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STRATEGIES FOR INCREASING ECONOMIC RESILIENCE IN THE CARIBBEAN

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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 Organisation's mandate. At present, the overarching articulation of this mandate is the Millenium Declaration, which outlines the Millenium 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 specialization 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 for 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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STRATEGIES FOR INCREASING ECONOMIC RESILIENCE IN THE CARIBBEAN

This issue of Focus considers strategies for increasing economic resilience in the Caribbean. Member States are vulnerable to both external economic and environmental shocks, given their small size and openness.

Focus therefore examines the use of two state contingent bond contracts that can mitigate the effects of untimely shocks on debt repayment and limit unsustainable debt accumulation.

Consideration is also given to the state of the Caribbean tourism product and to strategies that might be used to enhance productivity of the industry. The subregion's tourism competitiveness has been in decline, despite the importance of the sector for so many Caribbean member States. We suggest the need for upgrading and diversification, as a way of revitalising the industry and improving competitiveness.

Like tourism, agricultural competitiveness and production has been in decline for some time. Along with this decline has been an increase in imports of semi-processed and processed foods. Caribbean agro-processing has been negatively impacted by several challenges, chief among them access to finance. Focus therefore explores the current issues in agro-processing financing and looks at several innovative strategies for filling the financing gaps.

This edition also acknowledges important collaboration between the Trinidad and Tobago government and ECLAC Caribbean in producing a trade policy aimed at structural transformation and growth. The Trinidad and Tobago Trade Policy 2019-2023 expresses the government's position on competitiveness and economic and export diversification, incorporates the Sustainable Development Goals, and is aligned with the Nation's own long-term development framework.

Yours in Focus

Diane Quarless

STRATEGIES TO AVOID DEBT TRAPS AMONG DEVELOPING COUNTRIES AS THEY PURSUE THE SDGS

Dillon Alleyne*

While historically the accumulation of debt and debt unsustainability was perceived as a developing country problem, in recent years the evidence suggests that the issue is more global, thus demanding renewed efforts to prevent and address its unsustainable build-up.

The resolution of the sovereign debt crisis in Greece and the events surrounding the IMF-EU support packages for Ireland, Portugal and Cyprus have indicated that existing practices for sovereign debt crisis resolution are weak and in need of reform (Brooke et al 2013). According to UNCTAD (2018), a decade after the global financial crisis, global debt levels continue to reach new record highs. It is estimated that by the end of March 2018, global debt stocks had reached US$247.2 trillion, up from US$168 trillion at the onset of the financial crisis of 2007–2008.[1] This has been attributed to systemic factors among which are the weak global recovery, the slump in prices of primary commodities and a lack of concessional finance to middle income developing countries.[2]

Closer to home, while the debt ratios in the Caribbean are quite high (70% of GDP on average), the issue has not received the attention it deserves at the international level. The objective of this article examines two types of state contingent bond contracts,[3] GDP indexed bonds and Sovereign COCOs (contingent convertible bonds), which aim to prevent unsustainable debt build up arising from negative external shocks.

WHAT ARE SOVEREIGN COCOS?

Given the fact that the major source of finance among many "so called' middle income countries is the bond market, any strategy to relieve the pressure from bond repayment in the face of unexpected shocks is worthwhile to pursue.

According Brooke et al (2013) "sovereign cocos" are bonds which automatically extend their repayment maturity when a country receives official sector emergency liquidity assistance. This would be stipulated at the signing of the bond contract and become part of the agreement among the parties. If all or part of the debt stock came under such a regime, then all or part of the amortization profile of the repayment would shift forward without the necessity of permission from bondholders.[4] There are pros and cons to consider whether such agreements should be standardised or tailored to the specific circumstances of individual countries. In any case, over time, there will likely emerge a set of standard practices which reflect the common challenge of the countries of interest.

A number of issues emerge, however, regarding the factors that trigger such a situation; who validates the trigger mechanism; and whether short term treasury bills would be included. One contentious issue relates to the trigger being liquidity assistance from the IMF. Many sovereigns may not be in favour of this option since they may not want to be a part of an IMF stabilisation programme. In addition, cooperation between the creditor and debtor would be necessary to avoid arbitrary rollover requests.

This approach implies some amount of burden sharing between the sovereign (the taxpayer and creditors, usually the private sector) which will likely lead to more cautious lending. There may also be the possibility of increased premiums as creditors factor in additional costs to their portfolio. This is counterbalanced by reduced risks due to a reduction in unexpected default. Let us now consider GDP linked bonds.

WHAT ARE GDP LINKED BONDS?

According to Jones and Sharma (2006), GDP linked bonds could help to smooth debt servicing payments by linking part of the annual debt servicing of the bond to the growth of the debtor country's GDP.

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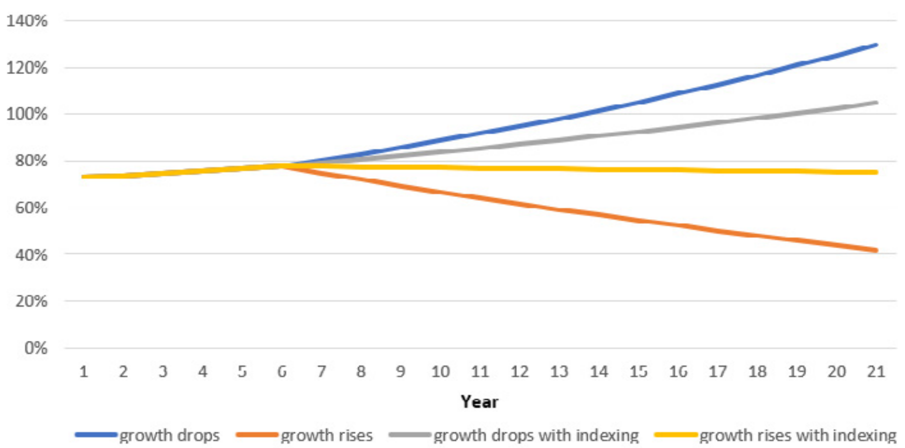
[1] In G7 countries debt rose from 92% of GDP in 2007 to 136% in 2015

[2] Other factors are the challenge of financialization that is a growing dependence of non-financial firms on financial activities for their revenue flows and their emphasis on short-term investment strategies (including mergers and share buybacks).

[3] IMF says that a state-contingent debt instrument (SCDI) is a debt instrument with payoffs that are contractually linked to a trigger event such as GDP or exports for example. They can be designed in a number of ways for example debt payments (interest and/or principal) could be made a continuous function of a variable like GDP or depend on a one time occurrence of a predetermined vents such as a hurricane.(IMF Feb 9, 2017.Staff note for the G20.State Contingent Debt instruments for the sovereigns).

[4] While this strategy is not being generally pursued the French Development Agency has issued concessional loans to some West African sovereigns that include an automatic maturity extension if export revenues fall below a pre-defined level (AFD 2009).

Figure I: Caribbean debt to GDP ratio with and without indexation.



Debt service payments will thus be lower in times of below-trend growth and higher in times of above-trend growth. This means that creditors would have a stake in the country's future growth prospects.

GDP indexed bonds can be particularly beneficial for the Caribbean as they stabilise government spending and require less interest payments in times of economic crisis. This improves the fiscal space and creates more opportunities for countries to follow countercyclical fiscal policies. In addition, as the debt service falls in times of economic stress the propensity to default would decline although there is no guarantee that over borrowing might not occur. Using parameters for the Caribbean, a simulation of the impact of indexed and non-indexed bonds on the debt to GDP ratio was computed. The results in Figure 1 suggest that when growth drops, without indexation, the increase in the debt to GDP ratio is largest (top line), while it does not increase by the same amount with indexation (second line). Because a higher repayment is expected when growth rises, with indexation (third line) the decline in debt is not as significant as when growth rises without indexation (last tine).

Countries in the subregion that experience increasing volatility in their GDP or those that have monetary policy constraints as in the OECS will benefit most from GDP indexed bonds.[5] These benefits will be welcome by countries that must provide additional resources to advance the SDGs.

Since such bonds do shift some of the risk from the sovereign to the creditor, some commentators suggest that there may be challenges surrounding data adequacy and timeliness which can be resolved. The solution to these problems lies in encouraging international coordination and endorsement, especially by the multilateral financial institutions.

CONCLUSIONS

This article has made the point that debt accumulation has become a global issue and is no longer a problem only of developing countries. The current approach to debt workout is therefore inadequate.

The recent interest in state contingent debt instruments such as Sovereign COCOS and GDP linked bonds are an important development since they can reduce debt distress when the economy is performing poorly. These instruments should be vigorously pursued by borrowing governments in the Caribbean to address the impact of shocks on debt repayment costs and to provide much needed fiscal space to address the challenge of sustainable development. ■

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[5] According to Christophe Destais (2017) , "GDP-linked bonds offer many advantages. They would limit the issuers' debt-service obligations in times of slow or negative growth, reduce the likelihood of debt crises and defaults, avoid sharp spending cuts in order to maintain access to capital markets, and even provide some latitude for additional spending at a time when it is most needed. GDP-linked bonds would also render investors more responsible when it comes to lending money to a sovereign. In addition, investors would know in advance the terms of their bond restructuring and gain an equity-like exposure to a country. The counter-cyclical feature of GDP-linked bonds and the fact that they would alleviate the economic cost of a debt restructuring would also make them beneficial for financial stability and the broader economy"(CEPII Policy Brief No 19 November, Are State-Contingent Sovereign Bonds the Solution to Avoid Government Debt Crisis?)

PROMOTING A COMPETITIVE TOURISM INDUSTRY IN THE CARIBBEAN THROUGH UPGRADING AND DIVERSIFICATION

Nyasha Skerette*

The Tourism industry is undoubtedly a leading driver of economic growth in the world economy, contributing to over 10% of global GDP, and accounting for 10% of world employment as the number of tourist arrivals have tripled since the 1950s.

For Caribbean countries, particularly the service producing economies, the importance of the industry is even greater as tourism is the primary driver of growth. This resulted from the efforts of many Caribbean states to diversify their economy following the loss of competitiveness and export potential of their agriculture and, in some cases, mineral industries. Across the subregion, the estimated direct and indirect contributions of tourism amounted to US$57.1 billion (15.2% of GDP) with total visitor expenditure reaching US$31.8 billion (20% of total exports). Moreover, the tourism sector contributes 13.8% of total employment and generates significant foreign exchange earnings for the subregion. Given the impact of tourism on the subregion's economic development, it is critical to promote the competitiveness of the industry and, more importantly, to find ways to upgrade and diversify the tourism product.

CARIBBEAN TOURISM COMPETITIVENESS DECLINING

Despite tourism's substantial contribution to the subregional economies, the reality is that Caribbean tourism has been losing competitiveness to other markets, such as those in Asian and Latin American countries which offer a similar product, that of "sea, sun and sand".

In an examination of tourism flows to the Caribbean, Lamframboise et. al. (2014) found that the Caribbean's share of world tourism declined to 2.0% in 2013 relative to 2.5% in 2000. It was also determined that the average nominal cost of a beach holiday in the Caribbean was higher than for other beach holiday destinations. Further, following the 2008-09 global economic crisis, annual visitor spending in the Caribbean as of 2018 fell by as much as US$5 million. This evidence along with other statistics suggests that there is need to improve the competitiveness of Caribbean tourism.

For declining competitiveness in Caribbean tourism to be addressed, the source of the problem must be identified. At the heart of this issue is the change in the needs of the average tourist. Today, tourists desire a more authentic experience; one embedded in the local culture. However, as it currently stands, Caribbean tourism is still very much natural resource based with limited value added beyond a given country's natural endowment. It is, therefore, important that governments conduct a comprehensive review, assessment and restructuring of Caribbean tourism aimed at adding to the experience to meet the shifting patterns of consumer demand, with attention to environmental responsibility and social inclusiveness.

UPGRADING AND DIVERSIFICATION AS STRATEGIES TO TRANSFORM THE TOURISM SECTOR

In the industrial sector, upgrading and diversification are related strategies commonly used to boost competitiveness in production and trade. In the past, limited efforts have been made to apply these strategies to the services sector.

There is, however, a growing recognition of the importance of services to the global value chain (the process of bringing a product or service from conception to the consumer and providing after sales services). This, in turn, has sparked increased interest in approaches to upgrading and diversification that might be utilized to transform the tourism sector and revitalize its competitiveness across the subregion.

Although Caribbean countries have made efforts to upgrade and diversify their tourism sector, significant challenges remain which have limited both the competitive and the sustainable development of the sector. Below are some recommendations on upgrades in the economic, social, and environmental sectors along with diversification strategies that Caribbean countries can employ to increase tourism competitiveness.

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ECONOMIC UPGRADING

Economic upgrading involves implementing measures to improve productivity and to move up the value chain in the sector. In the case of the tourism sector, economic upgrading involves capturing higher value added and more sophisticated, skill and technology-intensive segments of the value chain.

It has primarily centred on product and process upgrading, which entail the modernization of the tourism products in the countries and investment in certification and standards.
There is currently little evidence that Caribbean countries are targeting resources to priority areas as most of the attention is often given to the number of visitor arrivals. What is needed instead, is greater priority to product development in niche areas based on trends in consumer demand. For example, more focus should be given to the quality of visitors whereby average spending and impact on fragile natural environments and cultural resources take precedence. Further, efforts should also be made by both the public and private sector to improve the standards and quality of product and services to match the requirements of high spending visitors.

SOCIAL UPGRADING

Social upgrading is the process of improving wages, working conditions, and wellbeing of workers in a sector by increasing their skills, technical knowledge and organization of work. It relates to the proportion of the gains from economic upgrading that are captured by workers versus investors.

In this sector, Caribbean governments should seek to establish harmonized standards and certification for training in the tourism sector. It is important that the universities and vocational institutes across the subregion address the specific skills and knowledge gaps and aim to achieve international benchmark standards in the industry. Tourism businesses can also contribute by conducting rigorous audits of the skills and competencies of their workers to eliminate gaps in the service provided and to also meet the expectations of their guests. These businesses can also promote social upgrading by offering incentives for continuous learning for employees.

ENVIRONMENTAL UPGRADING

Environmental upgrading refers to measures to improve a producer's environmental performance by reducing consumption of energy, water and other resources and eliminating waste in production processes to reduce its overall environmental impact.

As Caribbean countries diversify their tourism product from "sea, sun, and sand" into cultural, heritage and ecological resources, it is important that governments in collaboration with private sector firms develop rigorous standards and certification for cultural and historical sites while also increasing the range of protected habitats.

DIVERSIFICATION

Diversification is a complementary strategy to upgrading and involves the provision of new products and services and penetration of new tourist markets. Before entering into new product and market niches, it is important that tourism product and market diversification strategies include a rigorous analysis of the prior requirements for successful entry.

The eco-tourism market is a prime example where this strategy can be employed. Before marketing a location as an eco-tourism destination, there should be a full mapping of the key eco-tourism sites and resources and clear determination made on what can be offered to tourists. Consideration should also be given to ways in which the local community can benefit and the sites can be preserved.

Market diversification efforts should also prioritize the removal of travel bottlenecks by visitors from non-traditional markets. For example, where applicable, the visa requirements can be reviewed to better attract visitors from non-traditional and emerging source markets such as Russia, China, and Latin America. The subregion should also seek to revisit the Single Domestic Space Agreement employed during the 2007 ICC Cricket World Cup to enhance multi-destination tourism across the subregion. Additional language and cultural awareness training are also needed to provide relevant and targeted advertising and promotion in these countries.

Finally, given the importance of innovation to the quality of the tourism product, there is a need for policy makers to work closely with businesses to identify ways to facilitate innovation in the tourism sector. Incentives can be offered through awards for the most innovative business or through targeted tax incentives to innovators.

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FINANCING AGRO-PROCESSING IN THE CARIBBEAN

Michael Hendrickson*

Most Caribbean countries[1] have experienced a secular decline in their agricultural sector. Real output in agriculture has contracted because the sector has lost competitiveness overtime. The counterpart to the decline in domestic agriculture has been a steady growth in the food import bill in the subregion, which has doubled from around US$2 billion in 2000 to almost US$5 billion in 2018. It is estimated that over 80% of the Caribbean's food is imported (OECS, 2017).

Further, the bulk of the subregion's food imports consist of semi-processed and processed foods (Silva et.al, 2011). Therefore, the development of a more dynamic agro-processing subsector could not only save vital foreign exchange and generate employment but could also provide healthy food choices that could help to slow the epidemic of non-communicable diseases in the subregion.

High quality processed foods could also lead to higher demand for local food products by the tourism industry, which currently imports the bulk of its food from the very source markets for the subregion's tourists.[2] Agro-processing also has other advantages, including increasing value added[3] and shelf life of food, which contributes to food safety, standards and year-round availability. This could provide a platform for creating a vertically integrated food value chain - from farm to table - thereby contributing to higher farmer incomes and sustainable livelihoods (IFC, 2012).

Nevertheless, the development of agro-processing in the subregion has been hampered by binding constraints that limit its dynamism and competitiveness. Three important constraints are: underdeveloped production systems that affect the quality and consistency of supply of agricultural inputs; inadequate use of certification and standards that act as signals of quality, including sanitary and phyto-sanitary standards (SPS) and the Hazard Analysis and Critical Control Points (HAACP);[4] and insufficient and high cost of financing.

Financing,[5] in particular, has been consistently noted as one of the most severe constraints facing agro-processors in the Caribbean (Lambert, 2001). This article analyses the financing challenge in agro-processing and explores options for closing the financing gap, including the use of innovative financing mechanisms.

The article discusses the current sources of finance for agro-processors and their limitations. It then analyzes alternative financing mechanisms, including innovative vehicles that the subregion can use to bridge the financing gap and enable its agro-processors to become more competitive both in domestic and external markets.

CURRENT FINANCING OF AGRO-PROCESSING IN THE CARIBBEAN

The market for agro-processing finance in the Caribbean is characterized by excess demand in the face of available supply. This has led to higher costs of finance for those businesses that can access commercial finance.

Therefore, most agro-processors have had to rely on internal financing (own savings), government funding and donor support, because of market failures.

Market failures in the sector include informational asymmetry or mismatches in information on the viability of the project between lenders and borrowers, which prevent farmers from obtaining loans. Informational mismatches include moral hazard, where the borrower fails to use the loan prudently because the lender cannot adequately monitor his actions. Adverse selection, another form of mismatch, stems from the inability of the lender to assess the quality of borrowers. This often results in riskier borrowers obtaining the largest loans. These two problems lead to higher default levels and suboptimal allocation of credit in agro-processing.

Furthermore, some agro-processors who produce their own inputs lack titles to the land that they farm, and this limits their ability to secure commercial bank

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1 This article particularly relevant for CARICOM member States with larger agricultural sectors and processing capacity such as Trinidad and Tobago, Guyana, Belize and Jamaica. However, smaller states could focus on selected niches.

2 This is ironic, as the logic of an integrated tourism sector is to maximise the returns to Caribbean along the different segments of the value chain, especially food and beverage demand which is an important component of the chain.

3 Value addition contributes to a seven-fold increase in income for some products (Isuekebhor, 2014).

4 HACCP is an international system aimed at reducing food safety hazard risks by identifying and controlling for given hazards at specific points along the production chain.

5 An IFC report on MSMEs, which includes many agro-processors, indicated that access to adequate electricity and finance were their main binding constraints.

credit, because of their inability to meet collateral requirements (FAO, 2019). In general, markets are not available, or when available, are not well developed for financing some business start ups and for helping agro-processors to expand then businesses, especially to enter export markets. Therefore, the subregion needs venture capital and angel investors which can facilitate these activities.

Recognizing the financing gap, Caribbean governments have established development institutions to fund agriculture and agro-processing activities in the subregion. Important institutions include agricultural development banks, national development foundations and other agricultural finance institutions. These institutions provide concessional finance to small agro-processors for business start-up and operational expenses. Funding is often provided with a grace period of 2-4 years and loan servicing is sometimes on the reducing balance, which is more favourable (Francis, 2001). The development finance institutions also provide extension services in areas such as project writing and bookkeeping to facilitate small business development. Increasingly, these institutions also consider gender in their lending activities, in order to increase the number of female-owned[6] small businesses in agro-processing.

Nevertheless, the pool of funds available to development finance institutions is relatively small compared with that held by the dominant commercial banks (CDB, 2016). In addition, development finance institutions have been affected by loan repayment problems that have forced most of them to shift to operating on more commercial terms. This has resulted in reduced concessional lending, which has limited small businesses' access to development financing institutions.

The agro-processing subsector is two-tracked with respect to access to finance. The larger, well-established businesses such as National Canners Ltd, owner of the Matouks brand in Trinidad and Tobago and Walkerswood Caribbean Foods in Jamaica, have been able to access commercial finance. This stems from their track record in running profitable businesses. By contrast, small businesses with limited collateral assets have had little or no success in accessing to commercial finance. The financial constraints on this segment of the market is therefore likely limiting the development of new small enterprises, which is hampered by lack of access to start-up capital.

DEVELOPING ALTERNATIVE FINANCING MECHANISMS TO FUND AGRO-PROCESSING

Agro-processors and policy makers in the subregion will need to continue to explore non-traditional and innovative financing mechanisms to increase funding for the sub-sector (ACP, IICA, CARDI and CTA, 2016). A range of innovative financing mechanisms could be explored, including a mix of debt, equity, loan guarantees and other schemes.

Agro-processing value chain finance is an innovation that should be given greater priority in the subregion. Value chain finance (VCF) refers to funding for various activities along the value chain for a product or service. This type of finance might be more relevant for larger Caribbean islands, with greater prospects for agro-processing. Agro-processing is an intermediate activity between the production and distribution of agricultural products and is ideal for VCF. Moreover, because VCF tends to be better tailored to different segments of the agro-processing value chain it is likely to have greater impact on producers. There are a range of VCF mechanisms, with only some being appropriate for Caribbean agro-processors. Three of these are: contract agro-processing, joint-venture finance and trade-receivables finance (IFAD, 2012).

Contract agro-processing is based on lead-firm providing direct funding or guaranteed sales agreements that allow processors to access finance from other financial institutions. The latter model has been used in contract farming by the Grenada Marketing and National Importing Board (MNIB) (FAO, 2016). Similarly, the Jamaica Broilers company has a contractual farming arrangement with some farmers. The company provides them with high quality chicks and guidelines on standards, which the farmers are expected to meet in order to sell to the company. Contract agro-processing takes an integrated value chain approach in that lead firms also provide technical assistance in areas such as standards, quality management and marketing. This increases the chances that the agro-processor will succeed and thus be able to repay the loan in cash or in kind. Caribbean agro-processors that are export-ready could explore contractual financial arrangements with lead buyers to scale up their operations.

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[6] The Caribbean Development Bank (CDB) and Caribbean Export are partnering to develop a WE-Xport programme that will provide greater access to finance for female-owned businesses that are focused on exporting.

BUILDING A CASE FOR TRADE DRIVEN ECONOMIC RESTRUCTURING IN THE CARIBBEAN: AN EXAMINATION OF THE TRINIDAD AND TOBAGO TRADE POLICY

Sheldon Mc Lean*

As a small, open economy, trade and investment play an integral role in the welfare and development of Trinidad and Tobago. Recognizing that international trade is the driver of economic growth and development, the Government of the Republic of Trinidad and Tobago (GORTT) sought to develop a comprehensive trade policy to guide its external trade agenda in the medium term and drive the economic diversification and transformation required for development.

ECLAC Caribbean collaborated with Trinidad and Tobago's Ministry of Trade and Industry in the development of the 'Trinidad and Tobago Trade Policy 2019 – 2023: Towards Sustainable Economic Growth and Diversification (TTTP)'. The policy is a concrete expression of the GORTT's trade-related objectives aimed at improving competitiveness, economic and export diversification, as well as the country's foreign exchange earning potential. In providing the technical assistance required for drafting the policy, ECLAC Caribbean drew on lessons learned from previous trade policies, and incorporates policies and strategies included in the National Aid for Trade (AfT) Strategy 2016-2019; the National Quality Policy (NQP) 2018-2030; and the National e-commerce Strategy 2017-2021. A key mandate in drafting the TTTP, was its alignment to the country's long-term development framework espoused in the National Development Strategy (NDS) - Vision 2030.

The TTTP also considers internationally agreed development goals, in particular the Sustainable Development Goals (SDGs), and the international and subregional trade agreements to which the country is signatory. The latter includes, inter alia, the World Trade Organization (WTO) agreements, the Revised Treaty of Chaguaramas, the ACP Cotonou Agreement and the follow-up Economic Partnership Agreement (EPA) with the European Union (EU) as well as other subregional and bilateral arrangements.

TRINIDAD AND TOBAGO TRADE STRUCTURE

International trade is pivotal to the development of the country's economy, with the ratio of exports to GDP being 68% and imports to GDP at 64%. Trinidad and Tobago remains the leading manufacturing economy in the subregion.

On the one hand, 90% of all the country's exports are concentrated among a few energy and energy-based products along with a few food and beverage and tobacco products. On the other hand, services now account for about 57% of its GDP, although they represent approximately 10% of total exports. Further, while goods have traditionally dominated the country's exports, trade in services has increased in significance, rising to 18.3% of GDP in 2017.

Moreover, the country's exports are, on average, far too specialized in a few products when compared to the world average or even with that of other Small Island Developing States (SIDS). Efforts to diversify the economy over the past two decades have been mildly successful, as illustrated by the increasing share of mid-tech products. These attempts at diversification, however, have proven to be largely horizontal in nature and insufficient to either adequately improve the country's economic resilience or boost economic growth.

With protectionist sentiments emerging globally, which threaten to disrupt the multilateral system and the global economy, building economic resilience and reducing the effects of external shocks[1] has increasingly become a priority for subregional governments. A leading policy priority of the GORTT, therefore, is to transform exports to ensure that the country increasingly produces high-value goods and services, with growing global demand.

KEY FINDINGS OF THE EMPERICAL ANALYSES

Empirical analysis conducted by ECLAC revealed that Trinidad and Tobago's strongest trade complementarity lies with Caribbean economies, Latin and Central America, Africa and Asia. This means that exports of Trinidad and Tobago best match the imports of these economies, when compared with the country's trading partners such as the EU and North America.

This suggests that the country's export patterns have been influenced by factors such as market proximity, the existence of preferences or historical trading arrangements, with insufficient consideration of the trade complementarity, comparative

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[1] Particularly external shocks relating to commodity prices, global demand, climate change and geo-politics.

advantage and the potential of intra-industry trade necessary to sustain trade creation.

The Trade Complementarity Index calculated further highlights that there is considerable room to develop exporting capacity to match the imports of all groups of trading partners. Promoting intra-industry trade could help achieve this export development, which is consistent with the results of the growth engines estimates conducted in the drafting of the policy.

There is, however, considerable potential for Trinidad and Tobago to increase intra-industry, intra-regional trade. This could provide a basis for a subregional integration process which is predicated on production integration as originally envisaged in the CARICOM Single Market and Economy (CSME). Using the Grubel-Lloyd (1975) Index for Trinidad and Tobago relative to selected groups of countries, indicators are generally low (typically below 0.25) and generally show no rising trend over time (see Table 1). This suggests that Trinidad and Tobago currently is not involved in significant intra-industry trade.

Based on the results of the empirical analyses, the wider Caribbean, South America, Central America, Asia[2] and Europe will be primarily targeted for export expansion, the given significant underutilized trade potential. The TTTP also recognizes the potential to expand exports to the United States, where a large Caribbean diaspora continues to drive demand for such exports.

Therefore, in an attempt to further diversify Trinidad and Tobago's exports along the value-chain and align exports to markets with increased trade complementarity, the TTTP advances key elements of an export diversification strategy and seeks to nudge the country towards increased production and exports in industries with comparative advantages. In diversifying goods and services export the imperative is clear and is outlined below.

GOODS

The TTTP presents a range of products where Trinidad and Tobago has a comparative advantage. Moreover, in assessing the export potential of these products in relation to destination markets, the TTTP has been instructed by a consideration of its exports that are either Rising Stars or Missed Opportunities.

The Policy targets the production and export of high value-added products such as, electronic assembly items, light manufacturing, textiles and garments for the fashion industry, pharmaceutical products, down-stream aluminum products, downstream petrochemical products, downstream as well as upstream energy products, agriculture and agro-industrial products, and green industries. The Policy gives a more detailed assessment of these and other products as well as destination markets.

Rising Stars:
Products commanding increased market share in dynamic sectors.
TTTP Priority: Accelerate export expansion of these products.

Missed Opportunities:
Products with decreasing share in dynamic markets.
TTTP Priority: Reverse the declining export performance of these key sub-sectors

(These products were mainly being exported to EU, Canada and Africa).

SERVICES

The analysis revealed that the services sector continues to be one of the main engines of growth in Trinidad and Tobago, with 53% of the long-run variation in economic growth being attributable to this sector.

However, while the services sector presented the greatest opportunity for economic growth in the medium to long term, the country has found it challenging to increase the efficiency and export of services. The Trade Policy, therefore, has a considerable focus on increasing the scope, quality, and efficiency of the services that the country, particularly Tobago, seeks to export.

▸ (continued on page 12)

[2] Including India, China and the ASEAN bloc.

▸ (continued from page 11)

BUILDING A CASE FOR TRADE DRIVEN ECONOMIC RESTRUCTURING IN THE CARIBBEAN: AN EXAMINATION OF THE TRINIDAD AND TOBAGO TRADE POLICY (CONTINUED)

Based on the analysis, the trade competitiveness matrix of services export for Trinidad and Tobago shows a mixed picture. On the one hand, in Figure 1, sectors where Trinidad and Tobago typically has comparative advantage are classified as Missed Opportunities or Retreats because the country has not fully exploited this advantage. On the other hand, sectors where the country does not have a comparative advantage or its export volumes are very small (e.g. financial services and intellectual Property), have been shown to be Rising Stars. This suggests that the sectors are in the early stage of development, and thus technical and financial policy support are strongly required. The implementation of the Trade Policy will be a vehicle for delivering this support.

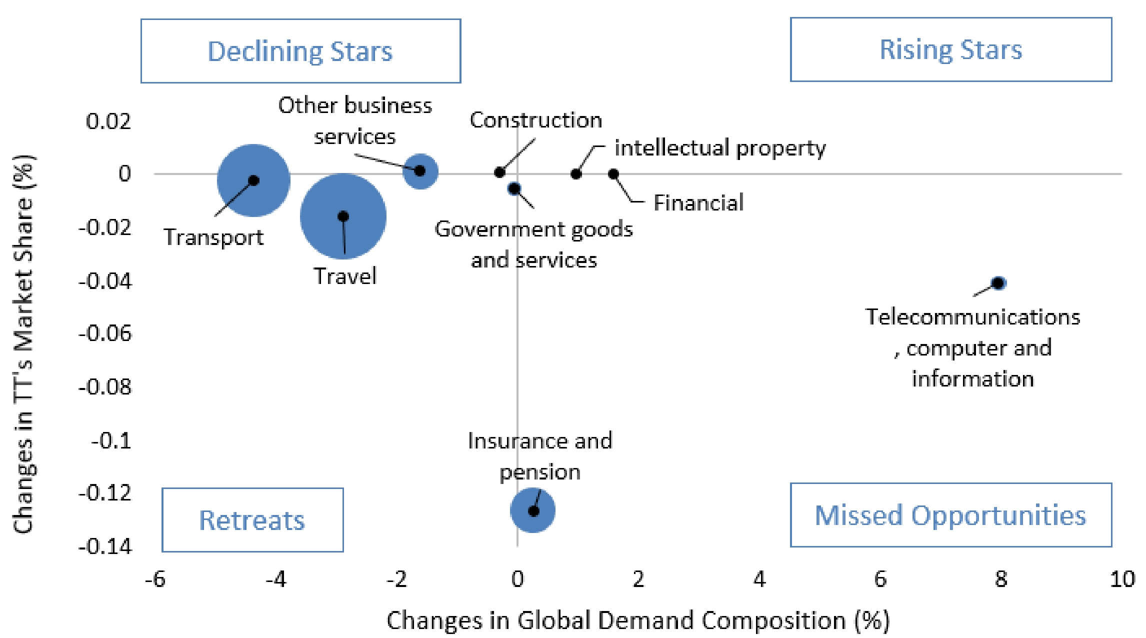
In light of these findings, the TTTP recommends that the services sector be developed in parallel with the manufacturing and energy sectors. It further targets the development of the following sectors: tourism; medical and health services; creative industries and entertainment services; key business services including law, accounting and auditing and education and training; ICT; data collection and analysis for marketing and customer service; financial services, energy services and maritime services. In this regard, the aim is to identify and take appropriate steps to increase the scope, quality, and efficiency of production and exports of these services. Successful liberalization of these aspects of the domestic market and the attraction of foreign investment into the development of human capital and physical infrastructure will also make business services more competitive and attractive as a services export.

KEY POLICY INTERVENTIONS

The TTTP presents key elements of an export diversification strategy that is rooted in a broader industrial policy and seeks to nudge the country towards increased production and exports in industries where the country has comparative advantage. This economic transformation would reduce the price and demand vulnerabilities that typify Trinidad and Tobago's exports and build capacity for sustained growth.

In this regard, the TTTP presents policy measures in key areas that will facilitate the shift into tertiary industries and propel the export diversification and expansion agenda forward. Key among these measures is the investment in innovation and research and development, which the GORTT views as crucial for closing the technology gap with developed economies. Measures to support trade are also identified, with a focus on global value-chain integration and clustering; enhancing human capital

Figure I: Trade Competitiveness Matrix for Services Export of Trinidad and Tobago (from 2004-2006 to 2015-2017)



Source: UNCTADSTAT

for trade development; promoting the administration and enforcement of IP rights; enhancing environmentally friendly trade practices and supporting e-Commerce uptake.

Moreover, by aligning the TTTP to the National Development Strategy, the GORTT has underscored its commitment to identifying, understanding and removing obstacles to the full participation of women and youth in the development of trade. Therefore, in a first for Trinidad and Tobago's trade agenda, women, youth, and the differently-abled have been brought into the frame of trade, trade policy and industrial development. Such a policy inclusion has led to the identification of a number of measures that will ensure that adequate broad-based economic growth and social development is achieved.

The Ministry of Trade and Industry will be responsible for implementing the TTTP, with the support and engagement of the private sector, other Government Ministries and the public agencies under its purview such as exporTT, CreativeTT and the Trinidad and Tobago Bureau of Standards (TTBS). Among existing arrangements, the Ministry will utilize the TTTP-established Cross-Agency Implementation Committee and the Trade Policy Technical Working Group to engage public and private stakeholders in the monitoring, evaluation and implementation of the Policy.

CONCLUSION

Trinidad and Tobago's participation in international trade allows it to reach beyond resource constraints and use the energy, ingenuity and diversity of human capital to access export markets in order to improve the standard of living and quality of life of citizens.

Through the TTTP, the GORTT outlines a plan for the medium to long-term delivery of broad-based export growth, particularly in high-value exports by increasing production and trade in emerging areas with comparative advantage across the goods and services sectors. The TTTP identifies key goods and services sectors for export diversification and expansion and sets the country on a sustainable and clear path to implementing a policy framework that would support its development. ■

▸ (continued from page 7)

PROMOTING A COMPETITIVE TOURISM INDUSTRY IN THE CARIBBEAN THROUGH UPGRADING AND DIVERSIFICATION (CONTINUED)

CONCLUSION

The present article has outlined a few important upgrading and diversification strategies that can be employed to assist in the improvement of the Caribbean's tourism sector. Implementation of a mix of these and other strategies can help to boost the observed decline in competitiveness impacting the subregion over the last couple years.

Of course, the capacity of a given country or business to undertake such initiatives will vary. However, policymakers and larger tourism entities may be better positioned to embark on such efforts, thereby setting the stage for other small to medium sized entities to follow accordingly in the future. In the end, the goal is to ensure that upgrading and diversification efforts lend themselves to an increase in the economic contribution of the tourism sector and to ensure that such efforts also lead to social upgrading measured by growth in employment, wages and working conditions, as well as environmental upgrading, reflected in efficient use and conservation of natural and environmental resources. ■

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▸ (continued from page 9)

FINANCING AGRO-PROCESSING IN THE CARIBBEAN (CONTINUED)

Joint venture financing involves shared investment and ownership between agro-processors and multinational operators in the sector. Joint ventures can also provide access to modern technology, standards and external market channels. Nevertheless, to attract investors, Caribbean agro-processors would need to improve their investment-readiness by sourcing high quality inputs, adopting international standards and certification and adopting modern processing facilities that could meet production scale and quality requirements.

Trade-receivables finance entails a bank or other financial institution providing working capital to an agro-processor based on accounts receivable or confirmed orders from buyers of the product. This financing option can be useful in the Caribbean, where most agro-processing SMEs lack sufficient fixed asset-based collateral to access commercial credit. In addition, this form of finance could be supplemented by equity finance. Nevertheless, to attract trade-receivables finance, agro-processors would need to practice sound business management, including proper accounting and auditing, which would increase their ability to service the loan.

Equity finance is another area of opportunity for Caribbean agro-processors. Most Caribbean agro-processing businesses are family-owned with little or no investment from outside parties (FAO, 2014). By opening up to equity investments, well established agro-processors can access more finance for scaling up their operations, reduce their financial risk and benefit from investor expertise and guidance in managing the business.[7] Although equity financing is mainly used in larger firms, the Jamaica Stock Exchange Junior Market provides an avenue for investment in SMEs that meets the criterion for listing. Importantly, the Exchange links investors from the diaspora with the local market to provide international marketing experience and support. Further, the subregion also needs to examine the feasibility of venture capital and angel investing.

Venture capital and angel investing are severely lacking in the subregion. Nascent efforts at developing venture capital institutions have not been very successful (Rambarran, 2014). A major reason for this was insufficient demand for funds available by entrepreneurs, partly due to lack of viable projects (Guardian Newspaper, 2014).

Given the weak private sector response, Caribbean governments might need to explore the potential of a PPP arrangement for developing a venture capital fund to promote start-ups and for the scaling up of competitive businesses in agro-processing and other sectors. Nevertheless, such a fund would need to be guided mainly by private incentives and have proper oversight and management to ensure its success. Indeed, this has been done in large economies such as the European Union[8] (Stander, 2017). Given the high levels of external indebtedness in the subregion, this would require a reprioritization of government investment. The case can be made for government investment, particularly in businesses that are profitable and have good prospects. Governments can then secure a share of the profits for reinvestment in new ventures or for scaling-up agro-processing activities that have the potential to penetrate export markets.

The digital revolution also opens innovative options for the subregion. Crowd financing,[9] for example, is an option, especially for start-up funding. There are four broad types of crowdfunding that can be leveraged by Caribbean agro-processors: donations or grants from benefactors; rewards;[10] debt; and equity or share capital. Given the steady uptake of digital technologies in the Caribbean, agro-processors could develop well-designed projects that could attract crowd funding, especially from the diaspora. This could have the added benefit of providing business management and marketing know-how from financiers who are experienced in these areas.

CONCLUSION

A more dynamic agro-processing subsector could contribute to growth, employment and economic diversification in the Caribbean. However, to achieve this goal, countries will need to tackle key bottlenecks that are retarding the sector.

Affordable finance remains a major constraint. The time is therefore ripe for policy makers to explore innovative financing options such as value chain finance, angel investing and even venture capital to promote growth and sustainability in the sector. This should be supported by productive development policies to ensure a consistent supply of high-quality primary inputs for processing and a focus on making more producers ready for exporting. ■

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[7] In addition, they avoid the high loan servicing costs of debt finance, which could stymy the growth of the business.

[8] The size and scale of the EU no doubt provide great advantages, but CARICOM as a group can still explore the state venture capital option.

[9] Crowd financing entails the pooling or scaling-up of small amounts of money from group of persons who are enthusiastic about a business or venture ("Crowdfunding Strategy & Information, 2019).

[10] Rewards entail investors contributing funds to a project in return for a reward or return on their investment that is in proportion to the size of the investment.

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