperation between CARIFORUM and the EU. It also makes provisions for EU development support to strengthen institutions and improve the competitiveness of economic operators in CARIFORUM. Hence, it is within this context that any evaluation of the impact of the agreement, efficacy of EPA implementation and the arrangements for monitoring the outcomes of that implementation should be undertaken.

Given that the EPA has now been in force for six years, this article looks briefly at some of the initial discernible impacts, makes observations on the monitoring of EPA implementation, and examines the challenges facing CARIFORUM countries in their efforts to take advantage of market access opportunities under the arrangement.

## ASSESSMENT OF THE PERFORMANCE OF THE CARIFORUM-EU EPA

Implementation of commitments under the EPA has been uneven across CARIFORUM. Only Antigua and Barbuda, Belize, the Dominican Republic, Guyana, Saint Lucia and Saint Vincent and the Grenadines have ratified the EPA. In addition, analyses undertaken by ECLAC suggest that the EPA has not had a significant positive impact on Caribbean exports.<sup>2</sup> This gives cause for concern considering that the EPA was seen by many as a mechanism for quickening the pace of integration of Caribbean economies into the multilateral trading system. Research by ECLAC<sup>3</sup> has also unmasked a clear disparity between the competitiveness of exports from the Dominican Republic and CARICOM in the EU market. The Dominican Republic's comparative advantage and trade complementarity with the EU has improved, while that of CARICOM has remained weak and declining.

Moreover, Guyana, Saint Kitts and Nevis and Saint Lucia have

experienced a contraction in the number of commodities for which they enjoy a comparative advantage with the EU. The EPA also appears to have had little impact on the strengthening of the Caribbean's regional interintegration process. Given the inability of the EPA to deliver the intended trade and welfare gains to economies of the Caribbean Community over its first six years, it may be useful to examine the challenges which have constrained the subregion's efforts to capitalize on the market and investment opportunities of the EPA.

## MONITORING EPA IMPLEMENTATION

Monitoring is a critical aspect of the Trade Policy cycle to accurately assess the impact of the EPA on the achievement of the objectives. In order to gauge the impact of the EPA on CARIFORUM States and to determine any amendments or adjustments which may be required, the EPA includes a specific provision (Article 5) to assure continuous monitoring of its implementation. The Joint

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<sup>1</sup> Article XXIV of the GATT requires customs unions and free trade areas to eliminate duties and other restrictive regulations of commerce on substantially all trade between the parties, either immediately or over a reasonable length of time, in order to satisfy the free trade criterion.

<sup>2</sup> Hosein, Khadan and Mc Lean et al, Preliminary Study on the Status of Implementation of the EU-CARIFORUM Economic Partnership Agreement, Unpublished.

<sup>3</sup> The results were gleaned from analysis that included a vector autoregressive model, partial equilibrium analysis and a gravity model.

Declaration, in its paragraph 5, further commits the Parties to a five-year comprehensive review of the Agreement. The first of these five-year reviews is scheduled to take place in the first quarter of 2015.

The Joint Declaration also articulates key factors that will impact implementation of the EPA. These include the supportive role it must play if the development objectives of CARIFORUM States are to be realized; the centrality of the regional integration process; and the fact that special account should be taken of the differing levels of development among the Parties to the EPA, notably the small, vulnerable economies.

This process for reviewing the impact of the EPA recognizes the importance of putting in place **appropriate mechanisms to monitor EPA implementation and its impact on development and growth in CARIFORUM States.** The monitoring regime will also be useful in facilitating the mandated five-year reviews of the EPA. The key challenge, however, is how to develop an appropriate mechanism and institutional framework that ensures effective monitoring of EPA-related outputs, outcomes and development results. Intuitively, when set against the objectives of the EPA as set out in Article 1, key performance indicators should relate to the agreement's impact on CARIFORUM's trade both with the EU and within CARIFORUM; on the impact on Government revenue; on investment flows; on the level of development aid in the context of the EPA; and on labour and environmental issues. Although monitoring arrangements should be established in each CARIFORUM country, all should be made compatible with an overall CARIFORUM monitoring regime, and should provide for independent

assessment. At present, no mechanism for monitoring the performance of member States with respect to the EPA is in place.



### EPA PERFORMANCE AND IMPLEMENTATION CHALLENGES

EPA implementation in all CARIFORUM States, with the possible exception of the Dominican Republic, has been lacklustre and subdued. However, it is also important to take into account the fact that the first five years of implementation of the EPA took place during the worst economic and financial crisis since the Great Depression (1929), and that several CARICOM economies have yet to recover from the economic downturn. Many economies have therefore not been able to allocate sufficient personnel or financial resources to promote either EPA implementation or export expansion.

ECLAC's empirical analysis suggests that, in continuation of the trend observed over three decades of duty-free and quota-free non-reciprocal market access under the Lomé and Cotonou Agreements, CARICOM has made little progress in exploiting market access opportunities for non-commodity exports under the EPA. For the majority of CARICOM countries (with the exception of Trinidad and Tobago), the EPA has not delivered

the broad-based welfare and trade gains expected. In the case of the Dominican Republic, given its ability to achieve the requisite economies of scale, its capacity to implement the agreement and its level of trade preparedness, merchandise exports have been more competitive in the EU market under the EPA than those of their CARICOM counterparts. This has demonstrated the challenges faced by many small vulnerable economies in their efforts to capitalize on market access opportunities created by Free Trade Agreement (FTAs), particularly those concluded with developed countries.

Reversing this trend may require supporting economic integration aimed at transforming and restructuring production systems, enhancing competitiveness and diversifying exports into value-added products, so as to tap into global and regional value-chains. Success in this regard would undoubtedly necessitate a willingness on the part of the EU to assist CARICOM in modernizing its trade-related infrastructure and build production capacity. Looking ahead, the two Parties should seek to ensure increased coherence between the areas of EPA development cooperation, the levels of resources made available by EU member states and the aid-for-trade priorities of the Caribbean.

CARIFORUM and the EU should also work together to initiate reforms aimed at increasing competitiveness and bolstering productive and regulatory capacity. This is a key issue, since one of the fundamental gains expected from the EPA is an appreciable improvement in the competitiveness and export capacity of a significant number of the region's goods and services suppliers.

Across CARIFORUM countries, the challenges inhibiting optimization of the trade and welfare gains to be expected from the EPA are multifaceted. In particular, there is an absence of production and trade competitiveness, as well as export readiness among many CARIFORUM businesses. It is therefore imperative that EPA Implementation Units and like entities, with the support of key facilitating agencies, such as the Caribbean Export Development Agency, National Export Promotion Agencies, Coalitions of Services Industries and other business support organizations, strive for meaningful improvement in the competitiveness and export readiness of relevant economic operators. This is one of the key objectives of the EPA. Furthermore, the business community in many CARIFORUM members needs to be proactive in exploring EPA-related

opportunities. This reticence, however, may be attributed to the existence of an EPA “information deficit” in both the public and private sectors, and suggests the need for more comprehensive and focused information dissemination programmes. This would go a long way to ensuring that stakeholders are better informed on how to maximize EPA-related benefits and opportunities.

### THE WAY FORWARD

The EPA review process has provided a unique opportunity for both parties to collectively examine their trade performance and identify bottlenecks and structural rigidities. This is essential for achieving the development goals of the EPA and encouraging economic convergence between the two Parties. The ongoing

dialogue and policy-reform efforts should aim to maximize the benefits for all involved. This may require a rethinking of the Agreement in some areas in order to make the EPA more effective in fostering economic growth and sustainable development in CARIFORUM countries. ●



UPCOMING EVENTS		LIST OF RECENT ECLAC DOCUMENTS AND PUBLICATIONS	
<b>1<sup>st</sup> quarter 2015</b>		No.L.453	November/2014
Expert group meeting to strengthen the design and use of knowledge networks in the Caribbean. <i>Port of Spain, Trinidad and Tobago.</i>		Report of the expert group meeting to discuss first draft of paper: Assessment of the performance of CARICOM extraregional trade agreements	
Expert group meeting to review progress in the achievement of the Millennium Development Goals in the Caribbean : 2000-2015. <i>Port of Spain, Trinidad and Tobago.</i>		No.L.452	November/2014
<b>3 March</b>		Report of the regional training workshop on the development of REDATAM applications for the dissemination of population and housing census data	
- Expert group meeting to review selected issues on the implementation of the Cairo Declaration on population and development in the Caribbean. <i>Port of Spain, Trinidad and Tobago.</i>		No.L.451	November/2014
		Caribbean development report - Exploring strategies for sustainable growth and development in Caribbean small island States	
		No.L.450	November/2014
		Economic Survey of the Caribbean 2014 - Reduced downside risks and better prospects for a recovery	
		No.L.449	November/2014
		An assessment of mechanisms to improve energy efficiency in the transport sector in Grenada, Saint Lucia and Saint Vincent and the Grenadines	
		No.L.448	November/2014
		Regional integration in the Caribbean - The role of trade agreements and structural transformation	
		No.L.431	October/2014
		Progress in implementation of the Mauritius Strategy: Caribbean Regional Synthesis Report	



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