



FOSTERING EXPORT DIVERSIFICATION AND STRUCTURAL CHANGE IN THE CARIBBEAN

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As part of the repositioning of the economies of the subregion, economic diversification, and structural change are vital.

To achieve these, the subregion must build the requisite economic resilience, among other things, and these must be buttressed by regional integration drivers and various forms of cooperation.

REGIONAL INTEGRATION, STRUCTURAL CHANGE AND EXPORT DIVERSIFICATION

After six decades of regional integration, the subregion continues to specialize in relatively low value-added segments of global value chains, including various forms of tourism and natural resource exports. Trade competitiveness and

productivity have been on the decline, while high levels of unemployment have been a persistent challenge. In addition, the subregion's food and merchandise imports remain high, with potential areas of comparative advantage remaining underexplored. Furthermore, the benefits of the Caribbean Community (CARICOM) single market and economy (CSME), have been distributed asymmetrically, as the stronger manufacturing economies tend to dominate intra-regional commerce.

A closer look at the data reveals that the merchandise exports of CARICOM is highly concentrated, with the top 10

products accounting for 74 per cent of exports (value) over the period 2010-2020, and 91 per cent of global exports in 2020 alone. In addition, the subregion's range of manufactured products is extremely narrow, with natural resource-based manufactures dominating exports, accounting for 48 per cent of CARICOM's exports. Medium-low technology manufactures, in turn, account for 30 per cent while high technology manufactures account for only 2 per cent of the subregion.

At the global level, CARICOM's total exports represent only 0.09 per cent of the world's total export, making it a very

Table 1: CARICOM Export Share to the World (SITC Single Digit) (Percentage of world exports)

PRODUCT	2006	2010	2015	2020	2021
TOTAL ALL PRODUCTS	0.17	0.12	0.11	0.08	0.09
All allocated products (SITC 0 to 8 + 961 + 971)	0.17	0.12	0.11	0.08	0.09
Food and live animals	0.20	0.14	0.14	0.10	0.12
Beverages and tobacco	0.39	0.27	0.29	0.27	0.28
Crude materials, inedible, except fuels	0.48	0.21	0.24	0.16	0.15
Mineral fuels, lubricants and related materials	0.60	0.32	0.32	0.28	0.27
Animal and vegetable oils, fats and waxes	0.03	0.01	0.01	0.00	0.00
Chemicals and related products, n.e.s.	0.23	0.18	0.19	0.07	0.07
Manufactured goods	0.05	0.05	0.05	0.04	0.04
Machinery and transport equipment	0.02	0.01	0.02	0.02	0.02
Miscellaneous manufactured articles	0.05	0.04	0.05	0.03	0.04
Commodities and transactions, n.e.s.	0.16	0.28	0.24	0.27	0.23

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Source: United Nations conference on Trade and Development (UNCTAD)

small player in world trade. Even the exports of various product groups such as food and live animals, beverages and tobacco, and crude materials are all less than 1 per cent of the world's exports (table 1).

The implication is that substantial technical, development, and financial support may be necessary to push the subregion up the value chain. In addition, there has not been substantial structural change and export diversification over time.

BUILDING COMPETITIVE EXPORT STRUCTURES

In 1997, the World Trade Organization (WTO) ruled that the European Union (EU) banana import regime was inconsistent with WTO rules. In 2005, the WTO also ruled that the EU subsidized sugar exports beyond the levels agreed in the Uruguay Round of world trade negotiations and, as a consequence, reform of the EU sugar regime should be implemented. As part of that reform, in 2007, the EU denounced the African Caribbean Pacific (ACP) EU Sugar Protocol, providing for the termination of ACP preferences by October 2009. Following those rulings, the EU commenced enforced reform programmes which led to the dismantling of longstanding preferences.

The EU, the US and Canada also began increasingly to negotiate a series of bilateral and plurilateral free trade agreements. Collectively these actions eroded the subregion's margins of preference, which invariably led to its further uncompetitive positioning in comparison to many emerging economies that exhibited significant production scale and abundance of

Table 2: CARICOM Services Exports (Percentage of world service exports)

Category	2005	2010	2015	2019
Services	0.34	0.25	0.27	0.26
Manufacturing services on physical inputs owned by others	0.01	0.00	0.00	...
Maintenance and repair services n.i.e.	0.00	0.00	0.01	0.00
Transport	0.17	0.11	0.11	0.08
Travel	0.93	0.78	0.85	0.92
Construction	0.01	0.00	0.01	0.00
Insurance and pension services	0.32	0.23	0.11	0.13
Financial services	0.03	0.02	0.02	0.01
Charges for the use of intellectual property n.i.e.	0.03	0.02	0.02	0.01
Telecommunications, computer, and information services	0.21	0.11	0.05	0.04
Other business services	0.16	0.09	0.10	0.08
Personal, cultural, and recreational services	0.08	0.07	0.15	0.15
Government goods and services n.i.e.	0.42	0.39	0.45	0.49

Source: United Nations conference on Trade and Development (UNCTAD)

domestic capital inputs.

The subregion also has not succeeded in the integration of production based on cross-border specialization, facilitation of unrestricted movement of financial capital, labour, technology, and the creation of a de facto integrated and liberalized internal market, as articulated in the Revised Treaty of Chaguaramas¹.

It is important, therefore, to unearth credible comparative-advantage-based avenues for export diversification supported by the fostering of backward and forward linkages, that would allow subregional goods and services production to move from the periphery of the production frontier, while shifting away from an overreliance on imported inputs (capital)² and focusing on optimizing capital services exports.

Table 2 displays CARICOM services exports as a share of the world services exports. The data suggest that for each services category, the subregion's share is less than 1 per cent of the world services exports. Therefore, CARICOM is a relatively small services exporter with the potential to diversify and expand its services offerings.

This notwithstanding, the Caribbean's global services trade has steadily trended upwards since 2005. The subregion's services exports growth expanded from just under US \$10 billion in 2005 to over US \$16 billion in 2019 (UNCTAD). However, using the TradeCAN methodology developed by ECLAC to assess trade competitiveness, it was revealed that few service categories are truly competitive. Over the decade of 2009 to 2019, only one service category, cultural and recreational services, was revealed to be a "rising star" i.e., having increased global market share in a dynamic (growing) market.

The subregion's largest service sector, travel services, is categorized as a declining star, which is a sector that is gaining market share in a declining market. Several key tertiary service sectors are "missed opportunities", meaning these are sectors losing market share in a growing market.

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¹ This has in no small way underpinned its declining trade complementarity with its major trading partners (with the exception of Asia) and countries with which it has trade agreements. This was demonstrated through ECLAC's analysis using the Trade Complementarity Index (TCI). Further, examination of the Grubel-Lloyd Index has also revealed that the Caribbean's manufactures exports are largely inter-industry in nature, with insignificant levels of intra-industry, intra-regional or extra-regional commerce.

² This is particularly important for the tourism-based economies which saw their economies contract by as much as 25 per cent (in the case of Saint Lucia) in 2020 as global economies instituted measures to slow the spread of COVID-19, which essentially shut down the tourism sector during the second quarter.

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FOSTERING EXPORT DIVERSIFICATION AND STRUCTURAL CHANGE IN THE CARIBBEAN (CONTINUED)

Services sectors which can be key poles of industrialization and diversification drivers in the Caribbean include the creative industries; education, architecture, sports, health and medical tourism; community-based and eco-tourism; business process and other tertiary services; renewable energy services; as well as information and communications technology (ICT), intellectual property and knowledge-based services. These represent areas for development cooperation and investment, with a focus on improving the macroeconomic landscape whilst also being part of the domestic capital making sector (James and Hamilton 2022). This should be geared towards not only optimizing the Caribbean service export trade but also providing a new dais of production integration and economic diversification.

In the category of goods, there are rising stars in machinery and transport, miscellaneous manufactures, and primary commodities. Alongside this, there are also missed opportunities in food and live animals, animal and vegetable oils, beverages and tobacco, chemicals and related products, and crude materials except fuel. There are no declining stars. There are also areas of goods exports that are uncompetitive such as some manufactured goods, and mineral fuels.

TOWARDS ECONOMIC RECOVERY

There is no panacea for the subregion's trade-related challenges. However, what is important is the adoption of a regional approach to resilience building, particularly since the COVID-19 pandemic exposed the Caribbean's vulnerability to

international supply-chain bottlenecks. Improving trade facilitation through simplifying border procedures, will help to reduce trade-related friction at the subregion's ports of entry.

In addition, the subregion's structural gaps which have constrained its industrialization and resilience-building efforts, must be bridged by industrial policies that aim to increase international competitiveness through increased productivity, using improved technology, knowledge, workforce skills, greater intersectoral linkages and improved access to decent jobs.

Buttressed by regional integration drivers and improved mechanisms and policies conducive to integration, free trade, development in human resource, development of climate-resilient measures, and development of technology and innovation which, when combined, will transform the subregion's goods and services offering, the Caribbean economies would be armed with meaningful levers for economic recovery. ■

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