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An assessment of the performance of CARICOM extraregional trade agreements

An initial scoping exercise

Sheldon McLean
Jeetendra Khadan



UNITED NATIONS

ECLAC

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This document has been prepared by Sheldon McLean, Economic Affairs Officer of the Economic Development Unit of the ECLAC subregional headquarters for the Caribbean.

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Abstract

Despite its active embrace of trade liberalization and the maintenance of relatively open economies, CARICOM trade performance both within the region and extraregionally has been poor. The nexus between bilateral Free Trade Agreements (FTAs), Partial Scope Agreements (PSAs) and preferential trade arrangements, which was intended to assist in compensating for the small size of domestic and regional markets, while providing an additional tier of trade and economic integration, has thus far failed to deliver its intended results. This paper makes this conclusion in assessing the performance of these extraregional trade agreements and sheds light on issues not often discussed.

In spite of the various trade agreements negotiated, CARICOM export performance has not improved significantly and there has been little movement up the value chain, particularly since subregional economies have been unable to transform their production systems in order to take advantage of the market access opportunities provided by these trade arrangements. In addition, production and exports of Caribbean goods are extremely specialized and along with its services sectors have been declining in competitiveness.

The results suggest that for the subregion's extraregional trade agreements to generate an expansion in exports, countries of the Community may need to address their inherent structural rigidities and transform their production systems, including improving the business environment. Further, a parallel process of exploring avenues for broadening the scope and coverage of existing as well as future bilateral trade agreements to include a services liberalization regime, may provide avenues for CARICOM economies to exploit comparative advantages in key services sectors in Latin American economies with which they have a high level of trade complementarity.

However, further effort may be required to enhance the subregion's comparative advantage and trade complementarity structures; address its lack of dynamism at both intensive and extensive margins as well as search costs; improve the mechanics of trade at the firm level; modernize trade-related regulatory framework and infrastructure; and ensure appropriate sequencing of reforms, including of regional institutions. This is essential if more targeted long-term solutions to the challenges faced by the subregion in utilizing bilateral trade agreements as a vehicle for export expansion and economic growth are to materialize.

I. Introduction

During the period 1992 to 2008, the Caribbean Community (CARICOM) entered into various trade agreements with Central and Latin America, and with the European Union (EU). The major non-reciprocal trade arrangements such as the Caribbean Basin Initiative with the United States of America (USA), the Caribbean/Canada (CARIBCAN) Trade Agreement with Canada, as well as the Lomé Conventions and Cotonou Agreement with the European Union have generally received extensive coverage in the literature. In contrast, relatively little consideration has been given to the other bilateral trade agreements that CARICOM has signed with western hemispheric developing economies. For this reason, this paper undertakes a succinct assessment of the performance of these extraregional trade agreements and sheds light on issues not often discussed.

The dispersed natures of Caribbean economies, substantive cross-country differences in incomes and population sizes, as well as their small scale of production, small internal markets, disproportionate dependence on external markets and vulnerability to natural disasters have collectively constrained the subregion's integration process (Duran, Mc Lean et. al, UNECLAC 2014). Moreover, the traditional reliance on a narrow range of exports which are confined to a few export markets has made Caribbean economies vulnerable to negative external shocks, in particular, fluctuations in commodity prices.

In an effort to strengthen economic integration with non-traditional partners, CARICOM has signed partial scope trade agreements¹ with Venezuela (1992), Colombia (1994) and Cuba (2000). Such agreements are designed to provide subregional exporters with preferential access to markets beyond that of CARICOM, broaden consumer choice and offer wider investment opportunities for subregional 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 for instance, 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 exempt from

¹ 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.

granting reciprocal preferential market 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 the Caribbean Community. Table 1 summarizes some details in respect of the Caribbean Community's bilateral trade agreements.

TABLE 1
SUMMARY OF CARICOM BILATERAL TRADE AGREEMENTS

Title	Description	Date signed
CARICOM – Venezuela (Bolivarian Republic of)	Agreement between Caribbean Community and the Government of Venezuela (Bolivarian Republic of) on trade and investment	1992
CARICOM – Colombia	Agreement on trade, economic and technical cooperation	1994
CARICOM – Cuba	Agreement on trade and economic cooperation	2000
CARICOM – Dominican Republic	Agreement establishing free trade area	1998
CARICOM – Costa Rica	Free trade agreement between CARICOM and the Government of Costa Rica	2004
CARIFORUM - EU	Economic Partnership Agreement	2008

Source: Legal texts of the respective Agreements.

This nexus of bilateral FTAs, Partial Scope Agreements and preferential trade arrangements was intended to compensate for the small size of domestic and regional markets, while at the same time providing an additional tier of trade and economic integration. In attempting to explore the performance of these agreements and to provide a preliminary assessment of the extent to which they have achieved these goals, the rest of this paper is organised as follows: Chapter II highlights some of the peculiar trade and economic features of subregional economies. Chapter III shifts to an examination of the extent to which these trade-related arrangements may have succeeded in contributing to the expansion and diversification of the subregion's exports. Chapter IV explores the challenges to export expansion encountered by the subregion, while Chapter V provides policy prescriptions and recommendations which may allow trade agreements to contribute more meaningfully to the resilience and sustainable development of subregional economies.

II. Examination of peculiar characteristics of subregional economies

The economies of the Caribbean Community grew by an average of 2.4 per cent² over the period 2000-2012. The subregion's economies grew at an even lower rate of 1.1 per cent in 2013 and economic growth in 2014 is projected to be somewhat better at 2 per cent. Moreover, despite embracing trade liberalization and having relatively open economies, with many member states registering openness indices in excess of 100 per cent, the subregion accounts for a marginal share of global (0.06 per cent) and regional trade (1.2 per cent) in 2013. In addition, most CARICOM member states have registered current account deficits of varying degrees over the same period,³ with the regional average in 2013 standing at 16.2 per cent of Gross Domestic Product (GDP) and the Eastern Caribbean States averaging 16.8 per cent (Mc Lean et al, 2014).

The economies of many CARICOM member states are also constrained by high levels of public debt, with Barbados, Jamaica and Saint Kitts and Nevis all having public debt-to-GDP ratios in excess of 100 per cent. Belize, Grenada, Jamaica and Saint Kitts and Nevis, all with unsustainable external debt levels, sought to restructure portions of their debt in 2012 (United Nations, 2013). However, there is evidence that while some Caribbean economies have engaged in debt restructuring initiatives thereby reducing the face value of their debt, in many instances the debt stock has not contracted. Instead maturities were simply lengthened and interest rates were lowered (United Nations, 2014). Furthermore, for many subregional economies, particularly the more highly indebted, the post-crisis period has seen the institution of fiscal consolidation measures, which when coupled with debt repayment commitments, have limited the resources available for investment in building export capacity, increasing trade competitiveness and fostering private sector development.

² United Nations Conference on Trade and Development (UNCTAD) statistical database.

³ Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.

An examination of their trade concentration indices⁴ reveals that the production and exports of Caribbean goods are more specialized in fewer products compared to the world average and Small Islands Developing States (SIDS), with the top three export products usually accounting for between 40 per cent and 90 per cent of the total. In addition, the top ten products account for over 75 per cent of the subregion's exports. The subregion's goods exports are therefore precariously built on a few primary products making its economies vulnerable to external shocks, particularly changes in commodity prices.⁵ Given the instability in global commodity prices, Caribbean economies would need to diversify their export structure in order to insulate themselves from negative price shocks.

It is noteworthy however, that only a few CARICOM member states can be categorized as goods producers. These include Belize (sugar, citrus and bananas, as well as petroleum); Guyana (sugar, rice, gold, bauxite and alumina); Jamaica (aluminium and bauxite); Suriname (gold, aluminium and petroleum); and Trinidad and Tobago (oil, chemicals and natural gas). The services sector dominates the economies of the other countries accounting for in excess of 70 per cent of economic output (Duran, Mc Lean et. al, 2014), and as a consequence goods represent a relatively smaller share of total export revenues (table 2 refers).

More importantly, the subregion's goods exports are dominated by extraregional markets, particularly the United States of America, Canada, the United Kingdom and the rest of the European Union. Intra-regional exports (goods) accounts for only 15 per cent of total, rising to 25.7 per cent for the Latin America and the Caribbean (LAC) region. The LAC market accounts for less than 10 per cent of exports of the Bahamas, Haiti and Jamaica. . Trade between CARICOM members, meanwhile, is dominated by the more developed countries.⁶

Furthermore, using an index of services exports with the base year of 1980, it can be seen that the subregion's services exports have also declined in competitiveness. The Community's share of global services exports have contracted steadily over the past three decades, while that of developing economies as a whole has trended upward. Even more worrying is the fact that the services exports of the subregion's tourism-based economies, when isolated, are shown to have experienced a similar reduction in competitiveness (see figure 1)

In view of the foregoing discussion, it can be discerned that the many trade agreements concluded by the subregion have not succeeded in creating the necessary demand-pull for broad-based rationalization of resource allocation, diversification of production and expansion in goods exports. Neither have they led to the creation of a more resilient Caribbean economy. A deeper examination of key elements of the region's trade performance will therefore be undertaken, particularly under, but not restricted to, its bilateral trade agreements, inclusive of key exports, export competitiveness and trade complementarity.

⁴ This index is also known as Herfindahl-Hirschmann index which can measure the degree of given market's concentration – in this case, export. The index obtains values from 0 to 1. The value of the index decreases when the number of products increases and share of each product falls. Contrary, the value approaches to 1 when export structure is specialized in a fewer products.

⁵ Given the instability global commodity prices, Caribbean economies need to diversify their export structure in order to mitigate the possible trade shocks.

⁶ The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago.

TABLE 2
THE CARIBBEAN: SELECTED GDP AND EXPORT INDICATORS, 2012^a
(Dollars and percentages)

Country/Subregion	GDP indicators					Exports of goods ^c	
	Per capita GDP	Services ^b	Current account balance ^b	Public debt ^b	Official development assistance ^b	To Latin America and the Caribbean	Top three products ^d
Caribbean countries	4 860	52.5	-6.1	52.5	2.1	39.0	32.55
CARICOM	4 307	56.8	-5.2	67.8	3.0	25.7	45.0
Bahamas	21 908	76.5	-17.5	54.5	...	3.1	91.3
Barbados	16 203	81.7	0.0	87.3	...	31.1	41.0
Belize	4 858	58.7	-2.2	72.8	2.7	13.7	62.6
Guyana	3 585	47.8	-14.4	62.0	4.5	31.0	58.3
Haiti	776	...	-4.6	28.2	20.1	2.8	89.0
Jamaica	5 374	66.3	-12.8	134.1	0.6	7.8	64.1
Suriname	9 182	52.7	4.9	28.6	2.6	14.6	95.5
Trinidad and Tobago	17 899	37.2	4.0	45.0	...	31.6	63.6
OECS	8 405	75.6	-17.1	82.90	4.8	49.5	69.6
Antigua and Barbuda	13 405	80.4	-14.0	89.4	0.2	29.1	69.7
Dominica	6 919	70.7	-11.1	72.7	12.0	78.4	69.2
Grenada	7 598	77.8	-24.1	88.6	4.5	58.7	42.8
Montserrat	13 104	...	-33.1	...	72.1
Saint Kitts and Nevis	13 659	74.2	-11.4	129.3	4.3	13.8	82.7
Saint Lucia	6 558	73.2	-14.2	71.0	4.0	44.9	58.6
Saint Vincent and the Cuba	6 349	73.5	-27.8	67.0	3.2	90.9	54.8
Dominican Republic	6 288	5.0	77.3
Latin America and the Caribbean	5 795	54.7	-7.2	33.3	1.0	25.0	22.4
Andean Community	9 510	53.5	-1.9	46.3	0.5	19.8	19.6
Southern Common Market (MERCOSUR)	6 616	52.6	-2.5	30.3	0.8	28.9	45.0
Central American Common Market	11 397	53.8	-1.4	52.8	0.4	23.8	20.7
	4 233	55.9	-6.1	36.1	2.1	44.3	20.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

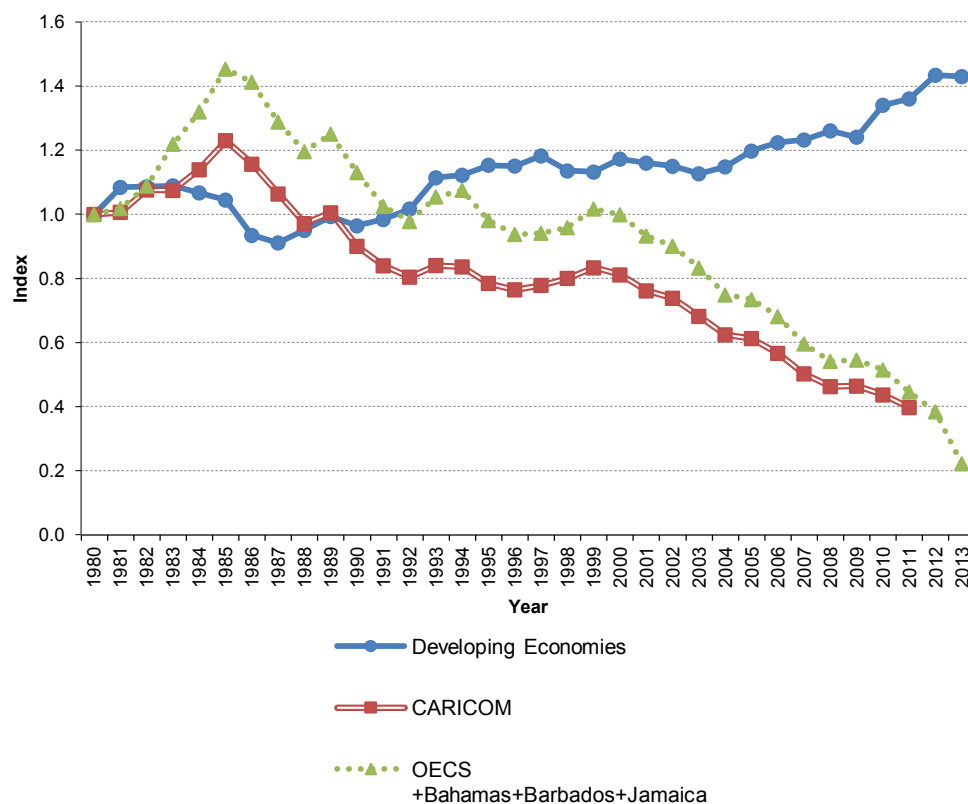
^a The indicators calculated for the different subregions and the whole region are averages weighted by GDP or exports as appropriate.

^b Percentages of GDP.

^c Percentages of total exports.

^d According to the four-digit International Standard Industrial Classification (ISIC), Revision 2.

FIGURE 1
INDEX OF SERVICE EXPORTS
 (1980-2013)



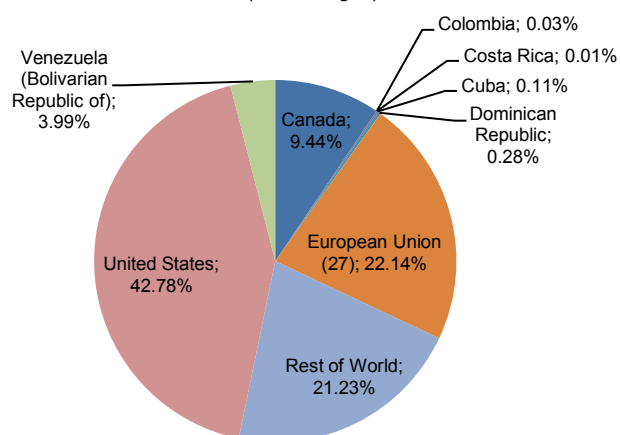
Source: United Nations Conference on Trade and Development Statistical database, UNCTADStat.

Note: Index of service exports in year x is calculated as (service exports/global service exports in year x) relative to (service exports/global service exports in 1980).

III. Key elements of CARICOM trade performance

In spite of the presence of the partial scope and free trade agreements, CARICOM exports to Latin America have not improved significantly, and accounts for only a small share of the region's total exports over the period 2001-2013. The United States and the European Union account for more than 64 per cent of the subregion's exports, while Colombia, Costa Rica, Cuba, the Dominican Republic and Venezuela accounted for a mere 3.9 per cent in 2001 and 4.41 per cent in 2013. A further disaggregation by export market reveals that Venezuela accounts for the majority (3.99 per cent) of this share – a spillover effect of the oil for food programme of the PetroCaribe initiative - while the markets of the other four countries collectively attract less than 1 per cent of the sub-subregion's goods exports⁷ (see figure 2).

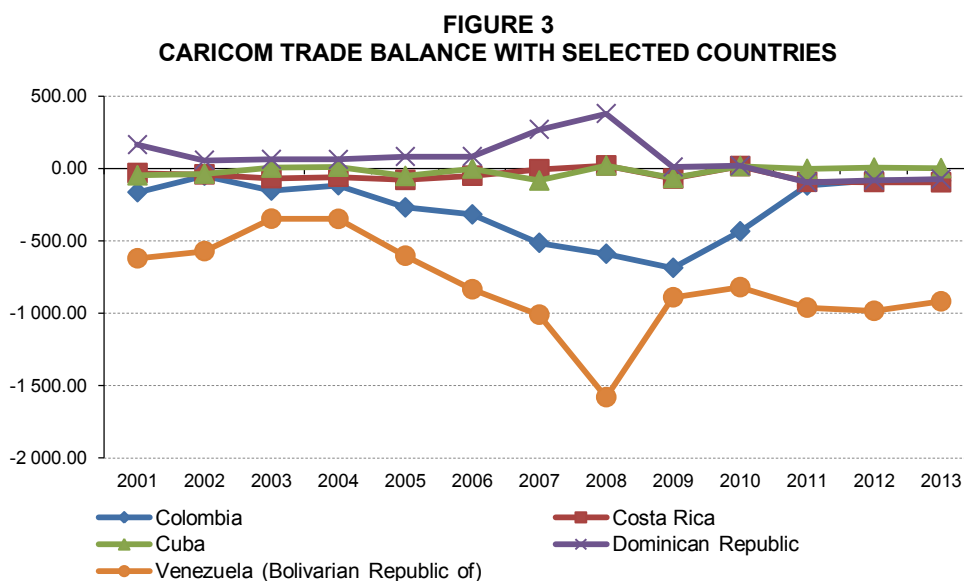
FIGURE 2
SHARE OF CARICOM EXPORTS BY DESTINATION, 2013
(Percentages)



Source: United Nations Comtrade via World Integrated Trade Solution Database (2014).

⁷ It should be noted that the absence of recent, reliable trade data has restricted an examination of services trade with these economies. However, it is equally noteworthy that, with the exception of the CARIFORUM-EU EPA, the subregion's bilateral trade arrangements are largely restricted to the liberalization of goods trade.

The CARICOM trade balance with most of the Western Hemispheric countries with which it has bilateral trade agreements has deteriorated during the past decade (see figure 3). In addition, with the exception of Venezuela, the Caribbean Community's total goods exports to each of its bilateral trade partners have declined over the period 2001-2013. This may be partially attributable to the overall reduction in demand that was precipitated by the global financial crisis. This notwithstanding, the fact that the subregion's exports to Venezuela and Colombia contracted prior to 2009 suggests that other factors may have influenced the Community's declining exports under these trade arrangements. Concomitantly, imports from Colombia, Costa Rica and Cuba declined. Moreover, Trinidad and Tobago (55 percent) and the Bahamas (40 percent) dominate the Community'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 4 per cent of CARICOM exports to the Dominican Republic and have marginal exports to Cuba. Nevertheless, the Community has some unexploited opportunities in both of these markets. In the case of Cuba, the Caribbean has comparative advantage in non-alcoholic beverages, pesticides and disinfectants, organic chemicals, and wood products.



Source: United Nations Comtrade via World Integrated Trade Solution Database (2014).

Of the six⁸ countries or group of countries with which the Region has formal trading arrangements in place, CARICOM generated trade surpluses with just Cuba in 2013.⁹ Moreover, it has been demonstrated that the subregion's extraregional trade agreements with Costa Rica, Colombia and the Dominican Republic do not impact significantly on exports of CARICOM countries.

⁸ Costa Rica, Colombia, Cuba, the Dominican Republic, the European Union and Venezuela.

It is also noteworthy that, with the exception of the European Union and Venezuela, the utilization rates¹⁰ of all of the subregion's existing bilateral Free Trade Agreements have contracted or remained fairly steady over the period 2007-2012. This suggests that the CARICOM countries may have been unable to transform their production systems in order to take advantage of the market access opportunities provided by these trade arrangements. The intuition is that for the Caribbean Community to be placed on a path towards sustainable development, care should be taken to ensure that the subregion's industrial policy informs its trade policy. This would ensure that the temptation to view the latter as a substitute for overall development policy is resisted (see table 3).

TABLE 3
TRENDS IN UTILIZATION RATES OF BILATERAL TRADE AGREEMENTS
(2001-2013)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Colombia	0.40	0.84	0.34	0.35	1.14	1.01	1.49	1.13	0.92	1.93	0.06	0.08	0.03
Costa Rica	0.15	0.06	0.09	0.07	0.04	0.22	0.51	0.56	0.47	0.97	0.02	0.01	0.01
Cuba	0.21	0.26	0.20	0.20	0.14	0.13	0.12	0.17	0.05	0.17	0.09	0.20	0.12
Dominican Republic	0.41	0.42	0.42	0.32	0.33	0.28	0.25	0.27	0.25	0.26	0.21	0.33	0.24
European Union 27	14.77	17.82	15.64	13.60	11.79	15.33	15.92	16.80	17.89	12.88	18.45	23.52	23.67
Venezuela (Bolivarian Republic of)	0.84	0.43	0.46	0.19	0.24	0.09	0.08	0.10	0.04	0.53	1.50	4.24	4.32

Source: United Nations Comtrade via World Integrated Trade Solution (WITS) database.

A. Key commodity exports and trade competitiveness

Having examined trends in bilateral trade flows as well as the relative importance of the respective bilateral trade agreements, it may be useful to highlight what have been the subregion's key exports to these markets. In this regard, the data show that the subregion's exports to the developing countries with which it has trade agreements in force are dominated by a narrow range of products, particularly mineral fuels, mineral and oils, fertilizers and organic chemicals, with Trinidad and Tobago being the leading exporter.

⁹ In contrast, in 2010 the Caribbean community generated positive trade balances with Cuba, Costa Rica, the Dominican Republic and Canada.

¹⁰ Exports to a country with which a Party has a FTA as a percentage of its total exports. It provides a rough measure of the extent to which a trade agreement has led to an increase in export share or relative importance of a specific export market.

TABLE 4
EXPORT SPECIALIZATION INDICES OF CARICOM TRADE WITH VARIOUS COUNTRIES AND REGIONS
(2013)

Greater Caribbean		Central America		South America		US		Canada	
Product Name	ES ^a	Product Name	ES ^a	Product Name	ES ^a	Product Name	ES ^a	Product Name	ES ^a
Live animals chiefly for food	1.01	Artificial resins, plastic materials, cellulose	4.80	Animals (live, zoo, dogs, cats)	32.81	Sugar, sugar preparations and honey	43.57	Sugar, sugar preparations and honey	34.35
Feeding stuff for animals, not including unmilled cereals	1.01	Beverages	4.33	Beverages	9.10	Electric current	24.14	Beverages	24.96
Tobacco and tobacco manufactures	1.01	Cereals and cereal preparations	4.27	Artificial resins, plastic materials, cellulose	4.69	Fish, crustaceans, molluscs and preparations thereof	18.55	Metalliferous ores and metal scrap	7.52
Hides, skins and furskins, raw	1.01	Gold, nonmonetary (excluding ores and concentrates)	4.26	Miscellaneous edible products and preparations	3.95	Beverages	14.71	Fish, crustaceans, molluscs and preparations thereof	7.47
Crude rubber (including synthetic and reclaimed)	1.01	Animals (live, zoo, dogs, cats)	4.08	Organic chemicals	3.61	Metalliferous ores and metal scrap	12.42	Vegetables and fruit	3.98

Table 4 (concluded)

Greater Caribbean		Central America		South America		US		Canada	
Product Name	ES ^a	Product Name	ES ^a	Product Name	ES ^a	Product Name	ES ^a	Product Name	ES ^a
Pulp and waste paper	1.01	Organic chemicals	3.91	Fish, crustaceans, molluscs and preparations thereof	3.58	Animals (live, zoo, dogs, cats)	7.14	Organic chemicals	3.75
Textile fibres (except wool tops and combed wool) and their wastes	1.01	Electric current	3.60	Sugar, sugar preparations and honey	3.02	Crude fertilizers and crude materials	4.76	Miscellaneous edible products and preparations	3.23
Coal, coke and briquettes	1.01	Fish, crustaceans, mollusc, preparations	3.08	Miscellaneous manufactured articles	2.88	Cereals and cereal preparations	4.13	Animals (live, zoo, dogs, cats)	3.15
Electric Current	1.01	Road Vehicles	2.84	Gold, nonmonetary (excluding ores and concentrates)	2.47	Coffee, tea, cocoa, spices and manufactures thereof	3.85	Cereals and cereal preparations	2.95
Animal-vegetable oils-fats, processes	1.01	Cork and Wood	2.44	Cereals and cereal preparations	2.08	Vegetables and fruits	3.52	Dairy product and birds' eggs	2.92

Source: United Nations Comtrade for World Integrated Trade Solution (WITS).

^a Export Specialisation Indices.

Note: RCA is revealed comparative advantage calculated as share of exports of a product in CARICOM with share of exports of the same product in the reference market.

Note: Greater Caribbean includes Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Curacao, French Guiana, Guadeloupe, Martinique, SintMarteen, Turks and Caicos Islands, Dominican Republic, and Cuba.

Note: Central America countries include Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Note: South America includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela (Bolivarian Republic of).

B. Greater Caribbean and Latin America

It may be misleading to make sweeping assertions about the region on the basis of these results. Broadening the scope, therefore, to include the subregion's major export markets and excluding mineral fuels, mineral and oils, fertilizers and organic chemicals may provide a better indication of the underlying nature of the subregion's bilateral trade. When this is done, using the export specialization index, the Caribbean Community's revealed specialization for the Greater Caribbean is dominated by primary commodities and agro-industrial products (live animals chiefly for food, feeding stuff for animals and tobacco and tobacco manufactures). The situation is similar for Central America (artificial resins, beverages), South America (Animals, beverages, artificial resins), United States (sugar; sugar preparations and honey, fish; crustaceans, molluscs and preparations thereof) and Canada (sugar; sugar preparations and honey, beverages, metalliferous ores and metal scrap) (see table 4).

In addition, the subregion has a marginal comparative advantage¹¹ with the countries of the Greater Caribbean (e.g. Cuba and the Dominican Republic). However, the Community possesses relatively higher levels of comparative advantage with Central and South American economies. Nevertheless, Latin America accounts for merely 5.9 per cent of the subregion's exports (2013).

C. CARIFORUM-EU Economic Partnership Agreement

With regard to trade under the CARIFORUM-EU EPA,¹² the leading export products from the Caribbean to the EU are fuels and mining products, particularly gas and petroleum, bananas, sugar, rum, gold, corundum, aluminium oxide and hydroxide, iron ore and fertilizers. More specifically, the exports of the OECS economies are highly concentrated in agricultural products destined for the EU, especially fruit and nuts, chiefly bananas, as well as prepared food products (Durán, Mc Lean *et al* 2014). It is noteworthy however, that the reciprocal preferential market access that subregional economies provide to varying degrees, broaden consumer choice and place downward pressures on prices thereby increasing consumer welfare.

The foregoing demonstrates that the subregion's exports invariably lie on the periphery of the production frontier. Moreover, the preferential market access provided by the EPA,¹³ and other trade agreements, has not been sufficient to facilitate substantive entry into tertiary industries, nor movement up the value chain. Hence what may now be required are interventions which can positively impact on the subregion's competitiveness by lowering input costs and enhancing labour productivity. Such interventions, policy and otherwise, should also promote pursuing product development, thereby fuelling a shift to the production of more sophisticated products and services. This notion will be further explored later in this document. It may be useful at this point however, to further investigate the Community's trade competitiveness, using the revealed comparative advantage (RCA) index.¹⁴

¹¹ The theory, first proposed by David Ricardo in 1817, that a country is more likely to export goods that it can produce relatively efficiently. This relative efficiency measure compares production costs of different goods in each country concerned.

¹² The Economic Partnership Agreement (EPA) between the CARIFORUM States and the European Union (EU) that was formally signed in October 2008 is a trade and development arrangement that provides CARIFORUM economies' goods and services exports favourable, reciprocal and asymmetric access into EU markets.

¹³ The EC has committed to granting duty free and quota free access with respect to goods from CARIFORUM States, which meet agreed rules of origin, with specific modalities put in place for sugar and rice. In addition, rules of origin and cumulation conditions have been relaxed. There are also relaxed qualifying conditions on a number of CARIFORUM exports, including those applicable to flour, biscuits and other bakery products; jams and jellies; chocolate confectionery; juices and drinks; garments, of both knit and non-knit fabric; and air conditioning units.

¹⁴ A country has a revealed comparative advantage when its share of exports of a good exceeds the equivalent share of exports of the world. The index ranges from zero (no exports of that commodity) to infinity.

D. Impact on trade competitiveness

Analysis of the data also reveals that the number of products for which the subregion commands a comparative advantage (a Revealed Comparative Advantage index greater than 1) has decreased across all of its major markets, including countries or groups of countries with which it has established trade-related arrangements, non-reciprocal or otherwise, over the periods 2003-2007 and 2008-2012. We can concede that the subregion's competitiveness has declined considerably in all of its major export markets, even in the presence of predictable, preferential market access in many instances (table 5 refers). The subregion has however managed to maintain a relatively significant level of comparative advantage with Central American economies.

TABLE 5
NUMBER OF PRODUCTS WITH COMPARATIVE ADVANTAGE
(HS 6 digit level)

	CARICOM	
	2003-2007	2008-2012
Canada	105	93
Colombia	31	12
Costa Rica	18	15
European Union	142	96
Southern Common Market (MERCOSUR)	39	17
SICA	112	103
United States of America	244	169
Venezuela (Bolivarian Republic of)	119	11

Source: World Integrated Trade Solutions Database (2014).

Turning now to the EU, when considering the subregion's trade under the EPA, over the past six years economies such as Guyana, Saint Kitts and Nevis and Saint Lucia have all experienced an acute contraction in the number of commodities for which they enjoy a comparative advantage with the EU. This provides an indication, at the product level, of the extent to which the relative competitiveness (goods) of the subregion has declined over the last decade.

Prior to the EPA, there were 58 commodities from Saint Lucia with comparative advantage in the EU market. This contracted to 32 commodities under the EPA. Forty commodities which commanded comparative advantage under the Cotonou Agreement¹⁵ moved to a state of comparative disadvantage in the EPA period. The primary commodities such as bananas, coconuts, rums, avocados and sweet potatoes account for most of Saint Lucia's comparative advantage, while the loss in comparative advantage from the 2001-2007 period to the 2008-2012 period occurred mainly in the manufactured commodities such as sugar production, expandable metal and horticultural agriculture sectors.

Similarly, Saint Kitts and Nevis gained comparative advantage in 23 products while retaining comparative advantage in eight commodities across the periods examined. Comparative advantage was lost in the agriculture and manufactured commodity sectors i.e. expandable metal and horticultural agriculture; as well as in value-added manufactured goods e.g. surf boards, digital data processing, wooden furniture, armoured reinforced safes etc. The commodities in which Saint Kitts and Nevis gained comparative advantage were mainly small manufactures.

¹⁵ The ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000.

Under the EPA, Barbados has comparative advantage in 109 commodities when compared to the period 2001-2007 where the exports of 122 commodities revealed comparative advantage. Barbados, however, managed to retain, and in most instances increase, comparative advantage in primary products such as animals and animal products, vegetable products and foodstuffs. Guyana's comparative advantage in the EU is dominated by primary products. However, despite losing comparative advantage in 37 commodities during the EPA period, the Guyanese economy gained comparative advantage in 13 commodities while retaining comparative advantage for 28 commodities, relative to 2001-2007. Furthermore, the commodities in which Guyana retained and gained comparative advantage were mostly primary products such as animals, animal products, vegetables and vegetable fats and foodstuffs (Mc Lean, Khadan et al, 2014).

From the competitiveness trends, it would appear that domestic production systems may have not been sufficiently transformed to optimize resource allocation and facilitate exploitation of strategic extraregional niche markets, where preferential access is offered. Solving this dilemma may require addressing, *inter alia*, the subregion's structural rigidities and gaps; absence of scale economies; and a deficient framework for increasing private sector development, access to finance and trade-readiness.

Intuitively, Caribbean economic integration by its very nature has been market driven, patently ignoring the supply-side capacity constraints of its economies, which in turn limited the ability to competitively satisfy import demand in FTA-partner markets. A strategy of resource-production integration may therefore have been more feasible (Farrell 2001). Further, the liberalization of services trade with the developing economies with which the Community currently has formal trade arrangements in place may provide avenues for CARICOM economies to exploit comparative advantages in key sectors (e.g education, health, professional, creative industries and tourism).

It is interesting to note, however, that intra-regionally, trade complementarity (goods) among the economies of the OECS is relatively more robust when compared to that among CARICOM Members in general, suggesting that OECS countries are more natural trading partners. Not surprisingly therefore, work undertaken by ECLAC has shown that trade among OECS countries is more balanced. (Mc Lean, Duran et. al, ECLAC, 2014). If leveraged properly, the OECS regional integration process could thus succeed in securing the requisite development resources geared at redressing the structural gaps which constrained the productive capacity and export competitiveness of its economies. Considering that the EU has generated the highest utilization rates of the six countries or groups of countries with which the Caribbean Community has established formal bilateral trade agreements, the subregion's performance under this arrangement undoubtedly necessitates deeper study.

E. Export competitiveness under the CARIFORUM-EU EPA

TradeCAN analyses¹⁶ which assess the export competitiveness of countries allows for interesting conclusions to be drawn in respect of the composition and international competitiveness of the subregion's goods exports. The analysis categorizes bilateral exports based on relative export competitiveness. More specifically, a sector is classified as dynamic if its share in the world demand has increased over a period of time relative to other commodities, while a sector experiencing a fall in the share of world demand is referred to as a stagnant sector. With regard to bilateral exports, a commodity is classified as a rising star if it gains market share in a dynamic commodity, while a declining star refers to an export commodity that gains market share in a stagnant commodity market. Alternatively, a missed opportunity refers to an export commodity that loses market share in a dynamic commodity market; while a retreat refers to an export commodity that loses market share in a stagnant commodity market (see annex A.1).

¹⁶ TradeCAN calculations are derived from 4 digit SITC merchandise trade data.

At the aggregate level, it would appear that in the presence of the EPA, a significant proportion (59 per cent) of CARICOM exports are positioned as rising stars.¹⁷ In addition, the subregion's missed opportunities (e.g. spirits and liqueurs and sugars), declining stars (e.g. rice and minerals)¹⁸ and retreats (e.g. petroleum oils, aluminium ores and concentrates) in the EU market have also contracted (see table 6).

TABLE 6
CARIFORUM'S COMPETITIVENESS MATRIX
(2001-2003 to 2008-2010)

CARICOM competitiveness matrix					
		Stagnant Sectors		Dynamic Sectors	
		2001-2003	31.28	2001-2003	68.72
		2008-2010	21.30	2008-2010	78.70
Market Share Gain		Declining Stars		Rising Stars	
2001-2003	40.87	2001-2003	6.90	2001-2003	33.97
2008-2010	65.95	2008-2010	3.96	2008-2010	61.99
Market Share Loss		Retreats		Missed opportunities	
2001-2003	59.13	2001-2003	24.38	2001-2003	34.75
2008-2010	34.05	2008-2010	17.34	2008-2010	16.71
Dominican Republic's competitiveness matrix					
		Stagnant Sectors		Dynamic Sectors	
		2001-2003	17.65	2001-2003	81.78
		2008-2010	3.92	2008-2010	96.05
Market Share Gain		Declining Stars		Rising Stars	
2001-2003	57.95	2001-2003	10.13	2001-2003	47.82
2008-2010	67.12	2008-2010	3.08	2008-2010	64.04
Market Share Loss		Retreats		Missed opportunities	
2001-2003	41.48	2001-2003	7.52	2001-2003	33.96
2008-2010	32.85	2008-2010	0.84	2008-2010	32.01

Source: Calculations from TradeCAN (2012).

^aThis is based on the percentage of exports in the final year.

More careful analysis of these seemingly promising trends reveal that under the EPA, CARICOM rising stars category are dominated by petroleum gases (which accounts for 46 per cent of CARICOM merchandise exports to the EU); iron and steel powders; and bananas. Further, differences in resource endowment and levels of development among CARICOM countries have invariably influenced their relative competitiveness in the EU market. Moreover, most of the OECS's exports to the EU are classified as missed opportunities,¹⁹ suggesting that export shares are falling in commodities where demand in the EU is rising.

The high proportion of missed opportunities for the OECS countries may be attributable to their small economic size and relative inefficiency of production systems. Their inability to achieve the requisite economies of scale needed to substantively improve their competitive position in the larger EU market and capitalize on emerging export opportunities are also failings. Generally, these results do not appear to be encouraging for merchandise exports from the OECS countries in the EU market (Mc Lean, Khadan et al, 2014).

¹⁷ An export commodity that gains market share in a dynamic commodity market, i.e. where the share of world demand has increased from a base year to a final year in relation to other commodities.

¹⁸ Refers to an export commodity that gains market share in a stagnant commodity market.

¹⁹ An export commodity that loses market share in a dynamic commodity market.

The analysis²⁰ also unmask a clear disparity between the competitiveness of the Dominican Republic and CARICOM exports in the EU market, under the CARIFORUM-EU Economic Partnership Agreement (EPA). When considering goods exports of CARIFORUM countries, in the presence of the EPA, the Dominican Republic's comparative advantage and trade complementarity²¹ with the EU has improved, while that of CARICOM has remained weak and in decline. The latter will be examined more closely in the subsection that follows.

The development support and improved market access provided under the CARIFORUM-EU Economic Partnership Agreement, as well as the oil for food programme under the PetroCaribe initiative with Venezuela may have provided impetus for increased utilization to these countries. Given the longstanding trading relationship that the Caribbean has had with Europe, the resurgence in the importance of the European market within recent time should be viewed with some measure of optimism. This notwithstanding, the analysis points to the existence of a more pervasive decline in the subregion's export competitiveness, which is not limited to its bilateral trade agreements. The crafting of remedial policy prescriptions with broad applicability across economies of the Caribbean Community may therefore necessitate a look at the underlying challenges, which have beset the subregion's efforts to capitalize on the market and investment opportunities furnished by these trade arrangements.

²⁰ E.g. using TradeCAN, Vector Autoregressive, Partial Equilibrium Analysis and Gravity models and computing Revealed Comparative (RCA) Index.

²¹ Assessed using computations of RCA and TCI indices, respectively.

IV. Challenges to export expansion

Despite the fact that CARICOM has negotiated trade agreements with the primary objective of increasing the region's exports, preliminary evidence suggests that its efforts have met with limited success thus far.

The inability of subregional economies to penetrate markets even where free or preferential trade agreements govern bilateral trade is likely attributable to several factors. Here, two sets of factors are examined. Firstly, issues relating to the nature of comparative advantage and trade complementarity between CARICOM countries and their trading partners, and secondly, other structural gaps and non-tariff measures, which may impede trade flows.

A. Trade complementarity

The trade and production structure of CARICOM countries and their bilateral partners is an important ingredient in determining how effective bilateral trade agreements can be in boosting trade outcomes. Theory suggests that if countries share a strong level of trade complementarity in diverse products, that is, a high level of bilateral trade complementarity, then, greater trade can be generated from free trade agreements. To examine this issue, trade complementarity indices²² were utilized, which relate to the comparative advantage of the exporting country (CARICOM countries) to the comparative disadvantage of the importing partner, weighted against world trade.

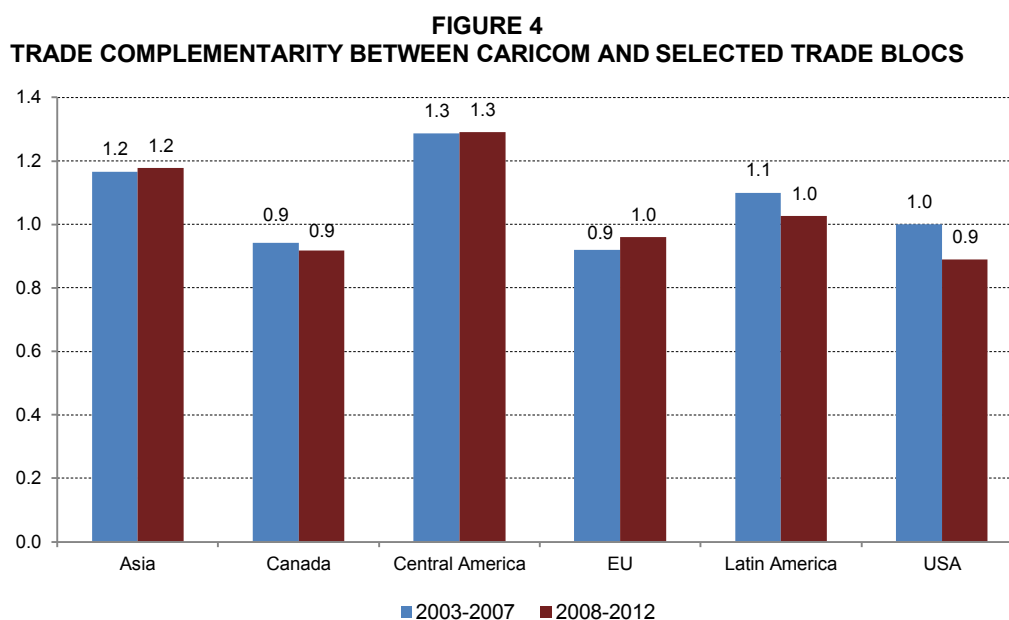
In respect of goods, the Caribbean²³ has relatively higher and increasing complementarity with the Central American Integration System (SICA)²⁴ and Asia suggesting that these economies may be the subregion's natural trading partners (see figure 4). Further, the Caribbean Community's

²² The computation of the Trade Complementarity Index is an empirical technique that can be used to assess the extent to which the export specialization and the import specialization of trade partners complement each other in relation to world trade.

²³ As defined by the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC).

²⁴ UNECLAC Port of Spain subregional headquarters for the Caribbean.

complementarity²⁵ where it exists with the Southern Common Market (Mercosur), Latin America, Africa and Asia are restricted to a limited number of distinct commodities.²⁶



Source: Jeetendra Khadan and Roger Hosein, 2013.

Most CARICOM countries exhibit a low-level of trade complementarity with Venezuela and Colombia, but to a lesser extent with Costa Rica (see table 7). The results show that the trade complementarity between the listed CARICOM countries and Venezuela has declined over the period examined. Moreover, the trend in trade performance also indicates that trade complementarity between all the listed CARICOM countries with Venezuela has weakened over the past decade. A similar situation is also observed for Colombia. However, in the case of Costa Rica, the Bahamas, Barbados, Dominica, Grenada, Saint Lucia and Saint Vincent all have index values marginally above 1, which suggests that there may be productive 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 utilization rate of the CARICOM-Venezuela Agreement has been increasing. However, there have been questions in respect to the sustainability of the PetroCaribe initiative over the medium-term.

With regard to the EU, Trade Complementarity Index (TCI) values for CARICOM are just marginally above the threshold value of 1, which indicates that bilateral trade complementarity²⁷ between CARIFORUM and EU are generally low. This suggests that the EU may not be a natural trading partner of the region. More specifically, trade complementarity between Barbados and 6 EU members (Czech Republic, Germany, Hungary, Italy, Poland and Slovakia) are below 1 for the two periods under consideration. With the exception of Luxemburg, Latvia, Netherland and Slovenia, a general but marginal improvement in trade complementarity is recorded with the other EU members in

²⁵ These vary from aluminium ore and concentrates, petroleum products soaps and cleaners, sugar and molasses and honey in Latin America and MERCOSUR; electrical switches, relays and circuits, soaps and cleaners and petroleum products in Central America for example.

²⁶ Jeetendra Khadan and Roger Hosein, *The Natural Trading Partner Theory, Trade Complementarity and CARICOM Trade Patterns: 2000-2010*, University of the West Indies, St. Augustine Campus, 2011.

²⁷ Trading partners are considered to be natural if their trading structure is characterized by a high degree of complementarity. That is, if one country tends to import what their prospective partner exports. (Schiff (2001). FTAs between natural trading partners are expected to be more welfare enhancing.

the presence of the EPA (i.e. across periods 2003-2007 and 2007-2012). Barbados' highest level of bilateral trade complementarity is with Cyprus. Guyana on the other hand, has trade complementarity indices below 1 with 18 of the selected EU countries for both time periods. Moreover, of the 6 EU countries where complementarity was above 1 during 2003-2007, trade complementarity was eroded for 5 EU countries during the implementation of the EPA period; which indicates that alternative sources of supply in the world are becoming more competitive than Guyana's exports in the EU market. Guyana's trade complementarity for Austria and Slovenia is increasing. (Mc Lean, Khadan et al, 2014).

The inability to engage in Community-wide production integration has contributed to the fact that trade complementarity within the Caribbean has traditionally been, and continues to be, low and essentially limited to primary products. The Eastern Caribbean Currency Union (ECCU) however, enjoys greater levels of trade complementarity among its economies than with the rest of the Caribbean,²⁸ suggesting that it has the potential to deliver trade-led growth if the process towards strengthening the economic union is managed properly. What is equally crucial is that the subregion generally has a relatively low trade complementarity with the EU and North America.

B. Structural gaps

It would appear that inherent structural gaps, particularly in the areas of quality infrastructure, interconnection, productivity and competitiveness have limited the ability of Caribbean economies to transform domestic production systems and increase trade competitiveness. These have consistently belied the Caribbean Community's efforts at production integration and increasing trade competitiveness, and require bridging through, inter alia, the production of key regional public goods. Indeed, there is an absence of modern sanitary and phyto-sanitary (SPS) and quality infrastructure across all CARICOM countries.

The Community's exports to the United States are largely concentrated in commodities, agricultural and agro processing products. Accordingly, CARICOM exporters have increasingly complained that the stringent regulations under the US Food Safety Modernization Act affect their sales to this country. This highlights the increasing need for the Community to focus on modernizing regional sanitary and phytosanitary infrastructure, to ensure CARICOM ability to satisfy food safety requirements in its major markets. This is important considering the region's comparative advantage in food products in the US market (e.g. sugar and sugar preparations, beverages, fish and fish products, vegetables and fruit, cereals and cereal preparations, coffee, tea, cocoa, spices and manufactures thereof).

High transportation and logistics costs; an inadequate policy framework for encouraging innovation which limits production diversification and an unsustainable over-reliance of many member states on imported fossil fuels have also emerged as substantive barriers to increasing the subregion's exports. In respect of the former, trade facilitation is an important lever for increasing administrative efficiency and reducing transaction costs associated with the clearance of goods.

However, logistics costs for Caribbean countries are estimated to account for 20 per cent of product costs, when compared to a global average of 10 per cent (CARICOM, 2013). High shipping costs experienced by CARICOM countries also adversely affect their competitiveness and options for tapping into regional or global value chains. In particular, the fact that only Guyana and Suriname share a land border highlights the importance of efficient maritime transport infrastructure. In this context, the CARICOM countries have included the creation of a rapid trans-shipment service in the southern Caribbean and the modernization of regional port infrastructure among the five "anchor projects" of their 2013-2015 Regional Aid-for-Trade Strategy. It is hoped that international resources will be mobilized to implement these projects (McLean and Yoshida, 2014).

²⁸ UN ECLAC Port of Spain subregional headquarters for the Caribbean. See also Jeetendra Khadan and Roger Hosein, *The Natural Trading Partner Theory, Trade Complementarity and CARICOM Trade Patterns: 2000-2010*, University of the West Indies, St. Augustine Campus, 2011.

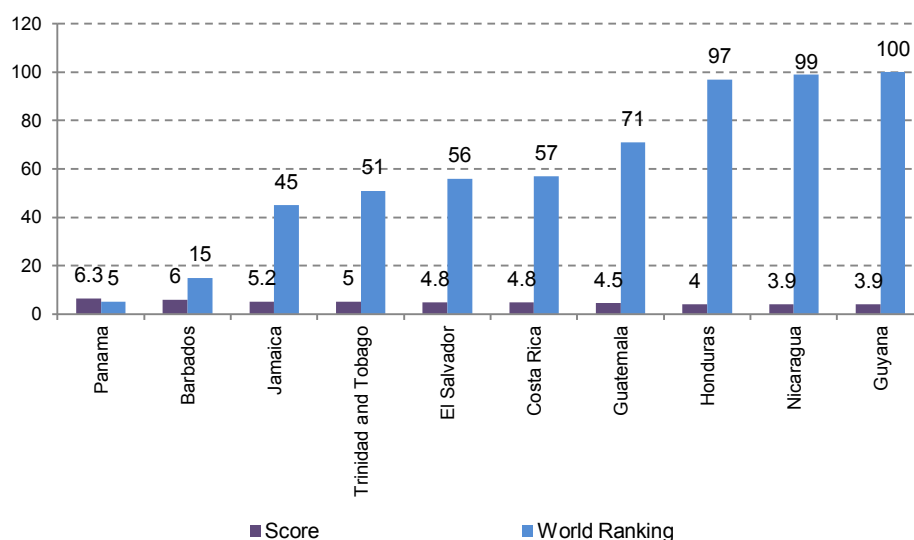
TABLE 7
TRADE COMPLEMENTARITY INDICES FOR CARICOM COUNTRIES AND
THEIR TRADING PARTNERS
(2001-2005 to 2006-2010)

	Bahamas	Belize	Barbados	Dominica	Grenada	Guyana	Jamaica	Saint Lucia	Suriname	Trinidad and Tobago	Saint Vincent and the Grenadines
Colombia	0.70	0.43	1.06	1.46	0.99	0.53	0.52	0.85	0.13	0.70	0.92
	0.82	0.51	0.89	1.16	0.96	0.57	0.61	0.81	0.15	0.59	0.97
Costa Rica	0.87	0.51	1.50	1.84	1.20	0.72	0.36	1.13	0.19	1.16	1.38
	1.09	0.67	1.19	1.46	1.13	0.74	0.63	1.17	0.27	0.95	1.41
Venezuela (Bolivarian Republic of)	1.14	0.86	1.85	2.01	1.68	1.07	1.08	1.33	0.19	1.04	1.57
	0.66	0.72	0.94	1.28	1.09	0.57	0.34	0.98	0.11	0.27	0.91

Source: Khadan and Hosein (2014)

Air transport between the CARICOM countries has a number of similarities to sea transport. Coverage was estimated to be equivalent to 23 per cent, leaving some islands practically disconnected from one another. The Bahamas, Dominica, Haiti and Saint Kitts and Nevis are especially lacking in connections with the other countries (CARICOM, 2009) (see figure 5).

FIGURE 5
CENTRAL AMERICA AND CARICOM: QUALITY OF INFRASTRUCTURE IN AIR TRASPOT ACCORDING TO GLOBAL COMPETITIVENESS REPORT 2013-2014



Source: Corden M. based on data from The Global Competitiveness Report 2013-2014.

The small cargo volumes originating from the Caribbean predispose shipping services to be irregular and expensive. This is further compounded by the fact that only 3 of the 17 most important ports in CARICOM are global and regional trans-shipment hubs (Kingston in Jamaica, Freeport in the Bahamas, and Port of Spain and Point Lisas ports in Trinidad and Tobago) (Sánchez and Wilmsmeier, 2009). The other islands are not served by international shippers so this service is provided by small feeder vessels that trans-ship cargo between the small ports of the Eastern Caribbean (Cordero, 2014). A mere five ports accounted for 84 per cent of total containerized cargo handled by the ports of the Greater Caribbean in 2010-2012, with the Dominican Republic and Cuba accounting for 26 per cent (Duran, Mc Lean et al, 2014).

Beyond issues of trade complementarity, productivity at the farm, firm, industry and sectoral levels, transportation and logistics, there are more fundamental regulatory and procedural issues which have constrained the subregion's exports. Some of these will be examined in the next subsection.

C. Non-tariff measures²⁹

Foreign exchange restrictions in Venezuela have constrained the ability of importers to make payments thereby placing downward pressures on demand for Caribbean exports. In addition, the private sector has expressed the view that product registration in Venezuela is non-transparent, lengthy, costly and complex (CARICOM Secretariat, 2014). With regard to trade with Colombia, it appears that in addition to transportation costs there are other obstacles to the subregion's exports. However, there are excise and other taxes, which are disproportionately applied to alcoholic beverages originating from CARICOM countries due to the higher alcohol content. The private sector has also indicated that there are obstacles to entering and operating in Colombia's market and the rules of origin under the Agreement are administratively burdensome. In addition, tariffs on goods not covered by the Agreement have increased. In respect of Cuba, currency controls have created similar problems as experienced in Venezuelan

²⁹ Government measures other than tariffs that restrict trade flows, such as quotas, import licensing systems, sanitary regulations, prohibitions, etc. The discussion here also includes issues relating to foreign exchange restrictions and currency controls.

market. The absence export financing in many CARICOM economies for tapping into the Cuban market has also been highlighted by subregional economic operators. Furthermore, the process of registering as a potential supplier in Cuba is considered to be extremely lengthy and complex.

The challenges which have moderated the ability of the subregional economic operators to capitalize on export opportunities under the CARICOM-Dominican Republic FTA are not dissimilar to those experienced in the Colombian market. The Dominican Republic's Law 173, by mandating that exporters sign exclusive distributorship agreements, places distribution restrictions on exporters from the Caribbean Community. There are also several technical barriers to trade (TBTs) in place, such as non-recognition of certifications by CARICOM standards certification bodies, which is further exacerbated by the absence of a dispute resolution mechanism in the agreement.

The subregional private sector has also highlighted administrative burdens, including excessive documentation and the need for certified Spanish translations and uneven market conditions, such as subsidies for Dominican Republic products and a lack of international trademark protection as issues which have reduced their competitiveness in the Dominican Republic market (CARICOM Secretariat, 2014). Similarly, subregional exporters have highlighted costly and burdensome product registration procedures, distribution restrictions,³⁰ which have become less onerous, and some unfair competition, as the primary issues impacting negatively on the Caribbean Community's exports to Costa Rica.

While not providing a panacea for the subregion's poor trade performance, particularly under its bilateral trade agreements, there are key recommendations and policy prescriptions emerging from the foregoing analysis and discussion, which may go a long way to reversing the decline in the subregion's trade competitiveness and increasing export concentration in primary products. The most pertinent of these are presented in the following chapter.

³⁰ Enshrined in Law 6209.

V. Policy prescriptions and the way forward

The underperformance of the Caribbean Community's formal trade arrangements with not only other developing economies, but also industrialized countries, suggests that for the subregion, trade agreements are a necessary, but not sufficient condition for increasing exports. For the latter to occur, countries of the Caribbean Community may need to address structural rigidities and transform production systems including improving the business environment since it is firms that will ultimately trade. (Mc Lean *et. al.*, UNECLAC 2014).

What should engage the immediate attention of regional policy makers and international development partners (IDPs) is the creation of necessary conditions to allow bilateral trade arrangements to become genuine tools for expanding and diversifying the exports of the Caribbean Community. This would allow individual economies to optimize the welfare gains that can accrue from the current milieu of bilateral trade agreements. It is equally important to note that the fiscal consolidation programmes being instituted in many member states, increasing trade deficits, and high levels of debt have somewhat dampened enthusiasm for deepening trade and economic integration. Moreover, many subregional economies are carrying persistent fiscal deficits which limit the resources available to modernize trade-related infrastructure and institute export development regimes.

A. Structural transformation and the role of development cooperation

The results of the analyses undertaken here point to the existence of systemic structural gaps which have led to a steady decline in competitiveness and trade complementarity of many Caribbean economies across bilateral trading partners. It is therefore crucial that the subregion seek to reduce key structural gaps, including cross-sectoral gaps between CARICOM Member States, which have constrained the ability of Caribbean economies to transform production systems and optimize resource allocation. Consequently, each CARICOM economy continues to specialize in periphery products with little opportunity for structural change (See Hausmann, and Klinger 2009). Targeted inventions are now

needed to impact regional competitiveness by lowering input costs, enhancing labour productivity and facilitating a shift towards the production of more sophisticated goods and services. (See Thaddéeet *al.*, 2013).

A critical first step in this direction, however, would be moving towards broader comparative advantage-based regionalized production, which is complemented by Aid-for-Trade (AFT) resources, south-south development cooperation and private-public sector partnerships geared at producing key competitiveness enhancing public goods in the areas of transport, Information and Communication Technology (ICT), innovation and energy³¹ (Mc Lean, et. al., UNECLAC, 2014). Indeed, the inability to modernize key economic infrastructure in these aforementioned areas has adversely affected the productivity and competitiveness of economies of the Caribbean Community. This has in no small way contributed to the existence of significant untapped opportunities for trade in intermediate goods, which is the building block of value-chains, thereby limiting opportunities for participation in regional or global value chains.

This notwithstanding, the Caribbean is now largely a middle income region. This graduation, coupled with an increasing focus of official development assistance on social services and social infrastructure, has led to a secular decline in Aid for Trade flows into the Caribbean since 2008, with AFT inflows estimated at US\$ 371 million in 2012. However, many of the structural impediments to broad-based growth and development of Caribbean Community economies go beyond the social sector and individual economies differ in the capacities to address same.

These structural gaps should by necessity be factored into a broader set of indicators which would modify consideration of per capita income in determining access to development cooperation resources. Such an approach would also require sensitivity to the existence of considerable heterogeneity between and within low, middle and high-income countries (ECLAC 2012), thus avoiding the adoption of a one size does not fit all approach. There must therefore be a willingness on the part of regional governments to work together, along with their International Development Partners (IDPs) and the private sector to collectively address the key drivers of regional productivity and competitiveness in a coordinated and coherent manner.

It has been noted that trade between CARICOM and Central America has shown a higher degree of trade complementarity when compared with the other regions, due to production specialization. The creation of efficient maritime transport networks, including capitalizing on Panama's advances in air and maritime infrastructure and connectivity will allow the subregion to exploit this complementarity in export and import structures between the two regions. However, differences in business culture as well as language are distinct limitations to expanding bilateral trade.

B. Private sector development

The analysis has shown that the subregion has a high degree of export specialization and trade concentration. This suggests the need for a regional platform for the diversification (horizontal and vertical) of its economies, which would invariably necessitate the facilitation of private sector development, particularly small and medium enterprises. The crafting of a harmonized suite of incentives, loan guarantees, export financing, region-wide export strategies, targeting increased exports of goods and services to Latin America should therefore engage the attention of regional policy makers, private sector bodies and international development partners (IDPs).

It may also be useful establish a framework for the periodic conduct of market intelligence and export potential research of Latin American markets, inclusive of a mechanism for the dissemination of

³¹ Further, production in many CARICOM economies is heavily dependent on imported intermediate goods and hydrocarbons. In respect of the latter, it has been estimated that the PetroCaribe initiative, has financed oil purchases estimated to be in the region of 3.5% of subregional GDP and 6% of GDP of the ECCU economies.

the results established.³² Additionally, it is imperative that greater support (institutional and financial) be provided for strengthening the capacity of CARIFORUM countries to effectively implement and administer trade agreements in general.

C. New energy portfolio

With the exception of Trinidad and Tobago and Suriname, high energy costs rooted in the dependence on imported fossil fuels as the primary source of energy has reduced export competitiveness and limited industrialization in the Caribbean. It is therefore important that the development cooperation efforts (e.g. donor funding, low-cost financing for renewable energy projects, transfer of energy technology and training) target assisting the subregion to create a new energy portfolio consisting of a mix of renewable energy sources, bioenergy and fossil fuels.

D. Food safety and product quality infrastructure

As bilateral and plurilateral trade agreements reduce tariffs in countries and groups of countries with which the subregion has trade agreements in place, there has been an increase in the use of health, food safety and quality-related measures (i.e. sanitary and phyto-sanitary (SPS) measures,³³ standards, technical regulations (e.g. packaging and labelling requirements) etc.) and other non-tariff measures (NTMs),³⁴ as instruments of trade policy. Economic operators in the subregion have expressed concern with regard to the deleterious effect that these measures are having on export diversification and promotion efforts. Hence, beyond attempting to establish a modern, harmonized regime of health and food safety legislation and regulations, as well as quality infrastructure to ensure the exporters meet food and product standards in these export markets, mechanisms should also be instituted to ensure that the regional private sector is made aware of new instruments and regulations, including technical barriers to trade (TBTs),³⁵ that may affect them.

E. Innovation and intellectual property

Given the subregion's declining export competitiveness and trade complementarity, in many instances, it is crucial, going forward, that regional policy makers see the accumulation of physical (technology) and human capital, which facilitates more efficient use of available resources, as a necessary ingredient in diversifying regional economies and fuelling export expansion. In this way, investing in a subregional framework for promoting innovation, intellectual property protection, research and development (R&D) as well as technology transfer and absorption would provide a crucial lever for increasing region-wide total factor productivity and diversification of the goods and services produced in individual member states. Given that research, development and moving up the value-chain invariably require an adequate stock of human capital, investment and development cooperation initiatives in educating, training and retooling the labour force may also be necessary.

F. Capitalizing on comparative advantages in services

It is equally important that the goods and services sectors be developed in a complementary manner. In this regard, it may be useful to institute domestic and subregion-wide programmes for promoting clustering of the food, creative industries, maritime and tourism sectors. Such innovative clustering

³² This information should be compiled into a database of, *inter alia*, tariffs and non-tariff measures; market entry requirements; business and trade regulations; buyers, suppliers and distributors; business support organizations; and sector profiles.

³³ Border control measures necessary to protect human health, animal or plant life or health.

³⁴ Government measures other than tariffs that restrict trade flows, such as quotas, import licensing systems, sanitary regulations, prohibitions, etc.

³⁵ These are impediments to trade resulting from existence of standards and conformity assessment systems.

initiatives have the potential to not only diversify production and exports but also address the current spatial concentration of production that has moderated subregional efforts to use trade as an engine of sustainable growth.

In parallel, a process of exploring avenues for broadening the scope and coverage of existing bilateral trade agreements and removing existing barriers to trade highlighted in this paper, through, *inter alia*, negotiating of the incorporation of competition policy, dispute settlement and safeguard provisions should be developed. With respect to extending the coverage of the respective agreements, this should not be restricted to the inclusion of additional goods of export interest to the subregion which currently do not enjoy preferential market access. There should also be a built in agenda for the liberalization of trade key services, such as tourism, creative (industries), professional, financial, engineering, architecture and construction.

Accordingly, given that several Caribbean countries are services-based economies, and many are disproportionately dependent on tourism, policies that can assist in improving tourist inflows and investment, including the establishment of mutual recognition agreements (MRAs), should be actively pursued within the framework of these formal trade arrangements. Work done by ECLAC has also highlighted the fact that the requirement of a tourist or business visa³⁶ inhibits access to some countries thus, can be identified as a limiting factor to tourism and investment. The promotion of greater openness can be a great asset to the region given that this would allow for great opportunities to construct a platform for tourism and investment inflows from Central America (Duran, Mc Lean *et. al.*, UNECLAC, 2014). It may also be useful, when expanding the scope of the existing trade agreements with other developing countries to include a services regime, to ensure that the presence of natural persons (i.e. mode 4 of services delivery) is addressed.

The ability of such initiatives to generate welfare gains, however, hinges on the development of improved air transport services between Latin America and CARICOM thereby facilitating deeper trade and economic integration. In this regard, greater cooperation between inter-regional airlines is necessary for increasing connectivity. Cooperation between the blocks and the airlines, including the negotiating of Open Skies agreements, is indispensable to the creation of new routes.

While the analyses and discussions undertaken here have thrown up useful areas for further study, they do point to priority areas for policy intervention and development cooperation necessary for expanding the subregion's exports under its bilateral trade agreements. This notwithstanding, further empirical work may be required on the subregion's comparative advantage and trade complementarity structures; intensive and extensive margins; search costs; mechanics of trade at the firm level; trade-related regulatory framework and infrastructure in order for more targeted short and long run solutions to be offered and for recommendations to be made regarding the sequencing of reforms, including of regional institutions.

³⁶ Notably, individuals from Central America travelling to Antigua and Barbuda, Grenada, Guyana, Jamaica and Suriname all require a tourist and business visas for access. There are very few CARICOM countries that allow access without visas to its Central American counterparts; the most accommodating are the Bahamas, Saint Kitts and Nevis and Saint Vincent and the Grenadines. Whereas, travel to other CARICOM countries from Central America requires either a business or tourist visa.

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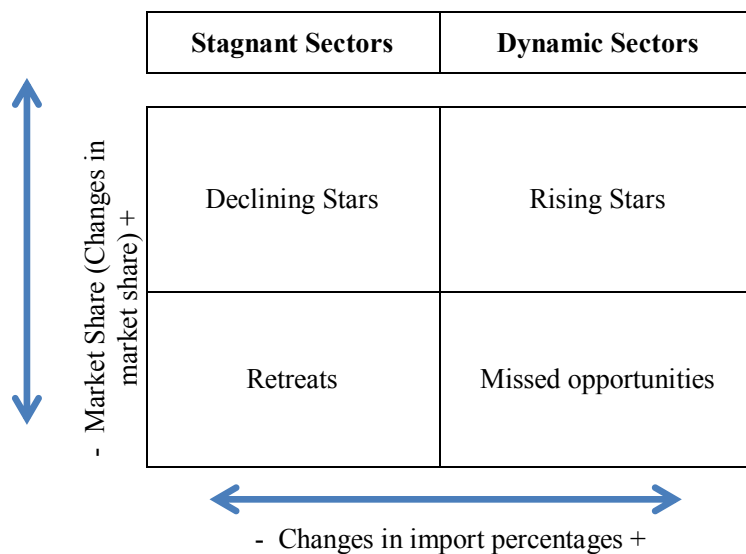
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Annex

Annex 1

**FIGURE A.1
TRADE COMPETITIVENESS MATRIX**



Source: Cimoli and Maio (2004)



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