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CARIBBEAN: Accelerating Trade Integration

Policy Options for Sustained Growth, Job Creation, and Poverty Reduction

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ABBREVIATIONS AND ACRONYMS

AGOA	Africa Growth and Opportunity Act
CAFTA-DR	Dominican-Republic Central America Free Trade Agreement
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum of ACP States
CARICRIS	Caribbean Credit Ratings Services Company
CARIFTA	Caribbean Free Trade Association
CARTAC	Caribbean Regional Technical Assistance Center
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CBTPA	Caribbean Basin Trade Partnership Act
CCJ	Caribbean Court of Justice
CCMF	Caribbean Centre for Money and Finance
CDB	Caribbean Development Bank
CDERA	Caribbean Disaster Emergency Response Agency
CEDA	Caribbean Export Development Agency
CET	Common External Tariff
CFD	Caribbean Forum for Development (formerly CGCED)
CGE	Computable General Equilibrium
CIC	CARICOM Investment Code
CIDA	Canadian International Development Agency
COFAP	CARICOM Ministerial Council for Finance and Planning
COHSOD	CARICOM Council for Human and Social Development
COTED	CARICOM Council for Trade and Economic Development
CREP	Caribbean Renewable Energy Development Programme
CRNM	Caribbean Regional Negotiating Machinery
CROSQ	Caribbean Regional Organization for Standards and Quality
CSME	CARICOM Single Market Economy
CXC	Caribbean Examination Council
DFID	Department for International Development (UK)
EC	European Community
ECCB	Eastern Caribbean Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
EDF	European Development Fund
EPA	Economic Partnership Agreement
ESI	Export Specialization Index
EU	European Union
FDI	Foreign Direct Investment
FSO	Fund Special Operations
FTAA	Free Trade Area of the Americas
FTZ	Free Trade Zone
GATS	General Agreement on Trade and Services
GDP	Gross Domestic Product
HDI	Human Development Index
HHI	Herfindahl and Hirschman Index
HOPE Act	Haitian Hemispheric Opportunity through Partnership Encouragement Act
ICT	Information and Communications Technology
IDS	Institute of Development Studies
IFMAS	Integrated Financial Management and Accounting System

IIRSA	Initiative for Integration of Regional Infrastructure in South America
IMF	International Monetary Fund
INT	Integration and Regional Programs Department
INTAL	Institute for the Integration of Latin America and the Caribbean
ITD	Integration, Trade and Hemispheric Issues Division
LAC	Latin America and Caribbean
LDC	Less Developed Country (in CARICOM)
MDC	More Developed Country (in CARICOM)
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MFN	Most Favored Nation
MIF	Multilateral Investment Fund
NAFTA	North America Free Trade Agreement
OAS	Organisation of American States
OECD	Organization for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
PRSP	Poverty Reduction Strategy Paper
RDF	Regional Development Fund
RIM	Regional Implementation Mechanism
RPTF	Regional Preparation Task Force
SME	Small and Medium-Sized Enterprises
SPAHD	Strategy Paper for Human Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
UWI	University of the West Indies
VAT	Value Added Tax
WDI	World Development Indicator
WIC	West Indian Commission
WITS	World Integrated Trade Solution
WTO	World Trade Organization

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Two key events were organized to launch this trade report. In October 2007, the World Bank and OAS staffs organized a brainstorming session with the Head of the CRNM. This was followed two months later by another brainstorming session between Bank/OAS staff and the staff of the CARICOM Secretariat. The proposed scope and issues covered in this trade report reflect the outcomes of the discussions during those sessions. The report also benefitted largely from the outcomes of the conference on “Aid for Trade” organized by the staff of OAS in June 2008 in Kingston (Jamaica). The outcomes of these three important events help to lay the foundations and the strategic directions of the report.

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EXECUTIVE SUMMARY

SUMMARY OF MAIN MESSAGES AND KEY FINDINGS OF THE REPORT

THE CARIBBEAN HAS IMPROVED HUMAN DEVELOPMENT OUTCOMES SIGNIFICANTLY OVER THE PAST TWO DECADES. BUT ITS INTEGRATION INTO THE WORLD ECONOMY IS NOW DECLINING

1. Over the past two decades, the Caribbean¹ has experienced significant human development improvement in all countries except Haiti.² Life expectancy has improved significantly. The Human Development Index (HDI) has improved steadily since 1980 for all countries for which information is available. At present, with the exception of Haiti, all countries rank among the medium and high HDI categories. Progress towards meeting the Millennium Development Goals (MDGs) has been quite good. Most countries (except Haiti) are likely to achieve universal primary school enrolment. Similarly, the region scores very high in terms of eliminating gender disparity in primary and secondary schools.³ The goal of reducing child mortality rates by two-thirds by 2015 is on track for all countries, with seven having already achieved the goal.

Figure 1: GDP Growth: Caribbean vs Botswana & Mauritius

2. The region also experienced relatively good growth performance, aided by massive flows of foreign direct investment, trade preferences, and public investment. Real GDP grew by 3.6 percent over the 1997-2006 period, driven mainly by the strong performance of Trinidad and Tobago (8.6 percent), Belize (6.2 percent), and the Dominican Republic (6.0 percent). Growth in OECS countries was relatively strong as well, averaging 3.5 percent over 1997-2006. This outcome reflects mainly the good performance of Antigua and Barbuda (4.8 percent) and Grenada (4.3 percent) (see Chapter 1).

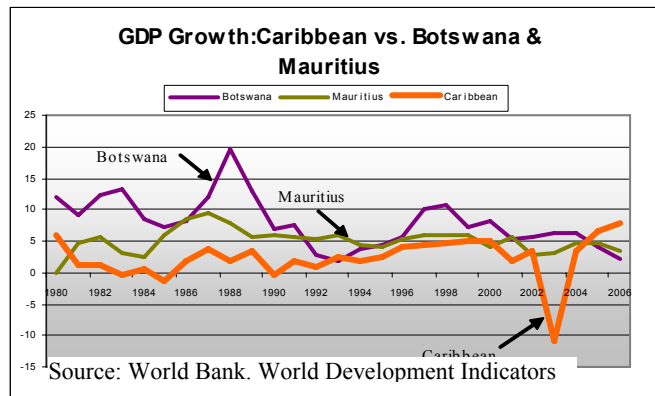
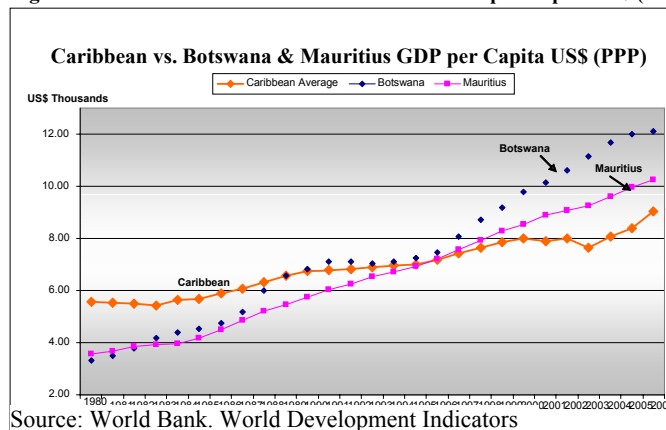


Figure 2: Caribbean vs. Botswana & Mauritius GDP per Capita US\$ (PPP)



3. However, the Caribbean region has not grown as fast as some comparable high performing developing countries and the long-run growth record of the region does not compare favorably with the best performing African countries (see Figure 1). Average GDP per capita (PPP) for the Caribbean fell below that of Botswana and Mauritius, in the mid-1990s (see Figure 2). Growth performance has also varied widely across countries of the region and has been highly volatile (see Figure 1). Those that

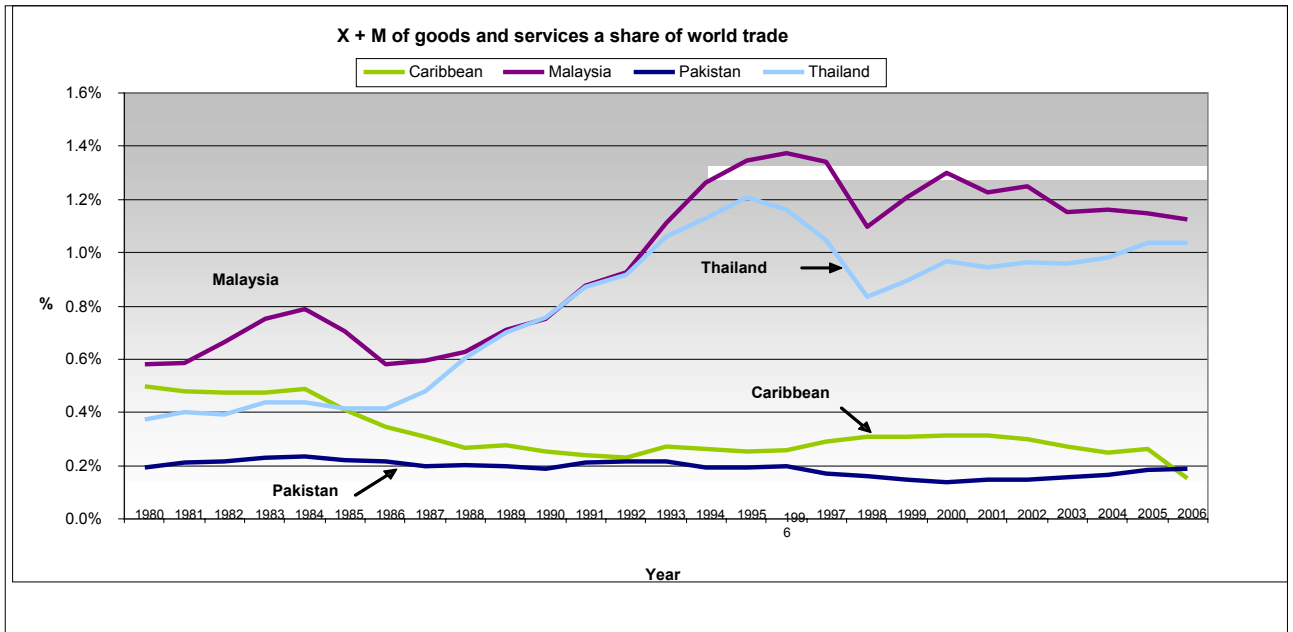
¹ In this study, the Caribbean is defined as comprising the OECS group - - Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as The Bahamas, Belize, Barbados, Dominican Republic, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago.

² For more detail see World Bank. A Time to Choose. Caribbean Development in the 21st Century. March 2005.

³ It is worth mentioning that the indicators used to measure this goal are believed not to capture persistent gender inequality (UNDP, 2003).

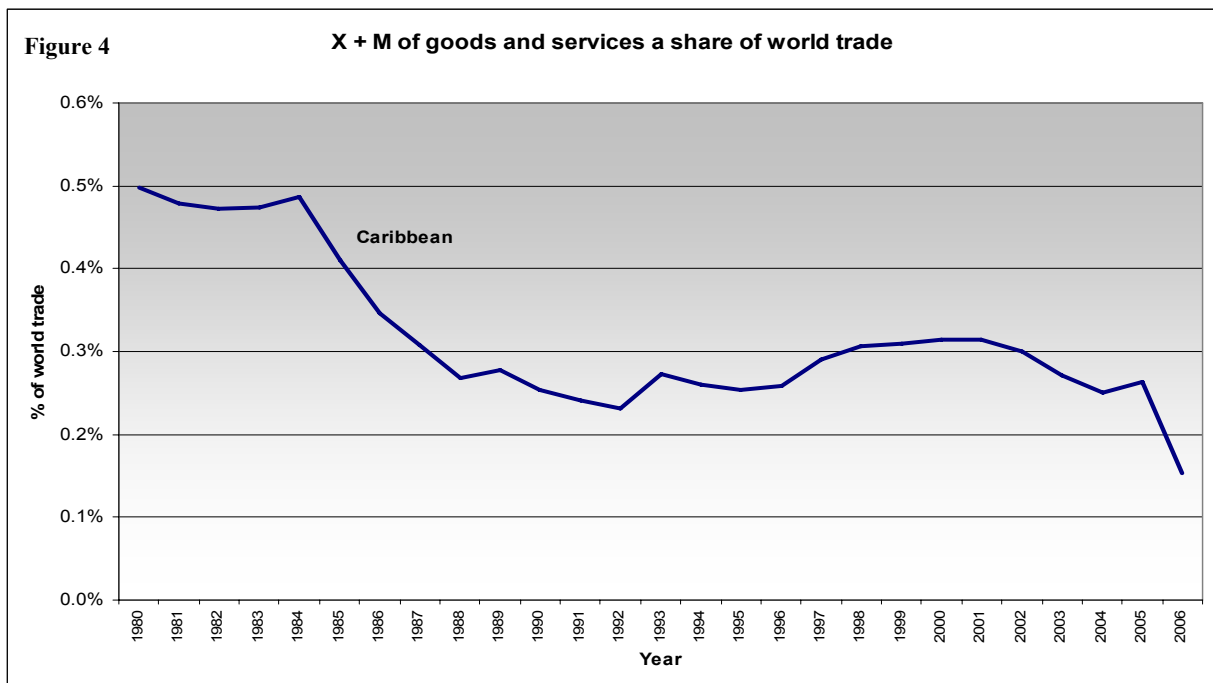
have had the highest trend growth in the long-run are: St Kitts and Nevis, St. Vincent and the Grenadines, Grenada, and Antigua and Barbuda. The slowest growing countries in the region over the last decade were Haiti, Jamaica, and Guyana. Moreover, growth performance has not translated into higher employment, and unemployment has been a dominant feature of the labor market in many Caribbean countries (see below).

Figure 3: X+M of goods and services a share of world trade



Source: World Bank. World Development Indicators.

Figure 4: X+M of goods and services a share of world trade



Source: World Bank. World Development Indicators.

4. In the current context, economic growth in the Caribbean countries is expected to slow down relative to 2007 as these economies have been hit hard by recent shocks including a recession in the US economy, the global financial crisis, and a period of high food and fuel

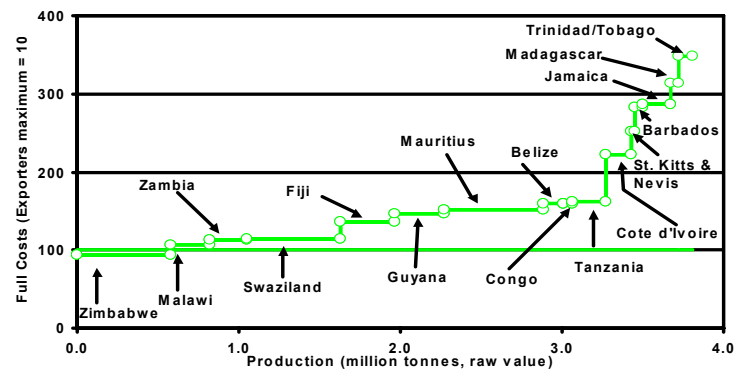
prices—although prices are currently declining. As for most Caribbean countries, the economy and financial system are very dependent of the US economy and financial markets conditions. Estimates of GDP growth in Jamaica have been revised down to between 0 and 1 percent for 2008, 2 to 3 percent for 2007, in Haiti down to around 2 percent for 2008 from 3.7 percent in 2007; in DR to 5-6 percent in 2008 compared to 7-8 percent in 2007, and in the OECS 4.6 percent for 2007 compared to 7.2 percent in 2006. The main channels of transmission of the financial crisis to the economy are through (i) tourism, (ii) remittances, (iii) exports, (iv) reduced ability of highly indebted government to access financial market to fulfill their borrowing needs, (v) heightened cost of financing for the corporate sector, (vi) reduced FDI flows and capital flows affecting investment and most likely growth, and (vii) margin calls from foreign banks' parent company further drying up domestic liquidity.

5. **For the past three decades the Caribbean has pursued an external trade policy anchored on unilateral preferential access to the European and North American markets.** Under the Lomé and Cotonou agreements, Caribbean countries received unilateral preferential access to the EU for traditional agricultural exports. Similarly, the region has enjoyed 30 years of unilateral preferential access

Figure 5: Raw sugar production costs of ACP producers. Average 2000-2005

to the United States for certain products under the Caribbean Basin Initiative (CBI) and subsequently through the Caribbean Basin Trade Partnership Act (CBTPA)⁴. These preferential agreements have shaped the Caribbean external trade structure. Caribbean countries are generally very open economies. Trade as a percentage of GDP averaged more than 110 percent for the region over the period. By this measure, Haiti is the least open country while Guyana is the most dependent on trade. On average, the OECS countries are more open than the rest of the region. The region nearly doubled its merchandise exports between 2000 and 2005, driven in large part by the surge in oil and natural gas exports from Trinidad and Tobago. In contrast, over the past 10 years, merchandise exports in Dominica, St. Lucia, and St. Vincent, measured in real US\$ terms, declined by up to 40 percent due to preference erosion.

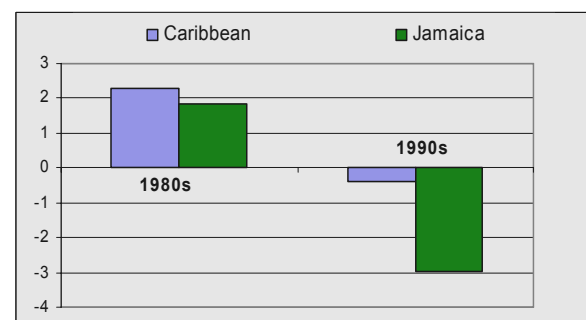
Source: World Bank. A Time to Choose. Op Cit.



6. **Although unilateral preferential trading arrangements were established as a development tool to stimulate and diversify Caribbean exports, the prevailing consensus is that "...trade preferences have not delivered expected results...they have not helped overall trade performance".**⁵

Figure 6: Labor Productivity in the Caribbean, 1980-90s

7. Despite trade preferences, the Caribbean's integration into the world economy has been slow and compares poorly with some Asian countries with similar levels of integration 30 years ago (see Figure 3). The Caribbean's share of world trade has also been declining while countries such as Malaysia and Thailand have increased their share (see Figure 3 and 4). Weaknesses in access and low quality of infrastructure together with low labor productivity have resulted in relatively high



Source: World Bank. A Time to Choose. Op Cit.

⁴ The Caribbean Basin Trade Partnership Act was extended in June 2008 and is in effect until September 30, 2010. It continues to provide preferential access for Caribbean Basin countries to the United States.

⁵ A Time to Choose. Op. Cit. p. 76.

production costs compared to competitor countries of Asia. Sugar exports and production in the Caribbean have declined by about half since 1970 owing to rising costs of production, resulting from rising wages, deteriorating field and factory performance and increasing inefficiencies associated with public sector control and management. Estimated costs of producing and exporting sugar in Guyana and Belize, the lowest cost producers in the Caribbean, are 50 to 60 percent higher than one of the higher cost free market exporters (see Figure 5). World sugar production costs have fallen by about 40 percent in real terms since 1980, while those in the Caribbean have been rising, and preferential quota prices have also been falling. Similarly, in bananas, the Caribbean countries are amongst the highest cost production in the world, rooted in low land productivity, and higher labor and transportation costs. For instance, St. Lucia, Jamaica and Dominica have yields that are 20-35 percent of Ecuador's (see Figure 6).

THE REGION'S COMPETITIVENESS IS WEAK AND EXPORT CONCENTRATION IS RELATIVELY HIGH

8. **The region's competitiveness is low reflecting its high costs of doing business, labor market rigidities, tariff dispersion, and trade costs.** Most of the Caribbean countries' overall performance of doing business ranks below that of comparable developing countries, including Mauritius, Hong Kong, Malaysia, and Singapore (see Table 1 below).

Table 1: Doing Business: selected Indicators Caribbean and Comparable Developing Countries

Country	Overall Doing Business Rank	Overall Trading Across Borders Rank	Time for export (days)		Cost to export (US\$ per container)		Time for import (days)		Cost to import (US\$ per container)	
	2008	2008	2007	2008	2007	2008	2007	2008	2007	2008
Caribbean										
Antigua and Barbuda	41	55	13	19	1,057	1,107	15	19	1,467	1,174
Belize	59	116	23	23	1,800	1,800	26	26	2,130	2,130
Dominica	77	80	11	16	1,478	1,197	17	18	1,512	1,107
Dominican Republic	99	35	17	12	770	815	17	13	990	1,015
Grenada	70	52	19	19	820	820	23	23	1,178	1,178
Guyana	104	101	30	30	850	850	35	35	856	856
Haiti	148	153	52	52	1,650	1,650	53	53	1,860	1,860
Jamaica	63	92	21	21	1,750	1,750	22	22	1,350	1,350
St. Kitts and Nevis	64	22	15	15	750	750	17	17	756	756
St. Lucia	34	88	18	18	1,375	1,375	21	21	1,420	1,420
St. Vincent and the Grenadines	54	75	15	15	1,770	1,770	16	16	1,769	1,769
Trinidad and Tobago	67	49	14	14	693	693	26	26	1,100	1,100
Comparators										
LAC Average	-	-	23	22	1080	1107	28	26	1,236	1,228
East Asia Average	-	-	26	24	778	775	28	25	945	917
Hong Kong, China	4	3	6	6	525	525	5	5	525	525
Malaysia	24	21	18	18	432	432	14	14	385	385
Mauritius	27	17	16	17	683	728	16	16	683	673
Singapore	1	1	5	5	416	416	3	3	367	367
Thailand	15	50	24	17	848	615	22	14	1,042	786
Vietnam	91	63	24	24	669	669	23	23	881	881

Source: Bank staff based on various Doing Business reports.

9. **Time for and cost to export of most Caribbean countries, are relatively higher than those of comparable countries.** For instance the cost to export of Trinidad and Tobago (best performer of the region) is higher to that of Vietnam (the second worst performer of the selected

comparable sample of countries). The same observation applies to time for and costs to import. Wages and non-wage costs are relatively high in the Caribbean, and have constrained competitiveness. In addition, the quality of Caribbean production and exports is relatively low as reflected in low technological intensity of exports. Available data suggest that for CARICOM, primary products accounted for 42 percent of exports in 1985 and 37 percent in 2000, while high technology manufactures declined from only 6 percent of exports in 1985 to 1.4 percent in 2000 (see Table 2). In East and South-East Asia, foreign direct investment inflows helped to propel the diversification of the economies into high-quality, high value added manufacturing.

10. **Recent analyses suggest that the Caribbean’s exports may be moving down the value ladder.** The average wage of exports declined in the Caribbean by about one percent, while it increased in LAC in the last ten years. Table 3 below shows the similarity of export structure between the Caribbean countries and their main trade partners.⁶ It provides an indication of how much countries are likely to compete with one another. It shows that the Caribbean’s export structure is very similar to Central America’s, especially for Antigua and Barbuda, Jamaica, and Suriname. However, for the other trade partners competition is relatively weak. In the last column, the similarity with the rest of the Caribbean (i.e. the Caribbean total excluding the countries own exports) is shown for each exporter. Even among Caribbean countries, there is little similarity in export structure. Since 1997, export similarity has remained roughly constant. The Caribbean region countries look more different from China, i.e. are competing less with China now than in 1997, and have become more similar to Central America.

Table 2: Exports Structure by Technological Intensity (% of exports)

	Primary Products		Natural resource based manufactures		Low technology manufactures		Intermediate technology manufactures		High technology manufactures	
	1985	2000	1985	2000	1985	2000	1985	2000	1985	2000
CARICOM	41.7	37.4	39.3	34.9	5.4	10.2	5.7	11.6	6.0	1.4
Costa Rica	67.2	29.1	7.9	8.5	14.5	17.1	6.5	8.3	3.2	34.3
Taiwan Rep. of China	5.0	1.3	9.1	4.8	48.2	21.8	20.7	25.0	15.9	45.5

Source: Bank staff based on ECLAC data.

Note: The totals do not add up to 100% as the residual is accounted for by unclassified products.

11. **The analysis of the region’s export structure shows increased concentration of products.** In 1997, the top 20 products account for 51 percent of total exports; and this share increased to 70 percent in 2006⁷. The increase in concentration appears to be related to a decreasing dependence on bananas but increased dependence on fuels and metals as a source of foreign exchange, particularly in Trinidad and Tobago. A breakdown of the top 20 exports to the world during 2001-2006 shows that four are agricultural and food products, six are minerals and ores, four are manufactures and six are a fuel-related product. The export concentration of individual CARICOM member states varies significantly. Export structures are most concentrated in The Bahamas (90 percent), St. Kitts and Nevis (85 percent), Suriname (94 percent), and Trinidad and Tobago (87 percent).⁸

12. **Binding constraints to competitiveness include labor market rigidities, tariff dispersion, and trade costs** (see Chapter 3 Section 3.4). Labor markets in CARICOM member states are characterized by relatively high wages. This reflects mainly the fact that most of the Caribbean countries are middle-income countries, their links with the United States labor market which for many workers is an outside option, as well as their low flexibility compared to other middle-income countries. Problems arise from two sources. First, high wages across skill levels and sectors appears

⁶An index of 100 reflects identical structures and an index of 0 reflects very different structures.

⁷ Using HS 6-digit mirror data.

⁸ This refers to the top 5 exports, which account for the highest share of total exports –SITC 4 digit.

to be rising faster than productivity and are reflected in high unemployment rates. Second, the sub-region suffers from skill mismatching and shortages. While there has been significant tariff reduction and tariff alignment in the Caribbean, there is still important tariff dispersion. The Bahamas, Barbados and Dominica still have more than 50 tariff lines with tariffs over 50 percent. Most of the tariff peaks are on agricultural products. In addition, there are high tariffs on beverages, and on manufactured goods. Trade costs are relatively high in the Caribbean, potentially impeding trade. Overall average Caribbean freight and insurance costs to the US are relatively high, at 9.4 percent of total product cost in 2005-2006. It is estimated that on average a country that exports the same composition of goods as the Caribbean faces lower trade costs of nearly 3 percentage points (see Chapter 3).

Table 3: The Similarity between Caribbean Exports and Partners' Exports

Export Similarity Index 2005							
country	ESISA	ESICA	ESIUSA	ESICChina	ESIEU	ESIJapan	ESI Caribbean
Antigua and Barbuda	6.42	88.03	6.31	5.12	6.35	5.39	7.98
Bahamas	6.75	38.95	7.48	2.94	10.90	8.13	18.44
Barbados	18.52	15.08	15.01	8.65	19.57	9.69	28.17
Belize	10.98	21.29	8.27	6.44	9.53	6.83	19.53
Dominica	9.62	28.43	12.51	7.98	13.00	8.85	12.18
Dominican Rep.	9.41	28.28	14.49	18.00	13.20	10.26	11.49
Grenada	4.53	12.72	8.43	4.19	8.72	7.37	7.88
Guyana	8.52	32.47	4.24	3.34	4.82	2.43	7.31
Haiti	4.22	7.04	4.27	5.64	3.94	2.54	7.98
Jamaica	7.77	79.11	7.11	4.78	7.60	5.36	14.74
Saint Kitts and Nevis	4.12	6.01	9.07	7.57	10.57	11.48	6.75
Saint Lucia	7.11	11.93	9.05	4.13	10.84	6.91	19.17
Saint Vincent and the Grenadines	4.67	43.19	3.84	3.41	4.46	4.47	10.34
Suriname	6.87	60.65	4.27	2.53	4.02	2.12	10.45
Trinidad and Tobago	20.74	39.46	6.95	4.14	9.09	4.27	10.13
Caribbean (aggregate)	22.42	48.01	15.58	13.89	18.14	10.91	1.00
Caribbean (average)	8.68	34.18	8.09	5.92	9.11	6.41	12.84

Export Similarity Index 1997							
country	ESISA	ESICA	ESIUSA	ESICChina	ESIEU	ESIJapan	ESI Car 97
Antigua and Barbuda	20.59	49.49	9.28	7.42	9.86	8.32	13.68
Bahamas	8.31	33.36	6.13	5.84	7.00	6.08	12.11
Barbados	8.18	20.62	12.95	9.26	13.83	10.63	12.76
Belize	9.97	27.58	4.90	4.41	4.91	2.90	7.04
Dominica	11.58	25.43	13.41	9.07	15.22	10.31	9.01
Dominican Rep.	10.01	24.87	9.24	17.55	10.77	5.94	4.88
Grenada	4.43	11.90	5.15	4.09	5.86	4.40	6.63
Guyana	6.18	32.55	4.15	4.02	4.12	1.57	6.97
Haiti	7.61	22.59	4.53	11.25	5.32	2.65	9.85
Jamaica	11.21	23.87	7.00	9.89	9.10	4.39	17.85
Saint Kitts and Nevis	3.61	6.67	7.53	4.57	7.31	7.56	3.82
Saint Lucia	17.36	31.67	6.40	8.51	7.46	4.33	12.22
Saint Vincent and the Grenadines	6.26	49.67	7.00	8.20	7.94	8.38	10.64
Suriname	14.44	19.76	4.40	4.59	4.19	2.24	15.07
Trinidad and Tobago	22.04	43.47	8.01	7.87	11.19	4.63	20.03
Caribbean (aggregate)	21.17	38.42	14.23	21.99	17.79	9.64	100.00
Caribbean (average)	10.79	28.23	7.34	7.77	8.27	5.62	10.84

Source: Comtrade HS 6-digit 1992 classification and authors' calculation.

13. **The small size of the Caribbean economies also limits the region's competitiveness.** Economies of scale are limited as production capacity of most of the countries is limited to small scale. As the result, unit costs are relatively higher than comparable developing countries.

NATIONAL TRADE POLICIES REMAIN WEAK AND HAVE HAD MIXED OUTCOMES

14. **There has been significant tariff reduction and tariff alignment in the Caribbean. Average applied MFN tariffs fell from over 20 percent in 1996 to just below 10 percent in 2005. Still, there is some tariff dispersion, with average tariffs on 10 percent of goods over 20 percent.** While the progress to date is admirable, there is still room for further reduction of tariffs and more uniformity in some of the countries.

15. **While many Caribbean countries (most notably Trinidad and Tobago, Dominica Republic, and Jamaica) have undertaken policy measures to improve their trade policy, important weaknesses remain in five major areas:** (i) measures affecting imports; (ii) measures affecting exports; (iii) investment incentives; (iv) competition policy; and (v) trade policy formulation and implementation.

16. **Customs procedures and administration are weak in most Caribbean countries.** Customs valuation methods are not effective because of limited capacity at the customs departments in many Caribbean countries. With the exception of Trinidad and Tobago and Dominican Republic, export procedures and financing are not well developed in the Caribbean. Exporters have limited access to credits for exports and credit insurance. Export promotion activities (export facilitation, information, image-building, and participation in fairs) are barely developed.

17. **The legal framework for businesses including taxation is weak in many Caribbean countries.** Registration time of businesses is relatively long and registration fees are relatively high. Taxation systems need improvements. Many Caribbean countries apply a range of incentives to promote investment, including duty concessions, tax exemptions and holidays, loss write-offs, and training support. However, most of them have not developed a comprehensive investment strategy.

18. **A comprehensive competition policy does not exist in most of the Caribbean countries.** Trinidad and Tobago (the most advanced country of the region) does not have a comprehensive competition policy legislation, although efforts to enhance the regulatory framework and reinforce consumer protection have been developed in recent years. Because of the relatively small size of the domestic market of many Caribbean countries, the level of competition in many areas is low, and de facto monopolies are present, particularly in services.

19. **National institutions in charge of trade policy formulation and implementation are weak.** Ministry of commerce and industry and trade institutions lack staff and expertise in policy formulation. Linked to the limited expertise is the limited negotiation power. As a result trade agreements either bilateral or multilateral are negotiated and signed with little awareness of their implications. A point in case is the recently negotiated CARIFORUM-EC Economic Partnership Agreement (EPA). Many Caribbean countries felt unprepared as they were engaging in a reciprocal trade negotiation. The entity responsible for leading CARICOM external trade negotiations such as the EPA, the Caribbean Regional Negotiating Machinery (CNRM), does not oversee the implementation of these agreements. In this context, implementation of trade agreements has generally been slow.

20. **Trade policies have thus had limited outcomes.** Trade costs are relatively high in the Caribbean, potentially impeding trade (see paragraph 8) . Using world cost insurance freight (cif) Free-on-board (fob) ratios for the same composition of exports, the freight rate is only 6.6 percent. This implies that an average country that exports the same composition of goods as the Caribbean faces lower trade costs of nearly 3 percentage points. Similarly, trade costs were 7.8 percent for

Central America in the same products in 2005-2006.⁹ Only Grenada and St. Vincent and the Grenadines have transport costs below the world average for the products that they export. In 60 percent of the 785 HS 6-digit products that the Caribbean exported to the United States their average freight and insurance costs were higher than world costs.

A NEW GLOBAL AND REGIONAL TRADE ENVIRONMENT IS EMERGING WITH CRITICAL CHALLENGES TO THE CARIBBEAN COUNTRIES WHICH FACE LARGE FISCAL AND EXTERNAL IMBALANCES, HIGH LEVEL OF UNEMPLOYMENT, AND MAJOR STRUCTURAL CONSTRAINTS...

21. **The Caribbean is in the process of redefining its relations with its main trading partners, including the European Union and the United States, through the recently signed EPA and exploring the possibility of moving from unilateral to reciprocal arrangements with the United States and Canada. At the same time, the region is also redesigning the process of regional trade integration with the ongoing implementation of the Caribbean Single Market Economy (CSME).** The two parallel processes (global integration and regional integration), which complement each other, will shape the region's trade environment during the next few years. But global integration is being conducted in a context of macroeconomic and financial imbalances. The region experienced large current account and fiscal deficits, as well as high levels of indebtedness, which in the past, slowed trade reforms and, are currently a major concern in the evolving trade environment (see Chapter 1). The fragility of the current macroeconomic and fiscal stance of most Caribbean countries raises the issue of the capacity of the region to afford the current pace of trade liberalization. Potential revenue losses raise the issue of the *sequencing of trade reforms* and the need of compensatory measures. It also calls for a reflection on the role that *foreign aid* could play as a *compensatory scheme* (see Chapters 1 and 7).

22. **Global trade liberalization is also being done in a context of high unemployment in the Caribbean region.** In contrast to human development indicators, high growth rates have not translated into increased employment. Unemployment rates are high, amounting to 10 percent on average for the region as a whole over 2002-06. Most of the countries (Bahamas, Barbados, Belize, Jamaica, and Suriname) exhibit double digit or nearly double digit unemployment rates on average over the past five years. Trinidad and Tobago appears to be the only exception to this trend. The issue for the Caribbean is to create jobs so as to reduce high unemployment rates and poverty. However, the potential social costs (loss of jobs in the sectors benefiting from trade preferences) associated with trade liberalization in the context of EPAs renders this objective more challenging—at least in the short term. Given this potential effect of EPAs, the need for fiscal adjustment, which may involve some reductions in public employment, and the continued decline in agriculture (still accounting for a significant share of the labor force), one of the key challenges will be to raise the skill levels of the poor and the unemployed, as well as the population in general. But this will take time. There may thus be an urgent need for the Caribbean to improve social protection and safety net programs during the transition period. The EPAs could offer a framework where these programs and social packages could be negotiated and put in place.

23. **The current evolving trade environment is also constrained by structural weaknesses, most notably the poor level and quality of infrastructure of the region.** Despite recent improvement, the region's level and quality of infrastructure remain weak. This, in turn, constitutes an important obstacle to both intra-regional and external trade. While some Caribbean countries, particularly Jamaica, Antigua and Barbuda, Bahamas, Barbados, and Trinidad and Tobago have levels of access to basic infrastructure that is better than what is predicted by income levels others including Haiti, still struggle with a poor infrastructure base. Intra-regional and external trade is also hampered by the poor quality of roads. With the exception of Barbados, Jamaica, and St. Vincent and the Grenadines, most of the Caribbean countries have low levels of paved roads (see Chapter 1 Section

⁹ Central America includes: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

1.2 B). Transportation of goods suffers from the deteriorated condition of existing roads, which often lack basic maintenance services. The Caribbean countries have adequate physical infrastructure capacity in ports and runways. However, airport and port charges remain a small fraction of the total cost of transporting people and goods to and from Caribbean countries. Transport costs are thus relatively high and limit the potential for expanding regional trade.

24. Because of infrastructure, institutional and political constraints, intra-regional integration has been slow. The implementation of the common external tariff (CET), the cornerstone of the Caribbean Single Market (CSM), originally scheduled for 1981 has been delayed. The CET contains a number of loopholes and some countries have yet to apply it fully. There is wide dispersion in the range of actual tariffs implemented by CARICOM members on imports from non-members. This reflects the large number of exemptions from CET that CARICOM members can use. Average tariffs range from 7.2 percent in Jamaica to 30.7 percent in the Bahamas. Maximum tariffs are even more dispersed, ranging from 40 percent to 400 percent. Significant non tariff barriers (NTBs) appear to exist on certain categories of imported products from outside CARICOM. The Bahamas, where tariffs are about double the average rate in the Caribbean, has not joined the CSME. CARICOM reported several instances of discriminatory environmental taxes in Antigua and Barbuda, Barbados, Grenada, Belize, Guyana, and Dominica. Intra-regional trade is very limited and skewed toward few countries and products. Trinidad and Tobago has long been the dominant intra-regional exporter, with 85 percent of total exports. Barbados is the second largest exporter with only 6 percent of total exports, followed by Guyana with 4 percent. The OECS countries as a group account for about 5 percent of the value of intra-regional exports.

25. In sum, trade liberalization in the Caribbean is being implemented in a fragile macroeconomic and structural environment. Trade liberalization (and more specifically the EPA process) should pay more attention to these constraints, which go beyond trade issues per se and cover a large range of issues, such as macroeconomic imbalances, small economic size, infrastructure deficiencies, and economic vulnerability of the Caribbean. Thus, for many countries of the region, reaping the benefits of greater openness will require that complementary reforms and policies be implemented prior to, and in conjunction with, trade reform. Seen in this context, supporting trade adjustment and integration in the Caribbean will also require a shift toward more efficient transfer/assistance mechanisms with support directed at priority areas defined in national development plans and strategies. Put differently, if only from the perspective of the impact of infrastructure on trade performance, there is a strong case for an “aid for trade” strategy, as discussed in Annex 2. Failure to provide assistance will hamper the ability of Caribbean countries to respond to the opportunities that trade liberalization and integration can bring. At the same time, it must be recognized that although regional and global trade integration are key determinants of long-run growth and poverty reduction for all countries in the region, there are important differences among them that need to be considered in designing an “aid for trade” program for each individual country.

... YET THE NEW TRADE ENVIRONMENT OFFERS OPPORTUNITIES TO THE CARIBBEAN

26. The new trade environment offers opportunities to the Caribbean to reposition itself as a growing and competitive region. Trade liberalization under the EPA may have significant economic and social gains for the Caribbean region. Simulations of the impact of the EPA on the Caribbean region show that the full application of the market access elements of the agreement (excluding sugar) leads to an increase (though small) in welfare as represented by a rise in absorption of 0.04 percent (see Table 4 and for more detail Chapter 6 Section D). Similarly, there is a small rise in demand for exports (0.76 percent), in demand for imports (0.4 percent), and in unskilled labor demand (0.29 percent). All but four sectors experience an increase in output, and most notably

“vegetables, fruit and nuts” which benefits from the removal of a 30 percent EU import tariff and sees output rise by 4.4 percent in response to a rise in EU export demand by 25 percent.¹⁰

27. **When the simulations include the removal of EU sugar tariffs, a similar pattern emerges of aggregate changes, with a slightly higher increase in aggregate absorption which is now 0.18 percent.** Moreover, under a full liberalization of EU sugar imports the Caribbean producers are no longer quantity constrained and can increase their exports to the EU substantially. The changes in output are again slightly different when the changes in the EU sugar tariff are introduced– and not surprisingly this is particularly so for sugar cane and sugar beet which sees production expand by just over 20 percent, and sugar which sees production expand by over 40 percent.

Table 4: Aggregate Results with Balanced Macro, Factor Tax Adjustment, Unemployed Unskilled Labor

Trade policy scenarios	CARIB4 Bilateral Tariff Reduction 2033	CARIB5 Bilateral Tariff Redux 2033 inc Sugar	CARIB10 Combined Service Liberalization	CARIB11 Goods and Services Liberalization
% change on reference equilibrium				
<i>Absorption</i>	0.04	0.18	4.98	5.02
<i>Private Consumption</i>	0.08	0.27	6.96	7.04
<i>Import Demand</i>	0.40	0.84	2.61	3.02
<i>Export Supply</i>	0.76	0.81	6.29	7.09
<i>GDP</i>	0.11	0.15	2.38	2.49
<i>Unskilled Labor Employment</i>	0.29	0.41	6.62	6.92

Source: World Bank staff and Institute of Development Studies (IDS).

28. **The welfare gains associated with service trade liberalization are more substantial.** In aggregate, the services liberalization alone leads to an absorption (welfare) gain of just under 5 percent, and this welfare gain is reflected in an increase in imports from both the US and the EU15; as well as an increase in exports to both of these. This is then also reflected in an increase in output for all sectors, and an increase in employment of unskilled labor of just under 7 percent (see Table 4 and for more detail Chapter 6 Section 1 D. Along the same lines, policy experiments using the Jamaican Model reveal that a productivity increase in the “commerce” sector, which includes tourism, results in welfare gain. Aggregate absorption increases by 2.1 percent and employment of unskilled labor increases by 4.0 percent. Aggregate exports and imports increase, mostly with the EU. When the simulations add the increase in sugar prices (JAM-6) and the assumption that the EPA is associated with increased investment in Jamaica (JAM-7), to the point where the profit rate stays at its initial value, the results are more beneficial. With the increase in sugar prices, absorption increases by 2.8 percent (see Table 5). Employment of unskilled labor goes up by 5.4 percent, with synergy between gains from increased export revenue and employment. Simulation JAM-7 adds an open capital market, with increased foreign investment that keeps the profit rate at its base level. The result is an increase in the capital stock of 9.6 percent and increased employment of unskilled labor of 11.3 percent. Aggregate absorption increases by 7.3 percent (see Table 5 and for more detail Chapter 6 Section 2 C1).

¹⁰ These results are those of the CGE GLOBE Model. See Chapter 6 for further details.

Table 5: Aggregate Results for Jamaica CGE Model (Percent change from base value)

% change from base	Value Base 2008	JAM 1	JAM 2	JAM 3	JAM 4	JAM 5	JAM 6	JAM 7
<i>Absorption</i>	492.1	-0.1	-0.1	-0.1	0.3	2.1	2.8	7.3
<i>Consumption</i>	295.9	-0.1	-0.2	-0.2	0.5	2.1	2.7	7.6
<i>Investment</i>	130.4					3.2	3.9	9.0
<i>Government</i>	65.8					0.4	0.5	2.3
<i>Exports</i>	147.6	-0.1	0.1	0.1	0.8	6.0	6.9	13.9
<i>Imports</i>	229.6	-0.2	-0.2	-0.2	1.3	3.6	5.2	9.7
Price indices								
<i>Exchange rate</i>	100.0	0.6	0.7	0.7	-0.5	0.2	-0.9	-0.5
<i>Export Price Index</i>	100.0	-0.8	-0.8	-0.8	0.8	-0.8	0.8	0.8
<i>Import Price Index</i>	100.0	-0.3	-0.3	-0.3	0.2	-0.3	0.2	0.2
<i>Intl terms of Trade Index</i>	100.0	-0.5	-0.5	-0.5	0.4	-0.5	0.4	0.4
<i>Producer price index</i>	100.0	0.0	0.0	0.0	0.4	-0.1	0.2	0.1
<i>Consumer price index</i>	100.0							
<i>Agricultural terms of Trade</i>	100.0	-0.5	-0.5	-0.5	0.6	-0.5	0.6	0.6
<i>Investment/GDP ratio</i>	31.8	0.1	0.0	0.0	-0.2	-0.1	-0.2	-0.5
<i>Trade deficit/GDP ratio</i>	20.0	0.2	0.2	0.2	-0.2	-0.4	-0.9	-1.8

Source: Bank staff and IDS.

29. **These results show the importance of trade liberalization under the EPA most notably the liberalization of services trade.** They confirm that trade in services is a niche where the Caribbean comparative advantage could help the region position itself as a major player within this niche in the international market. As the CARIFORUM countries face declining preferences in their key markets for goods, many have been seeking to promote service industries for some time now. Although, market access commitments on services and investments are still to be negotiated under any future FTA with the United States or Canada, market access for their service firms in key overseas markets is one part of the strategy to promote growth and development of service industries.

30. **Services sector is dominated by tourism, which stands out as an area of opportunity.** For the CARIFORUM as a whole, over the period 1997-2002 tourism comprised about 70 percent of total services exports on average. For instance, for the Dominican Republic tourism accounted for 91.4 percent of total services exports in 2006; and about half (46 percent) of Trinidad and Tobago's services exports. Travels accounted for nearly 70 percent of the service receipts of Bahamas, Jamaica, and Barbados. But although the tourism sector is well developed in several CARIFORUM economies, traditional tourism has failed to foster linkages with national economies, and few Caribbean-owned tourism businesses have flourished. The region's traditional tourism product, beach resorts, has matured and faces challenges from competitors in other regions such as Asia, and the rapidly changing nature of global tourism demand. The region also faces issues related to its strategy for managing and marketing the sector. However, several reports have identified higher-end tourism as a major area of emerging opportunities for the Caribbean.¹¹ Given the rapidly changing nature of global tourism demand, an area of new opportunities for CARIFORUM countries include adventure tourism, nature-based tourism, cultural, meetings and conferences, and community tourism. However, exploring other new areas of opportunity such as high value financial services, telecommunications,, and maritime transport would be a critical step to expand the range of opportunities in services sector.

¹¹ See for instance "A Time to Choose. Caribbean Development in the 21st Century. World Bank, 2005.

The EPA provides a liberalization framework and advantages for the Caribbean in the service sector. The *asymmetric nature* of the liberalization process between CARIFORUM and the European Commission also gives the Caribbean countries leeway to prepare for the changing environment. It also gives them the opportunity to redeploy their service development strategy. But the region would still need to strengthen infrastructure (notably IT and communication) for exports, and address issues of incentives regime most notably for small firms to be able to export services abroad.

BUT A TRADE STRATEGY FOR GROWTH AND ENHANCED COMPETITIVENESS IS CURRENTLY MISSING

31. Seizing the new trade opportunities would require designing a full-fledged trade and growth strategy. Unfortunately, there has not been a clearly designed competitiveness strategy, which would enable the region to reap the benefits of global trade integration. The CSME, which is the cornerstone of the regional integration agenda of CARICOM focuses mainly on four areas: (i) the free movement of goods; (ii) common external tariff and trade policy; (iii) sectoral development policies and (iv) macroeconomic policies.¹² While important progress has been made in freeing the movement of goods, the CSME agenda has shown few results in the areas of harmonization of trade policies, sectoral development policies, and macroeconomic convergence.

32. More importantly, a common trade policy in relation to non-CARICOM countries does not effectively exist. The CARICOM Treaty does not explicitly prohibit individual member states from negotiating bilateral trade agreements with third countries.¹³ Specifically, Belize benefits from a special provision in the Treaty by which it retains the right to enter into bilateral agreements with neighboring countries in Central America. As a result, the principle of a customs union (and, by extension, a single market) is somewhat blurred. The challenge for the coming years is for CARICOM countries to design a common trade policy. Ultimately, the success of the CSME will depend largely on the effective implementation of a common trade policy.

33. This trade strategy should focus on three key elements: (i) addressing the issue of high trade costs which undermine the region's competitiveness; (ii) providing priority to the services sector which has proven to be a sector with important potential; and (iii) developing and strengthening the incentive regimes (tariff reforms and investment code) to attract private sector.

¹² It is worth noting that there is not a unique way to divide the CSME implementation agenda. For instance, a recent needs assessment for CARICOM commissioned by the CARICOM Secretariat divides the CSME implementation agenda into four areas: (i) the institutional and legal framework; (ii) market access; (iii) sectoral development policies; and (iv) macroeconomic framework. See Brewster, 2003.

¹³ The CARICOM Treaty only requires that individual member states which have negotiated bilateral trade agreements with third countries seek approval of the relevant CARICOM Ministerial Council.

II. THRUST, OBJECTIVES, SCOPE AND STRUCTURE OF THE REPORT

34. The main objective of this report is to help policymakers in the Caribbean design an agenda of policy actions to accelerate trade integration and growth and reduce poverty. **This trade report is a joint response from the World Bank and the Organization of American States (OAS) to a demand statement formulated by the Caribbean Regional Negotiating Machinery and the CARICOM Secretariat** to strengthen the analytical underpinnings of the linkages between trade, economic growth, and poverty. It aims at centering the Caribbean's next round of trade reforms and its overall agenda around trade on these key thematic areas.

35. **The strategic focus of the trade report is on the linkages between trade, growth and poverty. This focus is motivated by four main reasons.** First, many reports have been prepared on regional integration issues in the Caribbean. The Economic Commission for Latin America and the Caribbean (ECLAC) has published a series of reports, covering a wide range of regional issues in the Caribbean, including: (i) trade and investment flows; (ii) fiscal trends and policy issues; (iii) issues of implementation of the CSME; (iv) special and differential treatment; (v) the impact of foreign direct investment; and (vi) issues, effects and implications of the Free Trade Area of the Americas (FTAA) agreement for CARICOM economies. More recently, the Bank has published three reports, which deal with the development challenges facing the Caribbean region: "A Time to Choose. Caribbean Development in the 21st Century" (2005); Towards a New Agenda for Growth. OECS (2005); and "Crime, Violence, and Development in the Caribbean" (2006). These reports provide a broad overview of regional integration issues and development challenges facing the Caribbean region. However, little attention has been paid to the interactions between trade, growth, and poverty in the Caribbean. Specifically, the channels through which trade reforms could lead to higher growth rates, and ultimately to lower poverty rates have not been sufficiently analyzed. Second, the current trade environment of the Caribbean countries is characterized by the erosion of trade preferences to allow for a flexible liberalization of trade in goods and services in the context of the renegotiations of the EPA with the European Union.¹⁴ Analyzing the potential impact of this changing trade environment is critical as it could help the CARIFORUM design a strategy to compensate for the forgone public revenue and loss of growth, and to limit the poverty impact. Third, after years of mixed performance, regional integration in the Caribbean is at the crossroads. The CSME could bring a new impetus to regional integration in CARIFORUM and be the engine for a strategy for higher growth and poverty reduction. Fourth, the findings and policy recommendations of the report would help the policymakers of the region to determine the next generation of trade reforms in the CARIFORUM.

36. **The report provides an overview of the economic and trade system context of the Caribbean, under which the new trade environment is operating. It then discusses the opportunities and challenges for the Caribbean associated with the new trade environment. It finally quantifies the gains from global trade integration using a dynamic macroeconomic analysis.**

¹⁴ Under the Cotonou Agreement the EU and the ACP countries are committed to negotiating Economic Partnership Agreements (EPAs). The objective of these EPAs is to facilitate the integration of the ACP countries into the world economy. Specifically, it is intended that this will be achieved through: the EPAs fostering and supporting greater regional integration, allowing a flexible liberalization of trade in goods and services, building up institutional capacities and the establishment of simple and transparent rules for business, and via development assistance provisions. While Haiti requested more time to review the CARIFORUM-EC EPA before signing it, the agreement was signed on October 15, 2008 by most CARIFORUM states and on October 20, 2008 by Guyana. Provisional application of the EPA became effective on December 29, 2008.

Currently the Caribbean countries have access to the US market via the CBI, which was initially launched in 1983 through the Caribbean Basin Economic Recovery Act (CBERA), and substantially expanded in 2000 through the U.S.-Caribbean Basin Trade Partnership Act (CBTPA) Note that the CBTPA process is due to expire on September 30, 2010, or possibly sooner if in the interim there is an alternative free trade agreement between the USA and the Caribbean. As with the EPA's this would imply reciprocal market access.

37. **The report provides policy priorities to accelerating Caribbean integration into the world economy and to reap the benefits of global competition.** Each part of the report focuses on a key question and adds value by providing an in-depth analysis of the issues raised and laying the foundations for policy recommendations described in the last chapter of the report:

- **Part I (Overview of economic and trade system context):** is Caribbean’s economic and trade system sound enough to sustain the new era of its global trade relations which is being shaped?
- **Part II (New opportunities and challenges):** what are the opportunities and challenges that the new trade environment offers to the Caribbean?
- **Part III (Macroeconomic framework):** what are the gains in terms of growth and poverty reduction of the recently negotiated EPA?

38. **The structure of the report reflects this design. Part I presents the economic and trade context of the Caribbean.** This part of the report adds value by analyzing how the Caribbean’s economic and trade context has prevented the region from accelerating trade reforms and regional integration. It also raises and analyses an issue more often neglected in trade reports on the Caribbean: how the current macroeconomic imbalances and structural and political constraints may constitute a major obstacle to the region’s ability to reap the benefits of the current international trade environment. This part of the report argues that trade liberalization (and more specifically the EPA process) should pay more attention to these constraints, which go beyond trade issues per se and cover a large range of issues, such as macroeconomic imbalances, small economic size, infrastructure deficiencies, and economic vulnerability of the Caribbean. The report adds value by analyzing the issue of appropriate *sequencing* of trade liberalization in a context marked by macroeconomic imbalances. Thus, for many countries of the region, this part of the report argues that reaping the benefits of greater openness will require that complementary reforms and policies be implemented prior to, and in conjunction with, trade reform. To this end, aid for trade would play a critical role.

39. **Part II focuses on the analysis of the new opportunities and challenges of the new trade environment.** Along the lines of the 2005 Bank report “A Time to Choose”, this part of the report identifies services (mainly tourism) as a key sector of opportunity for the Caribbean. However, this report adds value by expanding the analysis to financial services viewed as a new area of opportunity. Moreover, this part of the report discusses the opportunities that the provisions of the EPA in the area of services could provide to the Caribbean. It adds value by providing the main features of a long term trade strategy for the Caribbean strategy to seize the opportunities of the global economy. It discusses the respective role that regional integration, national policies, and foreign aid could play in a long term trade strategy. Because of the short-term costs associated with trade liberalization, this part of the report also discusses the strategy to manage them. Finally, it lays out the ways to alleviate the structural constraints to trading to reinforce the long-term strategy’s chances of success.

40. **Part III presents an assessment of the impact of the EPA on growth and poverty using two types of macroeconomic models.** This part of the report adds value by quantifying the impact of trade liberalization under the main provisions of the EPA on growth and poverty and other MDGs in the Caribbean region. The findings of this part of the report provide policymakers of the Caribbean with the first quantitative assessment of the potential implications of the EPA, which would help inform their policy decisions. Various policy simulations are conducted which provide policymakers of the Caribbean with a broad range of policy actions. Finally, this part of the report adds value by providing - to our best knowledge - the first thorough quantitative analysis of the potential implications of “aid for trade” for the Caribbean region.

41. **Certain aspects of trade and competitiveness have been omitted or not sufficiently developed in the report due to the programmatic approach of this trade report.** They will be addressed in future work. They include: (i) Trade logistics; (ii) Quality of trade; and (iii) Bilateral trade agreements.

TOP FIVE STRATEGIC POLICY PRIORITIES TO ACCELERATING TRADE INTEGRATION AND GROWTH AND REDUCING POVERTY IN THE CARIBBEAN

42. **Based on its key findings, the report recommends the following five policy priorities to accelerate trade integration and growth and reduce poverty in the Caribbean.** These priorities will be discussed with the CARICOM Secretariat, the CRNM, the Governments of member states of CARIFORUM, and the donor community.

REDUCING MACROECONOMIC AND FISCAL IMBALANCES AND INVESTING IN INFRASTRUCTURE TO ENHANCE INTEGRATION IN THE GLOBAL ECONOMY

43. **Caribbean's economic context is marked by macroeconomic imbalances, which limit its potential to integrate into the global economy.** Caribbean countries have been experiencing macroeconomic and fiscal imbalances, which affect their competitiveness and integration. The trend in the region is one of persistent double-digit merchandise and current account deficits. The merchandise deficit for the region as a whole consistently reached above 22 percent of GDP over the past decade 1997-2006, and the current account deficit stood at an average of 11.5 percent of GDP over the same period (see Chapter 1 Tables 1.3 and 1.4). The region has been experiencing persistent fiscal deficits. The region's overall fiscal balance deteriorated consistently between 1997 and 2002. Despite a slight improvement in 2005, the deficit stood on average at about 4 percent of GDP over 2001-06 (see Chapter 1 Table 1.5). Most Caribbean countries have exhibited a weak fiscal position over the past years, marked by large overall deficits. Moreover, a large burden of debt has been the dominant feature of the Caribbean region's macroeconomic stance over the past years. The average public sector external debt of the Caribbean region increased by 10 percentage points on average from an average of 42.1 percent of GDP during the period 1997-2000 to 52 percent of GDP over 2001-2006.

44. **The appropriate *sequencing* of trade liberalization in view of integrating the Caribbean into the world economy would first require reducing these macroeconomic imbalances.** Appropriate policy responses will help reduce large fiscal and current account deficits and high indebtedness levels and debt overhang. In the **short term**, the authorities' ability to reduce spending is constrained by the current global economic downturn. However, expansionary fiscal policy is further constrained by limited fiscal space and borrowing headroom. The high debt and debt servicing burdens of many Caribbean countries could make them vulnerable to a tightening in global liquidity conditions. In the **medium term**, the objective should be the accumulation of primary surpluses, which together with foreign aid would finance future investment in infrastructure in the region. Correcting current macroeconomic imbalances in the region could be done at the national level through the improvement of domestic policies. But the long practice of inappropriate macroeconomic policies could be difficult to revert at the national level. A regional dimension of these policy responses could help the Caribbean countries. Implementing the macroeconomic convergence framework of CARICOM could help bring down the deficits and act as a *peer pressure mechanism*. As the *composition of expenditure reduction* matters, macroeconomic stability policy should be guided by the principle of *selectivity*, which involves protecting expenditure on infrastructure and social sectors.

45. **Investing in infrastructure to alleviate the structural constraints to trading both between countries of the region and between the region and its international trading partners.** Many of the Caribbean countries (and notably the poorest in the region, such as Haiti and Guyana) remain ill equipped to take full advantage of new trade opportunities because of significant supply-side constraints. Despite recent improvement, the region's level and quality of infrastructure remain weak. This in turn constitutes an important obstacle to both intra-regional and external trade. While some Caribbean countries,

particularly Jamaica, Antigua and Barbuda, Bahamas, Barbados, and Trinidad and Tobago have levels of access to telecom services that is better than what is predicted by income levels, other countries still struggle with international rates that are well above cost; prohibitive rates constitute a tax on internationally conducted business. Intra-regional and external trade is also hampered by the poor quality of roads. To the exception of Barbados, Jamaica, and St. Vincent and the Grenadines, most of the Caribbean countries have low level of paved roads. Transportation of goods suffers from the deteriorated condition of existing roads, which more often lack the basic maintenance services. The Caribbean countries have adequate physical infrastructure capacity for ports and runways. However, airport and port charges remain a small fraction of the total cost of transporting people and goods to and from Caribbean countries. Transport costs are thus relatively high and limit the potential for expanding regional trade. Internet services are more costly than in countries with comparable income levels. For instance, the cost of 20hr dial-up access in St. Lucia is US\$22.22 compared to US\$8.42 in Malaysia (ITU 2004). As a result of these high prices, internet density is particularly low in the Dominican Republic, Haiti, Suriname and St. Vincent and the Grenadines, at 3.64, 0.96, 4.16 and 5.98 users per 100 inhabitants, respectively. Other countries like Jamaica and St. Kitts and Nevis have relatively higher usage rates of more than 20 users per 100 inhabitants. But those usage rates are all substantially lower than in countries like the US, Singapore and New Zealand. In terms of access to electricity, sustained policy efforts to expand access to electricity in the English-speaking Caribbean have achieved electrification rates above 80 percent in these countries. In contrast, the Dominican Republic and Haiti have only been able to achieve rates below 70 percent and 40 percent, respectively. Air transport is also underdeveloped. Goods carried through air transport are relatively small as evidenced by freight services. The Caribbean average of freight is far below that of East Asia and Pacific, Latin America and Caribbean (LAC) and even Sub-Saharan Africa (see Table 6 below).

Table 6: Air Transport, Freight (million tons per km)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	Aver. 1997- 2000	Aver. 2001- 2005	Aver. 1997- 2005
Antigua and Barbuda	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Bahamas	0.5	1.1	1.5	1.6	1.8	1.6	1.6	0.6	0.6	1.2	1.2	1.2
Guyana	3.3	3.3	2.2	2.3	1.6	2.8	1.6	1.4
Jamaica	20.9	23.8	29.5	29.2	26.4	56.6	48.9	37.7	15.8	25.8	37.1	32.1
Suriname	29.5	26.9	31.8	30	27.6	24.3	24.3	28.2	27.1	29.5	26.3	27.7
Trinidad and Tobago	19.6	49	54.7	45.5	41.8	35.6	34.3	41.8	47.9	42.2	40.3	41.1
Caribbean Average	12.3	17.4	20	18.1	16.6	23.7	21.9	21.7	18.3	17	20.4	18.9
East Asia & Pacific	6,481	6,136	7,219	8,424	8,618	9,708	10,566	12,562	13,285	7,065	10,948	9,222
Latin America & Caribbean	4,591	4,689	4,188	4,623	4,183	3,930	4,035	4,648	4,518	4,522	4,263	4,278
Sub-Saharan Africa	1,374	1,444	1,687	1,736	1,699	1,500	1,643	1,822	1,903	1,560	1,713	1,645

Source: World Bank, World Development Indicators, 2007 and Bank staff's calculations.

Build and/or rehabilitate infrastructure, including roads, irrigation schemes, water and sanitation facilities, electricity distribution and ICT networks would help fill the Caribbean region's infrastructure gap and would facilitate increased economic activities and improved access by the population to social services. More importantly by reducing production costs, infrastructure building or enhancement would improve competitiveness and facilitate penetration into the global economy.

ACCELERATING NATIONAL TRADE POLICY REFORMS AND IMPROVING INVESTMENT INCENTIVES

46. **Policy reforms should be accelerated in five major areas of weaknesses, including: (i) import policies; (ii) export policies; (iii) investment incentive policies; (iv) competition policy; and (v) trade policy formulation and implementation** (see paragraph 7.6). Customs procedures and administration should be reinforced as well as the legal framework for businesses including taxation policy. The CARIFORUM countries would also need to create or strengthen incentives to promote investment. Trinidad and Tobago's incentive policy could serve as an example for the other CARIFORUM countries.

47. **The success of trade reforms would require that the countries develop a comprehensive competition policy, which is currently missing in most of the CARIFORUM countries. But trade policy would not produce expected outcomes unless national institutions in charge of formulating trade policies, negotiating and implementing trade agreements are reinforced.** The first step and perhaps the most important element of success of a trade policy in the Caribbean is to reinforce the capacity of ministries of commerce and industry and trade related institutions to formulate trade policy, negotiate, and implement trade agreements. In this regard, donors should provide assistance in the context of the "Aid for trade" agenda. Technical assistance should be provided to help technical staff and policymakers of the Caribbean better understand the implications of trade agreements, design implementation action plans, and follow-up mechanisms.

48. **Assessing the outcomes of trade reforms would require that data are available.** Unfortunately, in many Caribbean countries trade data (in particular services data) are more often scarce, outdated or missing. Strengthening the capacity of national statistics departments to regularly produce and publish trade data should be a priority of a trade policy in the Caribbean countries. Donors should provide assistance in that area. The EPA offers a good opportunity and framework to design a comprehensive technical assistance to the Caribbean countries in the area of trade data.

ADJUSTING TO PREFERENCES EROSION, ACCELERATING THE IMPLEMENTATION OF THE CSME, AND USING THE EPA FOR ENHANCED COMPETITIVENESS AND GLOBAL TRADE INTEGRATION

49. **As the report indicates, the Caribbean region is facing three major trade developments which will shape the region's trade environment over the next decades.** First, unilateral trade preferences are eroding as a result of other trade agreements (AGOA, CAFTA-DR, FTAs) that Caribbean's major trading partners (European Union and the United States) are concluding. Second, the region's competitors are increasing their global market share at the detriment of the Caribbean, reflecting the region's competitiveness problems (see above). Third, the region is also redesigning the process of regional trade integration with the ongoing implementation of the Caribbean Single Market Economy (CSME).

50. **The region has little leverage on the erosion of preferences and fierce competition from other developing countries.** The question is therefore: what can be done at the country and regional levels to cope with the “new” trade environment and enhance the region’s competitiveness? What can the EPA bring to the competitiveness agenda?

51. **The report argues that policy actions should center around three elements:** (i) adjusting to the erosion of trade preferences; (ii) accelerating the implementation of the CSME agenda; and (iii) seizing the opportunities of the EPA.

52. **Adjusting to the erosion of trade preferences.** For the past three decades, the Caribbean has pursued an external trade policy anchored on preferential access to the European and North American markets. However, the Caribbean is facing a situation where preferential access for traditional products is being eroded. Most notably, the reciprocity character of the EPA, which requires the Caribbean to reduce tariff and nontariff barriers on trade in goods, services, and the movement of capital with the EU, ends the preferences that the Caribbean countries had enjoyed over the past decades. However, the gradual approach of dismantlement of the preferences offers to the Caribbean the time to adjust to the new environment. In the **short-term**, the Caribbean region would need to reinforce their competitiveness during the transition period. This requires the implementation of good macroeconomic policies, to firm up the basis of macroeconomic stability. Second, the region would need to address the short-term costs of the erosion of preferences in particular, the losses of Government’s revenue following trade liberalization. Short-term compensatory measures should be explored to help losers (mainly exporters benefiting from preferences) to cope with revenue losses. The issue is the costs and the additional burden that these compensatory measures could imply for the Governments’ revenues. Aid for trade could help alleviate the financial burden on the Governments’ resources and thus encourage the liberalization reform process. In the **long term**, the focus should be on finding new niches of exports where the Caribbean countries have comparative advantages or segments of existing niches (see above).

53. **Unilateral liberalization could be an option for individual Caribbean countries to integrate the world economy.** However, given the similarities of the Caribbean countries and the common development agenda of these countries, regional integration should be used as a tool to integrate the world economy. This, in turn, implies advancing the CARIFORUM’s regional integration agenda.

54. **Accelerating the implementation of the CSME to make it the cornerstone of trade integration and economic development of the Caribbean’s region.** The implementation of the CSME has been slow. While, the region has been successful at eliminating tariffs on goods originating in common market countries, CARICOM has still yet to be a single market economy. The CSME agenda has shown little results in the areas of harmonization of trade policies, sectoral development policies, and macroeconomic convergence (see Chapter 2). For the CSME to become the driver of integration and economic development of the region, CARICOM would need to accelerate the implementation of the main provisions of a single market economy. In the **short-term (next two years)**, the focus should be on reducing tariff dispersion, advancing the free movement of labor, adopting a regional financial service and investment code, and establishing a regional stock exchange (Phase I of the CSME’s implementation process). In the **medium term (next three to five years)**, the region would need to develop a common trade policy, which does not effectively exist and would be the backbone of a full and well-functioning single market. In the **long term**, the region should advance the harmonization of the regulatory regime and economic policies to complete the single economy and implement a CARICOM monetary union (Phase II of the CSME’s implementation process).

55. **Using the EPA framework to reinforce competitiveness.** One of the main goals of the EPA is to promote competitiveness and development of Caribbean countries. Both the EU and the CARIFORUM countries acknowledge the importance of increasing the competitiveness of Caribbean economies, developing their capacity to access high quality markets. But the EPA framework does not define a clear competitiveness strategy for the Caribbean. The challenge is for the Caribbean to use the relevant provisions of the EPA framework to reinforce competitiveness. The 25 years transitory period that the framework provides for full liberalization, gives time to the Caribbean to take policy actions to enhance competitiveness, including: regulatory and legal reforms to improve the “doing business” environment, controlling wages increases to match labor productivity, investing in infrastructure to reduce production costs. Some specific provisions of the EPA could be exploited to reinforce competitiveness and industrial development. The EPA framework excludes sensitive industrial sectors and contains an “infant industry clause” which allows CARIFORUM to reinstate tariffs in the future to protect growing industry and/or industries. There are also provisions on technical assistance towards developing the capacity to export successfully in EU markets. This was achieved with agreement on the Trade Partnership for Sustainable Development (Development Chapter) which includes support for infrastructure and the CARICOM Development vision. The Joint Declaration on Development Cooperation includes a commitment to channel EPA support through the CARICOM Development Fund.

56. **The EPA also offers the opportunity for the Caribbean countries to improve the competitiveness of potentially viable production, including downstream processing, through innovation, training, promotion of linkages and other support activities, in agricultural and fisheries products, including both traditional and non traditional export sectors.** Within the framework of European Community funding instruments, both Parties will decide on the programming of funds, in complementarity to the actions already funded, and with respect to the still available funds under the Special Framework of Assistance (SFA), to help the CARIFORUM banana industry to further adjust to the new challenges, including activities aimed at increasing the productivity and competitiveness in areas of viable production, the development of alternatives both within and outside the banana industry, addressing social impact arising from changes in the sector and for disaster mitigation.

DEVELOP A LONG-TERM TRADE STRATEGY WITH A FOCUS ON INCREASED COMPETITIVENESS AND NEW AREAS OF OPPORTUNITIES

57. **Seizing the new trade opportunities would require designing a full-fledged trade and competitiveness strategy. The strategy should focus on targeting sectors with high export and growth potential such as tourism, financial services, telecommunications, and maritime transportation.** More broadly, the region’s efforts should focus on the following strategic directions: (i) expansion of value-added activities with a broader participation of the private sector; (ii) modernization of trade transaction system and concerted export strategy; and (iii) facilitation of sectoral development and provision of favorable investment climate. Priority should be given to the following actions. First, the Caribbean governments will need to invest in the production and marketing infrastructures of the sectors and in the technical and operational capacities of the private sector operators. Specific actions include among others, targeting the infrastructure for facilitating exports of services. Second, the governments’ interventions should facilitate access to finance by exporters and traders through proper institutional arrangements. Third, the governments should also promote the dissemination of knowledge and information on markets and market standards.

58. **A regional trade and growth strategy should also focus primarily on removing the constraints to competitiveness.** Addressing the specific issue of high production costs would require improving labor policies to enhance labor productivity and investing in infrastructure to reduce infrastructure bottlenecks to exports. Investing in *regional public goods* (transports, telecommunications,

water and sanitation, etc) would reduce the costs of production of goods and services. It would also facilitate the mobility of goods and persons across countries of the region. Building and/or rehabilitating regional infrastructures would be needed to strengthen the region's competitiveness. Reinforcing human skills to favor labor productivity would help the region compete on the global economy.

59. **Because of the large disparities between CARIFORUM countries, a regional trade and competitiveness strategy should enable least developed countries of the region to benefit from specific provisions so as to help them catch up.** This is consistent with the current approach adopted by CARICOM member states. CARICOM countries have recognized that economic divergence among member states could be an impediment to advance regional integration. The CARICOM Treaty thus rightly attributes special treatment of less developed countries in terms of their obligations under the Treaty. The Treaty calls for the establishment of a Regional Development Fund that would help disadvantaged countries, regions and sectors cope with CSME-related adjustment.¹⁵ A US\$250 million fund was launched in July 2008 with an initial \$60 million towards its \$250 million target.¹⁶ While this initiative is laudable, past experiences within and outside the LAC region showed that development banks either national or regional have generally failed.

60. **REINFORCING CARIFORUM REGIONAL INSTITUTIONS WITH A FOCUS ON IMPLEMENTATION**

61. **Perhaps one of the most critical weaknesses identified within the Caribbean regional and international trade negotiations construct has been the endemic failure of the regions institutions** both at the national and regional levels to take advantage of the market access opportunities presented through either one-way preferential arrangements or in more recent times, negotiated trade agreements with international partners. In an effort to overcome this problem and to effectively coordinate necessary activities that will emanate from the signing of the EPA, and indeed future agreements such as the CARICOM/Canada FTA, this report proposes the creation of a **Regional Implementation Mechanism (RIM)**.

62. **This structure can be placed within any of the existing regional governing institutions, or be created as a separate entity.** The proposed body can coordinate the regional objectives and activities with national bodies; which can mirror the regional structure. The entity will be comprised of units charged with the following responsibilities.

- **Market Research Division.** This unit will undertake the analytical work required to identify niche markets (both existing and potential) in the EU for CARIFORUM exporters; the potential barriers to trade in each market area; identify the potential "winners" where market penetration will be most quickly gained; the costs associated and the necessary measures needed both nationally and regionally to engage these markets.
- **Legal Division.** This division will examine the legislative requirements to facilitate service providers and potential investors who may wish to transact business in the EU; conduct

¹⁵ See Article 158 of Chapter VII of the CARICOM Treaty.

¹⁶ The Fund, currently being held in an escrow account at the Caribbean Development Bank (CDB), will promote business development, among other areas. Member States would contribute \$120M of the Fund through a formula that would take into account size, per capita income and other minor indices. The remainder of the funds would come from contributions by development partners. Disadvantaged countries will be the main targets of the Fund and which could receive allocations from the Fund in the forms of loans, grants and interest subsidy grants.

negotiations with regard to facilitating entry and also examine the areas for mutual recognition agreements, among other variables.

- **Private Sector Division.** This unit would seek to develop the necessary cooperative relationships between the Caribbean private sector firms. In addition this division would be the conduit through which private sector firms would be able to communicate their concerns and needs regarding barriers to the markets as well as potential investment opportunities available. These would then be translated into finite and concrete proposals to enhance the building of productive capacity in the country/region.
- **National Implementation Liaison Division.** This unit would coordinate the activities with the national implementation bodies in an effort to better facilitate use of funding, share knowledge, and allow the individual countries to raise their concerns and areas of interest.
- **The Project Fund Development Unit.** This unit would be responsible for the development of “sellable” projects in line with the prescribed format required by the EU, vetting of and assisting in the preparation of national projects, and lobbying of the EU on issues pertinent to ensuring a more viable framework for the disbursement of funds.

IMPLICATIONS FOR THE AID FOR TRADE AGENDA

Findings and policy issues

63. **Increasing the volume and predictability of foreign aid.** The proposed policy agenda to accelerate trade integration and growth in the Caribbean region has important implications for the conduct of macroeconomic policy and the strategic focus of the development agenda in the Caribbean over the next decade. Macroeconomic management would be crucial to reduce the existing macroeconomic and fiscal imbalances if the Caribbean countries have to better integrate into the global economy. The trade and growth strategy would also require investment in trade infrastructure to enable the Caribbean countries to seize the opportunities of the global trade environment.

64. **Given their limited resources, the Caribbean countries are unlikely to significantly increase their global trade penetration and thus achieve higher growth rates and reduce poverty without significant financing from donors.** The growth experience over the past decades shows that even during period of good economic policies, global trade penetration was relatively low and economic growth rates were not sustained over a long term.

65. **The trade and growth strategy proposed here requires significant support from the international community.** Foreign aid could play a catalytic role as *compensation* for the revenue losses during the transition period of implementation of trade reforms. Simulations using the GLOBE Model show that a lump-sum government-to-government budget transfer between 0.08 percent and 0.31 percent of benchmark CARIFORUM GDP provided by the EU to compensate the CARIFORUM region (for tariff revenue shortfalls on EU imports after the implementation of the EPA tariff cuts) leads to welfare gains of a magnitude of between 0.13 percent and 5.43 percent. Aggregate real imports, real consumption and domestic absorption rise (see Table 7 and for more details Chapter 6 Section B. Foreign aid could also play a major role in financing the strategy. More and predictable aid flows would be required to finance much needed trade infrastructures and help the CARIFORUM member states finance the proposed trade and growth strategy. In this context, foreign aid could play a critical role as a *joint compensation-promotion scheme*. Simulations using the GLOBE Model show that a lump-sum

government-to-government budget transfer between 0.08 percent and 0.31 percent of benchmark CARIFORUM GDP provided by the EU to compensate the CARIFORUM region for tariff revenue shortfalls on EU imports after the implementation of the EPA tariff cuts leads to welfare gains of a magnitude of between 0.13 percent and 5.43 percent. Real GDP per capita increases at a rate of 2.4 percent in 2009 and about 1 percent in the subsequent 3 years. The expansion in labor demand leads to a significant drop in unemployment as well after 2009. Poverty falls throughout the simulation period, by more than one percentage point between 2010 and 2013, and the composite human development indicator improves eventually by about 4 percentage points (see Table 8 below and for more details Chapter 6 Section C3).

Table 7: Macro Results for GLOBE Model Experiments- Closure: Balanced Macro Closure, EU Budget Transfer, Unemployed Unskilled Labor

Trade policy scenarios	CARIB2	CARIB3	CARIB4	CARIB5	CARIB11
% change on reference equilibrium	Bilateral Tariff Reduction 2013	Bilateral Tariff Reduction 2023	Bilateral Tariff Reduction 2033	Bilateral Tariff Redux 2033 inc Sugar	Goods and Services Liberalization
<i>Absorption</i>	0.13	0.31	0.32	0.44	5.43
<i>Private Consumption</i>	0.18	0.44	0.46	0.63	7.60
<i>Import Demand</i>	0.30	0.80	0.83	1.26	3.63
<i>Export Supply</i>	0.01	0.10	0.11	0.14	6.20
<i>GDP</i>	0.04	0.09	0.10	0.13	2.50
<i>Unskilled Labor Employment</i>	0.12	0.27	0.29	0.37	6.96

Source: Bank staff and IDS

66. **A legitimate question that could be asked is to what extent the Caribbean economies can absorb huge inflows of foreign aid as this concerns the potential destabilizing macroeconomic effects associated with large inflows of foreign aid:** real exchange rate appreciation (Dutch Disease) and disincentive effect on tax collection (moral hazard). The Dominican Republic SPAHD Model shows that an increase in foreign aid to not only compensate for tariff loss from trade liberalization under the EPA but also to finance public investment, leads to a real exchange appreciation. This translates into a fall in the share of exports into GDP as well as a large increase in the share of total imports to GDP. As a result, the trade balance deteriorates quite significantly during the first few years of the adjustment process (see Chapter 6 Section D).

67. **Should the region achieve its goal of attracting large amounts of foreign aid, improving macroeconomic management would be critical to prevent the potential destabilizing macroeconomic effects of huge flows of foreign aid.** Good macroeconomic policies will be crucial for reducing the potential short-term Dutch Disease effects of increased foreign aid. This means that the Caribbean countries will have to continue implementing macro-stabilization programs to ensure that inflation, fiscal and current account deficits are under control. Moreover, effective management of aid flows is critical to ensure that their potential trade and growth-enhancing, and poverty-reducing effects materialize. Improving *accountability, transparency, and efficiency* in the use of public resources is crucial to ensure that public investment translates into accumulation of capital and growth. Increasing efficiency of public investment in Caribbean countries is directly related to the ability of the government of Caribbean countries to improve governance. The implementation of the governance reforms (e.g. in Haiti), together with procurement and public enterprise reforms, will help advance public finance reforms, and thereby improve economic governance. Decisive complementary actions to fight corruption, improve the rule of law, and advance judiciary reforms is also needed to decisively improve governance in the Caribbean region.

**Table 8: Dominican Republic: Human Development Indicators-Deviations from Baseline
2008-2020**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Poverty rate (2003 = 63) (% of population living under the poverty line) IMMPA Method	-0.09	-0.84	-1.31	-1.39	-1.64	-1.04	-0.89	-0.64	-0.47	-0.56	-0.48	-0.33	-0.18
Literacy rate (% of educated labor in total population)	0.00	0.00	0.00	0.02	0.04	0.08	0.13	0.19	0.24	0.29	0.34	0.38	0.42
Infant mortality (2004=27.4) (Infant mortality rate per 1000 live births)	-0.04	-0.42	-0.92	-1.28	-1.62	-1.62	-1.49	-1.35	-1.22	-1.10	-0.99	-0.89	-0.81
Malnutrition (2002=5.3) (Malnutrition prevalence, weight for age)	-0.02	-0.01	-0.09	-0.15	-0.20	-0.26	-0.23	-0.21	-0.19	-0.18	-0.17	-0.16	-0.15
Life expectancy (2004 = 67.8) (Life expectancy at birth, years)	0.01	0.12	0.25	0.34	0.43	0.42	0.39	0.35	0.32	0.28	0.26	0.23	0.21
Access to safe water (2002=93) (Percentage of population with access to safe water)	0.01	0.19	0.25	0.28	0.33	0.20	0.20	0.18	0.15	0.13	0.11	0.09	0.07
COMPOSITE MDG INDICATOR (2006 = 100) (A rise denotes an improvement)	0.15	0.99	2.25	3.19	4.35	4.49	4.39	4.16	4.02	4.23	4.23	4.08	3.90

Source: UNDP Human Development Report

Note: Malnutrition prevalence is in % of children under 5.

Implementation Roadmap

68. **The success of an aid for trade agenda in the context of the EPA in the Caribbean would require that the region design an operational implementation roadmap.** This implementation roadmap or plan of action could be designed over the next two to three years as follows.

69. **Preparation of Comprehensive Needs Assessment.** This needs assessment would be prepared country by country, building on what already exists and incorporating the specific issues identified by the EPA Agreement, the OECD questionnaire, and the national export strategies. The UNDP's Need Assessment Guide on Aid for Trade and the Bank's Diagnostic Trade Integration Study (DTIS) methodology could provide a good framework to help the Caribbean countries complete such an exercise.

70. **National Validation of the Needs Assessment.** The needs assessments should be validated in national workshops consisting of all stakeholders involved in aid for trade (i.e. government, private sector, multilateral agencies, regional institutions, etc.).

71. **Preparation of an EPA Implementation Program.** Once the needs assessments are completed, an EPA implementation program of action would be developed and costed with clear priorities. Twenty-two specific areas have been identified as priority areas for immediate work under the Regional Preparation Task Force (RPTF) work program for the EPAs. It is important that the focus be on these areas so that terms of references are prepared and implementation actions are taken. This implementation program should have clear timelines with expected results and performance indicators. The implementation program will identify institutions responsible for implementing actions.

72. **Preparation of "bankable" project documents.** This should enable the effective implementation of the EPAs and all Caribbean trade agreements.

Policy Matrix for Enhanced Competitiveness and Trade Integration

Policy theme	Priority recommended policy actions (over next 2 years)	Medium and long-term recommended policy actions (next 3-5 years)
1. Strengthening macroeconomic framework	<ul style="list-style-type: none"> • Reduce Government expenditure by tightening fiscal policy while protecting expenditure for infrastructure and social services. • Reduce Government's recourse to external debt by limiting borrowing at non concessional terms, and seeking grant financing, in particular for poorest countries of the region. • Increase the scope of domestic revenue by introducing new revenue measures (e.g. VAT). • Control price increase by an appropriate macro-policy mix. 	<ul style="list-style-type: none"> • Improve the efficiency of Government's spending by improving the allocation of resources across sectors. • Improve the collection of Government's revenues by improving tax administration. • Reduce fiscal vulnerability by reducing dependence on trade taxes. • Enhance coordination of macroeconomic policies by harmonizing monetary and fiscal policies.
2. Accelerating national trade policy reforms and improving investment incentives	<ul style="list-style-type: none"> • Prepare comprehensive national and regional competition policies. • Prepare comprehensive national and regional investment strategies, with particular attention to regional public goods. • Prepare comprehensive national and regional trade 	<ul style="list-style-type: none"> • Reinforce macroeconomic convergence by (i) implementing economic convergence criteria; and (ii) increasing the influence of the Caribbean Centre for Money and Finance (CCMF) on macroeconomic policies i.e. implementing CCMF's policy recommendations. • Improve customs procedures and administration by enhancing customs valuation methods and reinforcing the capacity at the customs departments. • Increase exporters' financing capacity by increasing their access to credits for exports and credit insurance. • Develop export promotion activities by developing export facilitation, information, image-building, and participation in fairs. • Enhance the legal framework for business including

policy.

taxation by reducing the registration time and fees.

- Improve tax systems by revisiting the incentive measures, including duty concessions, tax exemptions and holidays, loss write-offs, and training support.

- Strengthen national trade institutions by reinforcing their technical capacity to formulate, negotiate, and implement trade policies.

3. Accelerating the implementation of the CSME

- Accelerate full implementation of the CET by reducing the wide dispersion in the range of actual tariffs implemented by CARICOM members on imports from non-members (i.e. reduce the large number of exemptions from CET that CARICOM members can use).

- Reduce non-tariff barriers (NTBs) on certain categories of imported products from outside CARICOM.

- Accelerate the implementation of stage 1 of the CARICOM Single Economy, scheduled to take place between 2008 and 2009 by: (i) implementing the schedule for the removal of unauthorized import duties and discriminatory taxes; (ii) speeding up the removal of barriers to the right of establishment and provision of services; and (iii) issuing CARICOM passports in countries, which have not yet done so.

- Implement stage 2 of the CSME scheduled to take place between 2010 and 2015 by: (i) putting in place a common regime for electronic commerce; (ii) developing regional rules for Government procurement; (iii) establishing an effective regional system of company registration to facilitate harmonization and oversight; (iv) reducing restrictions on access to property; (v) agreeing on a schedule for removal of restrictions on air and maritime transports, and financial services; (vi) establishing a common services regime; (vii) accelerating the liberalization of capital flows by abolishing exchange controls in countries which have maintained them, and developing a regional stock exchange; and (viii) fully implementing the free movement of skills by developing and implementing a regional policy on harmonization and transferability of social security benefits, eliminating the need for passports for travel within the region, and developing common entry/departure forms.

- Promote common sectoral policies and programs in main development sectors, including industry, agriculture, transport, and human development by: (i) increasing technical, human, and financial resources to implement common sectoral policies; and (ii) addressing infrastructure weaknesses to set up a common regional development policy.

4. Implementing the EPA and Reinforcing integration with the US

- Establish national commissions for implementation of the EPA in each CARIFORUM countries.

- Prepare a regional implementation strategy of the Free

<ul style="list-style-type: none"> • Set up a Regional Implementation Mechanism of the EPA. • Develop national implementation strategies of the EPA. • Establish national commissions for implementation of the Caribbean Basin Trade Partnership Act (CBTPA). • Develop national implementation strategies of the CBTPA. 	Trade Area Agreement with the US.
<p>5. Developing a long-term trade strategy with a focus on increased competitiveness</p>	<ul style="list-style-type: none"> • Design a full-fledged trade and competitiveness strategy with focus on targeting sectors with high export and growth potential, such as tourism, financial services, telecommunications, and maritime transports. • Improving labor policies. • Maintain and invest in infrastructure. • Provide more resources to the Caribbean Export Development Agency (CEDA).
<p>6. Reinforcing regional institutions with a focus implementation</p>	<ul style="list-style-type: none"> • Expand value-added activities with a broader participation of the private sector. • Modernize trade transaction system and concerted export strategy. • Facilitate sectoral development and promote a favorable investment climate. • Invest in the production and marketing infrastructures of the sectors and in the technical and operational capacities of the private sector operators. • Facilitate access to finance by exporters and traders by improving institutional arrangements. • Promote the dissemination of knowledge and information on markets and market standards. • Invest in regional public goods (transports, telecommunications, water and sanitation, etc.). • Strengthen the capacity of the CARICOM Secretariat to help CARIFORUM countries implement the newly negotiated EPA and other trade agreements. • Implement the principle adopted of automatic financing of the regional institutions. • Prioritize the activities of the regional institutions

poverty effects of trade reform; (ii) hiring new staff; and (iii) upgrading working material of staff of the Secretariat

(CARICOM Secretariat, CRNM, etc.), improve communication, and avoid duplication of activities.

- Reinforce Caribbean Regional Negotiating Machinery (CRNM)'s capacity to negotiate trade agreements by: (i) providing training to staff of the (CRNM) in the areas of trade and macroeconomic issues; (ii) increasing the numbers of technical staff of the CRNM; (iii) upgrading working material of staff of the Secretariat
- Request technical assistance of donors to support CARICOM Secretariat and CNRM during trade negotiations.
- Prepare a framework which clarifies the respective mission, duties, and accountability of the CARICOM Secretariat and the Caribbean Regional Negotiating Machinery (CNRM).

7. Mobilizing ‘aid for trade’

- Prepare comprehensive needs assessment by country, which quantifies envelop of foreign aid needed to implement the EPA and advance regional integration.
- Validate the needs assessment at country and regional levels.
- Present the needs assessment and financial requirements to the donor community during an aid for trade workshop.
- Prepare ‘bankable’ projects.
- Validate the projects at national and regional levels.
- Present the projects at various forums to attract private sector financing.
- Develop a Caribbean framework for securing aid for trade commitments by donors.
- Set up a mechanism for assessing impact of aid for trade on Caribbean's competitiveness.