Trade and investment trends

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International trade is the lifeblood of the Caribbean, which has one of the highest trade/GDP ratios in the world

During the first five years of the 21st century, the intensity of merchandise trade among CARICOM partners was static, even though there were slight fluctuations from year to year. With intra-CARICOM imports accounting for about 12 per cent of imports from all sources and intra-CARICOM exports about 20 per cent of exports worldwide, there is no significant difference between performance during this period and performance in the earlier five-year period.

The more developed countries (MDCs) of CARICOM maintained a merchandise trading surplus with the less developed countries (LDCs) a grouping of the OECS countries and Belize, but its average size in the last five years was proportionately not significantly different from what obtained in the previous five years. During 1995-2004, trade deficits with MDCs have contributed to between 13 per cent to 18 per cent of the OECS trade deficit with the world as a whole. Trinidad and Tobago continued to be an MDC exporting dynamo and dominated intra-CARICOM trade in petroleum-related products and, only to a lesser extent, certain manufacturing and intermediate goods.

Trade with extra-regional partners is changing

The change in the geographical direction of trade is becoming more pronounced. The European Union (EU) now accounts for only 10 per cent of regional merchandise exports compared with 21 per cent in 1995. Trade with North America has correspondingly become even more dominant and 2004 marked for the first time in ten years a CARICOM trade surplus with the United States of America (USA). The increasing erosion of preferences is a major reason for the change in the direction of trade. Banana producers have more fully adjusted (downwards) to the loss of preferential market access and sugar production has begun to exhibit similar change with the recent confirmation that preferential prices will have plummeted by 2008 in the EU market.

Although the threat to commodity exports from multilateralism is now a reality, the expected benefits from the Doha Development Round still remain a distant promise. In addition, the various bilateral trade agreements that CARICOM signed, beginning in the mid 1990s, with hemispheric partners, have not stimulated any meaningful exporting activity, nor has advantage been taken of the preferential access that CARICOM manufacturers had in the USA market (now being rapidly eroded by USA free trade with Central America and Most Favoured Nation access by African LDCs) and, also, in the Canadian market. Supply constraints and weak entrepreneurship constitute a serious systemic problem.

Unfavourable experiences with commodity production and manufacturing have resulted in increasing reliance by most CARICOM countries on the services sector. In this regard, tourism is the prime activity; nevertheless, the Caribbean region is struggling to maintain its visitors share in the world market, despite a significant diversification in the tourism product.

Intra-regional investment maintains its momentum

The upsurge of intra-regional investment of the 1990s continued into the early years of the 21st century. Intra-regional direct investment is estimated on average to be about 10 per cent of total investment inflows. While this investment share is considerably less than the intra-CARICOM share of trade in goods and services, it still represents a significant advance in the process of regional integration. Most of the investment is of a mergers and acquisitions, rather than greenfield, nature and thus not immediately contributing to the capital accumulation process; however, succeeding rounds of greenfield investment may result as the trans-Caribbean investors explore new market-seeking and resource-seeking opportunities. The bulk of the investment is currently undertaken by investors headquartered in the petroleum endowed and financial surplus economy of Trinidad and Tobago.

The birth of the CARICOM Single Market with effect from January 2006 and the removal of intra-regional restrictions on small-scale type activities is likely to result in an explosion of cross-border investment in such areas. This investment activity is likely to be undertaken by both the larger and smaller CARICOM firms and participated in by investors from most CARICOM Member States.

Investment flows from the rest of the world experience a resurgence

Foreign direct investment (FDI) flows to the Caribbean stagnated during 1997-2000 but recovered over the next four years (except in 2002, following the 9/11 disaster) averaging levels that were 12 per cent higher than in the earlier period. This investment accounts

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for a relatively high proportion of the capital formation in the recipient countries. However, the bulk of the investment (over 80 per cent) was made in only three countries – the Bahamas, Jamaica and Trinidad and Tobago in ascending order of importance. The investment was mainly of a resource-seeking and market-seeking nature, with little or no inflows of an efficiency-seeking and technology-seeking nature.

The overwhelming proportion of the FDI continues to be from the traditional sources of North America and Europe. As in the case of trade, where agreements with Latin America States have failed to generate significant benefits to the CARICOM region, there has been virtually no investment from the said foreign countries. This situation poses a challenge to the investment promotion agencies. Greater effort is required all around. In the World Bank's ranking of Doing Business in 2006, the positions of Jamaica, Guyana and Haiti were 43, 105 and 134, respectively.

Economic convergence is both an end and a means

A major objective of the CARICOM Community is to "accelerate coordinated and sustained economic development and convergence". The aim is not only to reduce the possibility of asymmetry in opportunities and minimise economic polarisation that may arise during the process of regional economic integration but, also, to pro-actively promote the adoption of harmonised policies and measures which enhance the process of deeper integration and economic transformation.

The CARICOM Single Market has only come into being within recent months and so, except for the long standing phenomenon of free trade in goods, this is too short a time for economic disparities associated with the regional integration process to manifest themselves. However, there was already a legacy of considerable disparities in income per head, growth rates, human development, distribution of income, poverty levels, and development potential. Some of the intra-country differences seem nearly as great as those between CARICOM, on the one hand, and the rest of the world, on the other. For example, in 2003 the developed countries' average per capita income was three times the CARICOM average; and the average per capita income of the seven highest per head earning CARICOM countries in relation to that of the seven lowest, including Haiti, was also three times. This situation presents special challenges to the objective of social cohesion and the role of a Caribbean Development Fund.

Greater political will is required for forging a more cohesive and equitable Single Economy which, in turn, may help in narrowing the economic gap with the developed countries.

Mobility is key to filling regional manpower gaps

Free movement of labour is likely to confer as much economic, social and psychological benefit to the regional integration process as movement of capital. Because of the different growth trajectories of the CARICOM economies and their differences in educational and training capacities, frequent mismatches in demand and supply of labour and bouts of labour market disequilibrium are occurring, partly exacerbated by the brain drain. Even in situations of considerably high levels of unemployment, shortages are being reported of managers, technicians and artisans, inter alia. Available data and information suggest that the February 2006 decision of the Heads of Government that Member States should consider further liberalisation of the labour market is a very timely one.

However, free movement is necessary but not sufficient. There is also need for more effective educational and training institutions and enhanced and better equipped and staffed technical and vocational colleges. In addition, better linking of education and training with the job market is required and, also, development of a regional labour market information system.

Harmonisation of the fiscal regime is critical for creating a single business environment

Fiscal policy harmonisation in the Region, intended to prevent distortions in the flow of capital to locations with the lowest tax rates or highest incentives rather than to those with the highest real rates of return is moving in the direction of proposals for a lower corporate rate of taxation (in the 20 - 30 per cent range) a more selective and targeted set of incentives and a value added tax (VAT) of around 15 per cent (supplemented by a rational system of excise taxes) to offset the loss of import duties arising from tariffs reduction, associated with liberalisation and the on-going globalisation process.

Improved labour market flexibility is a prerequisite for regional competitiveness

While the very process of regional economic integration and the active seeking of investment would tend to lead to a convergence of the tax burden imposed by Member States on capital, this may take some time to occur. In the meantime, there has actually been increasing divergence of Member Sates' tax incentives systems and no significant reduction of differences in the corporate tax rate. The degree of fiscal policy harmonisation achievement will very much depend on political will and conviction.

Although the process may lead to a rationalisation and reduction of the range and level of incentives, the corporate community stands to gain in other areas from fiscal harmonisation. A less varied and more uniform regime in the Region would tend to make for greater certainty and result in considerable benefits from reduced transactions costs.

A more integrated and effective transport system

International trade is the lifeblood of the Caribbean (which has one of the highest trade/GDP ratios in the world) and so transport is critical. The non-contiguous territories of the Caribbean that stretch over 2000 miles of ocean also present challenging and formidable physical problems in relation to intra-regional trade and investment. In this regard, both maritime and air transport are at a premium. Material inputs from a Member State, essential for satisfying rules of origin requirements and for transformation into a Caribbean product that can then get duty-free access into other Member States need reliable maritime transport. Perishable agricultural commodities, in particular, need regular, schedule bound and specially equipped vessels.

The Caribbean currently imports about 25 million tons of goods and exports about 35 million tons with intra-Caribbean destinations accounting for about 12 per cent. Air transportation, in turn, is essentially for moving tourists and business persons to and around the Region and, also, for moving Caribbean persons within the Region.

The major indigenous Caribbean carriers, which were once privatised and are now back in State hands because of economic difficulties, are still haemorrhaging financially and unable to adequately serve the needs of the Region. The time is therefore ripe for the formation of a truly regional carrier, an idea that has been mooted for many years, in which there could be myriad benefits from economies of scale and scope.

Improved labour productivity holds the key to single economy competitiveness

Competitiveness of the Caribbean economies, continues to be a cause for concern, whether it is in the traditional agricultural and light manufacturing sectors or a more modern sector like tourism. Three CARICOM countries have been mentioned in the World Economic Forum's 2005 Growth Competitiveness Index ranking for 117 countries. Trinidad and Tobago's rank is 60, down nine places from the previous year; Jamaica's rank is 70, down five places; and Guyana's rank is 115.

At the institutional level, the Tripartite or Social Partners Model and a National Productivity Council Mechanism is recommended to be adopted by all Member States. At the sectoral level, the recommendation most common for all the industries is ensuring that wage growth does not exceed the growth of productivity, with required enhanced training of the work force and improvement in the quality of service provided. However, there is a dearth of studies on the corporate environment and company operations and strategy, a gap which the Caribbean Trade & Investment Report, 2005 only partially fills and, related to which, the proposed Caribbean Business Council should prove a very useful institution.

The implementation of the CARICOM Single Market could confer considerable benefits with respect to developing regional competitiveness vis-à-vis the rest of the world, especially if there is indeed free movement of factors of production, including all categories of labour, along with free access to foreign exchange and integration of the capital markets. The inexorable logic of the regional marketplace may result in the emergence of rather large and oligopolistic type corporations at the expense of the smaller (especially if the current mergers and acquisitions and consolidation processes continue) but competition policy regulation (aided by compensation mechanisms elsewhere) should not perceive this as a threat since large size is essential for competing effectively in the global market place. Just as important gains can be derived from early completion and implementation of the CARICOM Single Economy framework, including harmonisation and integration in the areas of enhanced monetary policy, financial services policy, fiscal policy, incentives policy and investment policy, inter alia. F

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