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Export promotion policies in CARICOM: Main issues, effects and implications

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Abstract

The purpose of this document is to describe, analyze and assess export promotion policies in the case of CARICOM economies.

At the national level CARICOM economies are at different stages in their export promotion efforts ranging from countries such as Suriname where export promotion is a distant objective to Barbados where the authorities have decidedly adopted an upper income echelon approach to the development of tourism.

The common denominators (with the exception of small size and the adoption fiscal incentives) that can characterize or encompass their export promotion experiences are the search for niche-markets, market segmentation and comparative advantage. An analysis of different national cases including, Barbados, Jamaica, Guyana, the Member States of the Organization of Eastern Caribbean States (OECS) and Suriname indicate that export promotion strategies and in particular the common denominators listed above are significantly shaped and determined by their different stages of economic and institutional development and also, and most important, by their economic structure.

The analysis of export performance shows that the export promotion objectives have been, at most, partially fulfilled. CARICOM economies are still struggling to capture market-niches. More important these economies have, for the most part, lost market share in the United States and Europe, in spite of preferential market access conditions. Contrarily the intra-regional market has expanded significantly.

I. Introduction

The Caribbean Community and Common Market (CARICOM) economies are considered by any standard, smaller economies.[1] Due to their inherent characteristics, their overall performance is highly correlated with that of the external sector.

Exports are an important source of job creation, foreign exchange earnings and growth. Taking a demand-oriented demand approach and assuming that demand constraints bite before the supply constraints do, exports can promote growth for three reasons:

First, they are the only autonomous component of demand that is determined from outside the system. Second, they are the only component that can finance its import components. There is no such thing (unless for a short period of time) as a consumption, government or investment led growth. In other words the rate, of growth of an economy must be 'attuned' to that of its exports. Finally, imports financed by exports can generate higher levels of productivity. As a result export promotion policies acquire a unique and fundamental role in smaller economies' overall economic strategy and policy orientation.

[1] The treaty establishing CARICOM (1973) provided for the creation of two distinct entities: the Caribbean Community and the Common Market. The Caribbean Community (CARICOM) has 15 member states (Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago). The Bahamas is not a member state of the Common Market. CARICOM has five associate members (Anguilla, Bermuda, British Virgin Islands, Cayman Islands, and Turks and Caicos Islands). Aruba, Mexico, Venezuela, Colombia, the Netherlands Antilles, the Dominican Republic, and Puerto Rico are observers. Six member states are considered more developed countries (Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago) and eight countries are considered less developed countries (Antigua and Barbuda, Belize, Dominica, Grenada, Haiti, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines). This study deals mainly with the CARICOM members excluding Haiti.

In the case of CARICOM, export policies and export promotion strategies responded in part to the underlying logic of a development model termed 'industrialization by invitation (Lewis, 1950, pp.824-899).[2] Export promotion stood on three pillars, fiscal incentives, a Common External Tariff (CET) and foreign direct investment (FDI) flows. Some of the schemes for implementation were originally conceived at the regional level but were overhauled by national strategies.

Presently, regional and national export promotion strategies coexist side by side but with a marked absence of coordination between both. Regional export promotion policies are coordinated by CARICOM's Council for Trade and Economic Development (COTED) and contained in the revised version (2002) of the Chaguaramas Treaty (1973). In essence, they seek to develop intra-regional trade at the expense of extra-regional trade. The main instrument is the CET, which basically affords a high degree of protection to the major commodities traded within CARICOM.

At the national level CARICOM economies are at different stages in their export promotion efforts ranging from countries such as Suriname where export promotion is a distant objective to Barbados where the authorities have decidedly adopted an upper income echelon approach to the development of tourism.

The common denominators (with the exception of small size and the adoption fiscal incentives) that can characterize or encompass their export promotion experiences are the search for niche-markets, market segmentation and comparative advantage. An analysis of different national cases including, Barbados, Jamaica, Guyana, the Member States of the OECS and Suriname indicate that export promotion strategies and in particular the common denominators listed above are significantly shaped and determined by their different stages of economic and institutional development and also, and most important, by their economic structure.

The purpose of this document is to describe, analyze and assess export promotion policies in the case of CARICOM economies. The document is divided into six sections. Following the introduction, the first section provides the context for export promotion policies by analyzing how size and geography can shape export promotion efforts and their outcome.

The second section focuses on CARICOM economies' export promotion objectives. The argument in this section is that smaller economies pursue three types of export promotion objectives. These are to secure markets, to maximize foreign exchange earnings, and to promote product recognition. Securing markets, which is analyzed at the national and regional levels, involves niche-market production for non-traditional products and preferential market access for traditional products. The exception to the rule is Guyana that has managed to create an ethnic niche-market for its agricultural products. The section also argues that, with a few exceptions, smaller economies do not pursue export diversification.

The third section examines the institutional setting and instruments for export promotion policies. For historical reasons and also due to the constraints imposed by small size, the government rather than the private sector is the major export promotion agent. The instruments for export promotion include the CET, fiscal incentives, government capital expenditure, export financing schemes and trade diplomacy.

The fourth section analyses the implications and impact of export promotion policies. It sustains that CARICOM economies have lost market share in the goods market for their major extra-regional markets and gained market share at the intraregional level due mainly to the performance of Trinidad and Tobago. Excluding Trinidad and Tobago from the analysis shows that the share of intra-regional trade has in fact declined over time. In the services sector and in

[2] Lewis first formulated the rationale and main elements of this development model.

particular in tourism, CARICOM states have also lost market share to the lower costs producers such as the Dominican Republic, Puerto Rico and Mexico.

This export performance, which has increased the external gap, is explained by a combination of internal and external factors. To some extent this performance questions the efficiency of these economies' export promotion efforts. In addition, the promotion of export activities that are intensive in foreign exchange earnings and that has resulted in a greater level of FDI flows, is associated with a stagnant domestic investment ratio for most economies. Finally, these effects are compounded by the fiscal cost of export promotion policies. In some of the smaller economies, the fiscal cost, according to official sources, has reached 14% of gross domestic product (GDP).

The final comments and reflections are found in the conclusion.

II. Size and geography: the context for export promotion policies and its implications

CARICOM economies satisfy the different demarcation criteria proposed in the literature characterizing a small economy. Smallness has important implications for export performance and the development of an export strategy thus setting the context for export promotion policies.[3]

Small economies are price takers and have no influence on the terms of trade. Faced with exogenous prices they cannot rely on price competitiveness to enhance their export performance. Instead they must focus on competitiveness based on the quality of their products. As well, small countries cannot affect the pattern of external demand but instead must adapt to it. Thus the focus on quality must be accompanied by an emphasis on adaptation to the dynamics of the external market (the external linkage).

Yet small economies' inability to reap the benefits from economies of scale and scope, limits their capacity to enhance the

3 Smallness is generally defined in terms of population and the dividing line oscillates between 1.5 million and 10 million although some authors use a combination of population, GDP and surface area (Briguglio, 1995). The Commonwealth Secretariat proposed a population of 1.5 million or below (Atkins, Mazzi and Easter, 2001). Armstrong and Read (2000 and 2003) also distinguish between a small economy and a microstate where a microstate is defined as a state with a population of three million or less. Earlier on Kuznets (1960) set the demarcation criterion at 10 million and Chenery and Syrquin (1975) at 15 million (Perkins and Syrquin, 1992). More recently the Commonwealth Secretariat has produced a new definition of small in terms of the share of economies in world trade. The cut-off line was set at 0.02% and has been raised to 0.03% (Davenport, 2001). For a general review of small economies see WTO (2002a).

quality of their export product and to adapt to changes in external demand or conditions. The absence of economies of scale leads to higher unit costs as a result of sub-optimal firm size, lack of complementary in tradable activities, domestic production of inputs, and inefficient spatial productive hierarchy (Ocampo, 2002).

Smaller producers are also seen as a risky financial investment. Finally, small countries have limited natural resource endowments and labour supplies. As a result they will inevitably produce a narrow range of products and in fact CARICOM economies have foregone, with a few exceptions, export diversification objectives.[4] The high values of the diversification index presented in table 1, attest to their narrow export base.

Table 1

COMMODITIES EXPORTED, DIVERSIFICATION AND CONCENTRATION INDICES – SELECTED CARIBBEAN COUNTRIES, 2003

Country	Commodities exported	Diversification	Concentration
Barbados	184	0.397	0.094
Dominica	135	0.482	0.078
Jamaica	190	0.452	0.051
St. Lucia	155	0.472	0.087
St. Kitts and Nevis	141	0.507	0.087
St. Vincent and the Grenadines	145	0.700	0.050
Trinidad and Tobago	205	0.470	0.203

Source: Author calculation on the basis of Handbook of Statistics, UNCTAD, Geneva, 2003.
Note: The diversification index refers to the absolute deviation of the country share from the world structure. It is equal to: $D_i = \Sigma\ (S_{ij} – S_i)/2$, where S_{ij} = share of commodity *i* in total exports of country *j*. S_i = share of commodity *i* in total world exports. The diversification index takes higher values as the export structure is less diversified. The concentration index is the Herfindahl-Hirschmann index. The index ranges from 0 to 1. A value of 1 is an indication of maximum concentration.

Geographical location hardens these constraints because CARICOM countries are placed in a geographical area prone to natural shocks and in addition due to their insularity transport costs are higher per unit of traded goods than for other countries. Moreover high transport costs constrain the development of productive activities such as agriculture and manufacturing that are dependent on imported inputs.

These limitations are partly compensated by a strong presence of the state and the government in development and export activities. In fact the government can be said to be the main export promoter and is a major source of export development through capital expenditure projects and fiscal incentives, which lower the cost of doing business thereby providing an incentive to export activities.

By virtue of their size, small economies are also open economies in terms of their composition of demand. Openness implies that economic performance is closely tied to export performance. A necessary condition for export led-growth is the correspondence and linkage between the export and the productive structures of the economies in question (the domestic linkage).

While this idea is reminiscent of traditional trade theory and more particularly of the Heckscher-Ohlin variant, by no means, does it rule out the dynamic interaction between export

[4] Nonetheless it should be taken into account that CARICOM governments often voice export diversification as one of their main objectives. As an example see Government of St. Vincent and the Grenadines (2002, p.5). A recent effort to diversify is that of organic farming which is an objective of the Grenadian authorities (NERA, 2003, p. 32).

structure and productive structure.[5] Indeed, over time export promotion can shape the production structure of a country as much as a changing productive structure can affect the pattern of external sales.

Within this context two examples are worth mentioning that of the introduction of bananas in the Windward Islands in the late 1940s and the more recent specialization of services of Caribbean economies.

Bananas which form currently the major export product of St. Lucia, Dominica, Grenada and St. Vincent and the Grenadines and which shape agricultural production in these economies, in particular in the case of St. Lucia, was introduced as part of an export promotion effort seeking to diversify exports in the Windward Islands, which were concentrated in sugar in St. Lucia and in lime products in Dominica (Welch, 1994).[6]

More recently the effort to develop services as a key export activity has been accompanied by a change in contribution of services to GDP. The contribution of services to GDP in the Caribbean increased steadily between the 1970s and the 1990s from 35% to 68% and currently represents more than 80% in the case of the smaller economies of CARICOM.

Openness also means that small countries must ‘open’ their frontiers to imports from other countries. This is partly a consequence of their stage of development. They are dependent on access to capital and intermediate inputs.

It also responds to a question of reciprocity, which is the hallmark of trade negotiations.[7] At the same time that countries gain market access for their export products they must grant market access to imports. The empirical evidence verifies the correspondence in the openness with respect to imports and exports by showing that in general export-GDP ratios tend to approximate the import-GDP ratios.

‘Import openness’ can have its drawbacks. Domestic producers are faced with tougher competition and may in fact be displaced by cheaper or better quality products. A common complaint of producers of manufacturing goods is that they cannot compete with foreign producers under conditions of free trade.

Also depending on the value of a country’s income and price elasticity parameters, a country may find itself in a balance-of-payments constrained situation forcing the government to pursue contractive policies that frustrate export enhancing efforts or taxing-export policies. Authorities can also decide to give priority to foreign earning productive activities over those that promote development.

Thus a corollary of the definition of an exports policy is that of an imports policy. Obviously, while it is desirable to have a close coordination and correspondence between both, in the real world, due to different factors, the goals of an export policy and those of an import policy may respond to diverging interest and there is no mechanism to guarantee their coincidence.

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5 The Hecksher-Ohlin factor proportions approach was a response to the decline and impact of agricultural prices and the consequent emigration of the rural population to the United States. A key prediction of the model is that the composition of a country’s exports depends on that of its resources (Findlay, 1995; Wood & Mayer, 2001).

6 Obviously banana exports benefited from the interests of private companies to establish a banana trade. In 1947, the Tropical Fruit Company decided to change its import source from the Canary Islands to the Caribbean. The first Caribbean export industry was established in Dominica under the auspices of Antilles Product Limited. The first regular banana shipping service was established in 1949 (Clegg, 2000).

7 While it can be argued that non-reciprocity underlies preferential trading arrangements in theory for developing economies and in particular small economies, in practice preferential trading arrangements are a case of limited reciprocity. There is no such thing as blank non-reciprocity. Limited reciprocity recognises that there are differences between developed and developing economies and that the basis for this difference is higher adjustment costs in the latter relative to the former. The current orthodox consensus is that the adjustment costs should be dealt with in an international framework guaranteeing ‘flexibility within reciprocity’ (Michalopulos, 2000).

In the particular case of CARICOM economies the import policy has remained over time, and with a few exceptions, a regional policy that seeks to promote intraregional trade through high levels of protection.

The characteristics of small economies analyzed in this section and their constraints and limitations shape and delimit their export promotion objectives. These are addressed in the next section of this paper.

III. Export promotion main objectives

Caribbean export promotion efforts centre on three overriding goals, namely securing specific markets for specific traditional and non-traditional export products at the extra and intra regional levels, the promotion and development of activities which are intensive in foreign exchange earnings, and product recognition.

A. Securing market access for non-traditional products: niche-market orientation

In the case of non-traditional products, the effort to secure markets focuses on niche-market production. Niche-market is a focused target position of a market and niche-market production consists is addressing a need that is not being addressed by mainstream providers. According to some views niche-market production involves necessarily high value-added content products and as result does not include the basic agricultural commodity exports. Niche-market production can actually be a risky venture and as a result some Caribbean policy makers have sought concentrate on activities that can minimize the effects of external shocks or unforeseen events.

Barbados and its official tourism policy is perhaps one of the clearest examples of a niche-market producer. In 2002 Barbados replaced its Hotel Aids Act (1967) with the Tourism Development Act.

The underlying principle of the Tourism Act is to gear the tourism industry to the upper income bracket levels.

The official position is to develop Barbados as a niche-market:

> "Our objective is to develop Barbados as an upscale destination, without the introduction of mass attractions like casino gambling or the use of a variable exchange rate" (Ministry of Finance of Barbados, 2002).

The underlying reason is that Barbados is a costly tourism destination and cannot compete with other destinations, such as the Dominican Republic or Mexico. As shown in table 2, Mexico and the Dominican Republic have a market share of Caribbean tourism that is five times bigger than that of Barbados. In addition, their tourism accommodations largely surpass those of Barbados. The Dominican Republic and Mexico register seven and four times the number of hotel rooms found in Barbados. And most of their tourism accommodations comprise large hotels giving them the possibility to economize costs based on sheer size. On the contrary in Barbados only close to a third of tourist accommodations are hotels and within these between 40% and 59% are hotels with a capacity for 100 or more rooms.

Table 2

FAR TOURISTIC DESTINATIONS IN CARIBBEAN REGION – INTERNACIONAL CORPORATION, 2001

	Barbados	Dominican Republic	Mexico	
			Cancun	Cozumel
Market share	2.5	14.3	10.9	1.2
Number of rooms	6 781	53 964	26 194	4 826
Ratio of hotels to total tourist accommodations	31.1	100	100	100
Percentage of hotels with 100 rooms or more	40-59	>70	>70	>70
Employment per room	0.99	0.82	…	…
Business cycle correlation:				
- United States	69.7	47.8	…	…
- OECD	66.6	27.7	…	…

Source: "Caribbean Tourism Statistical Report, 2001-2002", Caribbean Tourism Organization (CTO), 2003, St. Michael, Barbados. "Development Assistance and Economic Development in the Caribbean Region: Is there a correlation?" Discussion Draft, Caribbean Group for Cooperation in Economic Development, World Bank, 2002a, Washington D.C..

Note: Market share refers to the market share of tourist arrival.
… denotes not available.

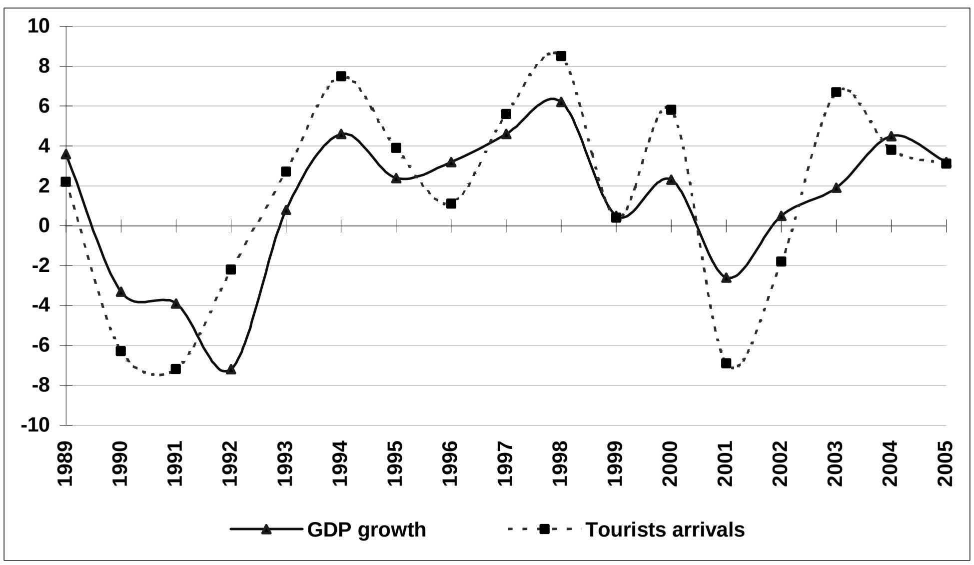
In addition, by targeting the wealthier, this policy transforms effectively tourism into a luxury consumption item isolating its profitability from the general economic conditions thus increasing the stability of its financial and earnings flows. As shown in table 3 the economy cycles of the Barbadian economy are highly correlated with tourism and also with the economic cycles of the United States and the OECD economies. Figure 1 captures the significance of tourism for the Barbadian economy by plotting the rate of growth of GDP and that of the rate of change of visitor expenditure. The correlation coefficient is above 0.80.

Table 3
BARBADOS: TOURISM DEVELOPMENT ACT (SELECTED) TARGETS, 2000-2010

		2000	2001	2002	2005	2010
Stay over visitors:	(*number*)	544 696	561 037	577 868	659 337	929 035
	(*%*)		3.0	3.0		
Cruise ship arrivals:	(*number*)	533 609	586 970	607 514	725 569	903 595
	(*%*)		10.0	3.5		
Visitor expenditure:	(*mill BB$)*	1 407	1 485	1 537	1 847	3 000
	(*%*)		5.5	3.5		
Expenditure per visitor		1 305	1 293	1 296	1 333	1 637
Hotel room occupancy		60.7	61.1	62.0	75.0	85.0
Number of hotel rooms		5 810	6 100	6 250	7 010	9 500
Brand name hotels		1	1	1	3	6
Cruise births		594 199	653 619	676 496	807 956	1 006 196
Employment		13 500	14 020	14 350	16 474	22 325

Source: "Green Paper on the Sustainable Development of Tourism in Barbados. A Policy Framework", Ministry of Tourism, 2001.

Figure 1
BARBADOS: GDP GROWTH AND TOURIST ARRIVALS, 1989-2005
(Rates of growth)



Source: Author calculation on the basis of official data.

The Tourism Ministry has set a range of targets to measure the performance of the Tourism Development Act. The success of the plan will be gauged according to increases in the number of tourists (including stay-over and cruise-ship arrivals), visitor expenditure, and expenditure per visitor, rate of hotel occupancy, number of hotel rooms, brand name hotels, cruise berths and direct employment. These targets are reproduced in table 3, for the planned 10-year time range.

The banking offshore and the yachting sector are two additional examples of niche-markets. While the development of the banking sector responded to a conscious decision of Caribbean governments, that of the yachting sector evolved mainly as a result of the natural endowments of the region.

Yachting is prominent in the Eastern Caribbean and is in some cases the most important component of tourism. In St. Vincent and the Grenadines the number of yachting visitors represented 18% and 36% of total visitor arrivals in 1995 and 2002 out spacing stay-over visitors and cruise ship passengers by a ratio of 1.18 and 1.23 to 1 in 2002.[8] The quantification of the magnitude of this sub sector and its impact is still in its infancy and governments have still to recognize its importance. Yachting is also a type of luxury tourism and does not respond to the commercial interests of say cruise ship liner companies. As a result, in much the same way as the Barbadian type tourism described above, it can attenuate economic fluctuations.

B. Securing market access in traditional products: preferential market access

In the case of traditional products, which are mainly agricultural products, there is little possibility of creating of a niche-market. Agricultural products have an innumerate number of substitutes and agricultural markets are not ‘segmented’ markets. As a result, it is unlikely that a Caribbean agricultural product, say bananas from St. Lucia, will have its own market in an industrialized country attending the preference on the part of consumers for St. Lucian over, say, Ecuadorian bananas.

The main objective of export promotion strategies for traditional products has been to secure market access through preferential trade arrangements and more specifically, to be recipient to asymmetric treatment in trade negotiations.

Asymmetric market access is granted by industrialized countries through three main preferential trading arrangements: the System of Generalized Preferences; the Lomé Convention (subsequently replaced by the Cotonou agreement in 2000), and the Caribbean Basin Initiative respectively.

The Generalized System of Preferences (GSP) was adopted in 1974 and grants trade preferences to manufactured and semi-manufactured goods and to some agricultural products. Textiles are excluded from the GSP. There are 16 different GSP schemes granted by 28 developed countries. The Caribbean Basin Initiative (1983) granted preferential access to the United States market for Central American and Caribbean economies to promote their growth and development. Excluded products included textile and apparel, footwear, leather products, canned tuna, petroleum and derivatives. The Caribbean Basin Initiative (CBI) was expanded in 2000 through the Caribbean Basin Economic Recovery Expansion Act (CBEREA) to included textiles, tuna and footwear.[9] The Lomé Convention granted duty-free access to products from African, Caribbean and Pacific States. It also provided special regimes for bananas, rum, sugar and beef. Its successor the Cotonou agreement establishes trade relations upon the progressive dismantling of trade barriers and preferences seeking in this way to integrate the beneficiary countries into the World Economy.

The European Union has in addition provided financial assistance in the form of income compensation (Stabilization of Export Earnings (STABEX) funds) for shortfalls in export earning due to price fluctuations and also as a result of the loss of preferences. The European Union also created in 1994 a special system of assistance to improve the quality of banana production. The special system of assistance provided both income and technical assistance support.

8 Statistics on the yachting sector in St. Vincent and the Grenadines prior to 1995 are unreliable due in part to the fact that at least a third arriving yachts failed to clear customs and immigration (ECLAC, 2002).

9 There are other types of export preferences. Textile and apparel exports take place through the 807 type, which is an assembly operation where the fabrics are cut abroad and assembled locally. The 807 exports amount to more than 80% of the total. These exports are classified under the Guaranteed Access Level Schemes. Through this scheme the United States establishes quotas every year. The empirical evidence shows, that the quotas established by the United States surpasses the productive capacity of Jamaica. Jamaica Promotions Corporations (JAMPRO) allocates the textile quotas among the exporters.

On average North American Free Trade Agreement (NAFTA), mainly the United States, and the European Union account for roughly 50% of the region exports between 1991 and 2004. The trade intensity index, which reflects the pattern of export orientation shows that in the majority of cases, Caribbean countries have a clear preference to trade with the United States, with the exemption of Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines, and Suriname (see tables 4 and 5).[10]

Table 4
CARICOM: EXPORTS TO THE EUROPEAN UNION AND NAFTA AS A PERCENTAGE OF THE TOTAL, 1991-2004
(Percentages)

Country / Sub region	European Union		NAFTA	
	1991-1995	2001-2004	1991-1995	2001-2004
OECS	**33.84**	**29.57**	**16.04**	**20.21**
Antigua and Barbuda		23.31 [a]		26.31 [a]
Dominica	43.16	40.03	6.76	9.74
Grenada	22.94	25.57	27.03	24.10
St. Kitts and Nevis	28.20	7.35	21.70	42.52
St. Lucia	34.33	33.31	15.46	16.28
St. Vincent and the Grenadines	40.60	41.59	9.22	8.40
LDCs	**27.28**	**23.45**	**23.70**	**25.01**
Belize	20.71	17.33	31.36	29.81
MDCs	**19.31**	**16.03**	**26.16**	**30.65**
Bahamas, The		9.12		40.75
Barbados	24.18	23.42	25.05	25.67
Guyana		19.81		29.80
Jamaica	17.36	18.17	29.07	28.06
Suriname	23.41	19.14	13.54	16.26
Trinidad and Tobago	12.28	6.54	37.00	43.37
CARICOM	**26.72**	**21.78**	**21.62**	**26.23**

Source: World Integrated Trade System (WITS), 2005, World Bank, Washington, D.C.
[a] 1996-2000 average.

With respect to Caribbean exports to Europe, the data shows that under the Lomé Convention or Cotonou Agreement, the coverage of preferences affects 36% of the total exports of CARICOM to the European Union. At the level of the sub-regional groupings these encompass 54%, 31% and 23% of the total exported for the OECS, Least Developed Countries (LDCs) and More Developed Countries (MDCs). At the individual level, Antigua and Barbuda, Grenada, St. Vincent and the Grenadines, amongst the OECS and Bahamas and Barbados among the MDCs are the countries exhibit the highest coverage of preferences. In terms of the utilization of preferences as a percentage of total exports, the OECS standing is above that of the MDCs. At the individual country level, St. Lucia, Dominica, The Bahamas, Grenada, and Jamaica have the highest level of utilization of preferences (99%, 96%, 88%, 79% and 73% respectively) (see table 6).

[10] A value greater than unity between home countries, say St. Kitts and Nevis, and a trade partner, say Europe, indicates the existence of a bias to trade with that country.

Table 5

CARICOM: TRADE INTENSITY INDEX FOR SELECTED MEMBER STATES, 2003

Country	Destination		
	United States	European Union	CARICOM
Barbados	0.95	0.48	2.94
Belize	2.82	0.86	0.41
Dominica	0.21	0.58	3.62
Grenada	2.07	0.87	1.32
Guyana	1.21	0.40	0.60
Jamaica	1.74	0.72	0.24
Montserrat	0.85	0.63	3.08
St. Lucia	0.72	1.48	1.70
St. Kitts and Nevis	3.78	0.65	0.18
St. Vincent and the Grenadines	0.17	1.02	3.35
Trinidad and Tobago	2.09	0.12	1.20
Average	**1.51**	**0.66**	**1.62**

Source: Caribbean Trade Data Base (CARIBTRADE) (2003), United Nations Economic Commission for Latin America and the Caribbean (UNECLAC), Sub-Regional Headquarters for the Caribbean.

Note: The trade intensity index is defined as the share of country's *i* exports that are destined to partner country *j* divided by the share of country *j* in world imports. The trade intensity index (ITII) is equal to $(X_{ij}/X_i)/(M_j/M_w)$ where:

X_{ij} = imports of reference country $_i$ from partner country $_j$.
X_i = total exports of reference country $_i$.
M_j = total imports of reference country $_j$.
M_w = world imports.

Table 6

COTONOU AGREEMENT: UTILIZATION AND COVERAGE OF PREFERENCES BY COUNTRIES, 2000

(In percentages)

Country	Utilization	Coverage		
		Duty exempt products	Exports excluded from Cotonou preferences	Exports eligible for Cotonou preferences
OECS	**70.6**	**54.2**	**13.5**	**32.5**
Antigua and Barbuda	25.0	99.0	0	1.0
Dominica	96.0	10.0	0	90.0
Grenada	79.0	94.0	0	6.0
St. Kitts and Nevis	66.8	2.0	81.0	18.0
St. Lucia	98.5	45.0	0	55.0
St. Vincent and the Grenadines	58.1	75.0	0	25.0
LDCs	**73.3**	**31.1**	**24.8**	**44.3**
Belize	76.0	8.0	36.0	56.0
MDCs	**62.0**	**23.0**	**20.8**	**55.7**
Bahamas	87.6	35.0	0	65.0
Barbados	33.2	48.0	31.0	21.0
Guyana	64.5	26.0	67.0	6.0
Jamaica	72.7	2.0	14.0	84.0
Suriname	64.9	3.0	7.0	89.0
Trinidad and Tobago	48.9	24.0	6.0	69.0
Caribbean	**67.0**	**36.2**	**18.6**	**45.0**

Source: "Preference utilization and tariff reduction in European Union imports from Africa, Caribbean and Pacific countries", Manchin, Miriam, 2005, World Bank Policy Research, *Working Paper* 3688.

In the case of the United States market, the United States recognizes five special import programmes. These are the Caribbean Basin Trade Partnership Act (CBTPA), the CBI, the GSP, the Civil Aviation Programme, and the special treatment to pharmaceuticals.[11] The most significant is the CBI, which accounts on average for 37% of all exports to the United States. Still 64% of all CARICOM exports to the United States are not included in any specific program (see table 7).

Table 7

CARICOM: EXPORTS TO THE UNITED STATES BY SPECIAL PROGRAM, 1996-2002

(As percentages of the total)

Country	CBTPA	CBI	GSP	CA	Ph	NP
Anguilla	n.r.	n.r.	7.7	0	n.r.	92.2
Antigua and Barbuda	n.r.	9.7	0.6	n.r.	n.r.	89.7
Bahamas	n.r.	20.3	n.r.	0	6.3	73.4
Barbados	0	44.3	2.9	0	7.7	45.1
Belize	4.1	37.6	2.3	n.r.	n.r.	56.0
Dominica	n.r.	94.7	0.08	0.001	0.09	5.1
Grenada	n.r.	48.7	0.2	n.r.	n.r.	51.1
Guyana	1.9	18.7	2.5	n.r.	0	76.8
Jamaica	4.9	14.3	0.5	0.2	n.r.	80.3
St. Lucia	0	31.4	1.9	0	n.r.	67.1
St. Kitts and Nevis	n.r.	73.7	1.5	n.r.	0.45	24.7
St. Vincent and the Grenadines	n.r.	36.5	1.8	3.7	n.r.	63.0
Suriname	n.r.	n.r.	2.2	n.r.	n.r.	97.8
Trinidad and Tobago	9.8	16.3	0.2	0	n.r.	73.8
Average	**3.45**	**37.18**	**1.88**	**0.49**	**2.91**	**64.01**
Standard deviation	**3.72**	**25.59**	**2.00**	**1.30**	**3.77**	**26.05**

Source: Author on the basis of United States International Trade Commission (USITC), on line database (dataweb.usitc.gov).

Note: CBTPA = Caribbean Basin Trade Partnership Act; CBI = Caribbean Basin Initiative; GSP = General System of Preferences; CA = Civil Aviation; Ph = Pharmaceuticals; NP = No program. n.r. = Not reported.

An analysis of the major products that are not exported under any program show however that these are imported by the United States with a 0% *ad valorem* tariff rate and that only in some cases do other import charges apply (see table 8). Another measure of the degree to which the United States import market is effectively open to Caribbean imports that are not included into any program is the collected import tariff rate measured as the ratio of import charges to the total Cost, Insurance and Freight (CIF) value of imports. In most cases this ratio is very low.

11 There is also the production-sharing programme, which refer to United States goods exported abroad for processing and returned to the United States. These are mainly textile exports and in the case of CARICOM economies represent a small percentage of the total.

Table 8

TARIFF CONDITIONS FOR THE MAIN PRODUCTS EXPORTED BY CARICOM CARIBBEAN COUNTRIES TO THE UNITED STATES THAT ARE NOT INCLUDED INTO ANY SPECIAL PROGRAMMED, 2002

Countries HS code	Description	% of total exports (2002)	Tariff conditions		
			MFN tariff rate	Ad-valorem rate (%)	Collect tariff rate ($)
Anguilla					
98010010	U.S goods returned without having been advanced in value	46.73	Free	0	0
22082040	Grape brandy, in containers not over 4 litres, valued over $3.43/liter	13.58	Free	0	0
22084040	Rum and tafia, each holding not over 4 litres, valued over $3/proof litre	9.40	Free	0	0
90329060	Parts and accessories for automatic regulating or controlling	7.25	1.7%	1.7	0
85422180	Electronic monolithic digital integrated circuits, not elsewhere	5.86	Free	0	0
22042150	Wine other than Tokay (not carbonated), not over 14% alcohol, in containers	5.63	6.7%	0	0.063
Antigua and Barbuda					
98010010	U.S goods returned without having been advanced in value	61.12	Free	0	0
25059000	Natural sands, other than silica or quartz sands	17.48	Free	0	0
Bahamas					
27101905	Distillate and residual fuel oil	33.2	5.25 [a]	0	0.0525
27101115	Light oil motor fuels from petroleum, oils	15.45	5.25 [a]	0	0.0525
98010010	U.S goods returned without having been advanced in value	11.2	Free	0	0
03061100	Rock lobster and other sea crawfish	10.74	Free	0	0
Barbados					
85333100	Electrical wire-wound variable resistors, including rheostats and …	18.37	Free	0	0
98010010	U.S goods returned without having been advanced in value	9.40	Free	0	0
27101905	Distillate and residual fuel oil	6.87	5.25 [a]	0	0.0525
85334080	Electrical variable resistors, other than wire-wound, including rheostats	5.01	Free	0	0
03023200	Yellowfin tunas, fresh or chilled, excluding fillets, other meat portions	2.78	Free	0	0
Belize					
03061300	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine	20.42	Free	0	0
03061100	Rock lobster and other sea crawfish, cooked in shell or uncooked, dried, …	9.66	Free	0	0
98010010	U.S goods returned without having been advanced in value	2.18	Free	0	0
33049950	Beauty or make-up preparations & preparations for the care of the skin, excl.	2.02	Free	0	0
Grenada					
03023200	Yellowfin tunas, fresh or chilled, excluding fillets, other meat portions	31.91	Free	0	0
09081000	Nutmeg	27.97	Free	0	0
33012950	Essential oils other than those of citrus fruits, nesoi	21.66	Free	0	0
98010010	U.S goods returned without having been advanced in value	3.61	Free	0	0
Guyana					
26060000	Aluminium ores and concentrates	32.62	Free	0	0
03061300	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine	28.68	Free	0	0
71023400	Non-industrial diamonds, unworked or simply sawn, cleaved or bruted	4.67	Free	0	0
71022110	Miners' diamonds, unworked or simply sawn, cleaved or bruted	2.37	Free	0	0
Jamaica					
26060000	Aluminium ores and concentrates	19.91	Free	0	0
28182000	Aluminium oxide, other than artificial corundum	12.94	Free	0	0
98010010	U.S goods returned without having been advanced in value	3.61	Free	0	0
St. Lucia					
85334080	Electrical variable resistors, other than wire-wound, including rheostats	14.42	Free	0	0
98010010	U.S goods returned without having been advanced in value	8.53	Free	0	0
99999500	Estimated imports of low valued transactions	4.43	-	-	-
85332100	Electrical fixed resistors, other than composition or film type carbon resistors	3.73	Free	0	0
St. Vincent and the Grenadines					
03034100	Albacore or long-finned tunas, frozen, excluding fillets, other meat portions	54.90	Free	0	0
97011000	Paintings, drawings (o/than of 4906) and pastels, executed entirely by hand	5.94	Free	0	0
98010010	U.S. goods returned without having been advanced in value	2.36	Free	0	0
Suriname					
28182000	Aluminium oxide, other than artificial corundum	81.05	Free	0	0
03061300	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine	8.65	Free	0	0
Trinidad and Tobago					
27111100	Natural gas, liquefied	23.72	Free	0	0
28141000	Anhydrous ammonia	14.26	Free	0	0
27101125	Naphthas (exc. motor fuel/mtr fuel blend. stock) from petroleum oils & bitumen	3.32	10.5 [a]	0	0.1050
27101905	Distillate and residual fuel oil (including blends) derived from petroleum …	3.29	5.25 [a]	0	0.0525

Source: Author on the basis of United States International Trade Commission (USITC), on line database (dataweb.usitc.gov)., and Module to analyze the growth of international commerce (MAGIC), 2003, ECLAC Sub-Regional Headquarters in Mexico City.

Notes: HS = Harmonized System; MFN = Most- Favoured Nation.

[a] Cents/bbl.

C. Ethnic niche-marketing for agricultural products: the case of Guyana

While as argued above agricultural products are not niche-oriented products, there is however one exceptions to this rule, which is particular to the specific economic and social conditions of one of the countries under study, Guyana. Guyana is with Suriname the poorest country in the English speaking Caribbean. Guyana has the status of a Heavily Indebted Poor Country (HIPC) with a GDP *per capita* below 1,000 U.S. dollars and a stock of external debt equivalent to 172% of GDP for 2005.[12] In part its current condition is without doubt attributable to misguided and misdirected economic policy. One of the results is that Guyana has the highest rate of net migration in the Caribbean and one of the highest in the world reaching 10.5 per thousand inhabitants on average between 2000 and 2005 (see table 9).

Table 9

MIGRATION INDICATORS IN CARICOM BY COUNTRY, 2000-2005

Country	Net number of migrants (*thousands*)	Net migration rate (*per 1 000 inhabitants*)
Barbados	-1	-0.93
Belize	-2	-1.99
Guyana	-40	-10.48
Haiti	-105	-2.54
Jamaica	-74	-5.63
St. Lucia	-5	-6.73
Suriname	-17	-7.84
Trinidad and Tobago	-19	-0.82

Source: Handbook of Statistics, United Nations Conference on Trade and Development (UNCTAD), 2003, United Nations, Geneva.

Note: Net migration rates were estimated by UNCTAD and they represent the average value per year.

The government of Guyana has taken advantage of country's high migration rates to create an 'ethnic' niche-market for its agricultural export products. The niche-market consists of markets, which have a high or significant Guyanese population and which therefore have a preference for Guyanese products. Three of these main markets are Canada (Toronto) and Great Britain (London) and the Caribbean countries.

With this objective in mind the government's export promotion agency (Go-Invest) has undertaken market studies of Toronto, London and the Caribbean for Guyanese products. The factors considered in the Toronto and London markets include among others market size, purchasing power, buying habits, top ranking products in the market, distribution chains, intermediaries, export constraints, imports regulations (see table 10).

In the case of the Caribbean it has identified products for export including Indian vegetables (eggplant, bitter melon, bora) roots and tubers (yams, eddo, malangas), other vegetables (cucumbers, pumpkins), fruits (carambola, mango, pineapple, watermelon). The main factors taken into consideration are population size, GDP/*per capita*, tourist arrivals, political climate, business climate, market size, regulations, and market acceptance. The study concluded that the most attractive destination countries were Barbados and Trinidad and Tobago. Antigua and St. Maarten

12 According to official sources Guyana's per GDP was equal to 797.3 U. S. dollars.

were considered moderately attractive destinations. Antigua has a large Guyanese population but exporting to Antigua and also St. Maarten involves high transportation costs. Finally Guadeloupe and Martinique were considered to be low attractive destinations due to market size considerations, and protectionist practices.

Table 10

ETHNIC COMMUNITY MARKET STUDIES FOR GUYANESE PRODUCTS

Factors	Toronto market	London market
Market size	400 000 - 500 000 West Indians of which 140 000 are Guyanese	- 295 000 West Indians - 85 000-120 000 Guyanese
Purchasing power	> 1.2 billion CND$	- 3 persons average Guyanese household - 23 200 pounds is the average income - 28 360 - 40 000 households with a total income of 685 ml. pounds
Buying habits	- Guyanese shop once a week and spend $60 CND - 1.75 ml. CND$ a week	
Quantities exported	- 93% of the total: precious stones - Beverages and vinegar - Fish and shellfish - Preserved fish	- Fresh produce - Processed foods - Organic products - Seafood - Food supplements
Export constraints	- Transportation - Packaging and labelling	- Perception of products - Non-tariff barriers - Quality and packaging - Freight cost - Distribution
Country competition	- Guyana 209 474 CND$ - Barbados 9 117 CDN$ - Jamaica 324 660 CDN$ - Trinidad/Tobago …	Jamaica, Trinidad and Tobago; Barbados; The Dominican Republic; Nigeria; Ghana; Kenya; Cuba
Product competition	Fresh produce	- Yams and other tubers - Dried herbs and spices - Dried thyme
Import regulations	- No duties (CARICOM-Canada) - Packaging regulation - Phytosanitary certificate	

Source: Author on the basis of Go-Invest, mimeos, Georgetown, Guyana: “Enhancing Export Promotion”, (2003a); “Results of the Rapid Reconnaissance Survey of the Toronto Market for Guyanese Products” (2003b); “Survey of the London Market for Guyanese Products” (2003c).

… denotes not available.

D. Securing export markets at the regional level

At the regional level English speaking Caribbean countries have sought to secure the regional market for domestically produced goods through the conformation and development of the CARICOM. The CARICOM agreement signed in 1973 was notified under the General Agreement on Tariffs and Trade (GATT) article XXIV as an interim agreement for the formation of a Customs Union (WTO, 2000 a). As a result pivotal to this trading regime is CARICOM's CET.

At the end of the 1980s CARICOM member states decided to advance in their integration efforts past beyond the Common market and towards a more comprehensive integration framework, namely the creation of the Single Market and Economy. In 1991 CARICOM members agreed on the main areas of emphasis in the creation of the Single Market and Economy. These included the completion of the arrangements for the free internal movements of goods, mechanisms for the free movements of services, capital and labour, and the greater harmonization of laws and regulations affecting commerce (WTO, 2000a). In the 1990s CARICOM also decided to include Suriname (1995) among its members and substantially revised its trade regime.[13]

After the inclusion of Haiti in 2002 CARICOM has 15 member countries of which six are considered more developed countries (Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago) and eight countries are considered less developed countries (Antigua and Barbuda, Belize, Dominica, Grenada, Haiti, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines).

The current aim of CARICOM countries is to arrive at an economic union. An economic union is defined as an agreement between a subset of countries to maintain free trade among the members, a common external tariff, the mobility of capital and labour and the harmonization of fiscal and monetary policy. In the case of the European Union the process of economic unification has also implied a common industrial and transport policy.

More than ten years after the decision to expand and deepen the integration process among CARICOM countries by introducing the main areas of emphasis of the CARICOM Single Market and Economy (CSME) integration remains a work in progress issue. In fact the CSME is at present an imperfect customs union with limited labour mobility.

E. Export diversification objectives: the case of Jamaica

The above analysis assumes, as pointed out in the first section that CARICOM countries do not in general pursue export diversification goals. An exception to this norm is Jamaica.

Jamaica has one of the more diversified economies in the English speaking Caribbean and as a result possesses a wider scope for export diversification. Although export diversification has been over the years an important announced goal of the authorities it has encountered important limitations at the level of policy formulation and implementation. Also the macroeconomic environment has not been particularly suitable to export development.

As a result traditional exports have remained by far the most important component of merchandise exports representing 77% of the total in 2004. The share of non-traditional exports has decreased over time (29% and 20% of total merchandise exports on average between 1996 and 2000 and in 2004 respectively).

The mining sector dominated by bauxite and alumina is an important earner of foreign exchange and the most important component of traditional exports. Jamaica Promotions Corporations (JAMPRO), has facilitated the expansion and modernization of bauxite and alumina production. Nonetheless, the export value of these minerals is often affected by variations in their

[13] As it now stands, CARICOM comprises 14 states and territories (13 are independent states and Montserrat an Overseas Territory of the United Kingdom). With the exception of Bahamas, all states are full members of the Common Market. Bahamas is an associate member of the common market. The Caribbean Heads of Government have accepted Haiti's application to become the fifteenth member. Two overseas territories, the British Virgin Islands and the Turks and Caicos Islands, are associate Members of the Caribbean Community. A similar membership status is being negotiated by Anguilla.

international price, which affects their basis as a potential export platform, and technical and social problems. Thus their export performance does not belong strictly in the real of export promotion.

Within this overall economic and export context (declining manufacturing sector, an agricultural sector that is losing its preferential market access, and a mining sector subject to external shocks) the Jamaican authorities have opted for an export promotion policy that has two main objectives: protectionism combined with export promotion. This policy replaces the previous one, which focused on market access (guaranteeing preferential access to developed countries' markets). The new policy recognizes one the hand that Jamaica must create a broad export base. On the other hand, it also indicates that the authorities are aware that Jamaica cannot compete in international markets. Finally it also highlights the importance regional, hemispheric and multilateral trading arrangements.

The policy objectives and their respective strategies are outlined in table 11. A closer inspection at the goals and main strategies underpinning this New Trade Policy indicates that Jamaica is aiming at securing Special and Differential Treatment accompanied with access to finance.

Table 11

JAMAICA: NEW TRADE POLICY, 2002: OBJECTIVES AND STRATEGIES TO ACHIEVE THESE THE EXPORT DIVERSIFICATION GOAL

Diversify exports	Displace imports	Attract foreign capital flows
Negotiate removal of tariff and non-tariff barriers in overseas market with an asymmetrical time frame	Facilitate access to cheaper imports	Implement charter for returning residents
Provide incentives for development of domestic capital formation	**Slow the pace of domestic tariff and non-tariff reduction**	
Assist in the development of strategic firms	The pace of tariff and non-tariff reduction should conform to the growth and development of the domestic capital stock	

Source: Author on the basis of *Ministry Paper* No. 69, subsequent to "Adjusting Trade Policy to meet the Challenges of the New World Order", *Policy Discussion Paper,* Ministry Foreign Trade of Jamaica.

Thus far the New Trade Policy progress has been partially applied leading to increases in domestic nominal tariffs in certain sectors and for specific products and to the development of the Jamaica Cluster Competitiveness Project.

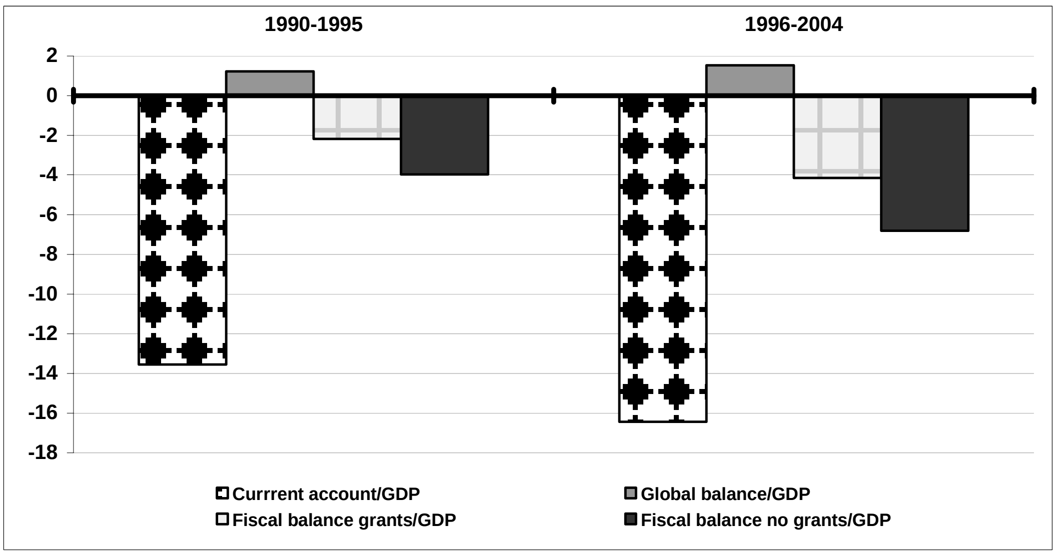
The programme has an estimated budget of 1.4 million U. S. dollars with a very general description of its components (driving a national competitiveness mindset, strengthening competitive clusters, improving service provision and improving the wider enabling environment for business). The competitiveness programme is to be implemented in three phases (benchmarking report, changing stakeholders' mind-setting, combining stimulation with response to technical demands).

F. Export promotion policies and the quest for foreign exchange

In addition to promoting policies destined to secure market access for traditional and non-traditional products, CARICOM countries also have the objective to foster export development in activities that are intensive in foreign exchange earnings. This responds partly to needs of any developing economy and also as a way to overcome their external and fiscal constraints (as both are related by national accounting identities), which are particularly high for Caribbean economies by any standard of measurement.

These are most evident in the case of the smaller economies of the Caribbean and in particular of the member states of the OECS. A comparison of the periods 1990-1995 and 1996-2004 shows that, the external position and the fiscal position of the OECS economies deteriorated. The current account deficit increased from 14% to 16% of GDP in the said period. In a similar way the fiscal deficit without considering grants rose from 4% to 7% of GDP (see figure 2).

Figure 2
OECS: CURRENT ACCOUNT, FISCAL DEFICIT AND OVERALL BALANCE OF PAYMENTS 1990-1995 AND 1996-2004
(Percentage of GDP)



Source: Author calculation on the basis of official data.

The dependency on foreign exchange earnings to balance their macroeconomic accounts can be seen by comparing the fiscal deficit with and without grants (2% and 4% of GDP; 4% and 7% of GDP on average for 1990-1995 and 1996-2002) or the result of the current account with that of the overall balance of payments, which includes long and short term capital flows (14% and 1.2% of GDP; 16% and 1.5% of GDP for the same period). Without capital flows both the fiscal and external result would be simply unsustainable overtime.

The sources for foreign exchange flows include mainly grants and official loans, non-factor service earnings, unilateral transfers (i.e., remittances), official, and foreign direct investment (FDI) flows. Of these, grants are the most insignificant source of financing representing on average 3.7% of GDP (see table 12). This is the result of a declining trend that can be traced at least to the beginning of the 1980s decade. Regional computations show that official aid represented 59% of total net financial flows and decreased to represent only 6% by the end of the 1990s decade. The most important component of foreign exchange flows are net service earnings which represented on average 14% of GDP for 2003 followed by FDI (9% of GDP for the same year). In addition as shown in table 13, FDI has maintained its share in total net financial flows becoming its single most important component over time.

Table 12

FOREIGN EXCHANGE FLOWS, 2003

(As percentage of GDP)

Country	Grants	FDI	Services receipts	Unilateral transfers
Anguilla	2.07	29.03	29.59	0.13
Antigua and Barbuda	-	5.70	36.28	0.88
Barbados	-	2.13	23.02	3.68
Belize	17.66	7.44	6.55	5.99
Dominica	3.64	4.52	9.16	6.65
Grenada	4.20	12.25	15.62	5.45
Guyana	5.94	7.95	-	6.24
Jamaica	0.27	8.45	5.25	12.20
St. Lucia	0.98	3.39	29.61	2.07
St. Kitts and Nevis	0.50	25.62	9.75	5.39
St. Vincent and the Grenadines	1.84	6.06	20.81	4.39
Suriname	0.20	1.56	-15.09	-0.12
Trinidad and Tobago	-	7.64	2.54	0.37
Average	**3.73**	**9.36**	**14.42**	**4.10**

Source: Author on the basis of official data.

The dependence on foreign exchange and the composition of foreign exchange flows and total net financial flows have pressured CARICOM countries to narrow the range of regulations affecting foreign exchange transactions and the financial account of the balance of payments. In fact, though regulations remain in place in most of the English speaking Caribbean economies, these are not stringent regulations when viewed at the individual level. The resulting need to orient export promotion efforts to foreign exchange earning activities jointly with the need to protect traditional commodity products has led governments to ‘open’ the capital and financial account of the balance of payments prior to the merchandise account. Thus a more or less close merchandise account coexists with an open capital and financial account.

Table 13

COMPOSITION OF NET FINANCIAL FLOWS FOR CARICOM ECONOMIES, 1990-2000

(In percentage of the total)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total net financial flows	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total net long term	85.73	107.64	90.94	102.54	103.70	72.10	128.90	72.68	105.29	73.27	100.00
Official flows	59.25	92.44	29.22	39.18	14.85	23.50	14.56	5.82	13.43	6.86	6.34
Grants	33.88	64.12	20.43	35.32	20.66	24.11	25.78	16.10	20.70	17.38	4.76
Loans	25.37	28.33	8.79	3.86	-5.82	-0.61	-11.22	-10.28	-7.26	-10.51	1.58
Private flows	26.49	15.19	61.71	63.36	88.85	48.60	114.34	66.86	91.86	66.40	93.65
Debt flows	-42.55	-27.52	-12.64	-14.16	-11.22	-19.88	-6.28	-4.77	7.32	-0.04	33.69
Commercial bank loans	-12.07	-1.12	-4.07	-1.86	-3.30	-6.26	-8.27	-2.46	-2.69	-4.65	4.99
Other	-24.56	-26.41	-8.57	-12.30	-7.92	-13.63	1.98	-2.31	10.01	4.62	28.70
Foreign direct investment	69.04	42.71	74.35	77.53	100.07	68.48	120.62	71.63	84.54	66.44	59.96
Short term debt flows	**14.27**	**-7.64**	**9.06**	**-2.54**	**-3.70**	**27.90**	**-28.90**	**27.32**	**-5.29**	**26.73**	**0**

Source: Author on the basis of World Bank and ECLAC data.

G. Product recognition

A final export promotion objective is product recognition. The guiding principle is to distinguish a product by its quality and more importantly by its ‘brand name’, which makes it a ‘recognizable product’. In general the export competitiveness of these products is based on comparative advantage, which in the case of the Caribbean means natural resources. Particular examples in the Caribbean region include the case of Jamaican coffee and El Dorado rum in Guyana. The second case is more illustrative of export promotion policies as the Guyana rum was successfully re-marketed with a brand name after it lost its special preferences in the European Market.

A successful brand name can be used to market more than one product and serve in fact as an encompassing umbrella for certain type of goods generating thus significant positive externalities. This is a way to create the missing economies of scale and scope that are absent due to small size. In the case of Guyana it has been proposed to extend the ‘El Dorado’ label to the rest of its agricultural products. This is an example of how an export promotion for a country such as Guyana with less than 1,000 U. S. dollars *per capita* and a HIPC status, can be build, given the required natural resources and careful orchestrated marketing strategy based on an externality generated by one successful product (in this case rum).

IV. Export promotion actors and instruments

The government is the main actor and architect of export promotion policies. The historical evolution of the CARICOM economies, the underdeveloped state of the legislation jointly with the constraints faced by the private sector due to size considerations have led the state and the government to play a fundamental role in export promotion.

The historical evolution is related to the tasks adopted by the government following political independence in the 1960s and which to this day have shaped its expenditure pattern. The size of Caribbean governments measured by the government expenditure to GDP ratio is twice that of other smaller economies reaching 30% of GDP. The government is also a major employer accounting in some countries for a third of the labour force. In addition, the government remains the ‘captain’ of economic policy as even the monetary authorities are under its jurisdiction and act mainly as central bankers to the Caribbean governments. In this regard the Report of the World Trade Organization (WTO, 1996) Secretariat on the Trade Policy Review of Jamaica, states:

> “The Ministry of Finance has ultimate responsibility for the conduct of monetary policy. The Bank of Jamaica is in charge of implementing monetary policy under the authority of the government which appoints the Governor….the Minister of Finance has the ultimate authority in the management of credit policy, open market and foreign exchange operations…. Additionally, the Central Bank acts as a banker to the government.”

The liberalization movement and ideology of the last part of the decade has not substantially affected the importance of the government activities. In this sense the institutional structure of the Caribbean economies is distinctively different than that of Latin America.

The importance of the government in Caribbean countries' economic life contrasts with the underdevelopment of existing laws and regulations. The lack of competition laws, government procurement, and other regulations has helped to blur the dividing line between those activities performed by the public sector from those that belong in the realm of the private sector. To some extent this has weakened both the capacity of response and initiative of private agents providing a weaker foundation on which to act as a catalyer for exports. Moreover, as stated in the first section of this document small size is a constraint on the profitable development, expansion and diversification of private sector activities. Finally, traditionally, the government has had a stronger presence than the private sector in some sectors of economic activity such the services sector which of fundamental importance to Caribbean economies.

The policy instruments for export promotion include trade policy (tariff, non-tariff barriers and rules of origin) which is coordinated at the regional level and promotes the growth of intraregional trade; both arms of the government budget, that is, tax policy and public capital expenditure; government regulation; financial assistance; and trade diplomacy.

A. Trade policy in CARICOM

As stated in the revised Treaty of Chaguaramas one of the objectives of CARICOM is export promotion. Export promotion fall under the auspices of the CARICOM's COTED. The stated main policy instruments include: (i) the establishment and maintenance of effective trade information systems and services; (ii) the design and implementation of trade facilitation programmes including the conduct of market research and the organization of trade missions, and (iii) the coordination and support of the active participation in international trade promotion for a, including trade fairs and exhibitions. (CARICOM, 1991, article 85).

In practice however the main regional instrument is the CET. The objectives of the CARICOM CET included (Mitchell, 1992): (i) the provision of protection for regional agricultural and industrial production of finished goods, raw and intermediate materials and capital goods; (ii) the support the development of internationally competitive production in CARICOM; (iii) the containment in the cost of certain socio-economic activities and conditions such as the training and the provision of basic services. In order to achieve simultaneously objectives (i) and (ii) it was agreed that the rates of the CET should be moderate and encourage efficiency in production and reduce production costs.

In its beginnings the CET together with a host of other non-tariff barriers was highly protective. It was highly dispersed with 16 tariff rates ranging from 0 to 70% but with most of the tariff positions (around 96%) at or below 45%. Generally, manufacturing attracted the highest average tariffs of 21% MDCs[14] and 15% in the LDCs.[15] Within the manufacturing sector consumer goods received the highest tariff protection of 29% in the MDCs and 21% in the OECS. Agriculture was the next highest protected sector attracting an average tariff of 21% in the MDCs and 15% in the LDCs. Although this tariff structure did not seem overly high, it does not give the complete picture of CARICOM's protective system in the 1980s.

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14 The CARICOM MDCs are Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago.

15 The CARICOM LDCs consist of Belize and the following countries comprising the OECS —Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

In addition, CARICOM countries applied an array of measures to imports including stamp duties, customs surcharges and consumption charges, which were usually higher than those applied to domestically produced goods. When these charges are taken into account, the level of protection in CARICOM countries increases considerably.[16]

It was also typical of the trade regime in the CARICOM countries to include a wide range of exemptions that generally included industrial inputs, machinery and equipment and materials for industrial inputs. It was also the norm to exempt from all duty imports for the many public sector enterprises, which existed in the countries. The CARICOM trade regime includes rules of origin based on the standard principles of products being wholly produced in the sub-region or having undergone substantial transformation in the sub-region to qualify for duty free treatment. The substantial transformation criterion requires the use of specified regional inputs or in certain cases specified processes.

At the end of the 1980s CARICOM member states decided to advance in their integration efforts past beyond the Common market and towards a more comprehensive integration framework, namely the creation of the Single Market and Economy. In 1991 CARICOM members agreed on the main areas of emphasis in the creation of the Single Market and Economy. These included the completion of the arrangements for the free internal movements of goods, mechanisms for the free movements of services, capital and labour, and the greater harmonization of laws and regulations affecting commerce (WTO, 2000a). In the 1990s CARICOM also decided to include Suriname (1995) among its members and substantially revised its trade regime. The tariff structure was significantly simplified and the various rates reduced.

In 1991, CARICOM established the level and the structure for the common external tariff. The phased reduction for the CET was agreed upon in 1992. The CET was to be effective from January 1993 with an initial tariff range of 0 through 45%. The level of the CET was designed to undergo a four-phased reduction to be completed in five years at the end of which the tariff ceiling would be lowered to 20% except for agricultural products, which will continue to attract a tariff of 40%.

The external tariff rate structure is divided into inputs and finished goods, which are then divided further into competing and non-competing inputs and finished goods. An input or good is said to be competing if it satisfies at least 75% of regional demand. An input or good is said to be non-competing if external sources are the main providers. The CET legislation also included a broad range of tariff exemptions which are contained in four lists (A, B, C, D), a list of conditional duty exemptions and a list of ineligibles for duty exemptions (see table 14). This list includes those items for which CARICOM produces 75% of the total output. In addition the CET can be suspended when the demand for a regional commodity or set of commodities is greater that the supply. The implementation of the CET included. There have been slippages in the implementation of the agreed phases of tariff reforms. However, the fourth and last phase were implemented by the majority of countries by the end of the decade.

The CARICOM trade regime did not include provision for the harmonization of quantitative restrictions that were commonly implemented at the level of the member countries. These restrictions, which generally included licensing requirements, quotas and negative lists, increased the protection of local production by removing in certain cases altogether any competing imports.

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[16] For example the unweighted average nominal protection for manufactured products reaches 50% in Trinidad and Tobago, 43% in Barbados and 41% in Jamaica and the average nominal protection for consumer goods reaches 58% in Jamaica, 56% in Barbados, 52% in Trinidad and Tobago and 50% in Grenada (World Bank, 1990).

Table 14

STRUCTURE AND EVOLUTION OF THE COMMON EXTERNAL TARIFF (CET)

Inputs	Groups				Range		Period of application
	A	B	C	D non-basic	MDCs	LDCs	
Primary	0-5	30/10			5 to 30/35 5 to 25/30 5 to 20/25 5 to 20	0-5 to 30/35 0-5 to 25/30 0-5 to 20/25 0-5 to 20	01/93 to 12/94 01/95 to 12/96 01/97 to 12/97 01/98
Intermediate	10/0-5	30/15			5 to 30/35 5 to 25/30 5 to 20/25 5 to 20	0-5 to 30/35 0-5 to 25/30 0-5 to 20/25 0-5 to 20	01/93 to 12/94 01/95 to 12/96 01/97 to 12/97 01/98
Capital	10/0-5	20/10			5 to 30/35 5 to 25/30 5 to 20/25 5 to 20	0-5 to 30/35 0-5 to 25/30 0-5 to 20/25 0-5 to 20	01/93 to 12/94 01/95 to 12/96 01/97 to 12/97 01/98
Final goods	20 [a]	30/20 [a]	45/20	30/20	5 to 30/35 5 to 25/30 5 to 20/25 5 to 20	0-5 to 30/35 0-5 to 25/30 0-5 to 20/25 0-5 to 20	01/93 to 12/94 01/95 to 12/96 01/97 to 12/97 01/98

Source: Author on the basis of WTO and CARICOM databases.

Notes: Category A denotes non-competing import goods, whose production may account for less than 75% of regional consumption. Protection at the national level is allowed. Category B exempts certain goods from the implementation of the CET that are sensitive to the cost of living in the OECS territories and Belize. Category C Includes goods to which minimum rates apply, including alcoholic beverages, tobacco products, petroleum products, jewellery, watches and clocks. Category D allows the suspension of the CET for specific products: petroleum products (in Belize); rice (Antigua, Dominica, Jamaica); medicines (OECS and Belize). The list also includes a list of conditional duty exemptions, which are included among other industrial and agricultural inputs for defined industrial, agricultural, mining and services activities.

[a] Basic category.

As shown in table 15, both the average and weighted tariffs have declined over time. The weighted tariff stood at 20% in 1998 and diminished to 15% in 2002. As well the levels of dispersion have been reduced. The standard deviation decreased from 23% to 12% between 1998 and 2002. In terms of the relationship between measures of central tendency the empirical evidence shows that that the mean is greater than the median, which in turn is greater than the mode.

Table 15

BASIC TARIFF SCHEDULE PARAMETERS, 1998, 2000 AND 2002

(In percentages)

	Tariff schedule		
	1998	2000	2002
Simple average	20.0	13.5	15.1
Weighted average	20.0	13.6	14.9
Standard deviation	23.3	14.8	12.4
Maximum	200	217	100
Minimum	0	0	0
Median	17.5	8.5	14.8
Mode	5	5	5
Correlation between tariffs and import share	0.09	0.01	0

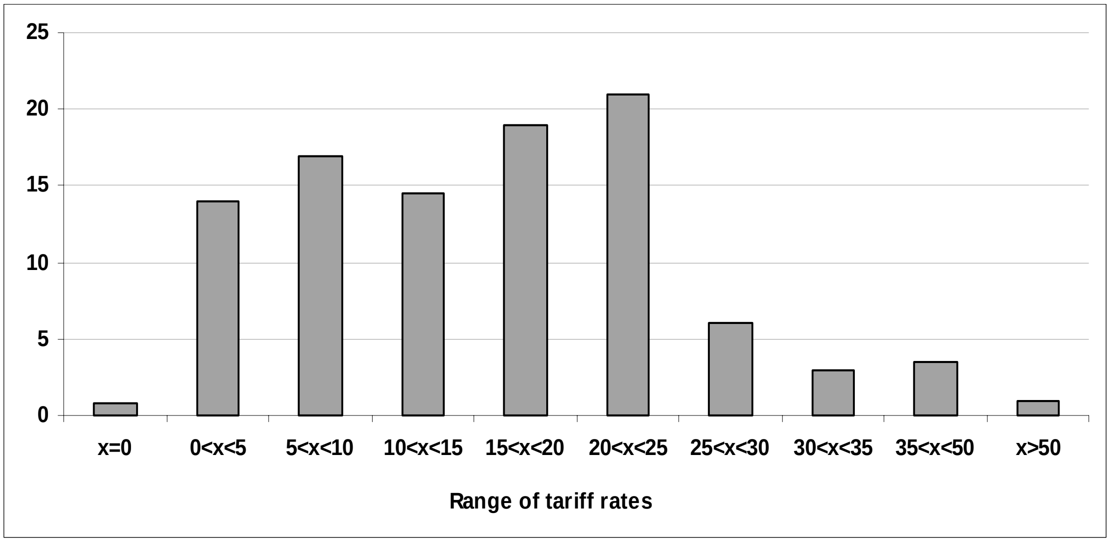
Source: World Integrated Trade System (WITS), 2005, World Bank, Washington, D.C.

The tariff structure at the most disaggregated level shows that the CET positions are concentrated in tariff rates ranging from 15% to 25% (41% of the total). The lower and upper tariff rate bounds (0% and >50%) represent less than 1.5% of all total tariff lines (see figure 3).

Figure 3

HISTOGRAM OF WEIGHTED TARIFF RATES FOR CARICOM (2002)

(Percentage of total tariff lines)



Source: Author calculation on the basis of official data.

The sectoral structure of the CET reveals that agriculture has the highest weighted tariff both for CARICOM and for the OECS. Using two sets of trade data (WTO data base and Trains) the agricultural sector has a weighted tariff of 24% and 19% respectively for CARICOM. The rates for industry (*i.e.*, manufacturing) and textile and clothing are 14% and 13%, 17% and 16% for both data sets respectively. Studies dealing with earlier time periods, in particular the 1980s report that tariffs in the manufacturing sector are higher than those afforded to agriculture (WB, 1991), (see table 16).

As expected the distribution of tariffs by economic category of imports shows that the tariffs on consumer goods is greater than that on capital goods, intermediate goods and raw materials indicating that the CET yields positive levels of effective protection. On average for some of the databases the weighted average tariff on final consumption goods (20%) for CARICOM is twice that of intermediate and capital goods (roughly 10%) (see table 16).

The empirical evidence for the sectoral and economy category tariff distribution at the country grouping level is not consistent. According to computations using WTO data, the OECS has, for the most part, lower average weighed tariff rates than CARICOM. Trains data show the opposite result (see table 16).

Table 16

AVERAGE WEIGHTED TARIFF BY SECTOR AND ECONOMIC ACTIVITY, 1998-2002

(In percentages)

Tariff sectors	WTO database			TRAINS database		
	1998	1999	Average 1998-2002	1998	1999	Average 1998-2002
CARICOM						
Agriculture	25.1	17.6	23.5	19.1	19.6	19.0
Industry	13.3	22.0	14.0	20.1	10.8	12.6
Petroleum	6.5	12.8	8.4	11.0	3.9	6.4
Textile and clothing	18.4	22.0	17.1	20.8	15.6	15.8
Capital goods	8.0	24.8	10.7	22.7	8.0	10.5
Consumer goods	24.1	21.8	19.9	20.7	18.9	18.0
Intermediate goods	8.1	16.5	9.4	17.0	7.7	9.3
Raw materials	15.6	14.0	19.5	17.2	5.7	9.6
OECS						
Agriculture	25.1	16.1	20.5	19.1	17.5	18.2
Industry	13.3	11.5	11.7	16.8	11.8	13.9
Petroleum	6.5	7.3	7.0	8.7	7.8	8.2
Textile and clothing	18.4	19.3	17.7	19.7	17.6	18.6
Capital goods	8.0	7.3	7.5	20.2	8.6	12.8
Consumer goods	24.1	16.8	19.3	18.1	16.3	17.1
Intermediate goods	8.1	6.7	7.5	13.4	7.9	10.3
Raw materials	15.6	7.7	11.9	16.0	12.1	13.5

Source: WTO and Trains databases obtained from World Integrated Trade System (WITS), 2005, World Bank, Washington, D.C.

Comparisons at the country level could only be carried out using Trains data. The sectoral distribution of tariffs shows that Barbados and Bahamas have the highest tariffs on agricultural and manufacturing products (20% ad 32% and 29% and 17% respectively). St. Vincent and the Grenadines and Trinidad and Tobago exhibit the lowest tariffs in agriculture and manufacturing respectively (16% and 8% respectively) (see table 17).

In terms of economic classification the Bahamas has the highest tariffs for capital goods, consumer and intermediate goods (34%, 26% and 25%). Trinidad and Tobago, Belize and Guyana have the lowest tariffs for each of these categories (6.1%, 12.8% and 6.7%) (see table 17).

The implementation of the CET requires the specification of rules of origin. These are found in articles 31 and 32 in the CARICOM Treaty and articles 83 and 84 in the Revised Treaty of Chaguaramas.

According to article 84 of the revised Treaty of Chaguaramas, a commodity is treated as being of Community Origin if it has been “wholly produced within the Community or if it has been produced within the Community wholly or partly from materials imported from outside the Community or from materials of undetermined origin by a process which effects a substantial transformation”. The transformation is characterized by the difference in the Harmonized Code Tariff Heading of the material input and the final product (CARICOM, 1991, p. 54).

Article 83 allows the producer to obtain inputs from extra-regional sources when “unable by reason of circumstance beyond his control to obtain supplies of the regional materials”. This clause is part of the suspension facility of the Treaty which states that tariffs may be suspended or altered when a product is not produced by the community, when the quantity of the product being produced in CARICOM does not satisfy the regional demand or when the quality of the product is below that of the regional standard (CARICOM, 1991, pp.53-54).

Table 17

AVERAGE TARIFF RATE BY COUNTRY, SECTOR AND ECONOMIC CATEGORY, 1999-2002

(Percentages)

Countries	By sector				By economic category			
	Agriculture	Industry	Petroleum	Textile and clothing	Capital goods	Consumer goods	Intermediate goods	Raw materials
Antigua and Barbuda	21.0	15.2	7.8	18.3	14.5	17.9	11.0	21.7
Bahamas	19.8	28.7	16.8	26.0	34.0	26.3	25.3	16.2
Barbados	32.0	17.1	7.6	18.4	11.6	21.6	13.8	36.7
Belize	18.2	9.5	4.0	16.0	8.7	12.8	9.5	15.6
Dominica	20.9	12.5	7.4	16.2	10.5	18.0	10.6	11.4
Grenada	14.5	16.1	10.9	14.5	14.5	16.1	10.9	14.5
Guyana	20.2	12.2	11.3	16.4	10.0	16.5	6.7	15.9
Jamaica	17.1	10.5	4.8	14.3	6.9	16.1	6.8	6.9
Surinam	23.0	11.3	7.0	16.8	11.8	14.8	14.1	10.4
Trinidad and Tobago	15.8	8.2	7.2	10.9	6.1	15.7	7.8	6.0
St. Kitts and Nevis	16.3	13.4	8.8	19.7	12.3	16.8	9.1	10.6
St. Lucia	16.8	13.6	7.8	18.8	14.1	16.8	10.2	9.7
St. Vincent and the Grenadines	15.5	13.0	8.0	18.1	11.2	16.2	10.4	10.1
OECS	17.5	14.0	8.5	17.6	12.9	17.0	10.4	13.0
LDCS	17.6	13.3	7.8	17.4	12.3	16.4	10.2	13.4
MDCs	21.6	11.9	7.6	15.4	9.3	16.9	9.8	15.2
MDSCs w/t Trinidad	23.1	12.8	7.7	16.5	10.1	17.3	10.4	17.5

Source: Trains database obtained from World Integrated Trade System (WITS), 2005, World Bank, Washington, D.C.

Note: The average computations for the MDCs do not include the Bahamas.

As a result extra-regional inputs can be granted CARICOM common market origin allowing domestic producers to gain preferential access to the regional market while at the same time permitting access to lower cost inputs from outside the region if necessary.

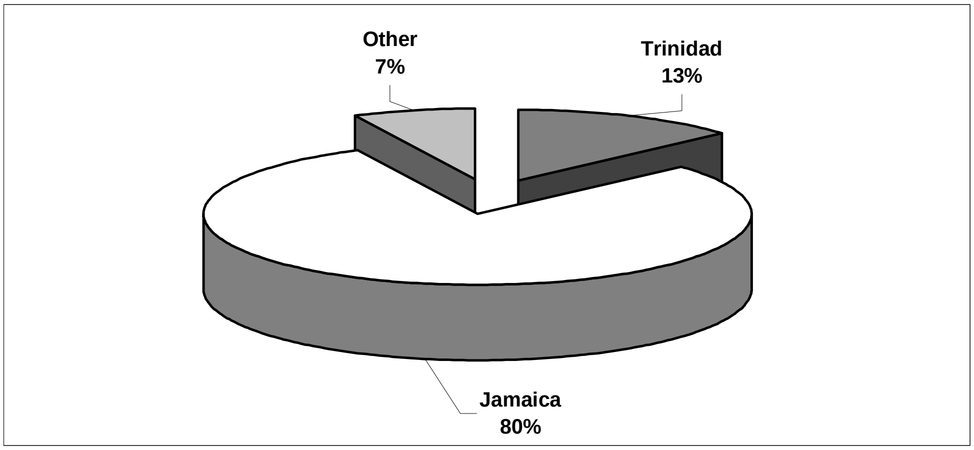
Inputs for the development of economic sectors and industrial production can be granted free-duty treatment when belonging to the list of conditional for duty exemptions. These are end-user defined. CARICOM members can decide, at their own discretion, which list of activities to include in the list of exemptions (Gonzales, 1995; WB, 1990; CARICOM-Secretariat, 1996, pp. 774-781).

At the same time the CET Schedule also includes a list of commodities, which are non-eligible for duty exemptions (CARICOM-Secretariat, 1996, pp. 782-812). This list comprises some of the most important commodities traded within CARICOM (cement, paints, waters, flour among others). This list protects not only some of the most important commodities but also the firm structure, which is highly concentrated, corresponding to each of these commodities. Article 83 of the rules of origin can be used to obtain tariff exemptions on the list of ineligibles for duty exemptions.

In general the suspension mechanism provided by article 83 has been used by the bigger economies of the Caribbean. The larger economies are more diversified than the smaller ones. The greater the degree of diversification of an economy, the greater is the likelihood that it will require inputs or intermediate goods that can only be supplied by extra-regional suppliers.

Recent available data shows that the CARICOM Secretariat received for the period for May to December 2004, 409 requests for the suspension of the common external tariff under paragraph 3 of article 83 of the revised treaty. Own estimations reveal that this represents 3% of CARICOM total imports but 24% of intraregional traded products. A close inspection of the data also shows that 93% of the requests were made by the bigger economies (80% for Jamaica and 13% for Trinidad and Tobago) (see figure 4). The number of OECS requests for the application of the suspension mechanism was minimal.[17]

Figure 4
CARICOM: SHARE OF REQUESTS FOR THE APPLICATION OF THE SUSPENSION OF THE CET, MAY/DEC-2004
(Percentages)



Source: Author calculation on the basis of information provided by CARICOM Secretariat (www.caricom.org).

An analysis at the product level shows that a significant part of these can be classified as products with a high technological content. In turn, products with a high technological content constitute a vehicle that allows the generation of processes of learning-by-doing. This by itself can be a means for structural change and growth and thus for diversifying the manufacturing sector. This process can be further enhanced by unrestricted access to certain categories of skilled labour as currently contemplated in the CSME provisions.

Greater diversification and the use of the CET suspension mechanism are correlated. However, it has not been determined whether diversification leads to the greater use of the suspension mechanism or contrarily the use of the suspension mechanisms leads to greater diversification. There is also the possibility that diversification and the suspension facility of the CET have a bi-directional relationship and feed upon each other.[18]

The rules of origin jointly with the list of conditional duty exemptions and ineligibles for duty exemptions protect the development of economic sectors, the main traded commodities within CARICOM and the non-competitive conditions for the supply and production of goods. In this sense the trading regime is not conducive to the generation of efficiency or optimality conditions or for the existing production structures in the way these concepts are understood by the mainstream economic literature.

[17] The computations here presented should be understood as an illustration of the fact that bigger economies are for the most part the beneficiaries of the suspension facility of article 83. Other estimations show that Trinidad and Tobago is the country that makes the most use of this facility (CARICOM, 2002b).

[18] In their review of trade policy instruments and administrative practices governing the operation of the CARICOM CET and rules of origin, CARICOM (2002b, p. 17) wrote: "*The use of the CET suspension mechanism stimulates competitiveness in intra-regional trade. Countries or exporters, which secure most of the suspension of the CET/derogation from the Rules of Origin, are the most competitive exporters to CARICOM*".

To the extent that the bigger economies make more use, mainly due to their size and thus level of diversification, of the suspension mechanism these can enhance their levels of competitiveness. To the extent that the suspension mechanism can become a vehicle for the creation of dynamic processes, it can further enhance the existing levels of diversification and efficiency of these economies.

B. Fiscal incentives

The policy of fiscal incentives as an export promotion tool is prominent in the English speaking Caribbean. Fiscal incentives are mostly destined to develop non-traditional exports including manufacturing and services sector exports. While some fiscal incentives can be classified under export subsides and thus form part of the trade policy referred to above,[19] their applicability is limited to goods and in the present case, manufacturing.

In the case of services the concept of subsidy is not clearly delimited. In fact no common definition of a service subsidy or of trade distortion from subsidies has been reached. Article XV (General Agreement on Trade in Services (GATS)) subsidies may have had a distortional effect in certain circumstances, which indicates that not all subsidies are 'trade distortive'. Furthermore the concept of a subsidy in goods is not the same as that in services and the possibility of finding common ground on a definition is blurred by the existence of four modes of delivery in services (Gauthier, O'Brien and Spencer, 2000, pp.165-183). Mostly for these reasons tax incentives are analytically separate from export subsidies proper.

Fiscal incentives policies are mainly aimed at enhancing the development of the manufacturing and services sector. These consist comprise for the most part in a Fiscal Incentives Act dating to the 1970 or the 1980s decade; a Hotel Aids or Ordinance Act, and a range of tariff and duty exemptions. Some of these duty exemptions are granted under the Conditional Duty Exemptions of the CET while others are granted on a government discretionary basis. In some cases (such as that of Dominica and St. Kitts and Nevis) these are also complemented with the granting of residential rights in order to attract FDI.

1. The case of the Organization of Eastern Caribbean States (OECS)

In the case of Antigua and Barbuda, Dominica, Grenada, St Lucia and St. Vincent and the Grenadines the fiscal legislation grants tax exemptions according to definite criteria including the content of local value and export orientation of production. Local value is defined as the difference between realized sales over 12 months and the cost of imported raw materials, components and part of components, fuels and services and wages and salaries. The fiscal incentives act also allows the duty-free importation of machinery, equipment, spare-parts, building materials, raw and packaging materials. For its part the Hotels Aid Act can grant a tax holiday of up to twenty years for approved hotel and resort developments in the cases of Antigua and Barbuda and Dominica.[20] For Grenada the Hotel Aids Act grants exemption on taxes from profits for ten years including hotels, apartments, and guest houses and also provides exemptions from Customs Duties and taxes on articles of hotel equipment, service vehicles, materials for construction and repair renovation and extensions to hotel properties.

[19] The World Trade Organization considers exemptions on the payment of income and profit taxes an export subsidy and according to the WTO-GATT (1999, pp. 231-233 and pp. 265-267), texts forbid it under articles 1 and 3. However due to the granting of longer periods for implementing obligations to developing countries, these had until the year 2003 to dismantle these subsidies. The exception was the group of countries whose Gross National Product (GNP) was below 1,000 U. S. dollars per capita (WTO-GATT, 1999, p. 274). The Doha Ministerial Conference (November, 2001) extended the time derogations and the per capita threshold.

[20] In Dominica the Hotels Aid act was passed in 1984. In St. Lucia, the Tourism Incentives Act was passed in 1996.

In addition the recent WTO trade policy review of the OECS notes that, "companies that are registered under the International Business Companies Act of 1982 are exempt form the payment of taxes, duties and fiscal charges for a period of twenty years from the date of incorporation". In the case of Dominica the 1992 amendment to the fiscal incentives act of 1974 introduced an income tax credit granted in the case of capital expenditures for the construction, acquisition or improvements of assets.

Dominica also has approved an Aid to Development Enterprises Act which grants duty exemptions for raw materials, inputs, materials, tools, plant, machinery and building materials which are used in the production of manufactures, construction of factories, hotels and packaging activities. Between 1996 and 2000, the tourism sector firms accounted for 53% of all firms receiving fiscal incentives followed by the manufacturing sector (45%) (see table 18).

Table 18

DISTRIBUTION OF TAX INCENTIVES BY ECONOMIC SECTOR: THE CASE OF DOMINICA, 1996-2000

(Percentages)

Beneficiary	Percent of the total
Manufacturing sector	45
Tourism sector	53
Other services	22

Source: Author on the basis of "Trade Policy Review, Dominica, Report by the Government", WTO, WT/TPR/G/85/DMA, 2001e, and "Trade Policy Review, Dominica, Report by the Secretariat", WTO, WT/TPR/S/85/DMA, 2001f.

Grenada, St. Lucia, St. Vincent and the Grenadines have extended further the benefits derived from tax concessions. The former have provided tax relief on the export profits that are realized on the external sales of approved manufactured products. The authorities also permit firms that do not qualify for the benefits of the Fiscal Incentives Act and that have a local value in their production of 40% and above to obtain imports duty concessions as provided in the List of Conditional Duty Exemption of CARICOM's CET. St. Lucia has provided a similar set of provisions. In 1999-2000, the St. Lucian authorities announced further stimulus by exempting manufacturers from the payments of customs service charge and the introduction in the next fiscal year of a consumption tax rebate. Finally, in St. Lucia primary producing agricultural enterprises are exempt from the income tax.

2. The case of Guyana

As in the case of the member states of the OECS, Guyana also uses a plethora of fiscal incentives to develop its export potential. Fiscal incentives in Guyana are focused on investment and capital formation, which is an indirect way of promoting exports. The incentives are provided at three levels. These are the general incentives, special incentives and incentives to selected sectors of the economy.

The general incentives include a zero rate on the customs duty and the consumption tax on equipment, machinery and raw materials. They also include the unlimited loss carry over of losses from previous years and the accelerated depreciation on plant and equipment and full an unrestricted repatriation of capital.

The special incentives are export allowances that refer to the percentage of profits that are excluded from the income tax for the export of non-traditional products outside CARICOM. It is an export subsidy tied to export performance. The specifics of the allowances are detailed in table 19.

Table 19

GUYANA: SPECIAL INCENTIVES FOR FIRMS EXPORTING NON-TRADITIONAL PRODUCTS, 2003

(Percentage)

Export sales to total sales			Profits excluded from income tax
	<10		0
10	to	20	25
21	to	30	35
31	to	40	45
41	to	50	55
51	to	60	65
	>60		75

Source: Author on the basis of Go-Invest, mimeos, Georgetown, Guyana: "Enhancing Export Promotion", (2003a); "Results of the Rapid Reconnaissance Survey of the Toronto Market for Guyanese Products" (2003b); "Survey of the London Market for Guyanese Products" (2003c).

In addition the Guyanese legislation provides incentives to the productive sectors as follows. The agricultural sector benefits from waivers of customs duty and the consumption tax on equipment, packaging material for fruit and vegetable exports, importation of agro-chemicals, agro-processing equipment. Tax allowances are also granted to non-traditional exports and the improvement of land for agricultural purposes.

The manufacturing sector receives exemptions for the customs duty and the consumption tax, for packaging equipment and materials, for vehicles imported for the use in manufacturing, and for plant equipment and raw materials. Manufacturers are also granted allowances for capital expenditure.

The forestry sector receives similar incentives to those granted to the manufacturing sector, and exemptions from customs duty and consumption tax on milling equipment, logging, land development equipment and wood working equipment, and on outboard engines.

The mining sector is provided with exemptions of customs duty and consumption tax on all equipment, processing material and spares parts used in mining, on outboard engines, and on the importation of vehicles for the production process. It also benefits form a preferential consumption tax rate on aviation fuel (10%). According to legislation, tax incentives will be maintained for a period of 15 years. In addition bauxite is taxed at lower royalty rates than precious metals and minerals. Special additional concessions are granted to medium and small-scale mining (lower royalties, lower rates for income taxes and exemptions of customs duty and consumption tax for vehicles and machinery). Petroleum exploration is encouraged through a similar set of fiscal incentives.

The tourism sector is granted duty-free and consumption tax concessions for basic furnishings, plant equipment and building materials. These concessions are granted once every five years and are limited to 50% of the value of the investment.

The fisheries sector receives the general incentives and is exempted from custom duty and the consumption tax on trawlers and fishing vessels, equipment, freezers and other refrigeration equipment.

The housing sector receives the general incentives and tax concessions on the construction of new houses and is exempt from the customs duty and consumption tax on selected building materials.

The information and communications technology sector benefits from the general incentives, a tax holiday of 10 years, and a waiver on the consumption and the customs duty tax on building materials for construction. It also receives assistance to obtain grants to train personnel on information technology.

Finally the tourism sector is also entitled to the package of general incentives plus a tax holiday for up to 5 years, waiver of customs duty and consumption tax on raw materials for the manufacture of garments and textiles, training assistance where necessary and a waiver from the consumption tax in the sale of selected products manufactured in Guyana (curtains, towels, table-cloths, rugs among others).

3. The case of Barbados

A third example of wide application of fiscal incentives is Barbados. The government of Barbados offers fiscal incentives to the manufacturing and the services sector. Manufacturing firms, which produce an approved product or belong to the category of 'approved firms' can receive special incentives that are detailed in the Fiscal Incentives Act (1974).

Tax holidays are given to firms according to the percentage of local value added to their manufactured product. When the local value is greater than 50% of the total approved firms receive a tax holiday equivalent to 15 years. When the local value added is comprised between 25% and 50% of the total, the tax holiday is 13 years. When the local value added is comprised between 10% and 25%, the tax holiday is reduced to 11 years. After the expiration of the tax holiday firms can receive tax deductions contingent on their export potential. Firms can also carry forward their losses. Highly capital-intensive firms with an investment at least equal to 25 million U. S. dollars receive a ten-year tax holiday. Finally, manufacturing firms exporting outside the CARICOM region can obtain the same benefits given to an International Business Company (IBC) (see table 20).

Table 20

BARBADOS: TAX INCENTIVES IN THE FINANCIAL SECTOR, 2002

Incentives	**Exempt insurance companies**	**IBC**	**Offshore Banks**	**SRL**
Tax rate (%)	**0**	**2.5 -1**	**2.5 -1**	**2.5 -1**
Withholding tax:				
- Dividends	No	No	No	No
- Interest	No	No	No	No
- Royalties	Yes	No	No	No
License required	Yes	Yes	Yes	Yes
Exemption from:				
- Exchange controls	Yes	Yes	Yes	Yes
- Duties on imports	No	Yes	Yes	Yes
- Taxes and duties on sale of securities and assets	Yes	Yes	Yes	No
Requirement to file financial statements with regulatory agency	Yes	Yes	Yes	No
Financial statements open to public scrutiny	No	No	No	No

Source: Author on the basis of official data.

Note: IBC = International Business Company; SRL = Societies with Restricted Liabilities Act.; The corporation income tax is 40%. The personal income tax ranges from 10% to 40%. The withholding tax ranges from 12.5% to 40%. The value added tax is 15%. The hotel accommodation tax is 7.5%.

The financial services sector is coordinated by the Central Bank. There are a number of incentives in place for international businesses including lower company tax rates; tax exemptions (see table 16). In addition the legislation states that 35% of the remuneration of qualified personnel of international business institutions can be paid free of income tax and in any foreign currency.

The fiscal and tax incentives in the case of tourism were granted originally through the Hotel Aids Act (1967) which was replaced with the Tourism Development Act (2002). The underlying principle of the tourism act is that firms in the tourism sector must be supported throughout their lifecycle and not only at the starting stage. The most important features of the Tourism Development Act are as follows: (a) hotels are defined as any building containing not less than 10 bedrooms each of which is valued at 87,000 U. S. dollars; (b) hotels are allowed a write-off of 150% of interest expenses to refurbish a hotel, construct a new hotel with no less than 250 rooms with conference facilities, the consolidation of hotels administered as a group; (c) hotel owners are given 15 years to write-off capital expenditures against income accruing to the business for hotel properties with a value of up 100 million U. S. dollars. An additional year is provided up to a maximum of 20 years for every additional expenditure of 10 million U. S. dollars over 100 million U. S. dollars; (d) tax free payments of dividends to the owners of a tourism product; (e) 150% tax write-off on expenditure on tourism research, enhancing tourism capacity, organization of trade fairs, development of linkages with other sectors, development of community tourism programmes, development of computer software to measure the performance of the tourism industry. Similar tax concessions are provided for restaurants, villas, attractions, sports and recreational facilities.[21]

C. Government capital expenditure

In all CARICOM countries, export promotion efforts and instruments are complemented by public expenditure in the guise of the public sector investment programme (PSIP). The public investment programme is an outline of the major projects the government plans to undertake over the medium term. It is oriented to build the required infrastructure for exports including infrastructure, buildings, airport facilities transportation and other communications. It also seeks to reduce transport costs. An example of the latter is provided by the Shipping Incentives Act of Barbados and its Amendments, which grants and extends concessions to shipping companies and all boats.[22]

The public investment sector programmes are financed mostly from official foreign aid and loans. In some cases it fills the gap left by a private sector that is too small and finds it unprofitable to undertake major infrastructure projects. An illustrative example is that of Antigua and Barbuda. The Medium Term Economic Strategy (2000-2004) of this country states:

> "The government has always played a critical role in the development of the tourism industry…particular as it relates to facilitating foreign investment, marketing and infrastructure development. The government's role in the development of the industry includes the construction of hotel rooms to ensure international air service from the larger air carriers; the expansion and maintenance of the country's lone international airport; and the provision of all necessary infrastructure services to support the industry. Given the small size of the economy it is expected that this role will continue in the medium to long term".

[21] Another case in point is that of Jamaica, The manufacturing sector exports (textile and apparel) have also benefited from and a number of incentives. The Export Industry Encouragement Act grants income tax exemptions and tariff concessions for ten years. The Modernization of Industry Act grants relief to manufacturing companies from the General Consumption Tax on capital goods and equipment.

[22] Financial Statement; Economic and Financial Policies of Government; Government of Barbados (October 22, 2002).

Table 21 shows the distribution of Public Sector Investment Programmes by economic sector and sub-sector in the case of St. Vincent and the Grenadines for 2002-2004. More than half of the total is planned to be spent on economic infrastructure while about a third is spent on social services. The main beneficiaries of the economic infrastructure are energy and transport and communications.

Table 21

STRUCTURE OF PUBLIC SECTOR INVESTMENT PROGRAMMES, 2002-2004

(Percentages)

Sectors	2002	2003	2004
Economic infrastructure	51.53	58.97	53.05
Agriculture	14.31	13.29	16.64
Energy	35.29	42.64	18.73
Transport and communications	32.28	32.77	49.32
Tourism	1.94	1.70	3.80
Other economic sectors	16.19	9.59	11.51
Social services	33.10	25.52	26.00
Education	43.71	35.01	35.09
Health	11.00	11.70	18.87
Commercial services	45.29	53.29	46.05
Public administration	9.74	9.44	7.61

Source: "St. Vincent and the Grenadines, Medium Term Economic Strategy, 2002-2004", Government of St. Vincent and the Grenadines, 2002.

Government capital expenditure can be however, a weak instrument due mainly to problems associated with its implementation and monitoring. The rate of implementation of public sector investment programs is in the vicinity of 25% in many of the Caribbean countries under study. In addition, public capital expenditures are often used as an adjustment leverage to keep expenditure under control and guarantee the compliance with targeted macroeconomic criteria depriving the PSIP of its developmental role (Ministry of Finance and Planning, 2003).

D. Export financing schemes

As in the case of most export promotion instruments export financing schemes are government led. Two such examples are provided in the cases of Barbados and Jamaica at the national level.

In the former case The Central Bank of Barbados administers programs for export financing, insurance and export guarantee. It also provides insurance against payment default by foreign importers and against commercial and political risks.

The manufacturing sector also benefits from the assistance provided by the Barbados Development and Investment Corporation (BDIC), which facilitate non-sugar exports. These include rum, electronic components, building materials, food products, insecticides, plastic bags and plastic bottles, paper products, cement, paints, pharmaceuticals, boat sails, intra ocular lenses, handicraft, metal cans, agricultural, produce and cut flowers, and baby chicks. The major export markets are CARICOM, U.S.A., the United Kingdom, and the European Union.

Besides providing export facilitation services, which include export market research, market identification, market development, and marketing support, the BDIC offers an Export Grant Incentives Scheme (EGIS). The EGIS is oriented to firms, which have the potential to generate foreign exchange from exporting, and that have an export development or marketing plan. The EGIS is a reimbursable grant scheme and supports a variety of export activities at different stages of their development ranging from marketing studies to sales missions. The EGIS offers two refund categories. The first one provides export assistance equivalent to 50% of direct costs of each approved export promotion activity. The second is addressed to exporters involved in BIDC sponsored projects to non-CARICOM countries, first time exporters and small businesses and provides grants up to a maximum of 75% of the direct cost of each corresponding approved activity.

The BDIC operates with 209 companies. Only 23% of the total have shown a real export potential. The export assistance provided by EGIS is far from being significant enough to shape and facilitate the export success of the member companies (see table 22).

Table 22

BARBADOS: NUMBER OF EXPORT GRANT INCENTIVES SCHEME (EGIS) BENEFICIARIES AND VALUE OF AVERAGE GRANTS RECEIVED,1998-2003

(In numbers and U. S. dollars)

Year	Companies benefiting from EGIS	Value of grants received by company per year on average (estimate)
1998	37	3 330.852
1999	30	3 832.949
2000	29	3 385.780
2001	32	3 466.146
2002	39	3 382.878
2003	9	5 471.701

Source: Author on the basis of official data.

In the case of Jamaica the National Export-Import Bank is a government development bank providing loans at an average of 12% or six percentage points below the market rate and many other schemes to finance exports and other programmes (see table 23). The Export Credit Facility, the Apparel Sector Financing, Loan facilities granted through the Jamaica Manufacturers Association/Jamaica Exporters Association provides additional channels to finance the development of manufacturing exports.

A similar role plays the Export-Import Bank (EXIMBANK) of Trinidad and Tobago. The EXIMBANK contributes to the promotion of exports of local manufacturers mainly in the non-hydrocarbon industry (non-energy). EXIMBANK provides among others exporter credit insurance schemes, which cover the exporter against commercial (80%) and political risks (95%),[23] post shipment financing, pre-shipment financing, working capital guarantee program and access to short-term working capital. Post-shipment financing aims at securing liquidity for the exporter through a discount operation. Pre-shipment financing consists in the provision of direct financing facilities for qualified exporters to cover their variable and part of their fixed costs. The working capital guarantee program consists in providing financial backing for working capital loans and revolving lines of credit. Finally, the access to working capital, which is obtained under the program Triple A Financing, lowers the exporting cost of domestic producers.

23 According to EXIMBANK commercial risks include: (i) insolvency of the overseas buyer; (ii) deliberate default by the overseas buyer on goods already accepted; (iii) diversion of the shipment to another destination resulting in non-delivery of goods within the contracted delivery time. For their part, political risks comprise: (a) import controls in the buyer's country; (b) armed conflict; (c) risks beyond the control of the exporter.

Table 23
NATIONAL EXPORT-IMPORT BANK OF JAMAICA: PROGRAMMES AND ACTIVITIES RELATED TO EXPORT PROMOTION, 2003

Title of the programme	Description of the programme
• Export credit insurance	Covers foreign receivables against the risk of non-payment by foreign buyers
• Foreign currency lines of credit for short term trade credit	Covers imports of raw materials, equipment, capital goods, and spare parts, by firms involved in manufacturing, distribution, agriculture, or service provision.
• Cuban line of credit	Aimed at facilitating the entry of Jamaican exports to Cuba
• Export factoring programme	Assists in the development and diversification of non-traditional exports.
• Export credit facility	Provides working capital support in domestic currency to exporters of non-traditional products. Loans are granted for a maximum of 120 days on a revolving basis
• Bankers export credit facility	Provides shipment finance in domestic currency to exporters of non-traditional goods. Loans are granted for a maximum of 120 days on a revolving basis
• Pre-shipment facility	Includes prepaid shipment financing in domestic currency to exporters of non-traditional products. Loans are granted for a maximum of 90 working days to purchase local raw material for export.
• Export loan	Provides loans of up to 2 million J$ dollars on a short or medium term basis and on concessionary terms of financing
• CoPack Facility	The facility has a capital of 20 million dollars J$, operates on a revolving basis and it consists of working capital loans that allow access to one short-term low cost pre-shipment financing
• Ornamental fish farming loan programme	Grants funding to farmers (exiting and new entrants) in the export trade of ornamental fish, to farmers providing vital linkages to exporters.
• Modernization fund for exporters	Provides loans of up to 25 million dollars J$ to exporters firms or foreign exchange earner.
• Small business facility	Provides working capital finance at a preferred rate of interest to small and medium sized business (less than fifty employees) with total net assets not exceeding 5 million and total sales of the previous financial year not exceeding 25 million dollars J$.

Source: Author on the basis of Ministry of Trade and Industry of Jamaica, 2003.

The regional agency Caribbean Export also provides finance to Caribbean exporters in the form of grants (service user grant and service development grant) for private sector firms belonging to the manufacturing and services sectors to build capacity and expand export activities. Agricultural firms and tourism activities are also not eligible.[24]

[24] In the case of agriculture firms must produce according to the Caribbean Export Regulation that specifies that in order to be eligible, firms "must produce substantial value added beyond the farm gate" (http://www.caribbean-exports.com).

E. Trade diplomacy

Securing market for their export products through trade negotiations is a key objective of CARICOM economies. However, they have little negotiating power, even as a regional grouping. They do not have the market potential, competitiveness or economic strength of other bigger sized and especially industrialized countries. Nonetheless, CARICOM countries as well as other countries have used their small size as a negotiating instrument by linking size with the concept of 'vulnerability'.

According to the standard definition vulnerability is "associated with exposure to external economic factors…It is the consequence of two sets of factors: (i) the incidence and intensity of risk and threat, and (ii) the ability to withstand risks and threats and to 'bounce back' from their consequences". In turn the threats have their origin in the particular characteristics of some of the smaller economies, remoteness insularity, and economic exposure. This general definition of vulnerability has paved the way for arguing that the vulnerability of the smaller economies is structural rather than conjectural. That is, it does not depend or is not a consequence of policy decisions. Rather, vulnerability is independent of political or economic choice. Vulnerability proponents have clearly emphasized that this concept is not related to measures of economic performance such as GDP *per capita*. A country can have an internationally relatively high GDP but be still vulnerable (*i.e.*, The Bahamas).

In addition, it is a concept amenable to measurement. The composite vulnerability index developed by the Commonwealth Secretariat includes variables relating to economic exposure (trade openness, export concentration, capital openness, access and reliance on external financial flows, export dependency) of remoteness and insularity (international transportation costs) and susceptibility to environmental events and hazards.[25] The results show that smaller economies are more vulnerable than larger economies (Atkins, Mazzi and Easter, 2001).

Due to the fact that small countries exhibit a higher degree of vulnerability, these cannot be said to be competing or negotiating on the same footing as larger and/or more developed economies. A consequence is that trade negotiations should involve asymmetric treatment to level the playing field. The asymmetric treatment is known as special and differential treatment. In the WTO texts (1994) the concept of special and differential treatment is embodied in a set of provisions allowing developing countries greater flexibility in terms of obligations and time frames. These provisions are grouped under four headings. These are: (i) those recognizing the interests of the least developed and developing countries; (ii) the measures that reduce or ease the rules and obligations that developing economies have to meet; (iii) the provisions providing for longer time-frames for the implementation of obligations, and (iv) the provisions for technical assistance.[26]

[25] More precisely the vulnerability index for any country is defined as the predicted value of its output volatility. The predicted value of output volatility is obtained by regressing the actual value of output volatility on variables for economic exposure remoteness and insularity and susceptibility to environmental events and hazards (Atkins, Mazzi, Easter, 2001). According to the results the preferred estimated equation was: $Outvol_i = \beta_o + \beta_1 Vuln_i * D_i + \beta_2 Exdep_i + \beta_3 Div_i$; where:

$Outvol_i$ = actual output volatility;
$Vuln_i$ = susceptibility to natural disasters;
$Exdep_i$ = export dependence;
Div_i = export diversification index;
D = dummy variable;
i = 1,...., N and N is the number of selected countries.

[26] See WTO (1999a, p. 225), for a detailed list of the provisions of the WTO Agreements on Special and Differential Treatment. Caribbean economies have built on the WTO provisions to propose additional provisions specific to smaller economies meant to allow the progressive integration of smaller economies in the current multilateral trading regime. These can be grouped under seven headings. (Bernal, 2001): (i) a lower level of obligations; (ii) asymmetrically phased implementation timetables; (iii) best endeavour

For CARICOM economies special and differential treatment is viewed in practice, as the way to maintain preferential access to two major export markets, the United States and Europe, which remains the most important objective in the negotiating agenda of CARICOM, and in the permission to apply export subsidies.

commitments; (iv) exemptions from commitments in certain areas; (v) flexibility in application and adherence of disciplines under prescribed circumstances; (vi) enabling access to mediation; (vii) technical assistance and training.

V. Export promotion policies: outcomes and implications

A. A preliminary overview

Any assessment of the success or failure of export promotion policies is severely limited by the difficulty of isolating its effects from those of other variables. However, as a first approximation, the analysis that follows highlights some stylized facts in order to draw some very preliminary and rough conclusions.

In the case of CARICOM economies, the objectives and instruments of export promotion have not resulted to the benefit of export performance. In spite of its 'securing market' objectives and trade diplomacy CARICOM has lost market share in the major extra-regional export markets. It has gained export share at the intraregional level only as a result of the good performance of Trinidad and Tobago

The empirical evidence shows that the exports of commodities that have the highest level of regional protection have stagnated or declined over time. It also indicates that the CET policy encourages countries to find loopholes using the conditional list of exemptions and rules of origin regulations of the revised Chaguaramas treaty. Countries that have made active use of these to promote exports have been able 'to beat the system' and increase their intra-regional market share.

The consequent deteriorating export performance has hastened the countries efforts to foster foreign exchange earning activities. This in turn, has facilitated FDI inflows but at the expense of domestic investment, the development of value added activities and a considerable fiscal gap. A possible outcome of the combination of these factors is a higher level of internal indebtedness, which can necessitate a policy of adjustment thus undermining the own export promotion efforts and strategy.

B. CARICOM: Extra-regional export performance

Export performance can be measured by the export performance ratio. It is measured by the ratio of exports to the average propensity of import (*i.e*. the ratio of imports to GDP). When exports are equal to imports, the export performance ratio is equal to GDP. The export performance ratio can be computed in terms of percent deviation from GDP. A value of 0 would indicate a state of external equilibrium. A value greater than ‘0’ in percentage shows the percent deviation of the external account from its equilibrium value.

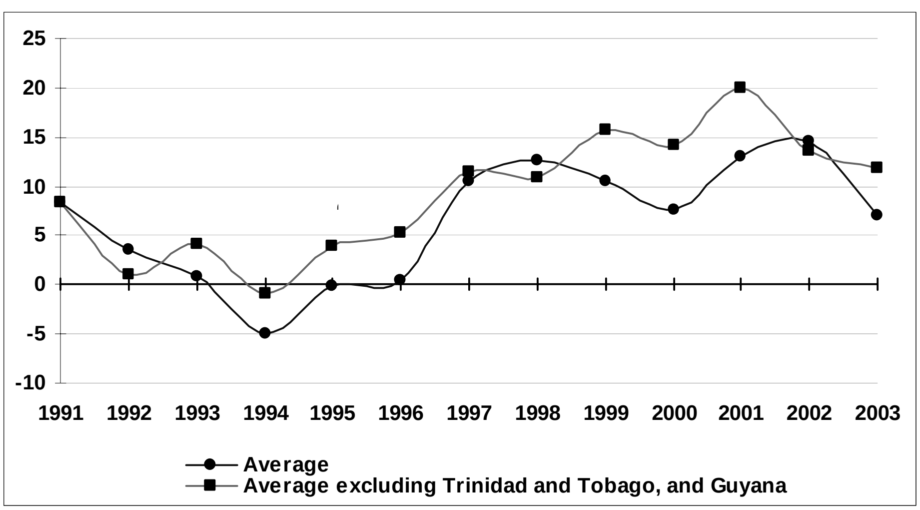
This measure was obtained for each CARICOM economy and then an average was obtained. Figure 5 shows the export performance ratio expressed as a percentage deviation from GDP, for CARICOM as a whole and for a sub-grouping excluding Trinidad and Tobago and Guyana. The export performance ratio is characterized by three movements:

The first is a decline lasting from 1991 until 1994. During this period the export performance of CARICOM economies on average improved. The second began in 1994, year that marks a point of inflection from the previous trend after which the export performance deteriorates steadily until 2002. In 1994, CARICOM economies showed, on average, an equilibrium in their balance of payments. Eight years later, in 2002, their export performance had deteriorated to a value equivalent to 20% of their combined GDP. The third period shows some improvement in the export performance ratio.

Figure 5

EXPORT PERFORMANCE RATIO AVERAGE FOR CARICOM 1991-2003

(Percentages of GDP)



Source: Author calculation on the basis of official data.

Note: CARICOM minus Trinidad and Tobago and Guyana

The worsening of CARICOM export performance is reflected in the loss of market share in its major export markets both in goods and tourist services. Between 1985 and 2002, the export market share of Caribbean countries in regional trading blocs such as NAFTA and the EU (Western Europe), has decreased from 0.71% to 0.27% and from 0.15% to 0.10% respectively (see table 24). It is worthy of note that the Caribbean market share has decreased in those markets that grant preferential treatment but has increased in those markets that do not grant special and differential treatment (*i.e*., the Andean Community).

Table 24
CARICOM: IMPORT MARKET SHARE IN GOODS IN REGIONAL TRADING BLOCKS
(In percentages)

Regional block	1985	1990	1995	2000	2002
NAFTA	0.71	0.43	0.32	0.24	0.27
Western Europe	0.15	0.13	0.12	0.10	…
Andean Community	0.40	0.96	0.41	0.24	0.56
Mercosur	0.30	0.34	0.19	0.11	0.14
CACM	0.20	0.18	0.38	0.74	1.34

Source: Author on the basis of Competitive Analysis of Nations (2002), and World Integrated Trade System (WITS), 2005, World Bank, Washington, D.C.

Note: CACM = Central American Common Market (Costa Rica, Honduras, Nicaragua, Honduras y El Salvador).

… denotes not available.

In terms of tourist services, the Hispanic Caribbean has the lion's share of tourist arrivals (70% in 2003). In spite of its high specialization indices in services CARICOM's market share of Caribbean tourist arrivals increased slightly from 28% to 30% while that of the OECS has declined (7% and 5% in 1996 and 2003) (see tables 25 and 26). The loss in market share is explained by a mix of internal and external factors. The former include high costs, low productivity, and inadequate technological levels. The latter comprise, among others, unfavourable terms of trade, the uncertainty created by the temporary nature of preferential trading regimes and increasing competition.

Table 25
MARKET SHARE OF TOURIST ARRIVALS FOR THE ENGLISH AND SPANISH SPEAKING CARIBBEAN, 1996-2003
(In percentages)

Sub-region	1996	2000	2003
OECS	6.51	5.34	5.38
CARICOM	27.54	28.66	29.65
Hispanic Caribbean	72.46	71.34	70.35

Source: Author on the basis of Caribbean Tourism Organization (CTO).

In the case of primary commodity exports, internal factors are compounded by external ones. The banana industry is a case in point.

Table 26

REVEALED COMPARATIVE ADVANTAGE INDEX FOR COMMERCIAL SERVICES FOR SELECTED COUNTRIES (RANKED ACCORDING TO THE AVERAGE FOR 1980-2000)

Ranking	Country	Average time period				
		1980-1985	1985-1990	1990-1995	1995-2000	1980-2000
1	Aruba	…	517	494	492	499
3	Belize	507	496	442	445	472
4	Barbados	483	496	455	448	470
5	Montserrat	…	491	466	423	455
9	Grenada	341	359	405	416	378
14	Saint Kitts and Nevis	257	349	388	411	348
15	Saint Lucia	320	310	325	417	344
18	Bermuda	252	300	346	368	330
21	Dominican Republic	208	304	354	377	309
23	Bahamas	…	115	379	394	297
24	Antigua and Barbuda	…	361	268	315	294
26	Jamaica	247	288	261	294	271
28	St. Vincent & the Grenadines	230	184	245	356	258
30	Cuba	…	…	223	271	247
33	Dominica	171	170	241	310	223
35	Netherlands Antilles	123	229	243	256	208
88	Guyana	065	126	122	109	101
105	Trinidad and Tobago	064	080	082	084	078
108	Mexico	097	089	073	047	076

Source: Author on the basis of UNCTAD, 2000.

Note: The revealed comparative advantage index for services was computed for 147 countries.

… denotes not available.

The Banana industry in the English speaking Caribbean, with the exception of Belize and Jamaica, is characterized by a number of small farms.[27] Small holdings have by definition limited availability of land, poor soil conditions, low yields, high production and shipping costs. In addition, the banana industry has also a shortage of capital, higher risk, limited access to the most adequate distribution channels, poor quality controls and marketing, and weak institutional arrangements (NERA, 2003; Sandiford, 2000).[28] Moreover banana growers have faced falling real prices and declining export values for their produce. Available evidence for the United Kingdom shows that retail prices declined by 14% between 1990 and 2002 and real prices measured as retail prices deflated by a retail index have decreased by 40% (see table 27).

The overall outcome is a decline in banana growers (24,000 and 7,000 in 1993 and 2001), production (-69%), and export volume (-56%). As a result, in spite of the preferential market access conditions, banana growers have not been able to meet their allowed quota. Prior to the European modification of the import banana regime in 2001, the European Union granted quotas of 71,000 tons, 127,000 tons, 82,000 tons and 14,000 tons to Dominica, St. Lucia, and St. Vincent and the Grenadines respectively. But the quantities actually exported for the period 1993-1999 were on average, 37,204 tons, 89,756 tons, 41,638 tons and 2,318 tons, representing 52%, 71%, 51% and

[27] In the Windward Islands the number of banana active growers is 7,000 with an average of 2.5 acres.

[28] Sandiford (2000, p. 46) writes: "*It was commonly agreed that the critical factor in the adjustment process was the need to enhance the quality of bananas produced by the industry so as to increase its international competitiveness. At the same time, the institutional arrangements for management and governance of the industry were identified as areas in need of realignment. In addition to the structural deficiencies in the areas of management and governance, all of the BGASs were in serious financial difficulties. The financial constraint added complications to the adjustment process as limited resources were available for its financing*".

17% of their total quota (WIBDECO and Sandiford, 2000). In 2002, the Windward Islands felt again short of their quota by 9,000 tons.

Table 27
BANANA EXPORT PERFORMANCE INDICATORS, 1990-2002

Year	United Kingdom import share by country provider					Other banana indicators				
	Jamaica	Suriname	Belize	Windward Islands	Other selected countries	Production (000' tons)	Number of banana growers (000')	Export volume (000' metric tons)	Retail prices of bananas (pounds per kg)	Real prices (1990 = 100)
1990	1 340	596	511	5 213	745	282	na	227	114	100
1991	1 431	573	389	4 110	1 043	230	na	274	119	984
1992	1 376	550	514	4 000	1 339	280	na	238	106	847
1993	1 176	427	580	2 397	901	242	241	169	096	754
1994	1 355	588	838	3 280	1 390	169	23	191	094	722
1995	1 366	455	667	3 122	1 333	194	202	191	08	594
1996	1 319	385	770	2 015	1 022	191	18	137	089	645
1997	1 196	450	652	2 112	1 863	137	163	141	1	702
1998	828	280	601	1 776	1 789	142	117	130	104	706
1999	712	452	630	1 986	2 274	131	126	140	102	682
2000	547	454	801	1 135	2 256	141	111	83	099	642
2001	583	393	637	1 355	3 320	85	73	99	108	689
2002	492	084	360	1 200	3 073	na	na	na	102	641

Source: Author on the basis of "Banana exports from the Caribbean since 1992", prepared by National Economic Research Associates (NERA), 2003, for the Caribbean Banana Exporters Association.

The mining sector export value is also often affected by variations in their international price (as an example according to an official source bauxite export values declined by 42% between 1995 and 1999), which diminishes their basis as a potential export platform, and technical and social problems. Thus their export performance does not belong strictly in the real of export promotion.

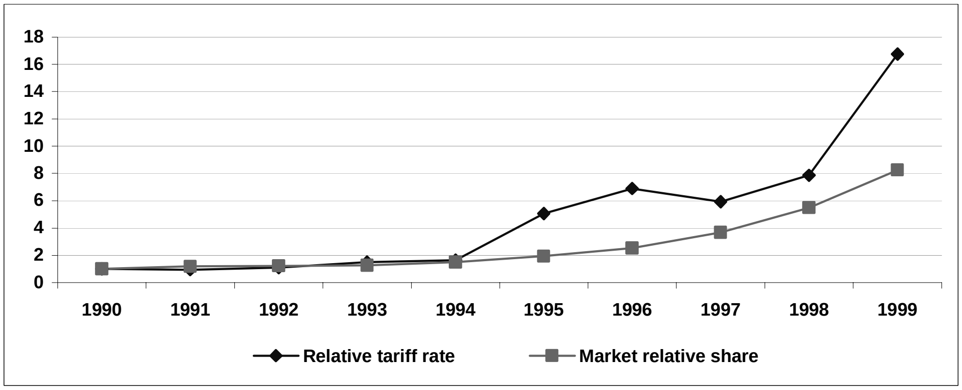
The manufacturing sector performance is hampered by high labour and transport costs, an appreciating real exchange rate and size constraints, which prevents the sector from realizing economies of scale. In Barbados where data on rates of effective protection are available, these were estimated to be above 100% for a series of manufactured products including bakery, cement, furniture, apparel, margarine, plastics, and steel products.

The decline in the apparel sector also reflects a displacement effect by other and more competitive producers (Mexico and the Dominican Republic). Jamaica's loss of market share in the United States (the main destination of Jamaica's apparel and textile exports) became obvious following the entry into force of NAFTA.

As shown in figure 6, there is positive relationship between the increase in the tariff of Jamaica relative to that of Mexico, and Mexico's market share relative to that of Jamaica. In 1990, the normalized implicit tariff rate of Jamaica to Mexico was 1. In 1999 it had increased to 16. For the same period Mexico's normalized market share relative to Jamaica rose from 1 to 8. The correlation coefficient is 0.96. Jamaica has lost 18,000 jobs since 1995 in the apparel sector.[29]

[29] According to the WTO (1996) after the entry into force of NAFTA, Mexican exports of category 807 increased by 196% displacing other exporters. In 2002, the Jamaican authorities have decided to switch from 807 textile exports to the full package textile exports, which has, a higher value added under the Modernization Action Programme.

Figure 6
JAMAICA AND MEXICO: RELATIVE TARIFF RATE AND MARKET SHARES, 1990-1999
(In percentgages)



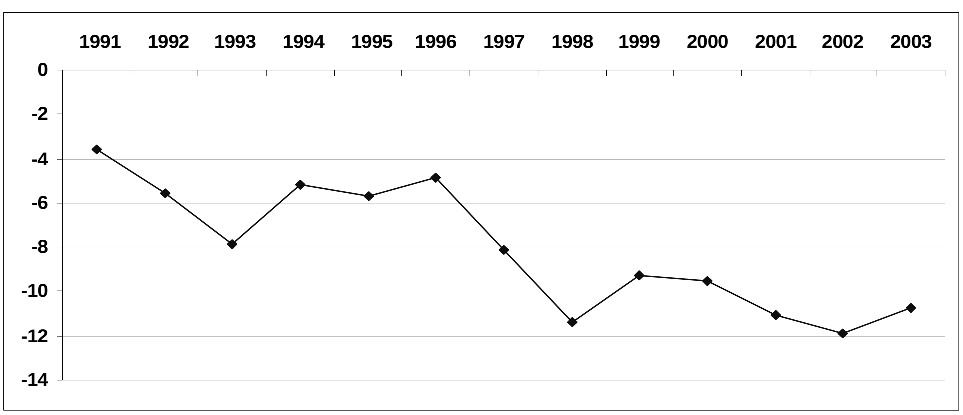
Source: Author calculation on the basis of official data.

The performance of services, in particular that of the financial and the tourist sub-sectors is directly correlated with external factors. Recent events such as the OECD harmful tax initiative, the slowdown of the United States economy, and September 11th, has had a major negative impact on these sub-sectors. In addition in the case of tourism, as the evidence provided above indicated, CARICOM countries are viewed as high cost destinations and can hardly compete with destinations such as Mexico or the Dominican Republic.

C. CARICOM: Export performance and the foreign exchange constraint

The worsening of export performance has hardened the foreign exchange constraint. This is reflected in the deterioration of Caribbean countries current account position, especially visible since 1996. The average current account deficit for CARICOM, which stood at -4% of GDP in 1996 widened to -11% in 2003 (see figure 7).

Figure 7
CARICOM: CURRENT ACCOUNT, 1991-2003
(Percentage of GDP)



Source: Author calculation on the basis of official data.

This performance responds mainly to a deteriorating export performance and to a lesser extent to a rise in import growth. The empirical data highlights the following facts:

- In the case of the OECS the current account deficit increased significantly in the second half of the 1990s due both to the deterioration of export performance and the increase in imports. Exports of goods and services declined steadily from 66% of GDP in 1992 to 63% in 1995 and 54% in 2001. Imports of goods and services rose form 74% of GDP in 1992 to 75% in 1995 and to 66% in 2001.
- For Barbados, the current account deteriorated from -1.4% to -8% of GDP between 1991 and 2003. Imports as a percentage of GDP exhibit an upward trend during the 1990s decade (43% and 57% in 1992 and 2001). Exports rose between 1991 and 1996 from 49% to 61% of GDP and declined thereafter to 53% in 2001.
- In the case of Belize the current account widened from -7% to -18% of GDP between 1991 and 2003. Exports of goods and services as a percentage of GDP declined steadily from 68% to 54% between 1991 and 2003. For their part imports decreased from 80% to 57% between 1991 and 1998, and then reversed its trend increasing to 67% in 2003.
- Guyana witnessed a steady decline of both exports and imports as a percentage of GDP. Between 1992 and 2001 Exports and imports of goods and services decreased from 151% and 180% to 115% and 133% of GDP respectively. The behaviour of the current account in the case of Guyana is atypical in relation to the rest of the Caribbean countries since the country managed to actually reduce its current account deficit, which had reached levels above 40% of GDP in the late 1980s and early 1990s due to the prevailing dire economic conditions.
- In the case of Jamaica the current account result deteriorated from 0.7% to -13% of GDP between 1992 and 2003. As in the case of some of the other countries Jamaica also experienced both a decline in exports and imports expressed as a percentage of GDP, with the former far out spacing the latter (45% and 62% in 1991; 94% and 97% in 2001).
- Contrarily Trinidad increased its current account surplus from 3% to 8% of GDP between 1993 and 2003. The country saw an increase in both exports and imports of goods and services (42% and 32% of GDP in 1993; 54% and 44% of GDP in 2001, respectively).

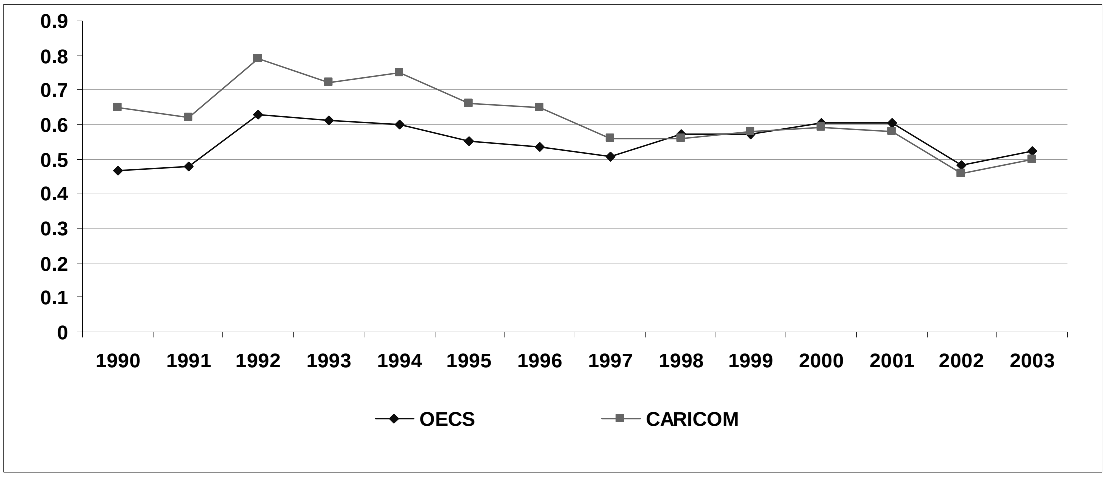
CARICOM economies have tried to overcome the external constraint by focused efforts and policies to attract foreign exchange flows. These efforts have been shaped by two factors:

(i) Coverage ratio of non-factorial services to the trade balance has exhibited, on average, a declining trend since 1992 for both CARICOM and the OECS (see figure 8), although as shown in table 28, masks important differences among the various countries. The coverage ratio decreased from 0.79 and 0.60 in 1992 to 0.50 and 0.51 in 2003 for CARICOM and the OECS respectively.

(ii) Foreign direct investment (FDI) flows have evolved at an uneven pace and have only slightly increased in the past decade. For the CARICOM region, between 1990 and 2001, FDI as a percentage of GDP moved from 8% to 10%. For the OECS, FDI expanded from 11% to 13% (see table 29). In the past year CARICOM countries and in particular the OECS have noted a surge in foreign investment but it remains to be seen whether the increase in investment can be sustained over time.

Figure 8

RATIO OF THE BALANCE OF NON-FACTORIAL SERVICES TO THE TRADE BALANCE, 1990-2003



Source: ECLAC on the basis of official information.

Table 28

RATIO OF THE BALANCE OF NON-FACTORIAL SERVICES TO THE TRADE BALANCE, 1990-2003

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
OECS														
Antigua and Barbuda	102	100	111	120	106	084	076	087	091	083	087	088	075	078
Dominica	007	015	027	030	029	033	034	045	062	064	049	034	044	050
Grenada	041	040	051	049	064	058	050	041	037	059	051	047	032	033
St Kitts and Nevis	028	049	076	059	068	033	029	035	050	016	020	030	012	026
St Lucia	064	062	074	081	081	091	080	075	081	074	085	095	062	073
St. Vincent & the Grenadines	037	022	037	029	013	033	051	022	023	047	070	068	065	053
MDC														
Barbados	099	096	147	128	139	113	118	092	091	080	081	084	078	073
Belize	093	056	059	049	044	057	080	052	040	043	027	025	028	035
The Bahamas	116	099	114	121	108	097	085	068	039	060	075	083	…	…
Jamaica	066	082	092	054	095	060	046	041	042	055	042	024	017	029
Average	**065**	**062**	**079**	**072**	**075**	**066**	**065**	**056**	**056**	**058**	**059**	**058**	**046**	**050**

Source: ECLAC on the basis of official information.

… denotes not available.

Table 29

FOREIGN DIRECT INVESTMENT, 1990-2002

(As percentage of GDP)

Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Anguilla	197	113	256	101	150	237	421	238	298	363	364	249	137
Antigua and Barbuda	155	133	46	33	50	64	36	40	44	56	50	78	505
Barbados	12	20	17	01	23	-03	12	14	07	22	60	36	68
Belize	…	…	…	…	33	31	18	13	75	72	25	50	27
Dominica	77	84	107	66	105	247	76	103	30	80	47	64	43
Grenada	58	63	90	81	73	72	66	106	139	110	88	86	198
Guyana	41	80	369	136	88	86	84	70	67	67	95	79	…
Jamaica	…	14	98	73	102	55	81	-01	20	-01	60	121	54
Montserrat	143	144	79	78	113	50	-07	63	68	234	99	102	06
St Kitts and Nevis	60	49	25	69	69	89	143	72	111	190	292	241	228
St Lucia	108	18	09	69	63	59	32	83	133	124	71	77	72
St Vincent and the Grenadines	39	42	64	132	194	116	153	315	280	169	84	102	92
Trinidad and Tobago	22	25	31	88	105	55	62	172	116	55	81	62	71
Average all	83	65	99	77	90	89	91	99	107	119	109	104	125
Standard deviation	60	46	107	37	47	74	110	92	91	99	100	67	131
Average:													
OECS	105	81	85	79	102	117	115	127	138	166	137	125	160
Larger	19	35	36	74	80	48	60	64	52	36	74	75	145
RBE with Guyana	21	35	133	75	76	57	55	85	86	65	67	64	…
RBE w/o Guyana in 1992	21	54	10	75	76	57	55	85	86	65	67	64	…
SBE	84	60	54	44	58	62	80	64	83	124	117	98	150

Source: ECLAC on the basis of official data.

Note: SBE = Service Based Economies; RBE = Resource Based Economies.
… denotes not available.

In the case of the OECS FDI is destined mainly to the tourism industry. As shown in table 30, between 1997 and 2004 tourism received 60% of total FDI in the OECS outstripping by far any other sector. Also tourism and manufacturing are the only two sectors that receive FDI on a yearly basis. However, the inflows to the manufacturing sector are negligible (less than 1% of the total).

Table 30

OECS: SHARE FOREIGN DIRECT INVESTMENT PER ECONOMIC SECTOR, 1997-2004

(In percentage of the total)

Sector	1997	1998	1999	2000	2001	2002	2003	2004	Average
Tourism	60.12	74.83	81.56	63.86	47.04	56.67	35.43	60.99	60.06
Manufacturing	1.53	0.16	0.40	1.20	1.90	0.24	0.52	0.74	0.84
Transportation	0	0	0	0	0	0	0	0	0
Construction	2.89	0.92	0	0	0	0	5.56	11.48	2.61
Sporting	2.06	6.24	1.14	0	0	0	0	0	1.18
Medical	0	0	0	0	0.24	0.34	0	0	0.07
Financial	0	0	0	0	0.24	1.20	0	0	0.18
Banking and Insurance	1.42	0	0.74	0.30	0	0	0	0	0.31
Commercial	2.11	0.08	0	4.84	0.84	0	0	0	0.98
Petroleum	1.50	0.72	0.25	0	0	0	0	0	0.31
Education	0	3.12	1.88	0	0	0	1.47	0	0.81
Agriculture	0	0	2.04	0.62	0.25	0.67	0.28	0.01	0.48
Other	28.36	13.94	11.99	29.18	49.48	40.87	56.73	26.79	32.17
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Author on the basis of official data

The focus of policy on FDI had four major consequences for CARICOM economies:

1. No rise in domestic investment

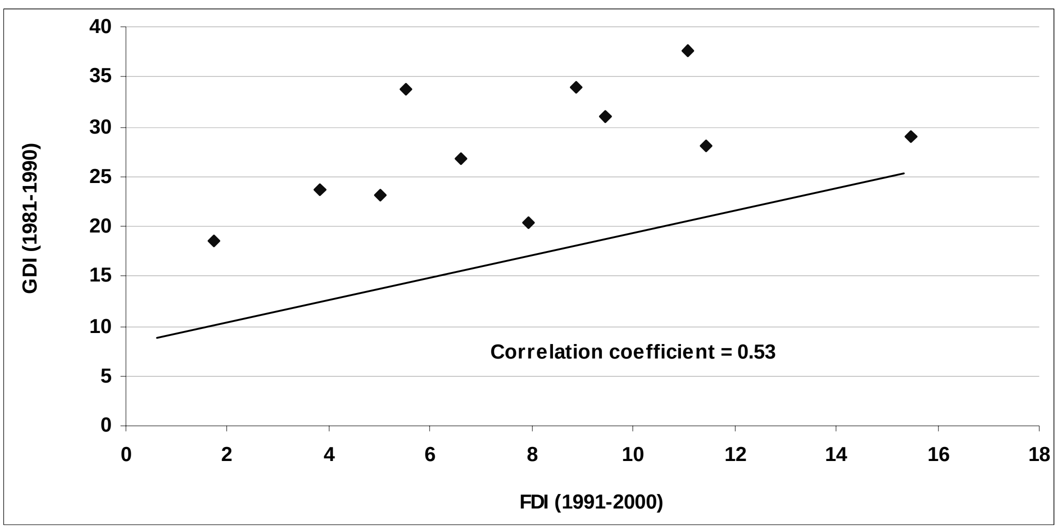
It has not been accompanied by a rise in domestic investment. Indeed, at the same time that, FDI inflows have increased, for some economies domestic investment as a percentage of GDP for the economies of the Caribbean have remained unchanged at the regional level, for the past twenty years, and in many country cases this ratio has decreased. The decomposition of domestic investment into its private and public component available for the OECS shows that private domestic investment has experienced a marked decline in the past twelve years (25% and 15% of GDP between 1990 and 2003) (WB, 2005).

The evidence indicates that there is a significant statistical relationship between the levels of FDI and domestic investment (the correlation coefficient is 0.53) (see figure 9). This may reflect the fact that FDI flows have been directed to those economies that have high levels of investment. Or in other words, high levels of domestic investment may provide an incentive for the attraction of FDI. At the same time the empirical evidence shows that the statistical relationship between the changes in the levels of FDI and domestic investment is weak (the correlation coefficient is 0.09) (see figure 10). This may provide an indication that, contrary to common belief; foreign investment may not have acted as a catalyst for growth.[30] In fact, it may have simply replaced domestic investment. In other words, foreign investment may have crowded-out domestic investment.[31]

Figure 9

CARICOM: FOREIGN DIRECT INVESTMENT (1991-2000) AND GROSS DOMESTIC INVESTMENT (1981-1990)

(As percentage of GDP)



Source: Author calculation on the basis of official data.

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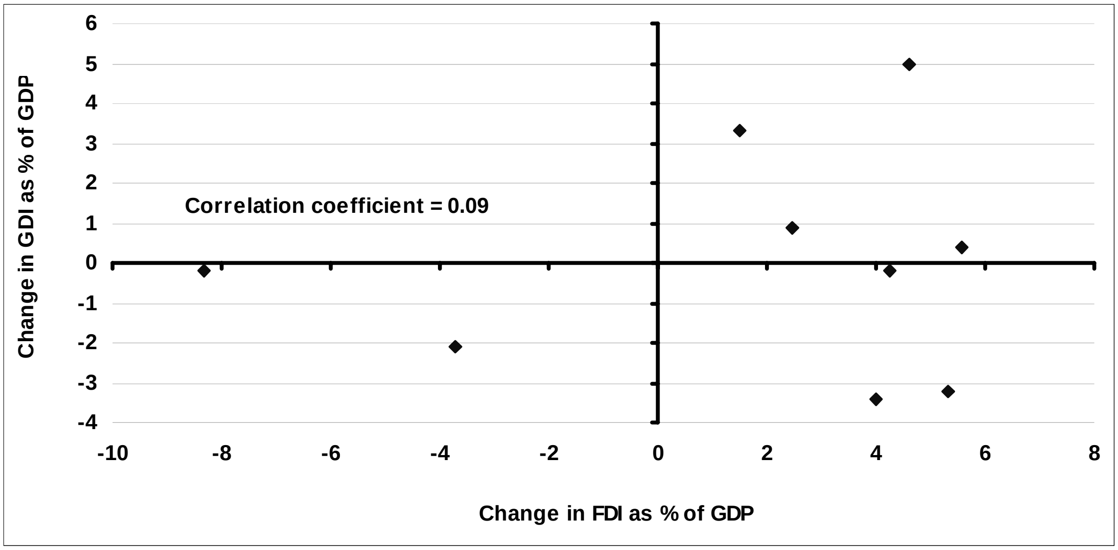
[30] In his examination of the relationship between foreign direct investment and trade in the Eastern Caribbean Currency Union (Cannonier, 2004) finds a negative impact of foreign direct investment flows on exports. He explains the results in the following way: "One such explanation…is that not much of a linkage between takes place between FDI and local industries. The high import content of FDI flows has tended to weaken local industries and has often led to the closure of some of these firms with the potential for weakening the export base. This has been the case to some extent in the manufacturing sector".

[31] In the standard literature foreign investment is presented as a key component of a long-run growth strategy.

Figure 10
CHANGE IN FOREIGN DIRECT INVESTMENT AND GROSS DOMESTIC INVESTMENT BETWEEN 1991 AND 2000
(As percentage of GDP)



Source: Author calculation on the basis of official data.

2. Productive specialization

It has reinforced a pattern of productive specialization characterized by the stagnation of the manufacturing sector and the rise of service and mining activities. The contribution of the manufacturing sector has remained stagnant during the 1990s decade at 12% while tourism has risen from 39% to 47%. For its part the contribution of agriculture has clearly declined.

3. Foreign exchange activities

Governments have actively promoted those activities, which are foreign exchange intensive through a gamut of fiscal incentives. This has impaired the use of taxation as tool to achieve a more equitable distribution of income or to equilibrate the budget. Fiscal policy is mainly a microeconomic tool providing incentives to develop activities in selected economic sectors. The instruments include profit tax holidays, tariff exemptions, export allowances for extra-regional exports following the expiration of the tax holidays, dividend payments, loss-carry forward, and depreciation allowances.

The cost of fiscal incentives has been exceptionally high as illustrated by some of the smaller economies of the Caribbean. Estimates based on customs data indicate that during the first part of the past decade import related tax concessions averaged between 4% and 6% of GDP for Antigua and Barbuda, Dominica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines and were above 10% of GDP for Grenada. In the first part of the present decade import related tax concessions for Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines. However a substantial increase was noted for Antigua and Barbuda, and St. Kitts and Nevis (9% and 13% of GDP respectively).

The high opportunity cost is compounded by the fact that incentives are not correlated either with the level or change in FDI. That is, those countries that have the most significant level of incentives (measured as a percentage of GDP) do not exhibit the highest level of FDI as a percentage of GDP. In the same vein the countries that have increased their incentives are not the ones that have also experienced an increase in FDI flows. According to the International Monetary Fund (IMF, 2004) estimates the correlation between the change in FDI flows and the increase in tax concessions is negative for Antigua and Barbuda, Dominica, St. Lucia and St. Vincent and the Grenadines.

4. Deterioration of the current account

Last, and most important, the deterioration of the current account and in particular of export performance coupled with the stagnation of domestic investment has prevented these two key variables from playing a fundamental role in stimulating aggregate demand and economic growth. Moreover a simple aggregate demand decomposition can show that, under these conditions, only government expenditures can take the leading role in maintaining a given aggregate demand level. Government expenditure, rather than responding to the social needs of the populations in question, is driven by the degree of stagnation of investment and the magnitude of the external gap.

In the case of the Caribbean, the deterioration of the current account from 1995 onwards, given the stagnation of investment, has led the government to adopt an expansionary fiscal stance (Godley and Cripps, 1983).[32] It is measured as the percentage deviation to GDP. When the fiscal stance is neutral the value of the fiscal stance ratio is equal to 0. When the fiscal stance is restrictive, the ratio is negative. Finally when the fiscal stance is expansionary, the ratio is positive. For any one year the percentage deviation between the fiscal stance and 0 provides an indication of the percentage deviation of a contractive or expansive fiscal stance from a neutral fiscal stance.

Fiscal expansion in the 1990s is not exclusive to the OECS but that it occurred throughout CARICOM. In all countries with the exception of Guyana, the fiscal stance has been, as expected, expansionary. That is it has always surpassed the level of nominal GDP. In addition in all countries with the exception of Guyana and Trinidad and Tobago, the fiscal stance has been increasingly expansionary since the middle of the 1990s. In other words in the middle of the 1990s the fiscal stance registers an inflection point. At the same time the tax to GDP ratio remained increasingly constant for the same period. It is important to note that the expansion of fiscal policy coincides with the deterioration of the current account of the balance of payments.

Jointly with the objectives of tax policy which, as explained earlier are guided by microeconomic goals, the imbalance in the government and external accounts have set the stage for a process of debt accumulation over time. The increase in the debt stock has in turn forced some countries to continue to raise foreign exchange but for the sole purpose of fulfilling debt obligations payments.

On average the public debt to GDP ratio has increased from 65% to 87% of GDP from 1997 to 2003. When decomposed in terms of its internal and external component, the former represents 35% of GDP of the total while the latter has reached 56% of GDP. In the cases of The Bahamas, Barbados and Jamaica the internal debt ratio is greater than the external debt ratio.

Currently, eleven of these economies (Guyana, St. Kitts and Nevis, Jamaica, Antigua and Barbuda, Dominica, Grenada, Belize, St. Vincent and the Grenadines, Barbados, St. Lucia, Suriname and The Bahamas) are among the 30 most indebted emerging market countries. Down to

[32] The fiscal stance is formally defined as government expenditure divided by the tax ratio (tax revenue over GDP); formally:

(1) FS = G/(T/GDP); where:

FS = fiscal stance;
G = government revenue;
T = total tax revenue;
GDP = Gross Domestic Product.

the detail, Guyana, St. Kitts and Nevis, Jamaica, Antigua and Barbuda, Dominica, and Belize rank with the first ten most indebted ones.[33]

D. CARICOM: Intra-regional trade stylized facts

CARICOM intraregional export performance has also deteriorated. Intra-regional trade data for the period 1980-2003 reveals five stylized facts:

1. Intra-regional trade has increased at the aggregate level whether viewed from the import or export side. Intra-regional imports rose from 9% to 10% of the total. However, the increase in exports is by far the greatest. Intra-regional exports, which represented 10% of the total in 1980, reached 21% in 2003 (representing an increase of 50% between both years).

2. At a closer inspection the analysis of the data reveals that the increase in intra-regional exports is due exclusively to Trinidad and Tobago's performance. Indeed, the OECS, the LDCs and the MDCs (if Trinidad and Tobago is excluded) have lost intra-regional market share. The OECS intra-regional share dropped from 2.4% to 1.4% of the total between 1980 and 2003. For the same period, the LDCs share declined form 2.5% to 1.8% of the total (WB, 2005).[34] Finally, the MDCs share (excluding Trinidad and Tobago) decreased from 4% to 2% in the said period. Moreover, the share of intra-regional trade has declined for most CARICOM countries (see table 31).

3. Trinidad and Tobago exhibits the most significant gap between its contribution to the increase in intra-regional exports and that of imports. During the period considered Trinidad and Tobago accounted for 63% and 17% of total intra-regional exports and imports.

4. The contribution of Trinidad and Tobago to intra-regional exports picked up significantly in 1993 due mainly to sales of minerals, fuels, lubricants and related materials (chapter 3 of the Industrial classification). Whereas in 1992 the growth of intra-regional exports equaled 3%, it reached 28% in 1993 increasing thereafter at a rate of 34% on average between 1944 and 2000. Chapter 3 contributed between 40% and 50% of this increase in intra-regional exports.

5. As a sub-regional grouping, the OECS exhibit the highest degree of dependency on intra-regional trade flows. For 1985-2000, the average intra-regional export and import share for the OECS equalled 30% and 22% whereas for the for the LDCs and MDCs these reached 18% and 13% and 12% and 9% respectively (see table 32).

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33 The accumulation of debt per se has important costs. The most obvious is the one in terms of foregone resources that could have been used for more productive uses. The case of Jamaica exemplifies this point. The functional classification of Jamaica's fiscal expenditures shows that public debt management amounted to 65% of the total, which is much higher that the expenditure devoted to productive uses. Indeed social and community services, which include education and health, account for 16% of the total. The accumulation of debt can also trigger unwanted depreciations in the exchange rate and thus increases in inflation and/or balance of payments crises.

34 In a recent report the World Bank also states that the OECS share of intra-CARICOM trade declined in the past decade. According to the World Bank the weighed intra-CARICOM trade share grew from 15.3% to 30.5% of the total between 1980-1985 and 1990-1995 and declined thereafter to 16.2% and 14.6% in 1995-1999 and 2000-2002.

Table 31

INTRA-REGIONAL TRADE ORIENTATION AND SHARES IN TOTAL (IMPORTS AND EXPORTS), 1980-2003

(In percentages)

Trade orientation in:	Exports				Imports			
	1980	1990	2000	2003	1980	1990	2000	2003
Antigua and Barbuda	51.30	38.57	...	...	34.08	17.88	...	...
Barbados	23.78	31.48	43.19	40.17	18.64	15.55	19.84	23.86
Belize	5.42	6.65	4.49	8.82	1.60	6.16	3.09	3.73
Dominica	61.48	25.47	56.81	65.52	27.01	21.30	26.89	30.25
Grenada	13.38	26.52	15.86	26.12	32.83	23.63	24.12	23.85
Guyana	13.82	7.30	13.51	…	22.96	11.22	…	…
Jamaica	6.08	6.21	3.72	…	7.25	4.69	12.48	…
Montserrat	0.00	33.75	14.18	54.30	25.66	17.85	20.09	9.77
St Kitts and Nevis	17.86	13.61	8.21	1.66	21.09	14.51	18.70	18.52
St Lucia	32.71	17.10	27.99	43.61	21.65	17.95	21.87	19.93
St Vincent and the Grenadines	43.38	34.31	45.84	62.60	29.08	20.78	30.21	24.55
Suriname	...	...	...	...	...	...	...	...
Trinidad and Tobago	8.54	12.95	22.58	19.43	3.55	6.28	3.75	2.06
CARICOM	9.66	12.39	17.71	20.65	8.81	9.21	10.96	9.58
OECS	31.45	27.05	32.35	38.24	27.34	19.13	21.02	22.10
LDCs	18.43	16.85	20.79	24.20	14.47	12.64	16.83	17.51
MDCs	10.44	11.59	17.49	20.38	10.48	7.55	9.68	7.13

Trade shares in:	Exports				Imports			
	1980	1990	2000	2003	1980	1990	2000	2003
Antigua and Barbuda	0.27	0.27	0.13	0	0.73	0.68	...	...
Barbados	0.92	1.66	1.59	1.70	1.69	2.16	2.14	4.24
Belize	0.10	0.21	0.12	0.30	0.04	0.26	0.13	0.22
Dominica	0.10	0.34	0.42	0.43	0.22	0.50	0.37	0.57
Grenada	0.04	0.17	0.16	0.18	0.28	0.51	0.54	0.9
Guyana	0.91	0.33	0.90	...	1.54	0.49	0.91	...
Jamaica	0.99	1.76	0.66	...	1.45	1.74	3.72	...
Montserrat	0	0.01	0	0.02	0.07	0.16	0.04	0.04
St Kitts and Nevis	0.07	0.09	0.04	0.01	0.16	0.32	0.34	0.56
St Lucia	0.25	0.53	0.17	0.46	0.45	0.96	0.74	1.16
St Vincent and the Grenadines	0.11	0.69	0.31	0.34	0.28	0.56	0.46	0.67
Suriname	0	0	...	...	0	0	...	...
Trinidad and Tobago	5.88	6.60	13.19	17.22	1.92	1.57	1.17	1.21
CARICOM	9.66	12.39	17.17	20.65	8.81	9.21	10.96	9.58
OECS	0.85	2.11	1.24	1.44	1.62	2.65	1.54	2.40
LDCs	0.95	2.32	1.36	1.75	6.60	5.95	7.94	5.45
MDCs	8.70	10.34	16.35	18.91	4.68	4.39	6.77	4.24
MDCs without Trinidad[a]	2.82	3.75	3.98	1.68	10.13	5.55	6.78	...
MDCs without Trinidad[b]	9.06	7.52	7.59	…	…	…	…	…

Source: CARICOM Secretariat (www.caricom.org).

[a] Adjusts for intraregional trade.
[b] Accounts for intra and extra regional trade.

… denotes not available.

VI. Conclusion

Export promotion policies are to a great extent shaped by the specificities of smaller economies. The objectives of export promotion policies include mainly securing extra and intra-regional markets for their export products, and the promotion of export activities that attract FDI and foreign exchange earnings. The instruments of export promotion are guided by the government and comprise fiscal incentives, government capital expenditure, and trade negotiations. At the intraregional level the main export promotion tool is the common external tariff.

The analysis of export performance shows that the export promotion objectives have been, at most, partially fulfilled. CARICOM economies are still struggling to capture market-niches. More important these economies have, for the most part, lost market share in the United States and Europe, in spite of preferential market access conditions. Contrarily the intra-regional market has expanded significantly.

Foreign direct investment flows, which have helped to soften the consequent balance of payments constraint, have not necessarily been wholly beneficial to the development of these countries' economies. Indeed, the evidence shows that while FDI has increased, domestic investment has stagnated. In this sense, it can be hypothesized that FDI rather than being a complement to domestic investment has in fact displaced it.

Export promotion tools have not been successful. The CET jointly with the Chaguaramas revised treaty rules of origin have not managed to promote intraregional trade and at the same time have maintained an inefficient structure of trade. Government capital expenditure faces an important management constraint, while fiscal incentives have proven to be a costly alternative, representing in some cases more than 10% of GDP. Trade diplomacy faces the challenge of defining with precision the rational for asymmetric treatment.

The on-going process of globalization and broader regional integration will reduce CARICOM’s countries flexibility and narrow the economic and political leverage for export promotion policies. Most important, the tariff reduction that will accompany greater regional integration will force countries to widen the tax base reducing the scope for fiscal incentives and in general for discretionary economic policy.

Unless niche-marketing lives up to its promise and preferential market access can in fact shield smaller economies from external fluctuations and protect high cost producers from the competition of low cost producers, CARICOM economies will be forced to examine the viability of their export promotion policies and most likely re-define their export strategy.

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