An Analysis of Trade Flows between the CARICOM and Latin America. Policy Recommendations for its Promotion, Stabilization, and Diversification

(June 2016)
Introduction

• The main purpose of the base document is to analyze the structure and magnitude of the trade flows of goods and services of the Caribbean Community (CARICOM) regional block with Latin America (LATAM).

• Based on an evaluation of the situation, it proposes policies that could contribute to its growth, stabilization, and diversification.

• The research relies on data obtained from the statistics data bases of the main multilateral institutions: the International Monetary Fund (IMF), the World Bank (WB), the United Nations Conference on Trade and Development (UNCTAD), and the Economic Conference for Latin America and the Caribbean (ECLAC).
Introduction

- Macroeconomic Performance
- Structure of Exports
- Trade Flows between CARICOM and LATAM
- Stimulating Trade between CARICOM and LATAM
- Some Key Factors Affecting the Competitiveness of CARICOM
- Concluding Remarks and Policy Recommendations
I. Macroeconomic Performance in the CARICOM

- Relatively slow growth, specially in TSP countries.
I. Macroeconomic Performance in the CARICOM

- Lower inflation than in LATAM and EM&DC in TSP
- Inflation relatively high for CP.

CARICOM.Consumer Price Index. 2000=100
I. Macroeconomic Performance in the CARICOM

- A large and sustained gap between investment and savings in TSP.
- A growing gap in CP.

![Current Account Balance/GDP (Percentage)](chart.png)
I. Macroeconomic Performance in the CARICOM

- Poor goods exports growth in TSP countries.
- Moderate growth in CP countries.

CARICOM. Volume of Exports of Goods and Services. Index 2000=100
I. Macroeconomic Performance in the CARICOM

- Persistent and large fiscal deficits in TSP countries.
- Tendency to larger fiscal deficits in CP countries.

**General Government Net Lending/Borrowing. Percentage of GDP**

- CARICOM
- Tourism SP
- Commodity prod
- LATAM
- EM&DC
I. Macroeconomic Performance in the CARICOM

- Large public debt burden in TSP.
- Moderate public debt burden in CP.

General Government Gross Domestic Debt. Percentage of GDP
II. Structure of Exports in the CARICOM

- The production and trade structures of the Caribbean countries show that they are predominantly service producing economies.
II. Structure of Exports in the CARICOM

- In the services sectors, tourism services are remarkably dominant.
- The limited data available indicates that tourism services are mainly demanded by the United States and European Union countries.
II. Structure of Exports in the CARICOM

• Concentration indices of exports of goods calculated by the UNCTAD (2012) are higher (indicating more concentration of exports) in the CARICOM in comparison to developing economies as a whole, and in developing economies in other regions.
II. Structure of Exports in the CARICOM

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- Exports of Mineral fuels, lubricants, and related materials represent the largest proportion of goods exports from CARICOM to LATAM, followed by Chemicals and related products.
- Exports of goods from CARICOM to LATAM, however, are slightly more concentrated than those to the world.
II. Structure of Exports in the CARICOM

- As reported by The Observatory of Economic Complexity, the economies more specialize in tourism services (TSP), export, primarily, agricultural products, processed food, some manufactured goods, and mineral commodities.

- The countries more dedicated to the production of commodities (CP), export mainly minerals and agricultural products.

- Exports of goods in the TSP countries look moderately more diversified than in CP economies. For example, in Guyana gold accounts for 45 percent of total goods exports; in Suriname aluminum oxide and gold represent 60 percent of total goods exports; and in Trinidad and Tobago petroleum gas and refined petroleum account for 54 percent of goods exports.

- The United States is the main destination of the goods exported from the CARICOM economies. The United States appears in the top five destinations for good exports of all CARICOM member countries, except for Antigua & Barbuda, Dominica, and St. Vincent and the Grenadines.

- Canada and the United Kingdom also appear as important destinations of goods exports for several CARICOM countries.
II. Estructura de las Exportaciones del SICA

- Few Latin American economies appear as the top five destinations for exports of goods from the CARICOM.
III. Trade Flows between the CARICOM and Latin America

- Exports of goods from the CARICOM to LATAM registered a remarkable expansion in the 2000-2013 period.
- The growth of exports accelerated since 2010.
- The growth of exports was higher for CP countries than for TSP.
III. Trade Flows between the CARICOM and Latin America

- Imports of goods of the CARICOM TSP countries from LATAM registered a remarkable expansion in the 2000-2010 period, but have declined substantially since then.
- For the CARICOM CP countries imports from LATAM have decreased in 2013 compared to 2000.
IV. STIMULATING TRADE between the CARICOM and LATIN AMERICA
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• CARICOM and its members have had a rather limited participation in the proliferation of trade agreements among the countries in the LAC region.

• Free Trade Agreements: CARICOM-Costa Rica; CARICOM-Dominican Republic.

• Partial Preferential Agreements: CARICOM-Colombia; CARICOM-Venezuela.

• ALBA-Petrocaribe connects some members of CARICOM with some LATAM countries.
V. SOME KEY FACTORS AFFECTING the COMPETITIVENESS of the CARICOM

1. Trading across borders in the CARICOM

- The CARICOM countries median percentile of the Trading Across Borders category of the DB index (2014) of the WB (42.59) is slightly better than that of LATAM (46.03), but substantially higher than the registered by the ASEAN-5 (22.22).

V. SOME KEY FACTORS AFFECTING the COMPETITIVENESS of the CARICOM

2. Shipping connectivity

- Most countries in the CARICOM exhibit a very low (below 5) UNCTAD’s Liner Shipping Connectivity Index (LSCI). The median of the block is 4.92.
- Most countries in LATAM present much higher LSCI values than the CARICOM members.
- All ASEAN-5 countries, except the Philippines, show higher LSCI values than The Bahamas.

CARICOM. Liner Shipping Connectivity Index 2013
V. SOME KEY FACTORS AFFECTING the COMPETITIVENESS of the CARICOM

3. Economic infrastructure

- The WB (2009) reports that English-speaking Caribbean countries have achieved electrification rates above 80%, and that access to water and sanitation is on average higher than in East Asia and Pacific region, and Latin America and the Caribbean as a whole. However, transportation of goods suffer from the deteriorated conditions of existing roads due to lack of basic maintenance services.

- The WB WDI (2012) suggests that the CARICOM economies (excluding Haiti) exhibit relatively good indicators related to access to Internet.

- The WB International Logistic Performance Index (LPI) 2014 only includes three CARICOM countries: The Bahamas, Guyana, and Jamaica. The infrastructure component of the LPI classifies The Bahamas in the 41 percentile, Guyana in the 72 percentile, and Jamaica in the 38 percentile.

- The Bahamas and Jamaica are better positioned compared to the median percentile of LATAM (50.63), but worse than the median percentile of the ASEAN-5 (27.5).
V. SOME KEY FACTORS AFFECTING the COMPETITIVENESS of the CARICOM

4. General environment for doing business

• The median of the percentiles of the CARICOM economies in the Global Doing Business index (2014) is 48.94, which is lower than the median for LATAM (59.52), and the ASEAN-5 (52.38).

• Overall the data suggests that the CARICOM is relatively well positioned in terms of the institutional setting necessary to create a good atmosphere for doing business and entrepreneurship, although there is considerable dispersion among its member.
V. SOME KEY FACTORS AFFECTING the COMPETITIVENESS of the CARICOM

5. Regional integration

- Economic integration in the Caribbean region has moved at a slow pace.
- SELA’s evaluation of trade in the CARICOM (1980-2011) reports, that on average, the participation of intra-block trade in total exports is lower than that of Latin America and the Caribbean as a whole.
- The WB (2009) points out that a large dispersion in the range of tariffs implemented by CARICOM members on imports from non-members.
- Progress is mixed in key elements for an effective common market such as, right of establishment of businesses, and free movement of services, labor, and capital.
- Another important obstacle to an effective integration is the lack of macroeconomic convergence.
V. SOME KEY FACTORS AFFECTING the COMPETITIVENESS of the CARICOM

6. Education in the Caribbean

- A WB document (2013) reports that the Caribbean countries have made substantial efforts to increase enrollment in primary and secondary school.
- Since 1960 the average years of schooling of the adult population has increased from 4.3 to 10.3 (2010), a rate very close to that of South America (10.5), and not very far from average of the OECD (12.1).
- In the CARICOM, Barbados, Belize, Grenada, and Guyana have accomplished near universal enrollment at the primary and secondary level.
- The document also reports that many Caribbean countries devote a significant amount of resources to education as a percentage of GDP.
- The WB document points however, that despite the relatively high level of investment, the quality of education in the Caribbean remains low.
- “The average pass rates for standardize tests in core subjects such as English and Mathematics are less than 50 percent, and many students lack basic skills in information and communication technology and other disciplines deemed critical for success in the work place.”
V. SOME KEY FACTORS AFFECTING the COMPETITIVENESS of the CARICOM

7. Labor market rigidities and high labor costs

- The WB (2009) points out that labor markets in CARICOM economies are characterized by relatively high wages and low flexibility compared to other middle-income countries.
- The WB holds that there is evidence of a misalignment between wages and productivity due to four main factors:

  a. strong unions with large influence on wage setting through their political and bargaining power during collective negotiations;
  b. large public sectors that impact wage setting across the economy;
  c. rigid labor regulations such as minimum wage laws make difficult to hire and fire workers;
  d. remittances affect the labor market by raising the reservation wage
VI. Concluding Remarks and Policy Recommendations

- Promoting comprehensive trade agreements with LATAM trading blocks and individual countries

The negotiation of new comprehensive trade agreements with LATAM could be a long-run objective that might be achieved through the establishment of partial treaties in the short-run. In addition, it is important for the CARICOM to use more effectively the existing accords.

The CARICOM and the national governments should strengthen their actions to promote exports of goods and services. They could play a valuable role by improving the information available to the private sector about the opportunities offered by the existing trade agreements, instruct diplomatic representations to increase their ties with the business communities in the LATAM countries in which they operate, and organize meetings between CARICOM exporters and LATAM businesses.

However, to take full advantage of wide-ranging trade agreements and other mechanisms of trade promotion, the CARICOM needs to address additional fundamental issues that are hampering its international competitiveness and capacity to maintain a robust output growth.
VI. Concluding Remarks and Policy Recommendations

- Correcting fiscal and macroeconomic imbalances

The CARICOM region shows a disappointing growth record in comparison to LATAM and EM&DC. From a macroeconomic perspective, this dismal growth performance is closely related to the serious and persistent fiscal imbalances that affect many of the CARICOM economies.

Achieving a sustainable fiscal position will improve domestic and foreign private sector expectations and reduce pressures to appreciate the real exchange rate. This in turn, could translate into more efficient investment, and increase exports.

Furthermore, achieving a sustainable fiscal position is also vital to reduce the high and persistent current account deficit that seriously affects most economies in the CARICOM block.

Given the magnitude of the widespread fiscal imbalances in the CARICOM block, a combination of well-designed fiscal consolidation programs and debt relief/restructuring schemes is required.

Fiscal convergence that is fundamental to attain regional integration in the form of the Caribbean Single Market Economy (CSME), can only be viable if the current fiscal imbalances are solved. The CARICOM could play a central role in setting realistic goals, timetables for their attainment, and monitoring the process of fiscal convergence.
VI. Concluding Remarks and Policy Recommendations

• Investment in trade infrastructure

According to the limited information available, the CARICOM economies exhibit some infrastructure indicators in areas such as electricity, water and sanitation, and internet access which are at par with those of other developing economies. The infrastructure more closely related to trade (roads, transport, and ports), however, shows signs of lagging behind with respect to that of export oriented economies in Asia.

The average investment to GDP ratio of the CARICOM is relatively high compared to that observed in LATAM, and close to that of EM&DC, thus the central problem seems to be the allocation of investment more than its level.

Hence, the CARICOM economies should make an effort to maintain their level of investment, but their main focus should be to channel that investment toward the infrastructure that is more closely linked to trade.

It is recommended the adoption of a regional approach to investment in trade infrastructure coordinated by the CARICOM, in the context of a strategic plan with clear, goals, timetables and monitoring indicators. A basic element of such a plan should be the achievement of a balance development of trade infrastructure across all member countries.

Given the constraints associated to tight fiscal positions and other financial restrictions, a plan for enhancing trade infrastructure should contemplate measures to attract domestic and foreign private sector partnerships, and foreign aid.
VI. Concluding Remarks and Policy Recommendations

- Strengthening regional integration

  Given the small size of the Caribbean economies, strengthening regional integration is a central element for gaining competitiveness in a globalized world.

  The CARICOM has a critical role to play in speeding up the process toward an effective common market in the Caribbean region. It should buttress its efforts to achieve the goal of the Caribbean Single Market Economy (CSME).

  The CARICOM should also boost its capacity to extract the maximum benefits from the existing free trade agreements, and negotiate future treaties that help the region to realize its full potential for exports of goods and services.

  To fulfill these roles in the regional integration process, the CARICOM should reinforce its institutional organization, and work closely with other regional organizations such as the Association of Caribbean States (ACS).
VI. Concluding Remarks and Policy Recommendations

• Moving beyond tourism services

CARICOM economies that specialize in tourism services display a poor growth performance in comparison with their CP peers, Latin America, and Emerging Markets and Developing Economies. Hence, tourism services have not been able to generate a robust growth in the economies that rely heavily on this activity.

It is necessary for the CARICOM countries to encourage, in cooperation with the private sector, investments in new areas such as high value financial services, information technologies, telecommunications, and maritime transport.

Although many services activities can be less dependent on economies of scale and complex supply chains than the production of goods, they require a well-educated workforce as any modern economic activity. Thus, the development of a more active and competitive services economy will require solving some of the weaknesses of the education system in the Caribbean region.
VI. Concluding Remarks and Policy Recommendations

- Augmenting shipping connectivity

Improving transport connectivity of the CARICOM block is a key factor in any strategy gear to transform the region in a global player in the exports of goods and services.

Existing and future trade agreements combined with concrete reforms to speed up trade across borders, and a viable plan to upgrade trade infrastructure, could be very important in enhancing shipping connectivity in the region.

The CARICOM should play a central role in devising a plan for improving the overall connectivity of the block and attaining convergence of its individual members in this area.

On this issue, the CARICOM could benefit greatly of a closer contact with the Association of Caribbean States (ACS) that through its Directorate of Transport could provide valuable technical expertise.
VI. Concluding Remarks and Policy Recommendations

- Reforming the education system

  The World Bank (2013) holds that the Caribbean countries education system presents weaknesses at all levels, from early childhood education to higher education. The paper emphasizes that for improving the quality of education in the Caribbean region, it is crucial to combine the efforts of the public and private sector.

  The CARICOM countries should promote the teaching of Spanish from an early stage of the schooling process. This could contribute significantly to enhance the cultural and commercial ties between the Caribbean region and Latin America.

  In addition, post-secondary education in the Caribbean could benefit from an active exchange program with universities and research centers in Latin America.

  Though the LATAM education system has its own weaknesses, it still could provide to the CARICOM countries the access to education resources that are not available to them because the small size of their economies and financial constraints.
VI. Concluding Remarks and Policy Recommendations

• Improving and standardizing the administrative process for trading across borders

The analysis of the Trading Across Borders category of the World Bank Doing Business index suggests that the majority of the CARICOM countries have plenty of space to improve the institutional arrangements related to international exchange.

CARICOM should play a central role in standardizing the processes involved in trading across borders as an important factor in strengthening regional integration and reinforcing competitiveness.

The experience of Barbados that is well ranked in the trading across borders category could be a good starting point for other economies in the CARICOM that do not fare well in this category.
VI. Concluding Remarks and Policy Recommendations

- Making labor markets more flexible

In a globalized world, rigidities in the labor markets can have substantial effects on the competitiveness of goods and services exports.

The CARICOM countries should promote reforms to make their labor markets more flexible, facilitating the process for hiring and firing workers, and reducing the role of the minimum wage in favor of an approach that favors wage adjustment on a sector by sector basis.

Labor market reforms should also be harmonized across the region, and be compatible with the Caribbean Single Market Economy objective of allowing the free movement of labor.
VI. Concluding Remarks and Policy Recommendations

- The role of foreign aid

Given the constraint on resources implied by the need of a strong fiscal adjustment in several CARICOM economies, and the small size of its financial system and private sector in general, foreign aid should play a prominent role as a source for financing the implementation of the policy recommendations discussed so far.

Improvements in trade infrastructure, enhancing shipping connectivity, overhauling the administrative processes involved in trade across borders and doing business, promoting the development of new services sectors, and reforming education will require substantial financial and technical resources.

Foreign aid should follow a regional strategy aimed at promoting the convergence of the CARICOM economies that is required for the effective functioning of the single economy, and their successful integration into the global economy.

For foreign aid to achieve its objectives, however, a strong institutional framework must be developed, that ensures the efficiency, transparency, and accountability in the use of the resources provided through foreign aid programs.

The CARICOM could play an important part in developing the institutional structure for defining a long-term strategy for foreign aid, and the proper management of the resources that it makes available.
VI. Concluding Remarks and Policy Recommendations

- Promoting Trade Agreements
- Infrastructure: Investment, Maintenance, Quality
- Moving Beyond Tourism
- Augmenting shipping Connectivity
- Improving Quality in Education
- Macroeconomic Discipline
- Deepening Regional integration
- Foreign Aid