SERIE

105

comercio internacional

Caribbean trade and integration: trends and future prospects

Marie Freckleton

Nanno Mulder

Andrea Pellandra

Esteban Pérez Caldentey

NACIONES UNIDAS

CEPAL

Division of International Trade and Integration

Santiago, Chile, December 2010

This document has been prepared by Marie Freckleton, Senior lecturer at the University of the West Indies – Kingston, Jamaica, Nanno Mulder, Economics Affairs Officer of the Division of International Trade and Integration of the Economic Commission for Latin America and the Caribbean (ECLAC), Andrea Pellandra. Economics Affairs Officer of the Division of International Trade and Integration, ECLAC, and Esteban Pérez Caldentey, Economics Affairs Officer at the Special Studies Unit, ECLAC.

The authors wish to thank Dillon Alleyne, German King and Roberto Machado for their contributions and Osvaldo Rosales, Mikio Kuwayama, Micheal Hendrickson, and other colleagues of the Division of International Trade and Integration of ECLAC and the ECLAC Subregional Headquarters for the Caribbean in Port of Spain, Trinidad and Tobago.

United Nations publication

ISSN 1680-869x

ISBN: 978-92-1-121751-3
E-ISBN: 978-92-1-054520-4
LC/L.3277-P

Sales N°: E.10.II.G.82

Printed in United Nations, Santiago, Chile

Contents

Table index

Figure index

Box index

Abstract

This paper analyses recent trends and future prospects in the Caribbean Community (CARICOM), an incomplete customs union of 15 States in the Caribbean that includes most English speaking countries in the region plus Haiti and Suriname. In these small economies, the promotion of exports is of utmost importance, as in the medium term these are the only means to pay for the import of capital goods, intermediate inputs and technology necessary to build up their economic infrastructure. This study reviews first the progress made with reforms to complete the CARICOM Single Market and Economy (CSME) by 2015, concluding that important advances have been made towards this goal, but many obstacles remain. In this context, the implementation of the single economy component of the CSME, which should have started in 2009, needs to be fast-tracked. In particular, CARICOM needs to establish a mechanism to manage the implementation of decisions taken by the Heads of Government Conference. Also, the Community must strengthen the special treatment of its most disadvantaged members, as the recently created CARICOM Development Fund is probably not sufficient to fulfill this goal. Second, the paper analyses CARICOM's recent trade performance. Intra-subregional trade represents a small share of the total, and is skewed towards few countries and a handful of products. Export diversification efforts under way in the Caribbean are moving in the right direction, but the process needs to be accelerated by strengthening local technical capacities of producers. Also, tourism services need to be linked more strongly to the creative industries and domestic agriculture with a view to enhancing production and employment spillovers. Third, the paper evaluates progress on the Economic Partnership Agreement (EPA) with the European Union now in force, which offers great opportunities both to boost trade and investment with Europe and to enhance trade integration within the Caribbean itself. Implementation of the EPA has been slow, in part because several small CARICOM economies lack technical resources and disbursements from the European Development Fund to help these countries

have been slow. Moreover, the implementation of the EPA requires CARICOM and the Dominican Republic to rapidly resolve their differences over the tariff treatment of exports from the Dominican Republic to CARICOM. The CARICOM member countries need to position themselves better to capitalize on the market access provided by the EPA and thereby diversify their exports. This requires countries to take full advantage of the financial and technical assistance available under the EPA with a view to developing production capacity, strengthening institutions and improving competitiveness. Finally, in the context of the very limited financial resources of Caribbean countries, this study highlights the key role of Aid for Trade to strengthen the region's ability to capitalize on international trade opportunities. CARICOM should encourage donors to improve the implementation and effectiveness of AfT initiatives by correcting the main shortcomings identified by beneficiaries.

Introduction

The global economic and financial crisis has exacerbated the economic difficulties of Caribbean economies, revealing once again their vulnerability to external shocks. To return to a more stable economic growth path, the Caribbean countries will need to tackle simultaneously four key issues: (i) deepening of subregional integration by taking concrete steps toward the implementation of commitments made thus far and correcting existing deficiencies and weaknesses of the ongoing Caribbean integration process; (ii) empowerment of institutional and human-resource capacities to take full advantage of the opportunities that trade agreements with developed economies offer, particularly the Economic Partnership Agreement (EPA) with the European Union; (iii) diversification of exports to promote value generation, knowledge incorporation and productivity upgrading in export-related activities; and (iv) enhancement of intra- and extra-regional cooperation efforts to relax "supply-side constraints" including increased financial resources (including those available from Aid for Trade (AfT) initiatives) to overcome such constraints in the face of increasingly difficult fiscal balances and limited financial resources in the region.

This paper analyses recent trends and future prospects of the Caribbean Community (CARICOM), which is an incomplete customs union of 15 states in the Caribbean including most English-speaking countries in the region, Suriname and Haiti. This analysis of trends and the outlook for CARICOM is timely for several reasons. First, the Community is in the middle of a process of reforms to complete the Caribbean Single Market and Economy (CSME)[1] by 2015, and it is thus useful to take stock of the progress made so far towards this goal. Second, countries in the region have been hit hard by the global economic and financial crisis, in part because their economies and public finances were already fragile

[1] The purpose of the Caribbean Single Market and Economy is to establish a single economic area in which businesses can operate and work can be conducted to boost productive efficiency and foster higher levels of investment and trade integration.

before entering the turmoil. These events have diverted the attention of policymakers to mostly domestic issues, while postponing the implementation of various subregional integration commitments already in the pipeline. Third, in 2008 an EPA with the European Union entered into force. Given the potential that EPA offers for strengthening Caribbean trade integration, it is opportune to assess the implementation status of this Agreement. Fourth, it is necessary to take stock and assess the initiatives, programmes and policies (both in place and forthcoming) aimed at diversifying the region's highly concentrated export base.

Member countries of CARICOM are very heterogeneous with population sizes ranging from 4,500 in the case of Montserrat to 10 million in the case of Haiti, while gross domestic product (GDP) (excluding Montserrat) ranged from US$ 543 million for Saint Kitts and Nevis to US$24.1 billion for Trinidad and Tobago in 2008 (Table 1). The latter country accounted for the lion's share of CARICOM GDP and trade in 2008. Levels of development also vary significantly, with per capita income ranging from US$ 729 in the case of Haiti to 21,683 US$ in the case of the Bahamas. In this context, CARICOM distinguishes between less developed countries (LDCs) and more developed countries (MDCs), with the former group receiving special treatment.[2] The LDCs are more dependent on international trade taxes than the MDCs and, as such, are more vulnerable to revenue losses from tariff liberalization. In 2009, international trade taxes accounted for more than 30% of government revenue in Antigua and Barbuda, Grenada, Montserrat, Saint Kitts and Nevis and Saint Lucia. Several CARICOM members also have high levels of public debt as a share of GDP that contribute to economic vulnerability.. Within CARICOM, seven small islands have advanced further in their integration within the Organisation of Eastern Caribbean States (OECS).

TABLE 1
CARICOM COUNTRIES: SELECTED INDICATORS, 2008-2009[a]

Country	Area (square km)	Population 2009 (000)	Per capita income 2008 US$	Intra-regional trade balance 2008 (US$ million)	International trade taxes as a percentage of government revenue 2009	Debt as a percentage of GDP 2009
Antigua and Barbuda	442	88	14 048	-46.4	36.5	90.2
The Bahamas	13 878	342	21 683[b]	..	..	43.6
Barbados	430	256	14 425	23.8	..	101.7
Belize	22 966	333	4 218	3.8	..	86.8
Dominica	751	74	4 882	-39.6	20.0	72.3
Grenada	344	104	6 161	-107.3	49.2	95.8
Guyana	214 969	762	1 513	-142.7	..	115.2
Haiti	27 750	10 033	729	..	..	..
Jamaica	10 911	2 700	5 438	-1,143.7	26.5	118.5
Montserrat	102	4[a]	..	-10.5	35.4	6.4
Saint Kitts and Nevis	261	50	11 045	-42.2	31.7	105.2
Saint Lucia	539	172	5 854	-140.3	51.2	63.2
Saint Vincent and the Grenadines	388	109	5 479	-74.2	18.5	57.8
Suriname	163 820	520	5 888	..		25.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, "World Development Indicators (WDI)" [online database] http://data.worldbank.org/, Eastern Caribbean Central Bank (ECCB), Economic and Financial Review, 2009, ECLAC, Economic Survey of Latin America and the Caribbean (LC/G.2458-P), Santiago, Chile, 2010, and United Nations, Demographic Yearbook 2004. Fifty-sixth issue (ST/ESA/STAT/SER.R/35), New York, 2007.

[a] 2004 data;

[b] 2007 data.

[2] The groups of more developed and less developed countries were defined in the Revised Treaty of Chaguaramas of 2001. The former group includes Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago, while the latter group covers the remaining countries.

I. The impact of the crisis and its aftermath on CARICOM trade

The global financial and economic crisis hit CARICOM trade hard, mainly because, as exporters of a limited number of commodities, the economies in the region depend heavily on external markets. In 2009, the value of CARICOM goods exports dropped sharply. As this region's goods exports consist mainly of fuels and other commodities, the decrease in volume was exacerbated by the drop in commodity and food prices in the same year. After posting record growth rates in the 2005 to 2008 period, exports dropped significantly in 2009, especially in Trinidad and Tobago (51%), Jamaica (50%) the Bahamas (30%), Barbados (18%) and Suriname (18%). Bearing in mind that Trinidad and Tobago, Suriname and Jamaica have large goods-producing sectors relative to the rest of the economy, these declines were very significant. Preliminary data for 2010 show that exports have begun to rebound, even though there is a great deal of variation between countries (see table 2). Within CARICOM, Haiti deserves special attention, as it was affected not only by the global crisis, but also suffered an earthquake in January 2010. Despite the huge human and economic losses, exports seem to have withstood the quake relatively well.[3]

[3] The earthquake that devastated Haiti on 12 January 2010 caused great human suffering –including about 220 thousand fatalities–, and large economic costs in terms of destruction and damage to dwellings, buildings and infrastructure. ECLAC (2010) estimated that the total loss and damage could amount to 20% of GDP in 2009. Even though foreign sales dropped in January, they rebounded rapidly. Exports are highly concentrated in textile and apparel products, which are mainly produced by 23 plants and sold to the United States. The earthquake completely destroyed one, and seriously damaged four others. However, after five months, most plants are again operational with employment attendance rates largely back to pre-quake levels (Hornbeck, 2009).

TABLE 2
CARICOM: GOODS AND SERVICES EXPORTS, 2003 TO 2008, 2009 AND 2010
(Average annual growth rates in percentages)

	Goods			Services	
	2003-08	2009	2010*	2003-08	2009
CARICOM	23.5	-43.4	4.4	6.5	-10.4
Bahamas,	17.5	-30.3	-23.9	4.4	-10.7
Barbados	12.5	-17.9	4.8	8.6	-9.9
Jamaica	12.5	-49.8	-13.0	5.5	-1.5
Suriname	28.5	-17.8	-0.7	37.0	0.7
Trinidad and Tobago	29.1	-50.9	10.8	6.2	-
OECS	7.8	-2.4	2.7	4.3	-7.3
Other	8.7	-2.6	-5.5	13.3	-

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Balance of Payments Statistics" and "Direction of Trade Statistics" [online] http://www.imf.org/external/ data.htm, and official figures from the respective countries.

Note: * refers to period Jan-Feb 2009 to Jan-Feb 2010. The other countries include Belize, Guyana and Haiti.

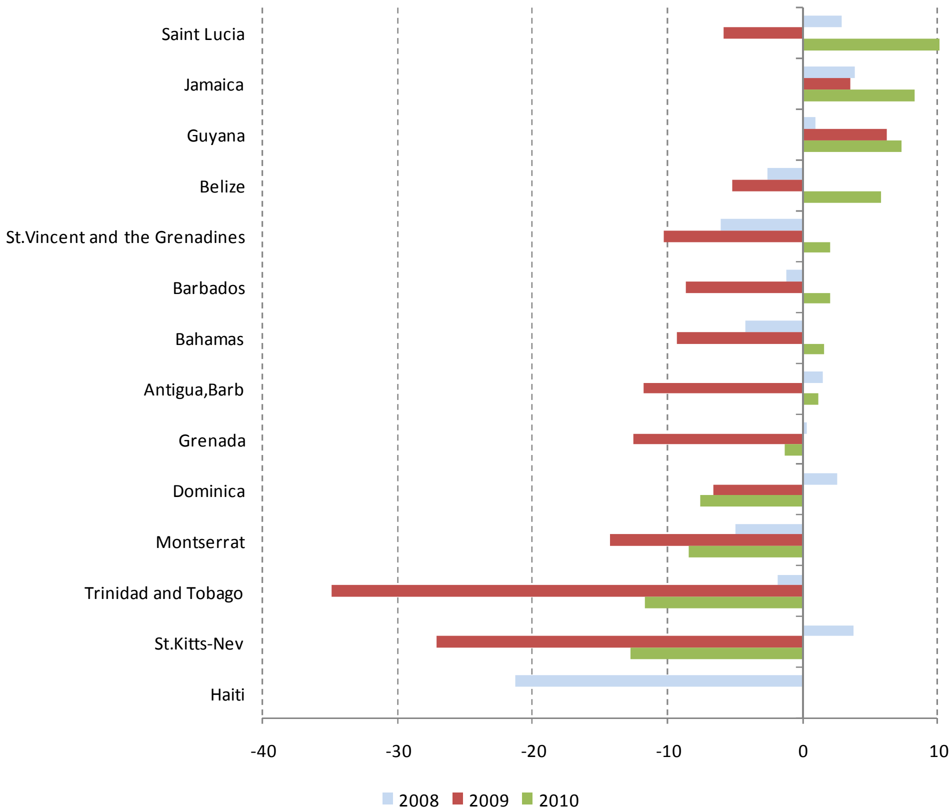
CARICOM services exports suffered relatively less from the crisis. This is in part because trade in services is more resilient than trade in goods, being less dependent on trade finance, less fragmented internationally and less subject to demand swings (Borchert and Mattoo, 2009). Most CARICOM economies are largely service providers, with service sectors dominated by tourism and to a lesser extent financial services. As can be seen from table 2, services exports achieved more moderate increases than goods exports in the past decade or so, but they withstood the crisis in a much better fashion than goods exports. The value of CARICOM services exports in 2009 dropped by slightly over 10% as opposed to a 43% drop in goods exports, with Jamaica and Suriname showing a negligible variation on 2008 levels.

CARICOM countries have been hurt by the decline in tourist arrivals from Europe and the United States. While tourism arrivals had already begun to decline when the financial crisis broke out in the second half of 2008, most countries were hit hardest in 2009. Tourist arrivals rebounded slightly in the first quarter of 2010 for CARICOM as a whole with a 4.5% year-on-year increase. The performance of the leading CARICOM tourism exporter, Jamaica, was particularly encouraging, with an 8.3% increase in arrivals in the first quarter over the same period in the previous year (UNWTO, 2010). This is especially noteworthy since this country had already recorded buoyant arrival figures in both 2008 and 2009 (see figure 1). Increases in the first quarter of 2010 were also posted for the second and third CARICOM travel exporters, Bahamas (+1.6%), and Barbados (+2%). In particular, the Bahamas was successful in its "Companion Fly Free Programme", which brought increases in forward bookings and allowed the hotel sector to reintroduce last-minute offers to fill spare capacity. Nevertheless, the general consensus is that the recovery – especially in receipts - will most likely not make up for the decline experienced during the recession, as demand in source markets remains low and prices have been cut to attract visitors.

Even though in 2009 the drop in the value of goods exports surpassed by a wide margin the fall in the value of services exports, paradoxically, the countries specialized in the former suffered less than those specialized in the latter. The decline in 2009 in the value of goods exports, (mainly fuels and commodities) was due principally to a drop in prices and only marginally to a reduction in volumes sold. In contrast, in the case of services exports, the drop in the value and the fall in volume were similar as their prices varied little. In other words, the decline in the volume of goods sold was smaller than the fall in foreign sales of services. Services producers lost more as a percentage of their GDP than goods producers. Of this latter group, Guyana and Suriname actually posted positive economic growth in 2009, while Trinidad and Tobago showed only a small drop in its GDP. The services-oriented economies of CARICOM, including the Bahamas, Barbados, and the OECS economies experienced sharper falls in GDP.

FIGURE 1
CARICOM: TOURISM ARRIVALS, 2008, 2009, 2010, FIRST QUARTER

(Annual growth rates in percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Tourism Organization (UNWTO).

II. Medium term trends in the Caribbean trade

A. General characteristics

As all CARICOM economies are small, foreign trade is crucial. These countries rely heavily on exports to finance imports, they therefore face what is referred to as the "external or balance of payments constraint". The economic development of these countries is in part restricted by the value of imports —crucial not only for consumption but also for investment and intermediate inputs—, which in turn depend on the volume of exports.[4] Except for Trinidad and Tobago, Guyana, Belize and Suriname, service exports are the main source of foreign exchange for financing the expansion of imports for production in the CARICOM economies. To alleviate the external constraint, these countries can also use foreign direct investment, official aid and multilateral assistance and debt accumulation to pay for their imports.

The increase in export intensity of CARICOM over time is shaped by Trinidad and Tobago alone. For the Community as a whole, the ratio of exports of goods and services to GDP rose from 46% in 1990 to 55% of GDP in 2008 (figure 2). The growing share in trade over time reflects two opposite trends: whereas goods exports grew faster than GDP between 1990 and 2008, foreign sales of services grew more slowly, resulting in an increasing share of the former but a declining share of the latter. The growing export intensity of goods for CARICOM reflects the growing foreign sales of one single member: Trinidad and Tobago. When this country is excluded, the intensity of goods exports is stable at best. The trend in services exports to GDP ratio is very similar when Trinidad and Tobago is excluded.

[4] In the short run, imports can also be financed by capital inflows, including foreign direct investment. But in the long run, the sustainability of the current account depends in large part on exports of goods and services.

As a share of GDP, goods imports have grown from 1990 to 2008, whereas proportional service imports have remained quite low. The goods imports intensity has increased over time, both for Trinidad and Tobago, and the other CARICOM members. In contrast, imports of services have been stable in the past two decades at around 10% of GDP (see Figure 2).

The evolution of the trade balance of CARICOM is strikingly different when Trinidad and Tobago is excluded. The improvement in the regional trade balance between the end of the 1990s and 2006 is mostly due to the dynamic export performance of Trinidad and Tobago. In 2006, this balance even showed a positive sign for the first time since 1994. When the largest regional economy and exporter is excluded, the trend changes completely towards a growing deficit until the economic crisis of 2009.

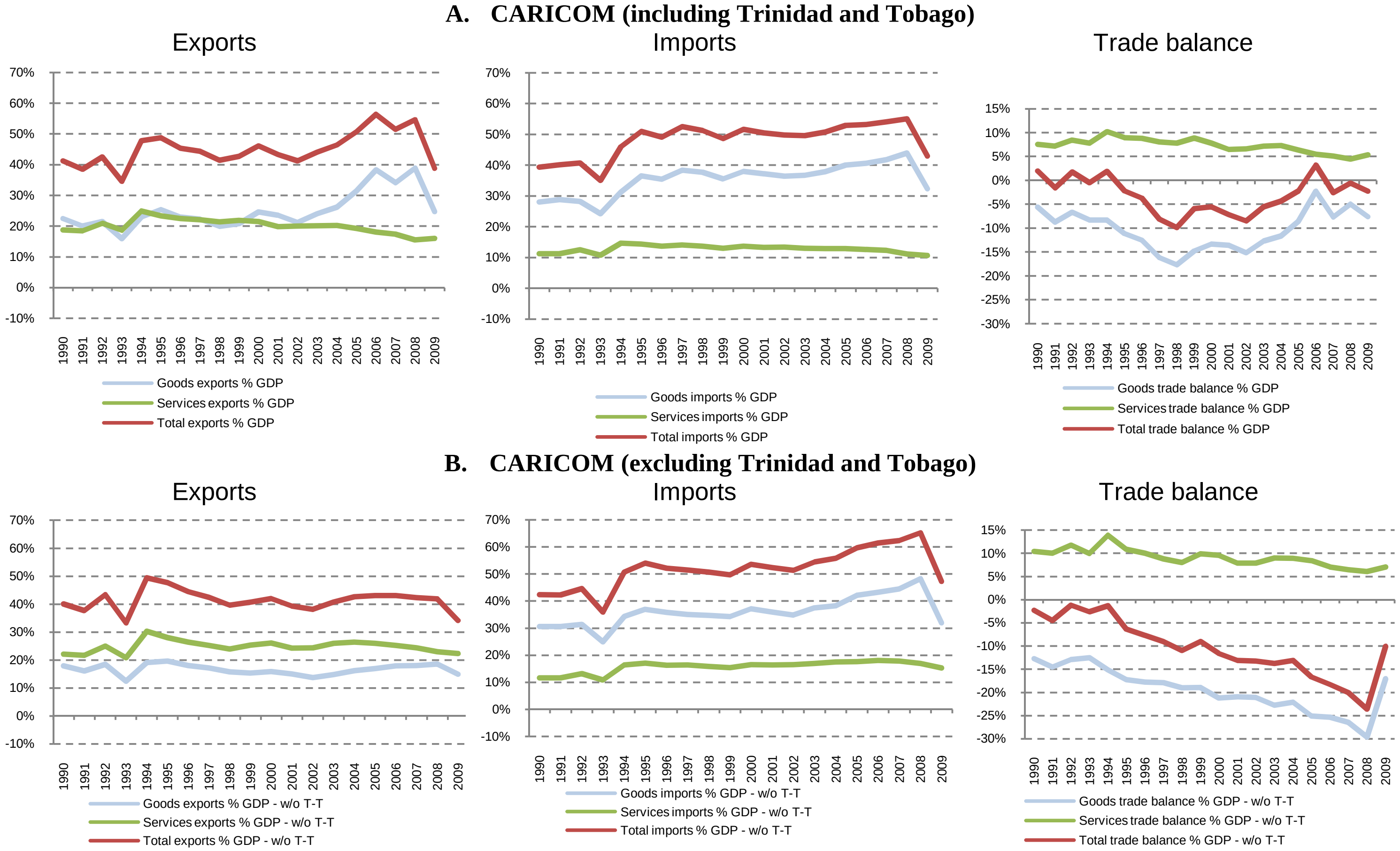
The share of CARICOM in world GDP and goods trade has been relatively stable in the past 20 years, and reflects the dynamism of a few countries and stagnation of the rest (see figure 3). The recent upward trend in its global goods trade share mainly reflects the dynamics of the booming foreign sales of natural gas and petroleum of one single member: Trinidad and Tobago. Guyana and Suriname have also been relatively dynamic commodity exporters. The other members of CARICOM, however, have been characterized by a stagnant performance in goods exports. This trend has been attributed to the erosion of trade preferences, high energy costs, the impact of trade liberalization and the rise of China in manufacturing.

The group has lost market share in the world trade in services. CARICOM services exports have been unable to keep pace with the growth of the global trade in services, and therefore its share in that trade declined steadily after the mid-1990s (see right panel of figure 3). In particular, the region lost market share in "other services", which includes telecommunications, computers, and financial and business services. This is significant as "other services" is the fastest growing part of world trade in services.[5] CARICOM has a comparative advantage in tourism services, with a 1.2% share in world trade in this category in 1990. Over time, however, the group lost competitiveness and its market share dropped to below 0.8% in 2008. The region also saw its share in world trade in transport services decline (from 0.2% to 0.1% between 1990 and 2008).

5 Over the past two decades, the growth of world trade of services outpaced that of goods trade, benefitting the opportunities created by the widespread use of information technology which has made services more tradable than some decades ago.

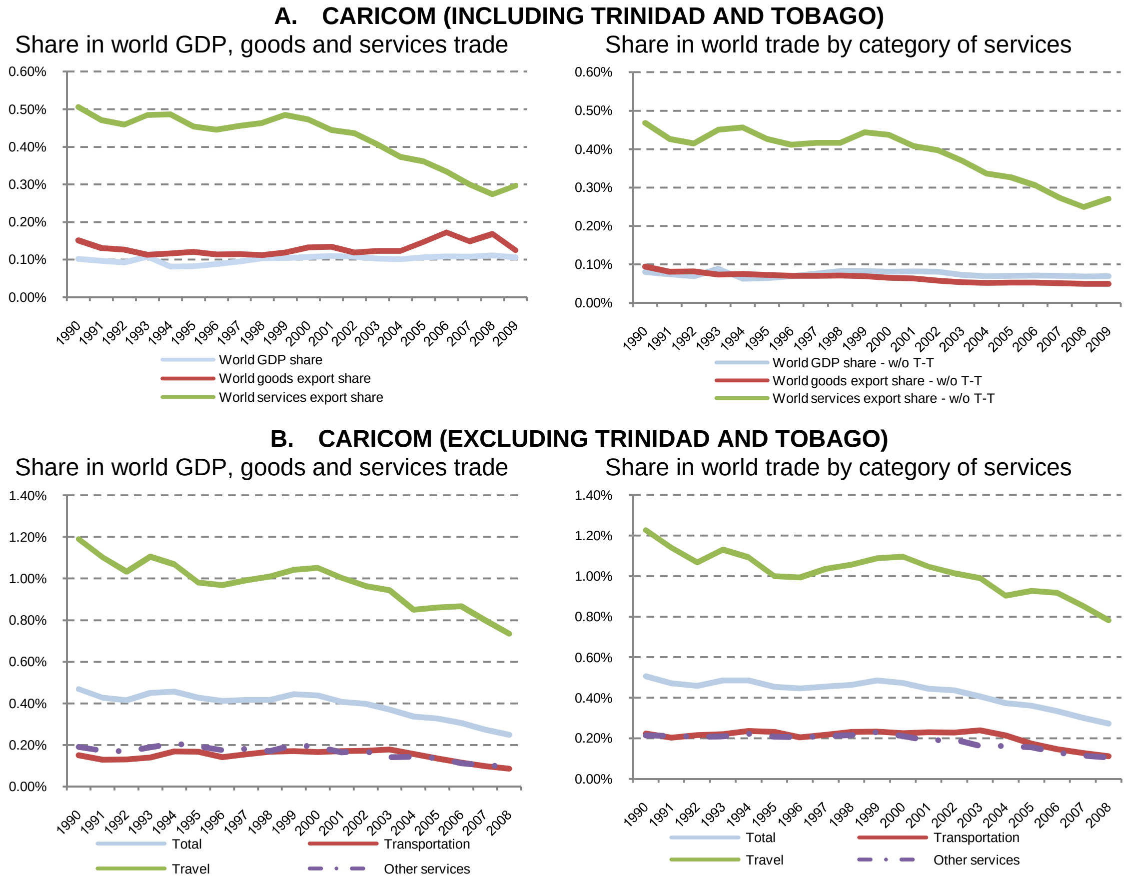
FIGURE 2
CARICOM EXPORTS OF GOODS AND SERVICES AS A SHARE OF GDP, 1990-2009

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), Balance of Payments Statistics [online] http://www.imf.org/external/data.htm, and World Bank, “World Development Indicators (WDI)” [online database] http://data.worldbank.org/.

FIGURE 3
CARICOM: SHARE OF WORLD GDP, GOODS AND SERVICES TRADE, 1990-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Balance of Payments Statistics" [online] http://www.imf.org/external/data.htm.

Regional GDP and goods exports are increasingly dominated by Trinidad and Tobago, whereas more countries contribute to regional services exports. As GDP and goods exports figures of Trinidad and Tobago increased faster than those of any other CARICOM member from 1990 to 2008, its shares in regional GDP and regional exports almost doubled to nearly 40% and 70%, respectively (table 3). Correspondingly, the shares of all other countries and groups in regional GDP and exports fell during the same period. The goods export performance of the OECS countries –due mainly to the erosion of trade preferences in bananas– has been particularly weak, resulting in a large drop in its share of regional trade. The dynamics of the country composition of regional service exports is more heterogeneous, with growing shares for the OECS, Belize, Guyana and Suriname at the expense of the share that of the Bahamas.

TABLE 3
SHARE OF MEMBERS IN TOTAL CARICOM GDP, GOODS EXPORTS AND SERVICES
(Percentages)

	GDP			Goods Exports			Services Exports		
	1990	2000	2008	1990	2000	2008	1990	2000	2008
Bahamas, The	15.02	15.99	10.75	5.41	5.50	3.61	34.31	26.79	24.01
Barbados	7.37	7.46	5.21	4.18	3.25	1.72	14.96	13.85	15.49
Jamaica	22.33	26.10	20.58	22.71	18.49	9.45	23.48	27.51	26.38
Suriname	7.74	2.26	3.39	15.86	4.72	6.45	0.85	1.23	2.69
Trinidad and Tobago	21.72	23.78	38.19	37.38	50.75	70.47	7.51	7.52	8.72
OECS	6.67	7.99	6.46	6.93	4.09	1.66	15.06	16.39	13.83
Other	19.15	16.43	15.42	7.53	13.20	6.65	3.83	6.71	8.88
CARICOM	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

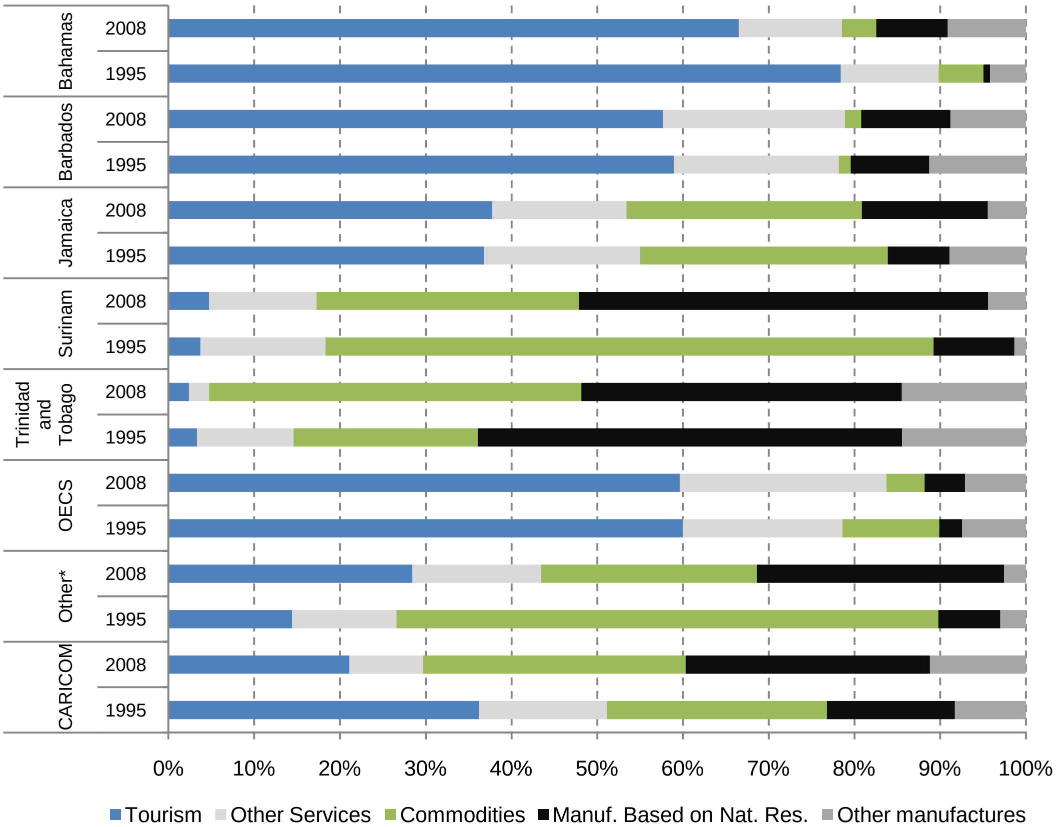
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Balance of Payments Statistics" [online] http://www.imf.org/external/data.htm, and World Bank, "World Development Indicators (WDI)" [online database] http://data.worldbank.org/.
Note: the other countries include Belize, Guyana and Haiti.

CARICOM countries, with the exception of Trinidad and Tobago, Guyana and Suriname, are predominantly service exporters. Although CARICOM as a whole mostly exports goods, this mainly reflects the export basket of Trinidad and Tobago. For the other economies, excluding Suriname, service exports accounted for over 50% of total exports of goods and services in 2008 (figure 4).[6] Service exports are concentrated in tourism, especially for Barbados, The Bahamas, and the small island states of the OECS. The dynamics of the country composition of regional service exports is more heterogeneous, with increasing shares of the OECS, Belize, Guyana and Suriname at the expense of the share held by the Bahamas. Service exports are concentrated in tourism, especially for Barbados, the Bahamas, and the OECS small island states. In Jamaica, exports are almost evenly divided between goods and services, and tourism is followed closely by exports of raw materials and of other services.

Regarding goods exports, the economies in the region have added value to these goods. This is suggested by the reduction in the share of commodities and concomitant increase in the share of manufactures and fuels from 1990 to 2008.

[6] This contrasts with the composition of imports of all CARICOM members, which mainly consist of manufacturing products.

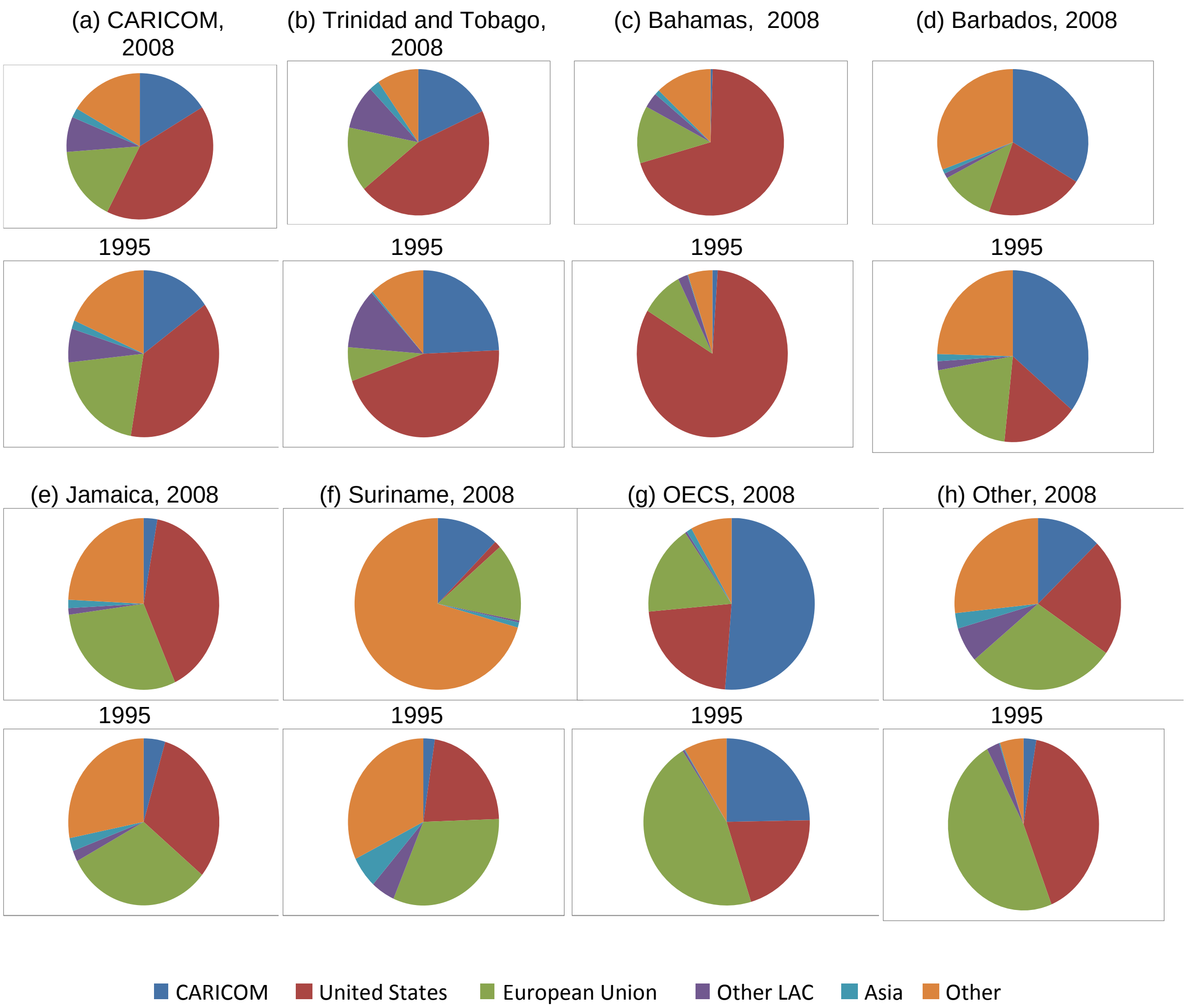
FIGURE 4
COMPOSITION OF EXPORTS BY GROUPS OF GOODS AND SERVICES, 1995 AND 2008
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Balance of Payments Statistics" [online] http://www.imf.org/external/data.htm, and the United Nations Commodity Trade Database (COMTRADE).
*The other countries are Belize, Guyana and Haiti.

Although little has changed in the overall pattern of destinations of CARICOM exports over the past two decades, some major variations have taken place at the country level. The United States has remained the main export destination, representing over 40 % of the community's foreign sales. The European Union has also maintained its relative share over the years. The only noteworthy change is the small increase in the share of exports within the subregion. Less than a quarter of total exports are sold to the Latin American and Caribbean countries (Figure 5). The geographical export composition varies strongly between members: intra-subregional trade accounts for an insignificant share of foreign sales in the Bahamas and Jamaica, whereas it represents half of total exports in the case of the OECS group. CARICOM doubled its share as an export destination for goods from OECS over the past 1.5 decades, which points to the success of the special treatment within CARICOM of these countries, aimed at boosting their subregional exports.

FIGURE 5
CARICOM: GOODS EXPORTS BY DESTINATION, 1995 AND 2008

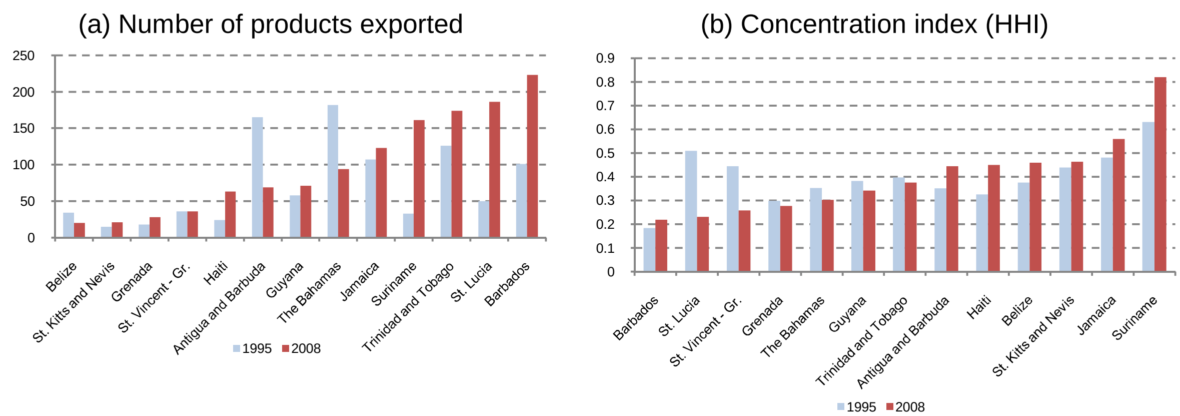


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).
Note: The other countries include Belize, Guyana and Haiti. The results for Suriname in 2008 should be interpreted with caution as most exports are not attributed to specific destinations.

The product composition of exports by destination country shows significant variations in the case of Jamaica, the Bahamas, Barbados, and the OECS islands. Jamaica mostly sells raw materials such as metal ores to the European Union and Asia, and mostly food products and manufactures based on natural resources to other CARICOM countries and the United States. The Bahamas and Barbados have an opposite structure, with commodities dominating intraregional exports, food products being exported to the EU, and mainly manufactures being sold to the United States. In the case of the OECS islands, exports to the United States are dominated by manufacturing, especially electrical parts, whilst fuels and raw materials are the main exports to the EU. Intraregional exports from these islands are mainly petroleum products and foodstuffs.

CARICOM exports are concentrated in a few goods and tourism services. The high concentration of goods export, coupled with the heavy reliance on tourism in some countries and declining competitiveness, increases the vulnerability of the region to external shocks. Despite the preferential access to the markets of its major trading partners, CARICOM goods exports are concentrated in a narrow range of products. Over the period 2001-2006 the top 20 goods exported consisted of four agricultural and food products, six minerals and ores, four manufactured goods and six fuel-related products (World Bank/OAS, 2009). Moreover, the concentration of the region's goods exports has increased over time. The top 20 goods exported accounted for 70% of total exports of goods in 2006 compared with 51% in 1997. Despite the fact that most countries increased the number of products exported over time, several experienced an increase in the concentration of their goods exports, including Antigua and Barbuda, Belize, Haiti, Jamaica and Suriname (figure 6).

FIGURE 6
CARICOM GOODS EXPORTS: NUMBER OF PRODUCTS AND CONCENTRATION INDEX



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), Handbook of Statistics 2009 [online] http://stats.unctad.org/Handbook/ReportFolders/reportFolders.aspx.
Note: The concentration index is the Herfindahl-Hirschman index. It ranges from 0 to 1, with 1 being maximum concentration.

Poor export performance in both agriculture and manufacturing in most CARICOM countries has been compensated in part by a shift to tourism services, particularly in OECS. Several countries have become highly specialized in this industry, with tourism receipts accounting for over 50% of total exports of goods and services in Antigua and Barbuda, Barbados, the Bahamas, Dominica, Saint Kitts and Nevis and Saint Lucia in 2009. Nonetheless, the region has lost market share in world tourism trade and cruise passenger arrivals to more competitive Hispanic Caribbean destinations (World Bank/OAS, 2009).

As part of their efforts to diversify exports, some countries have increased their export share of non-traditional goods and new services such as entertainment. While the share of these new exports may not be very large, they hold great promise in the European Union Economic Partnership Agreement.

B. Intra-CARICOM trade

Albeit some important exceptions such as the OECS and Barbados, interregional trade is a relatively small share of total trade for most CARICOM members and skewed towards few countries and few products. The share of exports to CARICOM members in total exports grew from 11% in 1995 to 16% in 2008. Intraregional exports are increasingly dominated by Trinidad and Tobago, accounting for 80% of all intraregional exports in 2008, up from 55% in 1990. This country mainly sells natural gas and petroleum to Jamaica, Barbados, Guyana and smaller amounts to other countries. Energy products represented 62% of all intraregional exports in 2008. Low cost energy and production restructuring in the late 1990s have given Trinidad and Tobago a competitive advantage in this sector. Other products traded regionally are food (12%) and different types of other manufactures like construction materials and chemicals (9%). For the smaller economies of CARICOM, however, intra-regional trade is very important. The OECS, and in particular St. Vincent, Grenada and Dominica, sell half of their exports in the regional market. Over time, trade links have also increased between the OECS and Belize and Suriname.[7]

The intra-CARICOM share of imports is also small but increasing, 16.1% in 2008, compared to 15% in 1995. Intra-LAC trade is also increasing, with the share of exports sold to other Latin American and Caribbean countries rising from 6.6% to 7.7%. Most goods purchased in the region come from Trinidad and Tobago. This country represents over 80 percent share of CARICOM's intra-regional imports, and about 90 percent of regional imports for Jamaica, The Bahamas, and Suriname.

The intraregional trade balances differ widely among CARICOM members, which reflect in part the winners and losers from CARICOM internal exchanges. Trinidad and Tobago posts large surpluses thanks to its exports of gas and petroleum products. In contrast, the small countries of the OECS incur large deficits; the same is true for Jamaica, where the regional market accounts for less than 3 percent of its total exports of goods. The OECS countries are at a disadvantage in intra-regional trade due to small scale of production and high costs of energy and logistics.

Intra-regional trade is mostly of the inter-industry type. Only two bilateral relationships showed a greater intensity of intra-industry trade as suggested by the Grubel Lloyd index (GLI): trade between St. Lucia and St. Kitts and Nevis, and between Suriname and Dominica. There are six additional countries that show a greater propensity to trade similar products, although at the low end of what has been considered as potential intra-industry trade. This group includes Barbados, Jamaica, Grenada, Saint Lucia, Saint Vincent and the Grenadines and Suriname. Available figures indicate that in the case of the Bahamas, Belize, Dominica, Haiti, Guyana and Trinidad and Tobago trade is almost exclusively inter-industry (see table 4).

TABLE 4
CARICOM: DEGREE OF INTRAINDUSTY TRADE BETWEEN MEMBERS, 2008
(Grubel Lloyd Index)

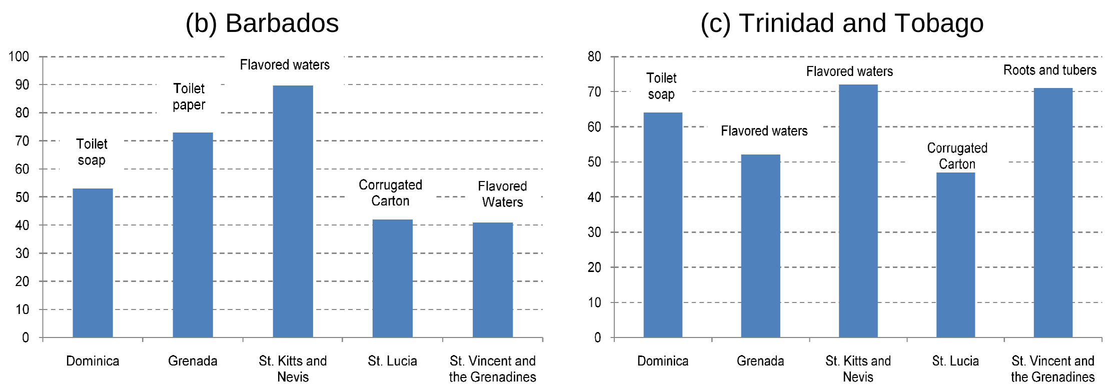
Countries \ Socios	Bahamas	Barbados	Belize	Dominica	Grenada	Guyana	Haiti	Jamaica	Saint Kitts and Nevis	Saint Lucia	Saint Vte and Granadinas	Surinam
Barbados	0.09											
Belize	0.00	0.03										
Dominica	0.03	0.04	0.00									
Grenada	0.00	0.05	0.00	0.00								
Guyana	0.02	0.09	0.00	0.02	0.03							
Haiti	0.00	0.04	0.00	0.00	0.00	0.00						
Jamaica	**0.11**	**0.18**	0.03	0.05	0.01	0.05	0.03					
Saint Kitts and Nevis	0.00	0.08	0.00	0.02	0.00	0.00	0.00	0.00				
Santa Lucia	0.07	**0.19**	0.00	0.09	**0.10**	**0.12**	0.00	0.09	**0.34**			
Saint Vincent and the Granadines	0.01	**0.10**	0.00	0.07	**0.18**	0.01	0.00	0.00	0.01	**0.10**		
Surinam	0.00	0.01	0.00	**0.34**	0.00	0.07	0.00	0.01	0.00	0.00	**0.10**	
Trinidad and Tobago	0.00	0.04	0.02	0.05	0.01	0.03	0.00	0.01	0.01	0.04	0.02	0.01

Source: Durán Lima, José and Alessia Lo Turco (2010) "El comercio intrarregional en América Latina: patrón de especialización y cálculo de potencial exportador," en María Inés Terra y José Durán Lima (Coordinadores), Opciones de política comercial para mitigar los impactos de la crisis internacional en América Latina: ¿hay margen para el diseño de políticas regionales?, Montevideo, Mercosur Economic Research Network.

[7] The exports from the OECS to these two partners have grown fast. The sub-regional partners of the OECS represent 40 percent of OECS's intra-regional exports, with Antigua and Barbuda and St. Lucia each accounting for a 10 percent share of exports (World Bank, 2009).

Intraregional exports are more concentrated than the foreign sales to the rest of the world. The main product exported to the region represents a higher percentage of the total than in the case of exports to the rest of the world. In Antigua and Barbuda and Trinidad and Tobago petroleum products represent around 70%. In Dominica, over 50% of intraregional exports are chemical products including soaps, while in Belize, Guyana, and Haiti the top products are agricultural goods and also represent around half of the total. The smaller economies of CARICOM are basically mono-exporters, with 1 or 2 products accounting for most exports (see figure 7).

FIGURE 7
BARBADOS AND TRINIDAD AND TOBAGO: SHARE OF MAIN PRODUCT IN IMPORTS FROM OECS MEMBERS, 2006



Source: Esteban Pérez Caldentey, "An analysis of OECS economies intraregional trade trends", 2009, unpublished.

CARICOM countries still have some limited room to better exploit the opportunities from regional integration. Due to the small size and scale of the economies in the region, they will probably need to promote their insertion in international value chains, especially with their main trading partners the European Union and the United States.

BOX 1
CARICOM STRENGTHENS TIES WITH BRAZIL

In a bid to strengthen its external relations, the Caribbean Community (CARICOM) attended a series of bilateral meetings in the early months of 2010 with Australia, Brazil, Japan and United States, as well as the second round of negotiations with Canada for the adoption of a trade and development agreement.

The meeting with Brazil was particularly successful. The first CARICOM-Brazil summit took place in Brasilia on 26 April 2010. Its outcome, the Brasilia Declaration, reaffirmed the commitment to integration between Latin America and the Caribbean and to the achievement of a just and democratic society based on peace and cooperation, combating poverty, inequality and all forms of discrimination, on multilateralism, sustainable development and the pursuit of a world free of conflict and nuclear weapons. In addition, 60 memoranda of understanding were signed, including 47 bilateral agreements for technical cooperation in areas such as health, education, culture, energy, agriculture, civil protection, disaster management, transport and tourism. Of particular importance was the decision by the Government of Brazil to become a non-borrowing member of the Caribbean Development Bank (CDB). This initiative has been submitted for approval by the Congress of Brazil and would involve Brazil's making a substantial contribution to the Bank's Special Development Fund. Brazil has also proposed setting up a Brazilian fund for the Caribbean Disaster Emergency Management Agency (CDEMA) in order to improve regional coordination of humanitarian actions. These measures are designed to mitigate and respond to natural and social disasters, as well as to collaborate with the reconstruction efforts of the CARICOM member countries, in particular Haiti. The President of Brazil, Luiz Inácio Lula da Silva, has stated his support for the negotiation of a free trade agreement between the Southern Common Market (MERCOSUR) and CARICOM.

During the period 1999-2008, international trade between CARICOM and Brazil expanded very strongly: Caribbean exports to Brazil increased on average by 27.4% per year, while imports grew by 39.8%, before falling back sharply during the 2009 crisis. Nevertheless, the trade balance has been traditionally negative for CARICOM, whose imports from Brazil in 2009 were 16 times higher than its exports to that country. The 2009 CARICOM trade deficit with Brazil stood at US$ 3 billion, down from the peak of US$ 4.4 billion recorded in 2008. CARICOM exports to Brazil consist mainly of commodities, in particular chemicals and salts, minerals, and iron and steel. Its imports from that source are dominated by fuels, but also include a very wide variety of other goods, ranging from agricultural products to high-tech manufactures.

At the bilateral meeting between CARICOM and Brazil, attention was drawn to the huge imbalance in these trade flows. Both parties agreed that ways and means should be found to reduce it and that trade in services might be boosted by organizing a CARICOM trade mission to Brazil. Brazil also undertook to organize a mission to CARICOM by the Brazilian Export and Investment Promotion Agency (APEX), which would take part in preliminary consultations with its counterpart regional export promotion bodies within CARICOM, including the Caribbean Export Development Agency and the Caribbean Association for Industry and Commerce (CAIC). The Government of Brazil also expressed its willingness to prepare a specific study on the pattern of Caribbean exports to Brazil, based on shared information with the CARICOM Secretariat.

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

III. Regional Integration and treatment of asymmetries

A. Context and achievements

Governments and businesses in the region have had a long-standing motivation to promote integration and cooperation in trade and other areas to overcome the constraints of the small size and limited resources of their economies. Economic integration is critical to enhance the region's competitiveness, promote development and facilitate integration into the global economy. A larger market created by integration can promote economies of scale and allow firms to gain the export experience required to penetrate extra-regional markets. Integration also encourages pooling of resources to reach common goals more effectively.

Regional trade integration in the Caribbean has been gradual, and dates back to 1958. In that year, the Federation of the West Indies was created and included all Commonwealth territories except Bahamas, Belize and Guyana. After independence in 1962, both Trinidad and Tobago and Jamaica withdrew and the Federation collapsed. Following several Heads of Government Conferences, an agreement was signed in 1965 to form the Caribbean Free Trade Association (CARIFTA). In 1973, presidents decided to transform the FTA into a common market under the Treaty of Chaguaramas, which created the Caribbean Community (CARICOM). In 1992, members agreed to establish the CARICOM Single Market and Economy (CSME), which was formalized under the Revised Treaty of Chaguaramas of 2001 thatentered into force in 2006. All in all, the CARICOM integration process has amply surpassed, at least in its intentions, those existing in the rest of the Americas.

The integration process has taken a long time in part because of the special case of several small and less developed economies in the region, which have special needs. Seven of the smaller and less developed members of CARIFTA formed the East Caribbean Common Market (ECCM) in 1968. In 1981, the Organization of Eastern Caribbean States (OECS) was established under the Treaty of Basseterre. The OECS countries created an economic union in 2010 under the Revised Treaty of Basseterre, which allows for the free circulation of goods, services, labour, capital and the establishment of a common external tariff. Most OECS members States have a common monetary authority (Eastern Caribbean Central Bank, 2009) and share a common currency as well as other joint bodies such as the judiciary

CARICOM may learn from other experiences of regional integration and cooperation among small island economies, such as the Pacific Islands Forum (PIF). This forum not only enhances regional trade, but also fosters other goals to improve transport, governance, sustainable resource management, democratic values, and human rights. These objectives are promoted through partnerships and cooperation among members and with other states and regions. A Secretariat coordinates and monitors progress, based on Forum Leader´s meetings, who meet annually to discuss regional issues. For more details, see Box 2.

BOX 2
INTEGRATION AND COOPERATION IN THE PACIFIC ISLANDS FORUM (PIF)

The Pacific islands (excluding Australia, New Zealand and Papua New Guinea) have small economies with a total GDP of US$ 7,789 million at purchasing power parity in 2007, of which Fiji represented 44%. With a total population of 2.2 million in 2008, per capita income differences are large, as shown by the gap between Samoa with an income per head of US$4,670 (current US$ at PPP) compared to only US$1,848 in the case of Solomon Islands. The regional economy is mainly based on agriculture, fisheries, forestry, mining and services, with few countries providing tourism and banking services. Most trade takes place with Australia and New Zealand. In 2007, exports reached US$1,875 million and imports US$3,231 million. All countries in the region run trade deficits, except the Solomon Islands. Fiji represents about 52% of the total regional trade, followed by Solomon Islands (13%).

To better achieve common goals, these islands created the Pacific Islands Forum in 1971 (then known as South Pacific Forum). Its members include Australia, New Zealand and 14 other independent and self-governed Pacific states (Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu). In the trade area, several agreements and resolutions have been adopted over time. In 1981, the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) was signed, by which Australia and New Zealand offer duty free and concessional access to most products originating from the Pacific Islands. In 2001, the Pacific Agreement on Closer Economic Relations (PACER) and the Pacific Island Countries Trade Agreement (PICTA) were signed. Under PACER, Australia and New Zealand offer economic cooperation to the Pacific Islands Countries, whereas PICTA is a free trade agreement applying to those same countries. In 2003, an agreement on air transport was reached.

In 2005, the Pacific Plan was adopted to foster economic growth, sustainable development, good governance and security. Examples of actions in the first area are:

- Expansion of goods trade under SPARTECA, PICTA and PACER, and with non forum partners;

- Integration of trade in services, including movement of labor, into the PICTA, and into the Economic Partnership Agreement (EPA) with European Union;

- Implementation of a Regional Trade Facilitation Program;

- Implementation of the Forum Principles on Regional Transport Services;

- Support of private sector mechanisms and development of public-private partnerships.

In August 2009, the Forum agreed to address the recent challenges posed by the global economic crisis, including the Bulk Petroleum Procurement initiative; work on sustainable development and conservation of the fisheries resources; and the start of negotiations for a PACER-Plus agreement. Simultaneously, a more comprehensive agreement is being negotiated with the European Union.

Source: Asian Development Bank (2009), ADB Key Indicators for Asia and the Pacific; Fortieth Pacific Islands Forum, Cairns, Australia, 5-6 August, 2009, Forum Communiqué; South Pacific Forum, Wellington, New Zealand, 5-7 August, 1971, Joint Final Communiqué; and Forum Secretariat (2007), The Pacific Plan, Pacific Islands.

Important progress has been made towards the implementation of CSME as evidenced from several developments. Today, CARICOM is, like other regional integration schemes, an imperfect customs union. First, most CARICOM members have signed, ratified, and enacted into domestic law the 2006 Revised Treaty of Chaguaramas. The exceptions are the Bahamas and Montserrat, which decided to stay out of CSME, and Haiti which has postponed the enactment. Second, the free intra-regional circulation of goods is almost a fact, as tariffs on goods originating in the countries of the common market were eliminated in the 1990s. Several of the non-tariff barriers have also been removed, and a schedule has been adopted to abolish unauthorized import duties and discriminatory taxes. Third, all countries, except the Bahamas, have adopted the Common External Tariff (CET), which has itself been substantially reduced. The unweighted average import tariff came down from 20% in the early 1990s to 10% in 2009 (World Bank, 2010). Fourth, CARICOM has adopted a common trade policy towards external partners, albeit with some exceptions. For this purpose, the Caribbean Regional Negotiating Machinery (CRNM) was integrated in CARICOM in 2008 and renamed the Office of Trade Negotiations (OTN). Fifth, progress has also been made on free intraregional trade in services, the main comparative advantage of the region, for which all members have adopted a negative list whereby all sectors and measures are to be liberalized unless otherwise specified. Sixth, all member countries have put in place legislation to permit the free movement of highly skilled personnel, including university graduates, media workers, sportsmen, artists and musicians to provide a service or establish a business. Another important achievement was the establishment of the Caribbean Development Fund. The fund seeks to alleviate the difficulties faced by some disadvantaged members in the transition to an integrated market for goods and services.

Major progress has also been in made in functional cooperation in different areas, such as the arts, education, financial supervision, fisheries, health, security and sports. Progress in these areas can be attributed to the desire of Governments of the region to pool scarce resources to achieve common objectives in areas which, unlike free trade, are not viewed as threats to domestic economic interests (see Box 3).

BOX 3
COOPERATION INITIATIVES WITHIN CARICOM

In the arts, education and sports, examples of the joint cooperation are the Caribbean Festival of Arts (CARIFESTA), the establishment of the University of the West Indies and the Caribbean Examinations Council , and the CARIFTA sports games.

On financial issues, CARICOM members signed the Liliendaal Declaration in 2009 to contain the effects in the region of the global financial crisis and reform the financial sector in the region. The Declaration introduces new guidelines and regulatory standards for the sector and fosters regional collaboration. It also calls for increased transparency, early warning systems and stress tests.

In fisheries, the Caribbean Regional Fisheries Mechanism (CRFM) is developing a Master Plan on Sustainable Use of Fisheries Resources for Coastal Community Development in the Caribbean. In 2009, it reviewed a baseline survey, draft plan and project activities. In energy, the Caribbean Renewable Energy Development Programme (CREDP) has stepped up its activities with new funds from donors, and in-kind contributions from the Organization of American States (OAS) and regional Governments.

On social issues, achievements in the area of health include the Pan Caribbean Partnership against HIV/AIDS (PANCAP), the Caribbean Food and Nutrition Institute and the Caribbean Environmental Health Institute. Moreover, the Caribbean Public Health Authority (CARPHA) formed a resource mobilization team and established its main campus in Trinidad and Tobago in 2009. In the field of security, the CARICOM Implementation Agency for Crime and Security (IMPACS) will introduce a CARICOM Travel Card (CARIPASS), which will reduce travel restrictions for CARICOM residents at regional airports. Other security initiatives address the issue of violent crimes fuelled by the illicit trade in guns and ammunition and the impact of deportees in the Caribbean. Lastly, in 2007 a Caribbean Catastrophe Risk Insurance Facility (CRIFF) was established, which has made payments to Dominica and Saint Lucia (2007), Turks and Caicos Islands (2008) and Haiti (various occasions).

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

B. The OECS Economic Union

Within CARICOM, there is a sub regional integration arrangement among nine small islands called the Organization of Eastern Caribbean States (OECS).[8] The OECS has achieved a deeper level of integration than CARICOM. In addition to free trade, the OECS has a single currency and a number of institutions that provide common services. These include: central bank, securities exchange, judiciary and security system, joint pharmaceutical procurement service, joint diplomatic missions, telecommunications regulatory body and regulatory body for civil aviation.

The treaty establishing the OECS economic union was signed on June 18, 2010.[9] It is expected that the treaty will be ratified by all OECS member states by January 2011. A significant difference between the OECS economic union and the CSME is that the treaty establishing the OECS union establishes a governance structure that will render decisions taken by the OECS Authority legally binding for all member governments. This arrangement should allow the OECS union to make more rapid progress than the CSME. In contrast to the non-OECS members of CARICOM, the small countries of the OECS face binding resource constraints and intensifying global competition and are more willing to give up some sovereignty in exchange for deeper integration so as to facilitate economic growth and human development. Another important difference is that unlike the CSME where movement of labour is restricted to approved categories, OECS nationals will be able to live and work in any other country of the union without restrictions.

There is a proposal for widening of the OECS integration arrangement by means of an economic union with Trinidad and Tobago. The original target date for implementation was 2011. Expansion of the OECS to include Trinidad and Tobago has potential benefits for the OECS countries in terms of investment flows. With respect to trade in goods however, the limited production capacity of the OECS countries suggests that they will continue to record trade deficits with Trinidad and Tobago. Another significant challenge for the OECS countries is likely to be the movement of scarce human capital to Trinidad and Tobago. At the regional level the union of the OECS and Trinidad and Tobago could act as a catalyst for acceleration of the CSME. The alternative is fragmentation of the CARICOM arrangement.

C. Areas for improvement

Notwithstanding the progress towards the establishment of the Caribbean Single Market and Economy (CSME), progress has been relatively slow in several areas. Issues that could be improved include:

- **Circulation of goods and the common external tariff**

There is broad scope for tariff suspensions and reductions and national derogations from the common tariff, although all members, except the Bahamas, have adopted the Common External Tariff (CET). To compensate for the loss of government revenue relating to the reduction of the CET, several of the smaller members have introduced compensatory measures such as stamp duties, import surcharges, and discriminatory rates of the consumption tax. Moreover, even though the CET is lower than a decade ago, it remains high for some product groups and tariff dispersion is important. The latter causes inefficiency and hinders the Community’s market access negotiations with third countries. Also, this factor may cause trade diversion (World Bank/OAS, 2009).

Free movement of goods within the single market is still being hindered by non–tariff barriers such as phytosanitary standards and technical barriers to trade. This reflects the limited progress that has been made towards harmonization of sanitary and phytosanitary measures and technical standards. The CARICOM Regional Organisation for Standards and Quality (CROSQ) was established in 2003 to promote the harmonization of standards. However, the ability of CROSQ to fulfill its mandate has been limited as only five member countries have enacted the agreement establishing the organization into

[8] The nine members of OECS are: Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. Anguilla and British Virgin Islands are associate members.

[9] Caribseek Jamaica news http://news.caribseek.com/Jamaica/article_87396.shtml.

domestic law. Another factor restricting the movement of goods is the unauthorized use of taxes on regional goods by some members.

- **Services trade**

To promote development of services industries and exports, there is a need for the free movement of capital, skilled labour and managerial expertise. Services exports are viewed as having the most potential for the diversification of Caribbean economies given relatively high wage rates that render the region uncompetitive in labour-intensive manufacturing and agriculture (The World Bank, 2005). In this context, increased competition in services within the regional market is necessary to improve competitiveness and prepare service industries for entry into extra-regional markets.

Intra-subregional trade in services is restricted by various factors. For example, most CARICOM countries have not yet implemented licensing mechanisms for service providers. There are also impediments to the right of establishment including work permit requirements and discrimination in the granting of fiscal incentives. Moreover, some sectors, such as air and maritime transport and financial services, continue to face constraints in their trade. In these activities, existing restrictions are not well identified, which explains in part why there is no agreement on a schedule for their removal. Also, CARICOM lacks a common services regime and this complicates the negotiation and implementation of services agreements with external trade partners (The World Bank, 2009).

- **Free movement of capital and labour**

Free movement of factors of production is essential for the progress of the single market. Exchange controls on intra-subregional movement of capital have been abolished in most member states but movement of labour is restricted to university graduates and other approved categories. This has been raised as a concern by CARICOM nationals with respect to the status of the CSME. Intra-subregional travel still requires passports but a Caribbean travel Pass (CARIPASS) is being introduced to facilitate hassle-free intra-subregional travel for frequent travellers. The free movement of skilled persons has generated some controversy with some member Governments in the region. They have expressed concern about the potential impact of increased competition in their domestic labour markets. This concern is probably overblown, as only 6,210 skilled persons moved abroad within the region from 1996 to 2008 (CARICOM Secretariat, 2009).

- **Institutional factors**

A major constraint is the non-binding nature of decisions made by the various organs of the Caribbean Community. This problem is exacerbated by the absence of sanctions for non-implementation of decisions. Repeated recommendations for the establishment of a CARICOM Commission with executive authority to manage the implementation of decisions and to insulate them from direct political interference have been made since the early 1990s but have not been acted upon.[10]

- **The crisis and other factors retarding the implementation process**

Several recent trends have slowed down the implementation process of the CSME. First, the global economic and financial crisis has dealt a harsh blow to the Caribbean economies whose economies and public finances were already fragile. CARICOM economies are experiencing rising fiscal deficits, widening trade deficits and increasing external debt. The adverse economic developments have reduced the pace of market integration. Moreover, the post-recession adjustment has been pursued at the individual country level (particularly in the case of the MDCs) thereby reducing the relevance of the single market and economy strategy.

The fiscal crisis also tightened further the financial constraints in several member Governments. Therefore, the implementation of regional integration programs depends largely on the availability of external funding. The speed of implementation is thus partly determined by the ease with which external funding can be obtained and the quantity of funds available. For example, the disbursement mechanism of funds under the European Development Program is quite cumbersome and bureaucratic, leading to slow release of funding.

[10] Nevertheless, steps have been taken to improve the institutional framework. One such step was the establishment in 2001 of the Caribbean Court of Justice whose role is to settle disputes.

Effective functioning of the single market also requires coordination and harmonization in fiscal policy. The Revised Treaty (2001) requires member states to harmonize their fiscal and monetary policies. So far, progress in this area has been limited to regular meetings of the CARICOM finance ministers and governors of the central banks. The Community has not yet implemented binding rules and procedures for policy coordination, nor have members integrated convergence criteria into the budget formulation processes. De facto, a large heterogeneity of fiscal indicators and trends can be observed among members. Much remains to be done in the fields of harmonization and rationalization of tax systems, synchronizing investment incentives, as well as financial policy. In the latter area, some regional coordination has been taking place in response to the recent financial crisis.

The definition and implementation of common sectoral policies and competition policies is another crucial element for the successful implementation of the single market. The establishment of framework conditions is not sufficient to promote economic growth and development. CARICOM has to define a regional development strategy that pools scarce resources from several small countries in a bid to reach common and national goals. The CARICOM Revised Treaty puts emphasis on such policies, in particular in the fields of industry, agriculture, transport, and human development. Despite expressions of good intentions, no regional policies have been defined yet. This may be due to a lack of human and financial resources, as well as a lack of political will that prioritizes regional goals over national ones (The World Bank/OAS, 2009).

Progress has also been slow in the fields of the harmonization of competition policies and regulations for consumer protection. The CARICOM competition policy has only been implemented in Barbados and only three member states have implemented the CARICOM consumer protection regime.

Another factor impeding progress is the weak technical and administrative capacity of member Governments, in part due to financial constraints. OECS countries find it difficult to provide adequate staff for trade ministries. This constraint has been recognized by high income trading partners. Consequently, the development agencies of some of these partner countries are providing financial and technical assistance to strengthen the capacity to implement the single market and economy.

D. Special and differential treatment

In CARICOM, special and differential treatment of the less developed countries has been a feature of the integration arrangement since its infancy. This issue was included in the supplemental agreement to the agreement establishing Caribbean free Trade Association (CARIFTA) in 1968, which identified as one of its objectives equitable distribution of benefits among member countries (Article 2).[11] CARICOM has classified the countries of the Organization of Eastern Caribbean States and Belize as less developed countries (LDCs) and has provided them a differential treatment.

CARICOM has a broad range of measures to assist its LDCs. These measures are defined as the “special regime for LDCs” and set out in chapter seven of the Annex to the Treaty of Chaguaramas of 1973, including both trade and finance provisions. By explicitly providing for the financial needs of the LDCs, the CARICOM “Special Regime for LDCs” represents a change in the conceptualization of special and differential provisions (ECLAC, 2007a). There are also other articles that deal with the LDCs, see Box 4.

[11] Under article 39 of the CARIFTA agreement, the LDCs were allowed to suspend duty free treatment of imports from the more developed countries to protect production in their domestic economies and mitigate government revenue losses. The main objective of this provision was to promote industrial development in the LDCs.

BOX 4
SPECIAL AND DIFFERENTIAL TREATMENT TREATY OF CHAGUARAMAS OF 1973: THEORY AND PRACTICE

The main provision of the special regime in the Treaty is article 56. This article provides for temporary suspension of common market tariff treatment by the LDCs. Also, the article “takes into account the special needs of the LDCs” with respect to policy instruments including rules of origin (article 53), and the common external tariff (CET) (article 55). This was intended to reduce the cost to the LDCs of implementing these policy instruments. While the provisions of articles 53 and 55 were not binding on member governments, in practice the LDCs were allowed to satisfy lower requirements for the criterion of substantial transformation governing the rules of origin and were granted longer implementation periods for the CET.

Article 54 supported article 56 by taking into account the special needs of the LDCs with respect to the scheme for harmonization of fiscal incentives to industry. The main objectives of the harmonized scheme of fiscal incentives to industry were to: promote investment from domestic and foreign sources; reduce competition among member countries by placing ceilings on benefits; target incentives at enterprises with high value added and seek regional convergence by giving greater incentives to LDCs (ECLAC, 2007b). The incentive regime was important for stimulating the investment needed to increase production and trade. However as in the cases of articles 53 and 55, article 54 is a good endeavor clause. In the implementation of the incentive regime the LDCs were allowed to grant tax holidays for longer periods (up to 15 years) while the more developed countries (MDCs) could grant tax incentives for a maximum of 10 years.

The financial provisions of the special regime were delineated in Article 59 which stated that: “the More Developed Countries agree to cooperate in: (a) facilitating, whether by means of private investment capital or otherwise, joint ventures in LDCs; (b) negotiating double taxation agreements in respect of the income from investments in LDCs by residents of other member states and (c) facilitating the flow of capital to the LDCs” (CARICOM Secretariat 1982 p.51). In addition Article 37 required member governments to give “particular attention to the development needs of the LDCs” in the introduction of a scheme for the regulation of capital flows.

The special and differential provisions in the Treaty of Chaguaramas were never implemented fully. Implementation emphasized the provisions of Article 56 which protected LDCs’ domestic markets, but the promise of the innovative financial provisions of the special regime was never realized.

In an attempt to implement the provisions of Article 59, the Caribbean Investment Corporation (CIC) was established to transfer financial resources from MDCs to LDCs at concessional rates. The CIC was authorized to invest in financially viable projects that had the ability to promote industrial and economic development and to create employment in the LDC receiving the investment. The CIC failed to fulfill its mandate of transferring financial resources to the LDCs and was wound up ten years after its establishment (ECLAC, 2007a).

The protective instruments under article 56 achieved some success to the extent that market protection facilitated the establishment of light manufacturing industries producing products such as beverages, soaps, footwear, paints, varnishes and corrugated galvanized sheets. In addition, available data reveals that article 56 products account for more than half of intra-OECS trade and provide employment for more than 7000 workers. While the provisions of article 56 promoted intra-OECS trade, the evidence suggests that those provisions were less successful in promoting LDC exports to the MDCs. Belize has managed to achieve small intra-CARICOM trade surpluses since 2000, however the member countries of the OECS have recorded persistent and growing intra- CARICOM trade deficits since the 1990s (ECLAC, 2007a). For the OECS as a whole, the intra-CARICOM trade deficit increased from US$ 124.6 million in 1995 to US$ 459.5 million in 2008. This outcome is not surprising since the elements of the special regime that were implemented could not address the structural problems that hinder industrialization of the LDCs.

The LDCs have benefited from private investment flows from the MDCs, especially Trinidad and Tobago, Barbados and Jamaica.[a] Trinidad and Tobago also assists the LDCs through its Petroleum Fund established in 2004 to provide assistance in the form of grants to CARICOM member states experiencing economic hardships due to high prices for petroleum products.

Source: Economic Commission for Latin America and the Caribbean.
[a] Data on total flows of FDI to the LDCs is not available. However it is confirmed that the Trinidadian Bank RBTT owns subsidiaries in Grenada, St. Lucia and St. Vincent and the Grenadines. The Jamaican hotel group Sandals owns 3 hotels in St. Lucia.

In the Revised Treaty of Chaguaramas (2001), special and differential treatment is outlined in paper VII and encompasses the special regime for LDCs as well as a regime for countries, regions and sectors that are disadvantaged by the establishment of the CARICOM Single Market and Economy (Article 142). The designated disadvantaged countries are the OECS member states, Belize and Guyana.[12]

[12] Guyana was designated a disadvantaged country based on its status as a highly indebted country.

The special regime for LDCs is contained in articles 160-167. Articles 161, 162, 163 and 166 are clauses of good endeavour in which the needs of the LDCs are to be “taken into account”. Therefore as was the case under the Treaty of Chaguaramas, the LDCs should be granted differential treatment in the application of the common external tariff, the rules of origin and the fiscal incentives regime.

Articles 160 and 164 are conditional clauses. Article 160 allows the imposition of import duties on goods eligible for community treatment in cases where LDCs are likely to suffer loss of revenue. However, the imposition of import duties has to be authorized by the Council on Trade and Economic Development (COTED) Article 164 replaces article 56 of the treaty of Chaguaramas whose provisions expired in December 2005. While article 164 provides for the suspension of community origin treatment on the grounds of production in the LDCs, such suspension is granted on the basis of economic reasons and is temporary. Furthermore, the suspension of community origin treatment is subject to ratification by COTED and the conference of Heads of Government.[13]

An important justification for maintaining the concessions granted by article 56 is the cost disparity among CARICOM’s member states (ECLAC, 2007a). The resource endowments of the larger economies within CARICOM allow them to achieve lower costs of production due to relatively large scale of production, access to cheaper inputs, and cost advantages in communications and labor. In the case of Trinidad and Tobago there is an additional significant energy cost advantage.

The OECS member states have recommended modification of the application of article 164 to improve its effectiveness. In particular, the OECS recommends that quantitative restrictions be replaced by tariffs in order to protect and expand the OECS domestic market share (ECLAC 2007a). According to the OECS’ recommendation the tariffs would be levied at higher than existing rates hence the CET would have to be suspended. The tariffs would also be applied on a temporary basis with the time frame for their application being dependent on financial and economic considerations. In addition, the OECS member states have requested that the MDCs suspend CET treatment with respect to third countries for beer, malt and flour (ECLAC 2007a).

A significant weakness of the special regime for the LDCs is the absence of guaranteed differential treatment. As noted by ECLAC (2007a p.32) “a regime addressing the needs of the LDCs of CARICOM should include more than ‘good endeavor’ or ‘conditional clauses or provisions’. In fact it should include a set of provisions providing for asymmetric treatment to level the playing field.”

The CARICOM Development Fund

The main mechanism for assistance to disadvantaged countries is the CARICOM Development Fund (CDF) as provided in Article 158 of the Revised treaty of Chaguaramas. A separate Agreement Relating to the Operations of the CDF, signed in 2008, states the objectives of the CDF. These include the facilitation of investment promotion and mobilization, handling of structural diversification and infrastructure development needs, and assistance to enterprise competitiveness and alleviating the social and economic impact of natural disasters.

The CDF should promote economic development and convergence over the long term. However, Article 143 of the Revised Treaty of Chaguaramas states that all interventions to assist disadvantaged countries, regions and sectors towards becoming economically viable and competitive will be of a temporary or transitional nature. Temporary mechanisms are probably insufficient to address the structural bottlenecks of the LDCs. It has been suggested that the CDF should focus on the basic requirements for economic development including human capital, investment in research and development and infrastructure (ECLAC 2007a). Nevertheless a funding mechanism to address temporary dislocation would still be necessary.

The CDF began operations in August 2009 and will offer loans, grants and technical assistance to disadvantaged member states. A shortcoming of the CDF is the absence of secure funding for its operations. The CDF is supposed to have a capital fund of US$250 million. Member countries are required to contribute of $120 million, with the remainder to be obtained from international donors.

[13] The process requires: (i) requesting the benefits of article 164; (ii) obtaining the support of two MDCs to use article 164 as a temporary measure; (iii) ratification of the request by COTED and (iv) ratification by the Conference of Heads of Government.

However, as of July 15, 2010, the capital fund stood at US$82 million. In addition, the CDF has received technical assistance grants from the European Union (834,000 Euros), Finland (300,000 Euros), Luxemburg (300,000 Euros) and the Caribbean Development Bank US$ 149,000).[14] Much remains to be done to meet the target set for external contributions to the capital fund. The dependence on external funding reflects the fact that except for Trinidad and Tobago, the more developed countries of the region lack financial resources.

A second challenge related to the operations of the CDF is its capacity to provide significant financial assistance to member countries.[15] The capitalization of the fund is small compared to the needs of the region. One indicator of the inadequacy of the CDF is the amount of its total capitalization compared to the inflows of Aid for Trade. Total AFT inflows to CARICOM countries in 2007 were US$ 281.8 which exceeds the total capitalization of the CDF.[16] Moreover, the proposed size of loans is relatively low, ranging from US$0.5 million to US$4.0 million.[17]

In light of the limited resources available to the CDF it may be useful to consider alternative approaches in assisting CARICOM countries to adjust to the CSME. One approach that has been suggested is the provision of additional resources to the Caribbean Export Development Agency to facilitate direct assistance to exporters particularly from the LDCs (World Bank /OAS 2009).

[14] Data provided by CDF.
[15] The Board of the CDF approved two country assistance programmes in July 2010 for St. Lucia and Belize but details of the amount of assistance could not be confirmed.
[16] Calculations by the Economic Commission for Latin America and the Caribbean based on WTO (2009).
[17] Data provided by CDF.

IV. The Economic Partnership Agreement (EPA) with the European Union

The 2008 Economic Partnership Agreement (EPA) between the countries of the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) (CARICOM plus the Dominican Republic) and the European Union (EU) represents a fundamental shift in the region's trade relations with the European Union. A central objective of the Agreement is the promotion of sustainable development in the CARIFORUM countries. Under the EPA, the non-reciprocal trade preferences traditionally offered by the European Union have been replaced with a free trade agreement. While the EPA is essentially a free trade agreement, it also includes investment and development cooperation. The European Union is promoting regional integration as the main underpinning of the EPA; this is deemed necessary to expand markets and promote international competitiveness.

Given the institutional and supply-side capacity constraints of CARIFORUM countries, the development cooperation provisions are aimed at capacity-building to enable these countries to better exploit the trade provisions of the EPA. Article 8 of the EPA provides for a wide range of support measures. These include technical assistance to build human, legal and institutional capacity to implement the agreement; support measures to promote private sector and enterprise development; assistance to enhance international competitiveness; support for export diversification; support for the development of infrastructure; assistance for institution-building for fiscal reform and support to strengthen capacity to comply with international sanitary and phytosanitary standards, technical standards, labour standards and environmental standards.[18]

Some Caribbean academics have expressed concerns that the European Union funds available are inadequate for this purpose (Brewster, Girvan and Lewis, 2008). The development cooperation components of the EPA also need to be more specific with programmes, resources, targets and expected development outcomes.

A. Liberalization commitments

The EPA opted for an asymmetrical approach to tariff liberalization to take account of the lower level of development of the CARIFORUM countries. Effective January 1, 2008, the EPA grants duty free and quota free (DFQF) access to the European Union market for all CARICOM goods, except sugar and rice in respect of which DFQF treatment was postponed to October 2009 and January 2010, respectively. These market access conditions are better than those of the Cotonou Agreement, which excluded some exports from DFQF treatment. CARIFORUM goods imports will be liberalized gradually over a 25 year period.[19] Some agricultural products have a long phase-in period, whereas other are excluded from tariff liberalization; they include animal products, vegetable products, animal or vegetable fat, prepared foods, beverages and tobacco. Other excluded products are chemicals; textiles and clothing; base metals and miscellaneous manufactured articles.

As CARIFORUM countries have a comparative advantage in services, market access in this area is crucial. The European Union's commitments in services are consistent with the CARIFORUM countries potential for development of service exports. The European Union has granted market access to most service sectors (see table 5). In addition, the European Union liberalization commitments in mode 4 exceed those made by developed countries under the General Agreement on Trade in Services (GATS). The mode 4 commitments are valuable for CARIFORUM given the region's comparative advantage in labour-intensive services and skilled labour.[20]

TABLE 5
ECONOMIC PARTERSHIP AGREEMENT CARIFORUM - EUROPEAN UNION: SERVICES COMMITMENTS BY MODE OF SUPPLY

Mode	Liberalization commitments
Mode 1 *Cross border supply*	All services except: Audio-visual services, national maritime cabotage, air transport services and services directly related to the exercise of traffic rights.
Mode 2 *Consumption abroad*	All services except: services provided via telecommunications
Mode 3 *Commercial presence*	All services except: Audio-visual services, national maritime cabotage, air transport services and services directly related to the exercise of traffic rights
Mode 4 *Presence of natural persons*	(i) Temporary presence of key personnel, graduate trainees and business service sellers in all sectors open to commercial presence. Duration of temporary presence limited to: -Three years for intra-corporate transfers -One year for graduate trainees -Ninety days within any twelve-month period for business service sellers. (ii) Contractual service suppliers allowed access in 29 service sub-sectors. Duration of temporary presence limited to six months per year. Contractual service suppliers required to have three years of professional experience and to satisfy qualifications requirements. (IV) Independent professionals allowed access in eleven service sub-sectors. Required to have six years professional experience and to satisfy qualifications requirements

Source: European Commission, "CARIFORUM-EU Economic Partnership Agreement: an Overview" [online] http://ec. europa.eu/development/icenter/repository/cariforum_eu_epa_information_paper_overview.pdf, (2008).

18 The funding to be provided by the European Union includes €165 million under the 10th European Development Fund (EDF) and €454 million allocated for national indicative programmes linked to regional integration. Five of these programmes will target competitiveness while three programmes will contribute to governance and public administration reform and three will focus on infrastructure. In addition, 50% of the European Union's trade-related assistance under its Aid for Trade programme is allocated to ACP countries (European Commission, 2008).

19 Over the first ten years, 61% of CARIFORUM imports from the European Union in value terms will be liberalized, 83% over 15 years and 87% over 25 years. The remaining 13% is excluded from liberalization.

20 The region exports both unskilled workers (domestic workers, hotel workers, farm workers) and skilled workers including teachers and nurses.

Services commitments are also asymmetrical. While the European Union liberalized more than 90% of its services sectors, the CARIFORUM service commitments cover between 65% and 75% of their services sectors, except in the case of the Dominican Republic, which opened more than 90% of its services sectors. The services sectors liberalized by CARIFORUM countries are sectors in which the region is seeking investment to upgrade infrastructure such as telecommunications, environmental services and transport, as well as sectors that provide opportunities for export development, such as tourism and business services. The CARIFORUM commitments in mode 4 are limited to key personnel and graduate trainees in EU firms that establish commercial presence within the region.

B. Status of implementation

The implementation of the EPA has been slow. One major impediment is the delay in the establishment of institutional arrangements required for effective implementation. The chief decision-making body for EPA, the Joint CARIFORUM-EU Council, did not convene until May 2010. At the CARICOM Secretariat, an implementation unit responsible for coordinating implementation of the EPA was established only in February 2009, while few members have established EPA implementation units (Antigua and Barbuda, Barbados, the Bahamas, Dominican Republic and Jamaica).

Another obstacle is inadequate funding. Most CARIFORUM countries face fiscal constraints, aggravated by the recent economic and financial crisis. They need external financial assistance to implement the EPA. However, the funding of 165 million euros proposed by the European Union under the 10th European Development Fund (EDF) is considered inadequate by CARIFORUM Governments (CTA2010).[21]

Unresolved differences between CARICOM and the Dominican Republic also may slow down implementation of the EPA. An important difference relates to tariff treatment for the Dominican Republic's exports to CARICOM. Some CARICOM Governments are reluctant to grant the Dominican Republic the same tariff treatment granted to the EU as required by the EPA (Jessop, 2010).

C. Implications for CARICOM

The EU's emphasis on regional integration as the foundation of the EPA implies that implementation of the CSME as well as closer integration between CARICOM and the Dominican Republic are essential for smooth progress of the EPA. Acceleration of regional integration must therefore be given priority.

The services provisions of the EPA offer potential benefits that CARIFORUM countries need to prepare to take advantage of. In particular, the EU commitments in mode 4 (temporary presence of natural persons) offer opportunities to develop new exports aside from tourism and entertainment. Examples are professional services and educational services. Moreover, opportunities for the temporary movement into the EU market have the potential to reduce the brain drain to the extent that such movement may reduce emigration of skilled persons.

Capitalizing on the opportunities offered by market access for services will require strengthening of CARIFORUM's capacity to supply services including improvement of institutional arrangements for registration and certification of service providers and modernization of regulatory frameworks. The financial and technical assistance for service sector development promised by the EU will be a critical determinant of CARIFORUM's ability to take advantage of enhanced access to the EU services market. The opening of the CARIFORUM services market to EU service providers could benefit CARIFORUM economies by enhancing the competitiveness of other exports since access to imported services can improve efficiency and reduce costs of production.

[21] Technical Centre for Agricultural and Rural Cooperation (CTA), (2010) "CARIFORUM Tells EC 10th EDF Inadequate", [online] Http://brussels.cta.int/index.php?option=com_k2&id=3490:Cariforum-thttp://brussels.cta.int/index.php?option=com_k2&view= itemlist&month=8&year=2009, 2010.

The potential benefits of duty free and quota free access to the EU market for CARIFORUM goods will vary across countries. The Dominican Republic and Trinidad and Tobago are best positioned to take advantage of market access for goods given their relatively dynamic manufacturing sectors. For the other CARIFORUM countries, exports to the EU are concentrated in sugar and bananas. Given the lack of competitiveness of these countries in these traditional agricultural commodities, exporters are adversely affected by preference erosion despite DFQF market access.[22] Continued dependence on exports of traditional agricultural products that cannot compete without preferential treatment is unsustainable under conditions of increasing competition. CARIFORUM countries therefore need to use the market access provided by the EU as an opportunity to diversify their exports.

The net benefit to CARIFORUM from tariff liberalization on imports from the EU depends on whether the revenue losses outweigh the potential gains. The reduction in government revenue due to removal of tariffs will aggravate fiscal deficits. This is likely to be most problematic for those CARIFORUM countries that rely heavily on taxes on international trade as a source of government revenue. Estimates of the annual revenue loss from tariff liberalization indicate that the CARIFORUM countries likely to face the highest revenue loss over the first tranche of liberalization (2011-2013) are the Bahamas, the Dominican Republic and Antigua and Barbuda (Stevens, Meyn and Kennan, 2009). This implies that these countries will need to take immediate steps to introduce alternative tax measures to compensate for the revenue loss. Early disbursement of the financial assistance promised by the EU is also critical.

On the other hand, CARIFORUM countries stand to gain from tariff liberalization on imports from the EU to the extent that it results in access to cheaper capital equipment and intermediate inputs. CARIFORUM countries are lagging behind in technology and are heavily dependent on imported capital goods. Access to cheaper imports of capital equipment from the EU offers opportunities for technological upgrading and improved export competitiveness.

The provisions of the EPA regarding trade related measures including sanitary and phytosanitary standards and technical barriers to trade, require adoption and implementation of international standards that will entail substantial costs for CARIFORUM countries. The shortage of the technical personnel required to implement the required policies is also a constraint.

The agreement for progressive liberalization of investment, while helpful may not be sufficient to generate increased inflows of foreign Direct Investment (FDI) into CARIFORUM countries. CARIFORUM countries have agreed to liberalize investment in most sectors including agriculture, mining, manufacturing and services. The exclusions include small and medium enterprises, public utilities, processing of nuclear materials, audiovisual services, national maritime cabotage and air traffic rights.[23] Nevertheless, realization of increased inflows of FDI is dependent on the investment climate in CARIFORUM countries. Promotion of macroeconomic stability, creation of a skilled workforce, provision of adequate infrastructure and development of strong and independent institutions will have to be given priority so as to improve the investment climate.

CARIFORUM countries are likely to benefit from the wide range of cooperation provisions in the EPA. These encompass technical assistance and capacity building in the development of competition policy, cooperation in the development of CARIFORUM innovation systems, institution building for fiscal reform and cooperation on eco-innovation and renewable energy.

D. Regional response to the EPA

The CARIFORUM response to the EPA has been mixed. Some countries have established EPA implementation units and are pursuing a strategy designed to take advantage of the opportunities offered by the EPA. This strategy emphasizes diversification of exports and improving competitiveness. Policies

[22] In the case of the banana industry, preference erosion due to reduction in tariffs on Latin American bananas has already resulted in declining exports. Banana exports from the OECS declined from 140,495 tonnes in 2000 to 55,079 tonnes in 2008. Data supplied by OECS Secretariat.

[23] EPA Agreement Annex IV Http://trade.ec.europa.eu/doclib/docs/2008/February/tradoc._13791.pdf.

being implemented to support this strategy include strengthening the private sector, building trade capacity and attracting foreign investment. In the cases of Jamaica and the Dominican Republic, FDI from the EU is being used to upgrade infrastructure and expand tourism accommodation. At the regional level, the Caribbean Export Development Agency (CaribExport) has implemented European Union-funded programmes to inform firms about export opportunities under the EPA, as well as to enhance export capacity. In contrast, the President of Guyana has expressed the view that the EPA is inappropriate for vulnerable CARIFORUM countries and should be reviewed (Girvan, 2009). Regional academics, notably Brewster, Girvan and Lewis have expressed concern that the EPA provisions relating to development assistance are not legally binding (Brewster, Girvan and Lewis, 2008).

V. Challenges for export diversification and the role of Aid for Trade

Export diversification is critical for various reasons. Firstly, export diversification is beneficial in itself, since it helps to reduce terms- of- trade variability and it also cushions the effects of real external crises. Secondly, export diversification is usually closely related to changes in production structures which tend to promote knowledge incorporation and increases in productivity. Lastly, export diversification can help create new comparative advantages. International data show that in many cases these are obtained by entering new fields of activity, based on a learning process stemming from direct production experience, investment in human capital and institutional development.

A. Incipient examples of export diversification in the region

Despite the overall increase in export concentration, the region shows several examples of successful export diversification, including the export of new goods; the creation of new market niches in tourism and the development of new services exports such as offshore banking and entertainment services.

In Trinidad and Tobago, the government has promoted the development of non-petroleum exports. The petroleum and natural gas resources have been used to develop production of petrochemicals including methanol, ammonia and urea. This was achieved through the attraction of private investors and government participation in joint ventures with foreign investors. To take advantage of low energy costs, an aluminum smelter (ALUTRINT) was built and several other manufacturing industries were promoted including plastics, packaging, printing, food and beverages. A further expansion of the plastics industry is planned. The government of Trinidad and Tobago has entered into a joint venture arrangement with Westlake Chemical corporation of the United States to develop an ethane based ethylene feedstock production facility and a plastic resin plant (USITC, 2008).

Jamaica has successfully developed exports of information technology services. The policies used to promote this industry included the provision of the relevant infrastructure – in particular, the Jamaica digiport to provide the required telecommunications services–, the establishment of a free trade zone in Montego Bay to attract foreign investors into the industry, and the creation of a training institute to provide labor with the needed skills.[24]

Jamaica also has an embryonic film production outsourcing industry. Entertainment is identified as a priority sector in Jamaica's national export strategy. In keeping with this objective, Jamaica Promotions (JAMPRO) actively markets the country as a location for film production. Other policies used to encourage film production include tax incentives and a "one-stop-shop" for the provision of services required by film production companies. This "one-stop- shop" is operated by JAMPRO and assists foreign film producers to find suitable locations, actors and production crews. Applications for Work permits and visas are also done through JAMPRO's 'one-stop-shop" (USITC, 2008).

Other CARICOM members have also developed strategies to promote creative industries at the beginning of the current century. The efforts across the region were centered initially in the bigger economies of the region including, Trinidad and Tobago, Barbados and Jamaica. Later on these creative industry efforts also began to permeate the policy discourse and initiatives of the smaller economies of the region (OECS) (see for more details Box 5).

BOX 5
THE CREATIVE INDUSTRIES IN CARICOM: ECONOMIC IMPACT AND POLICY RESPONSES

The encouragement and development of the Creative Industries, which encompasses a wide range of productive activities, linked to music, film, and arts and crafts among others, based upon individual talent and creativity is a recent and important initiative followed by CARICOM to diversify their export base and improve their competitiveness.

These activities can have a high revenue earning potential and be an important source of contribution to GDP and employment. They are moreover different than commodity or traditional service based trade activities as they depend to a great extent on endogenous rather than exogenous factors. Also, their development is not necessarily dependent on realization of economies of scale or uniquely determined by cost considerations. Finally, they have forward and backward linkages to a number of other traditional and non-traditional sectors.

The potential impact of the Creative Industries

Most of the practical efforts towards the estimate of the possible impact of the creative industries segment of CARICOM economies have been undertaken by the larger economies and in particular by Jamaica, Trinidad and Tobago and Barbados.

In the particular case of Jamaica, the creative industries have been shown to have a significant impact on the economy contributing as much as 4.8% to GDP in 2005 (WIPO, 2007). In comparative terms with productive economic sectors, the contribution of the creative industries was found to be a third of that of manufacturing (13% of GDP), and roughly equally important as those of Agriculture, forestry and fishing (5.2% of GDP) and mining and quarrying (5.8% of GDP). Jointly with the contribution of the sports industry, this would represent close to 8% of Jamaica's GDP. Moreover it has recently been sustained that the foreign exchange generation of the creative industry can be four times as greater as that of other branches of economic activity (James, 2007).

In the case of Trinidad and Tobago estimates of the Ministry of Trade and Industry for 2006 indicate that that the entertainment industry accounts for US$ 56 million dollars representing 1% of the current account and trade balance, 0.5% of exports of goods and 6% of total service exports.

In the cases of Barbados, Jamaica, and Trinidad and Tobago there are also estimates on the employment potential of the entertainment industry. The total number employed by the entertainment industry in Trinidad and Tobago (mainly in music and Carnival) amounts to approximately 11,000 people. This employment generation potential matches that of the plastic, printing and packaging industry and exceeds that of food and beverage, fish and fish processing, merchant Marine and yachting. In the case of Barbados, the estimated employment in the cultural sector amounts to 11,000 persons. In the case of Jamaica the contribution of the creative industries has been estimated at 3% of total employment.

(continues)

[24] Information obtained from Jamaica Promotions.

Box 5 (concluded)

The policy response and some of its main challenges

In the case of Jamaica, the support for the creative industries has materialized in the granting of a series of tax concessions to the creative arts sectors and in particular to the movie industry. As part of these initiatives, the government contemplates the approval of a bill (The Entertainment Industry Encouragement Bill) current whose objective is "to provide incentives to approved entertainment operators similar to those proposed for the Motion picture producers".

The government of Barbados has also identified the promotion of the creative industries as a key pillar of its economic development. There are current plans for a draft legislation to provide exemptions from corporation or income tax and import duties for 'cultural practitioners and approved corporate, governmental and other entities to facilitate the requisite investment and capitalization for cultural projects' under the Bill for the Cultural Industries.

More recently in the case of Saint Lucia, created a National Endowment for the Creative Industries (2010-2011) whose aim is to promote the creative sector by formalizing the existing financial assistance to local artists. The fund will devote approximately US$ 500,000 for this purpose for the fiscal year 2010-2011.

The economic potential of creative industries and the concomitant policy response should provide a basis on which to develop, expand and diversify trade in the creative industries for CARICOM. Currently trade in creative industries is an incipient economic activity for CARICOM countries representing in terms of goods a small part of total extra regional trade. Within CARICOM, with the exception of Dominica, the larger economies account for the brunt of creative industry exports in the region. However, at the intraregional level trade in creative goods industries can reach 15% of the total for the smaller economies of CARICOM.

Source: Esteban Pérez Caldentey and Nanno Mulder (2010), "The Creative Industries in CARICOM: Trade trends, economic impact and policy responses", Serie comercio exterior, ECLAC, forthcoming.

Grenada has diversified both its goods and tourism exports. Goods production has been diversified by the development of a mineral and aerated water industry as well as production of niche market products such as jams, jellies, syrups, liqueurs and a nutmeg based pain reliever. In the case of tourism, Grenada also has successfully entered the yachting niche market by investing in yachting infrastructure (ITC 2007).

St. Vincent and the Grenadines has started to diversify the agricultural sector in response to the decline of banana exports. New agricultural exports include mangoes, avocados, plantains, sweet potatoes, taro and hot peppers. Policies used to encourage diversification include investment incentives, upgrading of physical infrastructure such as roads and ports and microcredit programs for small and medium enterprises (USITC, 2008).

B. Supply side constraints

Export diversification in CARICOM countries is mostly constrained by supply side factors and not a lack of market access. Insufficient open markets of trading partners are not an issue given the multiple preferential trade arrangements, which may perhaps be withdrawn in the near future. Special and differential treatment for developing countries within the multilateral trading system has traditionally taken the form of non-reciprocal market access. Preferential market access is intended to promote export growth and diversification. CARICOM countries benefit from preferential access to the markets of their major trading partners under the Generalized System of Preferences (GSP) offered by developed countries as well as other arrangements including the Caribbean-Canada (CARIBCAN) agreement and the Caribbean Basin Initiative (CBI) with the United States. However, CARICOM's export performance suggests that market access by itself is not sufficient to promote export diversification. Available data indicates that the utilization rate for the CBI and CARIBCAN has been low, averaging between 10 and 12 percent (WTO/IDB, 2009). The utilization rates for individual countries vary from 33 percent for Trinidad and Tobago to miniscule rates for the small countries of the OECS (WTO/IADB 2009). It has also been argued that preferences have promoted inertia and reduced the capacity for diversification (World Bank/OAS, 2009, World Bank, 2005). It should be noted that not all CARICOM members receive preferential treatment from its trading partners due to their high income per capita, such as Barbados and The Bahamas.

The poor response to non-reciprocal trade preferences has been attributed to supply side constraints (WTO/IADB 2009, ECLAC 2007b). First, the physical infrastructure is inadequate, including roads, ports and telecommunications. This is not only true for some small islands, such as Dominica, but also for Guyana and Suriname. The Global Competitiveness report (2009-2010) ranked the quality of Guyana's infrastructure at 91 out of 133 countries, while Suriname's infrastructure was ranked at 86. Second, a shortage of skilled personnel affects several countries of the region. As noted by World Bank (2005 p.145) "skill shortages now appear to be an acute hindrance to increased firm competitiveness in some Caribbean countries". Other constraints include high energy and telecommunications costs, inadequate access to capital, low levels of innovation, an underdeveloped enterprise sector, weak institutions and underdeveloped financial markets (WTO/IADB 2009). In the cases of the smaller islands the inability to take advantage of economies of scale contributes to high production costs and lack of competitiveness (World Bank /OAS 2009).

Another important factor is the pattern of specialization that has been promoted by the incentive structure in the region. While the region has attracted relatively high inflows of FDI, this investment has for the most part failed to develop new types of products or services. The incentive policy employed in the region has focused on the use of tax incentives to attract maximum FDI, rather than on policies to attract FDI into new dynamic sectors. This incentive policy has reinforced specialization in resource based activities including mining, agriculture and tourism (ECLAC, 2003, p.31). In addition the foreign enterprises in the Caribbean tend to have limited linkages with the rest of the economy.

C.Policies towards export diversification

Recognizing the need for export diversification, several CARICOM member states have mainstreamed their trade strategies into their national development plans (WTO/IADB, 2009). Recent diversification strategies involve development of non tourism services in the traditional tourism exporting countries of the OECS, Barbados and Jamaica; expansion of the relatively underdeveloped tourism industry in Guyana, Trinidad and Tobago and Belize; diversification of tourism into new niches such as yachting and eco-tourism and development of new goods exports. The increasing emphasis on the development of services exports is consistent with the apparent comparative advantage of the region.

A wide range of policies have been used to promote export diversification. These include inter alia: establishment of free trade zones; provision of tax incentives; cluster development; private-public sector partnerships; improvement of infrastructure; creation of a favorable business climate; private sector development; provision of market information services; improvement of access to credit for small and medium enterprises; establishment of export financing schemes and provision of export facilitation services.

Barbados is seeking to expand exports of financial services as well as to leverage the success of its tourism industry to develop other services exports including health, consulting, education, entertainment, transportation, film and sports. Diversification of the agriculture sector in Barbados is being pursued through production of West Indian Sea Island Cotton and value added food industries as well as diversified use of the sugarcane. In the area of manufacturing the emphasis is on development of high technology manufacturing.[25]

Guyana's diversification strategy focuses on non-traditional agriculture, tourism and information technology. Agri-business clusters have been established in the areas of fruits and vegetables, livestock and aquaculture as part of the agricultural export diversification programme launched in 2008. With respect to tourism, Guyana is targeting niche sectors such as yachting, birding and eco-tourism. Upgrading of telecommunications infrastructure, liberalization of the telecommunications market and modernization of the regulatory structure are being undertaken to facilitate development of IT- enabled services exports. Guyana is also pursuing development of alternative energy sources including hydro power and bio-fuels. This strategy has the potential to reduce energy costs which could stimulate development of new exports as well as reduce cost of production of some existing exports.[26]

[25] ECLAC (2010a) Barbados: Public-Private sector Partnership Http://www.eclac.org/cgi-bin/getprod.asp?xml=%20/publicaciones/x.

[26] Government of Guyana Budget Speech 2008

Trinidad and Tobago's diversification strategy focuses on development of offshore financial services and expansion of business tourism on the main island of Trinidad and targeting of new tourism niches in the case of Tobago. Policies used to promote business tourism in Trinidad include increasing the stock of conference facilities and hotel rooms in Trinidad to attract more business tourists and making arrangements to increase airlift. A new Maracas Bay beach facility is planned for completion in 2012.Tobago is to be marketed as a dive and eco-tourism destination. Policies being used to promote the development of financial services exports include the establishment of the Trinidad and Tobago International Financial Centre (TTIFC) Management Company to manage the financial centre, the creation of a Special Purpose economic Zone (SPEZ) to attract international firms and the reform of the regulatory framework for the financial sector. This process is scheduled for completion in the 2010-11 fiscal year.[27]

In the case of St. Lucia, which is experiencing declining banana exports due to preference erosion, the diversification strategy aims at the diversification and expansion of tourism; development of financial services and IT – enabled services; production of new agricultural exports and agro-processing.[28] The island's government has allocated funds in the 2010-2011 budget to develop community tourism in Dennery and Mabouya. In addition there are plans to seek partners to develop infrastructure for yachting and cruise tourism. A partnership agreement with Royal Caribbean Cruise Lines for the upgrading of Port Castries is expected to be concluded during the 2010-2011 fiscal year. Other policies to promote tourism include arrangements for increased airlift from Toronto and New York introduced in 2009 and a planned increase in the number of hotel rooms from 5000 to 10,000 over the medium term.

The regulatory framework for the international financial centre is being strengthened to comply with international standards and improve the prospects for expansion of exports of financial services. The Money Laundering Act of 2010 has been enacted and negotiations are underway to sign additional Tax Information Exchange Agreements (TIEAs) with foreign countries, even though St. Lucia has already exceeded the international benchmark of 12 signed TIEAs. St. Lucia is also seeking to sign double taxation agreements to promote the competitiveness of its international financial centre.

Policies to promote diversification of agricultural production have focused on provision of infrastructure. During the 2009-2010 fiscal year the infrastructure that was completed include: a tissue culture laboratory; an orchid production facility; a meat processing plant; an aqua-culture facility and a fisheries facility. During the 2010-2011 fiscal year the focus will be on providing support for the production of cocoa, pineapples, cut-flowers and cassava.

D. The Role of Aid For Trade

To exploit new trade opportunities and diversify exports, countries in the region need to overcome the various supply-side restrictions. However, as most countries in the region face major financial constraints, the resolution of these supply-side bottlenecks largely depends on the availability of external financial assistance in part provided through Aid–for–Trade (AfT).

Aid–for–Trade initiatives already underway in the Caribbean (see table 6) have received positive reviews from beneficiaries. A survey of Caribbean government officials conducted by the WTO found that the respondents consider that Aid for trade initiatives relating to trade facilitation, trade policy analysis, regional integration and competitiveness had improved capacity in their countries (WTO/IADB 2009). However, there is room for improvement in the implementation and effectiveness of AfT. The main deficiencies that Caribbean officials identified in the AfT initiatives include unpredictability of funding, insufficient focus on development of local capacity and too little input from Caribbean countries in the design of AfT interventions (WTO/IADB 2009).

The second regional review of AfT held in Jamaica on May 7-8, 2009 emphasized the following issues regarding the potential contributions of Aid for Trade:

27 Government of Trinidad and Tobago (2010) Budget Statement.
28 Government of St. Lucia (2010) Budget address 2010-2011 Http://www.stlucia.gov.lc/primeminister/Budget Address2010.pdf.

- There is evidence of country and regional ownership of the AfT process which has positive implications for the future of the initiative.
- AfT is essential to assist the Caribbean to adjust to trade liberalization through unilateral, regional or multilateral trade reforms. The region requires assistance to implement trade agreements such as the EU-CARIFORUM EPA as well as to mitigate revenue losses and lower the costs of labor market dislocation and private sector modernization.
- National and regional institutions will have to be strengthened to enable the region to take advantage of opportunities created by trade agreements. These include, inter alia, customs houses, standard setting bodies and agreement implementation unit.
- The region needs soft (knowledge, expertise, governmental and private sector services) and hard infrastructure (transportation, communications, and customs infrastructure) required for effective participation in international trade. Aid for trade can provide assistance to facilitate the development of such infrastructure.
- In the cases of those countries in the region experiencing declining exports, aid for Trade can contribute to national economic recovery by increasing the contribution of exports.
- With respect to standards, private sector firms indicated that AfT initiatives should target the standards demanded by private buyers since these may exceed the legal standards set by trading partners.
- Sharing experiences encourages countries to implement reforms.
- Value chain analysis is a useful approach for designing an Aid for Trade strategy.
- The prioritization of AfT projects requires more discussion
- Consideration should be given to facilitating south-south cooperation.

TABLE 6
CARIBBEAN-AID-FOR TRADE INITIATIVES

Initiative	Objectives/Actions/Expected outcomes
Caribbean trade and private sector development programme funded by the EU and implemented by the Caribbean Export Development Agency. Phase I of this programme which ended in June 2007 provided 2.6 million Euros. Phase II provides 7.9 million Euros and will end in December 2011.	Improving competitiveness of private sector; promoting export diversification; improving the trade environment and strengthening business support organizations. Planned activities include provision of direct assistance to firms to support their growth. The expected outcome is a more diversified, export oriented and competitive private sector.
Aid–for –Trade Strategic Fund established by IADB to coordinate AfT initiatives of multilateral donors.	To support trade policy analysis, trade facilitation, private sector development, trade related adjustment costs and mechanisms that connect markets. The fund will provide grants to develop trade adjustment assistance programs, enhance trade facilitation and strengthen the capacity to implement trade policy. The expected outcomes are a more competitive private sector and more diversified exports.

(continues)

Table 6 (concluded)

Caribbean Aid for Trade and Regional Integration Trust financed by the United Kingdom Department For International Development and administered by the Caribbean Development Bank. The fund has 5 million pounds.	To finance projects that support EPA implementation and deepening of economic integration
German technical cooperation project being implemented by Caribbean Export Development Agency. The project is for 3 years beginning 2010 and provides 4 million Euros	Development of services sector and strengthening the capacities of national and regional EPA implementation units
Compete Caribbean Programme designed by IDB, DFID and CIDA. Launched in March 2010 will end in 2014.The programme will provide US$32.5 million	Promotion of private sector development and competitiveness. Planned actions include: establishment of an Enterprise Innovation Challenge Fund to offer matching grants to private sector clusters, small and medium sized enterprises; support for regulatory reform and public-private dialogue. Expected outcomes include a more innovative and competitive private sector.

Sources: Carib-Export Tradewatch vol. 3 no.2 February 2010; http://www.Caribank.org; http://www.iadb.org/projects/project.cfm?id=RG-X1044&lang=en; European Union (2008), EU Contributes to Phase Two of Caribbean Trade and Private Sector Development Programme Http://www.delbrb.ec.europa.eu/en/press_and_info/releases/2008_releases/Release-num2008-05_trade_priv, IDB (2010) IDB, UK Discuss Compete Caribbean and Aid for Trade Programs, http://www.iadb.org/announcement/2010-02/english/idb-uk-discuss.

AfT commitments to CARIFORUM countries increased from US$ 290.9 million during 2002-05 to US$315.2million for 2007 (table 7). The largest commitments were made to the Dominican Republic, Haiti, Guyana and Jamaica. Most of the funds were committed for building economic infrastructure and productive capacity which are critical for export diversification. However, given the vulnerability associated with the region's high concentration of exports and the high costs of relaxing supply side constraints, much more needs to be done to promote export diversification.

Additional AfT can accelerate export diversification by alleviating fiscal constraints. In particular, AfT can provide grants to compensate countries for the revenue losses that will be incurred as a result of trade liberalization. The total annual revenue loss for CARIFORUM countries over the period 2011-2033 due to tariffs liberalization under the EPA has been estimated at 502 million Euros. The highest annual losses will be incurred by The Bahamas (86.3 million Euros), Dominican Republic (90.8 million Euros), Trinidad and Tobago (41.3 million Euros) and St. Vincent and the Grenadines (40.1 million Euros) (Stevens et.al. 2009).

TABLE 7
CARIFORUM COUNTRIES: AID FOR TRADE BY CATEGORY, 2002-2007
(US$ million)

	Trade policy & regulations		Economic infrastructure		Building productive capacity		Trade related adjustment	Total	
Country	2002- 05	2007	2002-05	2007	2002-05	2007	2007	2002-05	2007
Antigua-Barbuda	0.0	0.0	0.0	0.0	2.1	0.2	0.0	2.1	0.2
Bahamas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barbados	0.0	0.0	0.0	0.0	0.4	15.2	0.0	0.4	15.2
Belize	0.0	0.0	0.1	0.0	9.2	3.1	0.0	9.4	3.1
Dominica	0.0	0.0	6.2	6.0	6.1	0.2	0.0	12.3	6.3
Dominican Republic	0.1	3.4	11.1	12.9	31.1	17.3	0.0	42.2	33.4
Grenada	0.0	0.0	1.9	0.1	4.5	0.1	0.0	6.4	0.2
Guyana	0.4	0.8	31.8	24.3	8.4	69.6	0.0	40.7	94.8
Haiti	0.0	1.4	32.8	36.6	48.7	23.7	0.0	81.6	54.5
Jamaica	1.5	0.4	9.3	28.7	23.0	21.6	0.0	33.8	50.8
St. Kitts-Nevis	0.0	0.0	0.0	0.0	1.4	0.0	0.0	1.4	0.0
St. Lucia	0.0	0.8	3.8	0.3	3.6	7.1	0.8	7.5	8.9
St Vincent & the Grenadines	0.0	0.2	0.0	0.0	4.4	7.5	0.2	4.4	7.8

(continues)

Table 7 (concluded)

Suriname	0.0	0.0	11.3	7.4	11.7	14.4	0.0	23.0	21.8
Trinidad and Tobago	0.3	0.0	0.7	0.0	14.3	11.5		15.4	11.5
Caribbean regional	5.9	4.3	0.1	0.0	4.3	2.4	0.0	10.3	6.7
Total	8.2	11.3	109.1	116.3	173.3	193.9	1.0	290.9	315.2

Source: Economic Commission for Latin America and the Caribbean, base on OECD Creditor Reporting system cited in WTO (2009).

AfT can also assist the region to implement other provisions of the CARIFORUM-EU economic partnership agreement. This would include financial and technical assistance to comply with obligations such as sanitary and phytosanitary regulations, technical barriers to trade and competition policy. The cost of implementation of the EPA has been estimated at US$400million (WTO/IADB 2009).

The infrastructural deficiencies that restrict trade can be alleviated by AfT in the form of financial assistance to improve infrastructure such as roads and ports. Additional AfT in the form of technical assistance can strengthen the institutional capacity required for international trade. This could include assistance to improve customs procedures and standards organizations.

Finally, given the weak innovative and marketing capacity of many Caribbean firms, AfT can promote export diversification by providing financial and technical assistance to enhance the capacity of private sector firms to produce innovative goods and services and to penetrate export markets.

VI. Conclusions and recommendations

The global economic and financial crisis has exacerbated the economic difficulties of Caribbean economies and exposed their vulnerability. Fostering the integration into the global economy is essential to prevent the marginalization of the region. This requires the deepening of integration to strengthen economies and promote growth. Diversification of exports is also necessary to reduce economic vulnerability and promote growth and productivity. As financial resources of the Caribbean countries are very limited, Aid for Trade has an important role to play in strengthening the capacity of the economies of the region to take advantage of international trade opportunities.

The promotion of exports is of utmost importance for all CARICOM countries, in particular because they face a major external constraint for their economic growth and development. The recent economic, financial crisis has only aggravated this situation. Over the medium term, the external constraint restricts the value of imports to the amount of exports. Smaller economies can only build their economic infrastructure and develop by importing capital and raw materials as well as technology. It follows that countries must earn the foreign exchange required to finance their imports. In other words, they must export or, more to the point, their export potential must be commensurate with that of their import capacity. As a result over the long run countries must maintain equilibrium in the balance of payments or at least in the basic balance. Countries can only grow over the long run at rates of growth compatible with their external position. In this sense countries are said to be balance-of payments constrained. This is the main reason why the performance of small open economies, as well as their development pattern, has been and is shaped to great extent by the vicissitudes of the external sector and any policy experiment, whether monetary or fiscal, that does not take into account this fact, ultimately ends up bringing it to the forefront of any economic analysis or discussion.

A. Caribbean regional integration

Acceleration of regional integration will promote international competitiveness and facilitate integration into the global economy. CARICOM therefore needs to establish a mechanism to manage the implementation of decisions taken by the Heads of Government Conference so as to advance the integration process. Non- implementation of decisions is a long standing problem that has delayed the progress of regional integration.

CARICOM should take the necessary action to remove the remaining obstacles to effective functioning of the single market. These include inter alia: completion of the harmonization of sanitary and phytosanitary measures and technical standards; removal of unauthorized taxes on regional goods; implementation of the CARICOM consumer protection regime; removal of work permit requirements for services providers and implementation of licensing arrangements for services providers.

Implementation of the single economy component of the CSME that should have started in 2008 should be fast tracked. This is essential to enhance the benefits of regional integration. In particular, the Revised Treaty of Chaguaramas provides for the development of a common trade policy and coordination of policies to promote the development of critical economic sectors including industry, agriculture and transport. This creates opportunities for the integration of development and trade policy that will allow the region to maximize the benefits gained from trade agreements.

Implementation of regional decisions is largely dependent on external financial assistance. Increased financial support for regional integration should therefore be provided to the extent that this is possible under current economic conditions.

Slow release of funds contributes to delays in implementation of regional decisions. Caribbean governments therefore need to encourage the EU to speed up the disbursement of funds allocated for the promotion of regional integration.

B. Treatment of disadvantaged members

Smooth progress of regional integration requires mechanisms to assist disadvantaged members however the CARICOM Development Fund that has been established to undertake this function may not be the best approach. In view of the lack of secure funding for the CDF, the inadequacy of its capital fund and the temporary nature of its assistance, governments of the region should consider the World Bank’s recommendation to seek additional resources for the Caribbean Export Development Agency to support exporters in disadvantaged countries. The assistance provided by the Caribbean Export development agency should be used to address the short term adjustment needs.

The CDF should be remodeled to function as a genuine development fund to address the development needs of disadvantaged members that would not be addressed by the Caribbean Export Development Fund. The remodeled CDF would need to have more secure funding and a larger pool of resources than the existing CDF.

The modification of article 164 of the Revised Treaty of Chaguaramas (that is, the replacement of quantitative restrictions by tariffs) requested by the OECS should be implemented to allow the OECS to expand market share in their own market.

C. Extra – regional integration

The Economic Partnership Agreement with the EU provides opportunities for export diversification, increased inflows of investment and financial and technical assistance to promote regional integration. Concerns about slow disbursement of EDF funds notwithstanding, those Caribbean governments that have not yet established EPA implementation units need to move quickly to do so. This is necessary to facilitate effective coordination of implementation and allow for realization of the potential benefits of the EPA.

CARICOM should seek to obtain clarification of the development cooperation components of the EPA. This issue could be pursued within the Joint CAIFORUM-EU Council. The EU CARIFORUM agreement provides insufficient information with respect to the specific programs, targets and expected outcomes of the development cooperation provisions.

CARICOM and the Dominican Republic should strive to resolve their differences relating to tariff treatment for exports from the Dominican Republic to CARICOM. This is necessary to facilitate smooth implementation of the EPA.

CARICOM countries need to position themselves to use the market access opportunities offered under the EPA to diversify their exports. This repositioning will require CARICOM to use the financial and technical assistance available under the EPA to build production capacity, strengthen institutions and improve competitiveness.

(v) CARICOM should take the necessary steps to improve the business climate so as to attract inflows of foreign direct investment from the EU. Required measures include promotion of macroeconomic stability, creation of a skilled workforce, provision of adequate infrastructure and development of strong independent institutions.

D. Export diversification

Export diversification efforts underway in the Caribbean move in the right direction but the process needs to be accelerated. Export diversification is critical to reduce the effects of external shocks, enhance productivity, create new comparative advantages and promote economic growth.

Supply side constraints have to be addressed if export diversification is to be successful. Significant constraints that require urgent attention include: deficient physical infrastructure including roads, ports and telecommunications; weak private sectors; weak institutions and an inadequate supply of expertise.

Given the limited financial resources of Caribbean countries, Aid–for–Trade will have to play a significant role in relaxing the supply side constraints that limit their ability to capitalise on international trade opportunities. In particular there is urgent need for additional AfT to promote export diversification thereby reducing the economic vulnerability of the region. AfT can help to promote export diversification by providing financial and technical assistance to implement the EPA, improve infrastructure, strengthen institutional capacity and improve the innovative and marketing capacities of private firms.

CARICOM should encourage donors to improve the implementation and effectiveness of Aid –for –Trade initiatives by correcting the main deficiencies identified by beneficiaries. Most important, the predictability of AfT funding needs to be improved to facilitate speedy and efficient implementation of export diversification programs. Other improvements that should be considered include increased input from Caribbean countries in the design of AfT initiatives and more emphasis on the development of local capacity.

Bibliography

Borchert, Ingo and Aaditva Mattoo (2009) "The crisis-resilience of services trade," *Policy Research Working Paper*, N° WPS4917, Washington, D.C., World Bank, April.

Brewster, Havelock, Norman Girvan and Vaughan Lewis (2008) "Renegotiate the Cariforum EPA," *Trade Negotiations Insights*, Vol. 7, N° 3, April .

CARICOM (2009) "CARICOM Single Market Draft Status of Implementation Report," Georgetown, CARICOM Secretariat.

ECCB (2009) *Annual Economic and Financial Review* 2009, Saint Kitts and Nevis.

ECLAC (2007a) "Special and Differential Treatment in CARICOM" (LC/CAR/L.109), Puerto España, sede subregional de la CEPAL para el Caribe/Gobierno de Guyana.

___ (2007b) *Treatment of Asymmetries: A Review of the Issues* (LC/CAR/L.110), Georgetown, Government of Guyana.

___ (2003) *The Impact of Foreign Direct Investment on Patterns of Specialisation in the Caribbean* (LC/CAR/G.718), Port of Spain, ECLAC subregional headquarters for the Caribbean.

European Commission (2008) "CARIFORUM-EU Economic Partnership Agreement: An Overview," [online] <http://trade.ec.europa.eu/doclib/docs/2008/april/tradoc_138569.pdf>.

Girvan, Norman (2009) "Some Lessons of the CARIFORUM-EU EPA," *Trade Negotiations Insights*, Vol. 8, N° 8, October .

Hornbeck, J.F. (2009) "The Haitian economy and the HOPE Act," *CRS Report*, N° RL34687, Washington, D.C., Congressional Research Service.

James, Vanus (2007) *The Economic Contribution of Copyright-Based Industries in Jamaica*, Mona, Jamaica, Mona School of Business, University of the West-Indies, August.

Jessop, David (2010) "What happened to the Cariforum-EU EPA?," *Trade Negotiations Insight*, Vol. 9, N° 3.

Stevens, Christopher, Mareike Meyn and Jane Kennan (2009) "The CARIFORUM and Pacific ACP Economic Partnership Agreements:

Challenges Ahead?," *Commonwealth Secretariat Economic Papers*, N° 87, London, Overseas Development Institute (ODI), January.

UNWTO (2010) UNWTO *World Tourism Barometer*, Madrid, June.

USITC (2008) "Caribbean region: review of economic growth and development," *Investigation*, N° 332-496, Washington, D.C., May.

World Bank (2010) "Global Development Finance (GDF)," [online database] <http://data.worldbank.org/data-catalog/global-development-finance> [accessed: July 30, 2010].

___ (2005) *A Time to Choose: Caribbean Development in the 21st Century*, Washington, D.C.

World Bank/OAS (2009) *Accelerating Trade and Integration in the Caribbean: Policy Options for Sustained Growth, Job Creation, and Poverty Reduction*, Washington, D.C., World Bank, June.

WTO/IDB (2009) *Implementing Aid for Trade in Latin America and the Caribbean. The National and Regional Review Meetings 2008–2009*, Washington, D.C.

NACIONES UNIDAS

Serie

C E P A L **nombre de la serie**

Issues published

A complete list as well as pdf files are available at

www.eclac.org/publicaciones

105. Caribbean trade and integration trends and future prospects, Marie Freckleton, Nanno Mulder, Andrea Pellandra, Esteban Pérez Caldentey (LC/L.3277-P), Sales Nº E.10.II.G.82 (US$10), December 2010.
104. Brazil and India: two BRICs as a "building bloc" for South-South cooperation, Mikio Kuwayama (LC/L.3273-P), Sales Nº E.10.II.G.78 (US$10), December 2010.
103. Crisis económica y cambio climático: algunas implicancias para el sistema multilateral de comercio, Sebastián Herreros, (LC/3191-P), Sales Nº S.10.II.G.25 (US$10), March 2010.
102. Private-public alliances for export development: the Korean case, Yoo Soo Hong (LC/3163-P), Sales Nº E.09.II.G.137 (US$10), August 2010.
101. Is the Czech economy a success story? The case of CzechInvest: the strategic promotion agency in Czech industrial restructuring, Vladimir Benacek (LC/3156-P), Sales Nº E.09.II.G.129 (US$10), March 2010.
100. Building long-term strategies and public-private alliances for export development: the Finnish case Thomas Andersson (LC/3155-P), Sales Nº E.09.II.G.128 (US$10), July 2010.
99. The Singapore success story: public-private alliance for investment attraction, innovation and export development Sree Kumar and Sharon Siddique (LC/L.3150-P), Sales Nº E.09.II.G.123 (US$10), April 2010.
98. Trends in United States: trade with Latin America and the Caribbean and trade policy towards the region, Craig VanGrasstek (LC/L.3151-P), Sales Nº E.09.II.G.124 (US$10), March 2010
97. Latin American and Asia Pacific trade and investment relations at a time of international financial crisis Mikio Kuwayama, José Durán and Marcelo LaFleur, (LC/3133-P), Sales Nº E.09.II.G.108 (US$10), July 2010.

- Readers wishing to obtain the listed issues can do so by writing to: Distribution Unit, ECLAC, Casilla 179-D, Santiago, Chile, Fax (562) 210 2069, E-mail: publications@cepal.org.

Name: ....

Activity:..

Address:..

Postal code, city, country:...

Tel.: .... Fax:................................... E.mail: ....