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Effects and implications of the Common Market and Single Economy on the Member States of the Organisation of Eastern Caribbean States (OECS) and the utilization of Chapter 7 of the Treaty of Chaguaramas[1]

[1] This document has been reproduced without formal editing.

Its explicit objectives included the free movement of goods, services, capital and persons; more intensive coordination of macroeconomic policies and economic relations; and the harmonization of laws governing trade and other economic activities within the common market area. It also provided for full application of the Common External Tariff (CET). This entailed simplifying the CET structure and reducing its level, with a view to diminishing its protectionist content.

Implementation of the CSME called for the creation of new institutions to manage the deepening of the integration process. The original treaty was amended by nine protocols affecting the structure of the organization, the movement of capital and labour, and policies regarding trade, agriculture and transport in the region.

The new integration framework contained in the Revised Treaty of Chaguaramas 2001) maintains the recognition of differences in size and development contained in the treaty establishing the Caribbean Community (Treaty of Chaguaramas, 1973). The treaty's Common Market Annex differentiates between less developed countries (LDCs) and more developed countries (MDCs) (Barbados, Guyana, Jamaica and Trinidad and Tobago) among CARICOM members.

The Revised Treaty of Chaguaramas also included a series of special provisions included in the regime for disadvantaged countries, regions and sectors and in the regime for less developed countries.[3] This includes the establishment of a development fund "for the purpose of providing financial or technical assistance to disadvantaged countries, regions and sectors. "[4] These provisions are meant to assist these "towards becoming economically viable and competitive by appropriate interventions of a transitional or temporary nature" and to "redress to the extent of the possible any negative impact of the establishment of the CSME."[5]

As currently conceived, the end objective of the CSME is the regional integration and articulation of the markets for factors, goods and services in the production and distribution spheres in order to achieve international efficiency and competitiveness.[6]

The Organisation of Eastern Caribbean States (OECS) authority is in agreement with the broad principles and goals of the CSME. It recognizes that a greater degree of regional integration, accompanied by the appropriate regulation and legislation, may enhance the productivity and efficiency of CARICOM member states. In this sense, the CSME can be conceived as an opportunity for countries to reposition their productive potential and improve their efficiency and competitiveness.

At the same time, the OECS authority is cognizant that the CSME will pose significant challenges to the smaller economies of CARICOM, given their binding

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[3] The Revised Treaty of Chaguaramas (articles 142 to167).
[4] Ibid (article 158).
[5] Ibid (articles 142 and 143).
[6] See Caribbean Development Fund. Caribbean Community. Development Fund for Disadvantaged Countries, Regions and Sectors. April, 2005. Mimeo.

structural constraints. Economic activities and companies and workers in particular may be among the most affected by the exposure to greater intra and extra-regional competition compounding their current levels of vulnerability.

It thus recognizes the need for OECS governments, policy makers and economic agents alike to gain a clear understanding of the main issues, effects and implications of this agreement. In particular the OECS authority seeks to ascertain how Chapter 7 of the Revised Treaty of Chaguaramas (Special Regime for Disadvantaged Countries, Regions and Sectors) could be used, within the CSME context, to the benefit of the OECS.

With these objectives in mind, the Secretariat of the Organisation of Eastern Caribbean States (OECS) requested the Economic Commission for Latin America and the Caribbean (ECLAC) Sub-regional Headquarters for the Caribbean to prepare this document (study).

1.2 The approach and structure of the study

The document presents the analysis and arguments in a sequential manner. It begins with the customs union and then proceeds to expand the scope of its analysis to the single market. According to the approach here followed the customs union is viewed as the first major building block in the construction of the CSME on which is superimposed the mobility of capital and labour and eventually macroeconomic coordination policies and perhaps a monetary union.[7]

Following the introduction, the second section highlights the main stylized facts of intra-regional trade flows. The most single important characteristic of intra-regional trade flows is the degree to which they are concentrated at the country, product and firm levels. One country, Trinidad and Tobago accounts for at least 50% of intra-regional trade flows. Viewed from the product side, petroleum products and cement represent at the most disaggregated level 50% of intra-regional trade. Also the structure of firms is characterized by a very low degree of competition.

Intra-regional trade as percentage of the total has in the case of most economies and groupings and certainly for the OECS stagnated or declined over time. In this sense CARICOM as a regional trading arrangement has failed to change the pattern of trade as expected from the behavior of a customs union.

The second and third sections identify possible explanations for the stagnation of intra-regional trade. These include the balance-of-payments constraint and the CARICOM trading regime.

The second section sustains that the major constraint faced by smaller economies is the external constraint. The current international financial system is anchored on the United States dollar which is the means of payments that is used to settle international

[7] This study does not analyse in detail macroeconomic coordination or convergence criteria but addresses the convergence issue in different sections.

transactions. As put by D'Arista (2003, p. 560) countries, other than the United States, must "acquire a means of payments they cannot themselves issue." Thus they are forced to obtain foreign exchange to pay for imports and for development.

CARICOM economies have lost export competitiveness in both goods and services over time and have been forced to rely on foreign capital flows to balance their external accounts. This has guided policy decisions and shaped a pattern of development that is not conducive to growth, development or the expansion of intra-regional trade.

More specifically it can be said that the external constraint has hampered the development of intra-regional trade. This is a fundamental point because it states that the development of intra-regional trade depends to a greater extent on extra-regional performance. Softening or overcoming the balance-of-payments constraint is key to ensuring the operational success of the CSME.

The fourth section examines the trading regime. It provides estimates of the application of the Common External Tariff at the regional and country levels by sector of economic activity and category. The section also describes and analyses the impact of the rules of origin and non-tariff barriers on intraregional trade. This is complemented by nominal and effective protection estimates. The evidence shows that tariff barriers have declined over time for most countries and in general applied tariffs are below their statutory levels.

However, countries in CARICOM still have different levels of protection and the existing disparity in tariff rates distorts trade. Trade distortion is aggravated by the fact that the list of ineligibles for duty exemptions comprises some of the major trading commodities within CARICOM. As a result, the rules of origin protect the existing concentration in trade flows at the product and firm levels which by definition cannot produce an optimal or efficient allocation of resources within a regional integration grouping.

This has important implications for the configuration and objectives of the CSME. If as stated earlier the ultimate goal of the CSME is the full integration of the market for goods, services and factors to achieve regional efficiency and competitiveness in producing for external markets, then how is this goal to be achieved under a highly concentrated structure of production and a binding external constraint. More to the point policy makers need to define and clarify the meaning of efficiency and competitiveness under monopolistic or oligopolistic structures of production.

The fifth section deals with intra-regional trade. The section starts by revisiting in greater depth some of the main characteristics of intra-regional trade within CARICOM described in the second section and then proceeds to narrow the focus of analysis to the product level and to the trading relationship between the OECS and the MDCs. The evidence shows that, notwithstanding the loss in market share in most of its major exports to CARICOM during the decade of the 1990's, the OECS composition of exports has remained remarkably stable over time. Furthermore the classification of OECS exports to

the MDCs by factor intensity indicates that there is space for the former grouping to improve its trading position relative to the latter. A key policy recommendation that derives out of the analysis is that the OECS should seek to consolidate rather than diversify its current export composition.

Section six examines the possibilities and choices for expanding the potential of intra-regional trade. These can derive from the current drive for production restructuring, the existing processes of learning-by-doing and the importance of trade in services.

The subject of section seven is the mobility of factors of production and, more specifically, labor mobility. The section describes the European experience which is characterized by the virtual non-existence of a European labor market. It highlights some of the arguments put forward to explain the low levels of labor mobility within the European Union. The section then analyses the benefits and costs of allowing for the mobility of certain categories of skilled labor within the CSME arrangement (as it stands).

Some of the main conclusions and policy recommendations are that the OECS can benefit from improved access to skilled labor. However, the current arrangements may not be conducive to economic growth and development of the Region as a whole which does not square with the objectives of the CSME. In addition, the section states that even under freedom of movement there are several restrictions to the mobility of labor. The mobility of labor requires an adequate system of incentives.

Section eight addresses the issue of asymmetries and focuses on Chapter VII of the Revised Treaty of Chaguaramas and its regimes for disadvantaged sectors, regions and countries and for the Less Developed Countries of CARICOM (LDCs). Recognizing the crucial importance of Chapter VII, the section suggests certain additional aspects to take into consideration to improve the applicability and use of its provisions to the benefit of the OECS.

With respect to the first regime (that for disadvantaged sectors, regions and countries), the section suggests that a difference must be drawn between compensatory actions such as those derived from the operation of the CSME and structural actions, such as those geared to address some of the fundamental problem of economic development (investment in human and physical capital). The section also suggests the need to define and refine 'economic dislocation' and asserts that as currently conceived the development fund poses an inherent issue of free rider and moral hazard that should be addressed. Regarding the second regime (that for the Less Developed Countries of CARICOM) the section suggests the incorporation of 'special and differential treatment provisions.'

The conclusions and policy recommendations of the document and of its constituent parts are found and summarized in the last section.

2. CARICOM's intra-regional trade stylized facts

The analysis of CARICOM's intra-regional trade data for the period 1980-2003 reveals five stylized facts:

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

Second, at a closer inspection the analysis of the data reveals that the increase in intra-regional exports is due exclusively to Trinidad and Tobago's performance. Indeed, the OECS, the LDC's and the MDC's (if Trinidad and Tobago is excluded) have lost intra-regional market share. The OECS intra-regional share dropped from 2.4% to 1.4% of the total between 1980 and 2003. For the same period, the LDC's share declined form 2.5% to 1.8% of the total.[8] Finally, the MDC's share (excluding Trinidad and Tobago) decreased from 4% to 2% in the said period. Moreover, the share of intra-regional trade has declined for most CARICOM countries (See Table 2 below).

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

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

[8] In a recent report the World Bank also states that the OECS share of intra-CARICOM trade declined in the past decade. According to the World Bank the weighed intra-CARICOM trade share grew from 15.3% to 30.5% of the total between 1980–1985 and 1990-1995 and declined thereafter to 16.2% and 14.6% in 1995-1999 and 2000-2002. See, World Bank (2005) Organization of Eastern Caribbean states. Towards a New Agenda for Growth. World Bank: Washington D.C.

Table 1
Intra-regional trade orientation in imports and exports
1980-2003

	1980	1985	1990	1995	2000	2003
Intra-regional trade orientation in exports						
Antigua and Barbuda	51.30	71.74	38.57	….	….	…
Barbados	23.78	23.08	31.48	38.33	43.19	40.17
Belize	5.42	3.77	6.65	3.39	4.49	8.82
Dominica	61.48	38.28	25.47	42.80	56.81	65.52
Grenada	13.38	35.92	26.52	29.20	15.86	26.12
Guyana	13.82	9.24	7.30	…	13.51	…
Jamaica	6.08	8.67	6.21	4.22	3.72	…
Montserrat	0.00	9.74	33.75	5.71	14.18	54.30
St. Kitts and Nevis	17.86	29.97	13.61	12.20	8.21	1.66
St. Lucia	32.71	19.72	17.10	15.97	27.99	43.61
St. Vincent and the Grenadines	43.38	61.22	34.31	62.44	45.84	62.60
Suriname	…	…	…	2.45	…	…
Trinidad and Tobago	8.54	11.35	12.95	24.01	22.58	19.43
CARICOM	**9.66**	**13.36**	**12.39**	**16.70**	**17.71**	**20.65**
OECS	**31.45**	**38.08**	**27.05**	**28.05**	**32.35**	**38.24**
LDC's	**18.43**	**20.93**	**16.85**	**15.72**	**20.79**	**24.20**
MDC's	**10.44**	**10.47**	**11.59**	**13.80**	**17.49**	**20.38**
Intra-regional trade orientation in imports						
Antigua and Barbuda	34.08	18.66	17.88	…	...	…
Barbados	18.64	14.52	15.55	16.05	19.84	23.86
Belize	1.60	1.78	6.16	4.94	3.09	3.73
Dominica	27.01	24.79	21.30	26.94	26.89	30.25
Grenada	32.83	22.66	23.63	27.43	24.12	23.85
Guyana	22.96	35.07	11.22	…	…	…
Jamaica	7.25	3.82	4.69	9.00	12.48	…
Montserrat	25.66	20.84	17.85	…	20.09	9.77
St. Kitts and Nevis	21.09	19.67	14.51	17.50	18.70	18.52
St. Lucia	21.65	19.14	17.95	22.31	21.87	19.93
St. Vincent and the Grenadines	29.08	18.28	20.78	27.14	30.21	24.55
Suriname	…	…	…	8.76	…	…
Trinidad and Tobago	3.55	6.37	6.28	3.91	3.75	2.06
CARICOM	**8.81**	**9.72**	**9.21**	**9.86**	**10.96**	**9.58**
OECS	**27.34**	**20.58**	**19.13**	**20.22**	**21.02**	**22.10**
LDC's	**14.47**	**11.18**	**12.64**	**12.58**	**16.83**	**17.51**
MDC's	**10.48**	**11.96**	**7.55**	**7.54**	**9.68**	**7.13**

Note: … denotes not available.
Source: CARICOM Secretariat (2003 & 2005).

Table 2
Intra-regional trade shares of exports and imports
1980 – 2003

	1980	1985	1990	1995	2000	2003
Intra-regional trade share (exports)						
Antigua and Barbuda	0.27	0.26	0.27	0.00	0.13	0.00
Barbados	0.92	2.30	1.66	1.79	1.59	1.70
Belize	0.10	0.10	0.21	0.11	0.12	0.30
Dominica	0.10	0.31	0.34	0.38	0.42	0.43
Grenada	0.04	0.23	0.17	0.12	0.16	0.18
Guyana	0.91	0.53	0.33	0.00	0.90	…
Jamaica	0.99	1.38	1.76	1.19	0.66	…
Montserrat	0.00	0.01	0.01	0.01	0.00	0.02
St. Kitts and Nevis	0.07	0.17	0.09	0.04	0.04	0.01
St. Lucia	0.25	0.29	0.53	0.34	0.17	0.46
St. Vincent and the Grenadines	0.11	1.09	0.69	0.54	0.31	0.34
Suriname	0.00	0.00	0.00	0.23	…	…
Trinidad and Tobago	5.88	6.88	6.60	11.94	13.19	17.22
CARICOM	**9.66**	**13.36**	**12.39**	**16.70**	**17.17**	**20.65**
OECS	**0.85**	**2.35**	**2.11**	**1.45**	**1.24**	**1.44**
LDC's	**0.95**	**2.45**	**2.32**	**1.56**	**1.36**	**1.75**
MDC's	**8.70**	**11.09**	**10.34**	**15.15**	**16.35**	**18.91**
MDC's without Trinidad a/	**2.82**	**4.21**	**3.75**	**3.21**	**3.98**	**1.68**
MDC's without Trinidad b/	**9.06**	**10.56**	**7.52**	**6.39**	**7.59**	**…**
Intra-regional trade share (imports)						
Antigua and Barbuda	0.73	0.77	0.68	…	…	…
Barbados	1.69	2.22	2.16	1.71	2.14	4.24
Belize	0.04	0.06	0.26	0.18	0.13	0.22
Dominica	0.22	0.34	0.50	0.44	0.37	0.57
Grenada	0.28	0.39	0.51	0.49	0.54	0.9
Guyana	1.54	1.98	0.49	0.00	0.91	…
Jamaica	1.45	1.07	1.74	3.52	3.72	…
Montserrat	0.07	0.10	0.16	0.00	0.04	0.04
St. Kitts and Nevis	0.16	0.25	0.32	0.32	0.34	0.56
St. Lucia	0.45	0.60	0.96	0.94	0.74	1.16
St. Vincent and the Grenadines	0.28	0.36	0.56	0.50	0.46	0.67
Suriname	0.00	0.00	0.00	0.70	…	…
Trinidad and Tobago	1.92	2.45	1.57	1.08	1.17	1.21
CARICOM	**8.81**	**9.72**	**9.21**	**9.86**	**10.96**	**9.58**
LDC's	**1.62**	**2.03**	**2.65**	**1.60**	**1.54**	**2.40**
MDC's	**6.60**	**7.72**	**5.95**	**6.99**	**7.94**	**5.45**
MDC's without Trinidad a/	**4.68**	**5.27**	**4.39**	**5.92**	**6.77**	**4.24**
MDC's without Trinidad b/	**10.13**	**7.96**	**5.55**	**8.16**	**6.78**	**…**

Note: … denotes not available. a/ Adjusts for intraregional trade. b/ Accounts for intra and extra regional trade.
Source: CARICOM Secretariat (2003 & 2005) and CAN (2002)

Fifth, as a sub-regional grouping, the OECS exhibit the highest degree of dependency on intra-regional trade flows. For 1985-2000, the average intra-regional export and import share for the OECS equaled 30% and 22% whereas for the for the LDC's and MDC's these reached 18% and 13% and 12% and 9% respectively (See Table 1 above).

The decline in the intra-regional trade share is important because trade is one of the main channels through which the most refined form of regional integration, i.e., the monetary union affects the growth of its member states.[9] Empirical studies have found large positive effects of a common currency on the volume of trade.

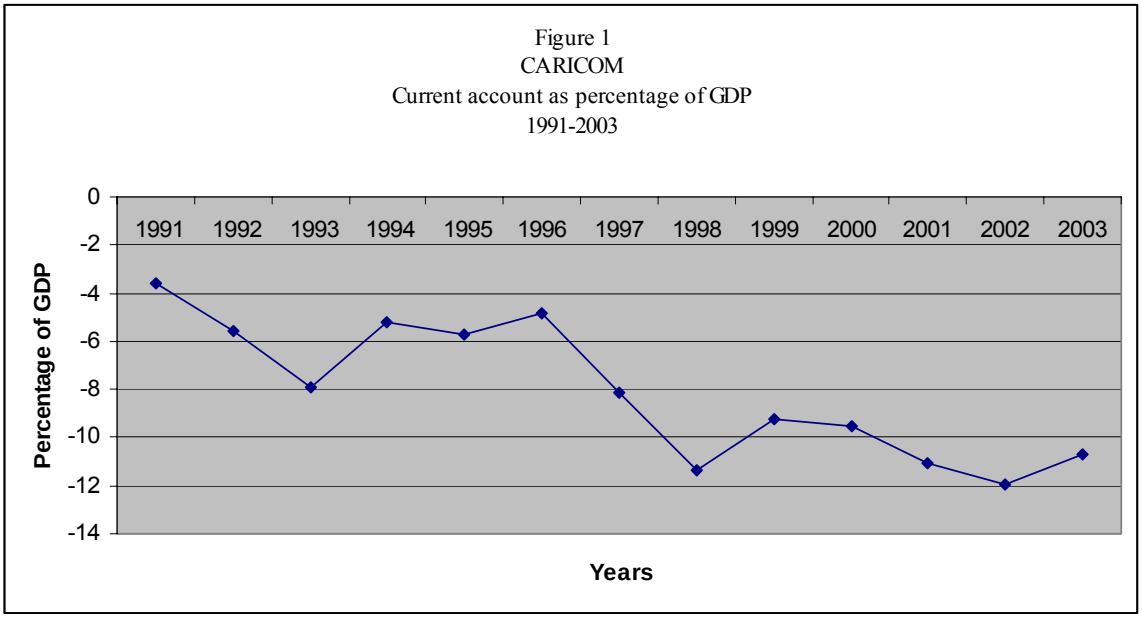
One of the most quoted studies states that (Rose, 2000, p.7): "two countries sharing the same currency trade three times as much as they would with different currencies." In addition, empirical studies linking trade to growth have found that the adoption of a common currency doubles trade (Glick and Rose, 2001). More recently, Frankel and Rose (2002) have argued that a 1% increase in trade between countries of a monetary union leads to an increase per capita income of 1/3 of a percentage point. Although the empirical findings quoted above have been questioned in the sense that the findings are biased upwards (Pakko and Wall, 2001; Micco et al., 2003) there is a consensus that an economic integration promotes trade and trade affects growth positively.

The decline in the importance of intra-regional trade can be explained by two factors. These are the increasing binding character of the balance-of-payments constraints and CARICOM's trade regime.

3. The balance-of-payments constraint

Caribbean countries growth potential is limited by the balance-of-payments constraint. Countries are balance-of-payments constrained in the sense that their performance in overseas markets, and the response of the world financial markets to this performance, constrains the rate of growth of the economy to a rate which is below that which internal conditions would warrant" (McCombie and Thirlwall, 1999). This constraint is reflected in the deterioration of Caribbean countries current account position, especially visible since 1996. The average current account deficit for CARICOM, which stood at -4% of GDP in 1996 widened to -11% in 2003 (see Figure 1 below).

[9] Another important channel is the reduction of risk due to lower exchange rate variability. However, there is little empirical evidence establishing a positive effect of the reduction in exchange rate variability on investment and growth (See De Grauwe, 2003).



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

- In the case of the OECS the current account deficit increased significantly in the second half of the 1990's due both to the deterioration of export performance and the increase in imports. Exports of goods and services declined steadily from 66% of GDP in 1992 to 63% in 1995 and 54% in 2001. Imports of goods and services rose form 74% of GDP in 1992 to 75% in 1995 and to 66% in 2001.

- For Barbados, the current account deteriorated from -1.4% to -8% of GDP between 1991 and 2003. Imports as a percentage of GDP exhibit an upward trend during the 1990's decade (43% and 57% in 1992 and 2001). Exports rose between 1991 and 1996 from 49% to 61% of GDP and declined thereafter to 53% in 2001.

- In the case of Belize the current account widened from -7% to -18% of GDP between 1991 and 2003. Exports of goods and services as a percentage of GDP declined steadily from 68% to 54% between 1991 and 2003. For their part imports decreased from 80% to 57% between 1991 and 1998, and then reversed its trend increasing to 67% in 2003.

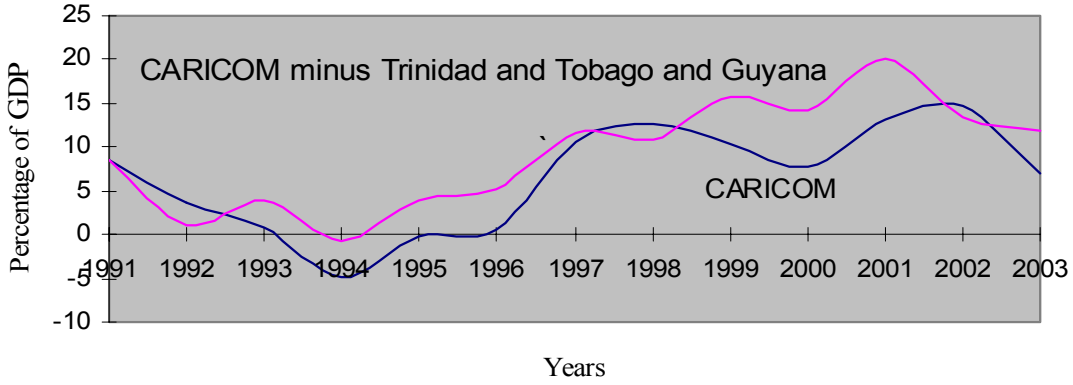
- Guyana witnessed a steady decline of both exports and imports as a percentage of GDP. Between 1992 and 2001 Exports and imports of goods and services decreased from 151% and 180% to 115% and 133% of GDP respectively. The behavior of the current account in the case of Guyana is atypical in relation to the rest of the Caribbean countries since the country managed to actually reduce its current account deficit which had reached levels above 40% of GDP in the late 1980's and early 1990's due to the prevailing dire economic conditions.

- In the case of Jamaica the current account result deteriorated from 0.7% to -13% of GDP between 1992 and 2003. As in the case of some of the other countries Jamaica also experienced both a decline in exports and imports expressed as a percentage of GDP, with the former far out spacing the latter (45% and 62% in 1991; 94% and 97% in 2001).

- Contrarily Trinidad increased its current account surplus from 3% to 8% of GDP between 1993 and 2003. The country saw an increase in both exports and imports of goods and services (42% and 32% of GDP in 1993; 54% and 44% of GDP in 2001, respectively).

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

Figure 2
Export performance ratio
Average for CARICOM
1991-2003



This measure was obtained for each CARICOM economy and then an average was obtained. Figure 2 above shows the export performance ratio expressed as a percentage deviation from GDP, for CARICOM as a whole and for a sub grouping excluding Trinidad and Tobago and Guyana. The export performance ratio is characterized by three movements.

The first is a decline lasting from 1991 until 1994. During this period the export performance of CARICOM economies on average improved. The year 1994 marks a point of inflection from the previous trend after which the export performance deteriorates steadily until 2002. In 1994, CARICOM economies showed, on average, an

equilibrium in their balance of payments. Eight year later in 2002, their export performance had deteriorated to a value equivalent to 20% of their combined GDP. The third period shows some improvement in the export performance ratio.

The worsening of CARICOM's export performance is reflected in the loss of market share in its major export markets both in goods and tourist services. Between 1985 and 2002, the export market share of Caribbean countries in regional trading blocs such as NAFTA and the EU (Western Europe), has decreased from 0.71% to 0.27% and from 0.15% to 0.10% respectively (See Table 3 below). It is worthy of note that the Caribbean market share has decreased in those markets that grant preferential treatment but has increased in those markets that do not grant special and differential treatment (i.e., the Andean Community).

Table 3
CARICOM's import market share in goods in regional trading blocks
(In percentages)
1985-2002

Regional block	1985	1990	1995	2000	2002
NAFTA	0.71	0.43	0.32	0.24	0.27
Western Europe	0.15	0.13	0.12	0.10	…
Andean Community	0.40	0.96	0.41	0.24	0.56
Mercosur	0.30	0. 34	0.19	0.11	0.14
CACM	0.20	0.18	0.38	0.74	1.34

Note: … denotes not available.
Source: Competitive Analysis of Nations (2002) and WITS (2005).

In terms of tourist services, the Hispanic Caribbean has the lion's share of tourist arrivals (70% in 2003). CARICOM's market share of Caribbean tourist arrivals increased slightly from 28% to 30% while that of the OECS has declined (7% and 5% in 1996 and 2003) (see Table 4 below).

Table 4
Market share of tourist arrivals for the English and Spanish speaking Caribbean
1996-2003

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

Note: The Hispanic Caribbean includes Cancun, Cozumel, Cuba, the Dominican Republic and Puerto Rico.
Source: Caribbean Tourism Organization (2004)

CARICOM economies have tried to overcome the external constraint by focused efforts and policies to attract foreign exchange flows. These efforts have been shaped by two factors. First, coverage ratio of non-factorial services to the trade balance has exhibited, on average, a declining trend since 1992 for both CARICOM and the OECS (See Figure 3 below), although as shown in Table 5 below masks important differences among the various countries. The coverage ratio decreased from 0.79 and 0.60 in 1992 to 0.50 and 0.51 in 2003 for CARICOM and the OECS respectively.

Second, foreign direct investment flows have evolved at an uneven pace and have only slightly increased in the past decade. For the CARICOM region, between 1990 and 2001, foreign direct investment as a percentage of GDP moved from 8% to 10%. For the OECS, foreign direct investment expanded from 11% to 13% (See Table 6). In the past year CARICOM countries and in particular the OECS have noted a surge in foreign investment but it remains to be seen whether the increase in investment can be sustained over time.

Figure 3
CARICOM and OECS
Ratio of non-factorial services balance to the trade balance
1990-2003

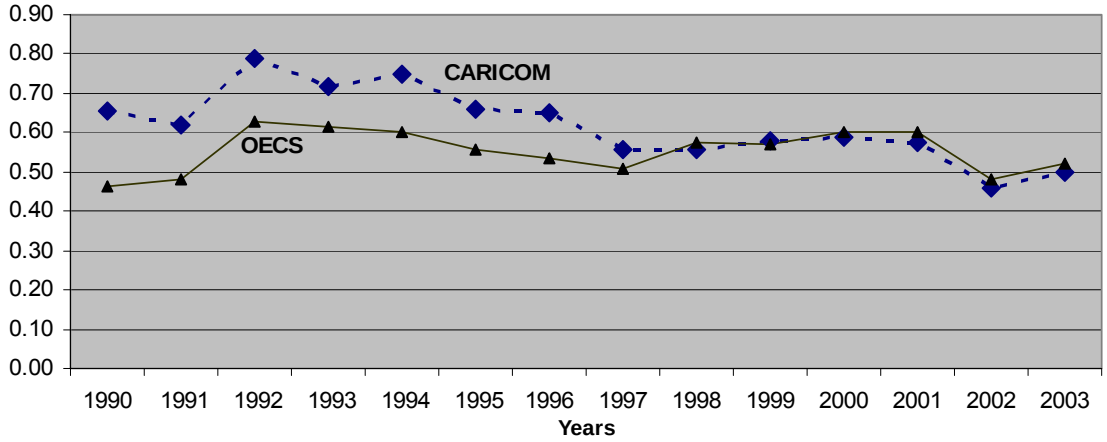


Table 5
Ratio of the balance of non-factorial services to the trade balance
1990-2003

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
OECS														
Antigua and Barbuda	1.02	1.00	1.11	1.20	1.06	0.84	0.76	0.87	0.91	0.83	0.87	0.88	0.75	0.78
Dominica	0.07	0.15	0.27	0.30	0.29	0.33	0.34	0.45	0.62	0.64	0.49	0.34	0.44	0.50
Grenada	0.41	0.40	0.51	0.49	0.64	0.58	0.50	0.41	0.37	0.59	0.51	0.47	0.32	0.33
St. Kitts and Nevis	0.28	0.49	0.76	0.59	0.68	0.33	0.29	0.35	0.50	0.16	0.20	0.30	0.12	0.26
St. Lucia	0.64	0.62	0.74	0.81	0.81	0.91	0.80	0.75	0.81	0.74	0.85	0.95	0.62	0.73
St. Vincent and the Grenadines	0.37	0.22	0.37	0.29	0.13	0.33	0.51	0.22	0.23	0.47	0.70	0.68	0.65	0.53
Barbados	0.99	0.96	1.47	1.28	1.39	1.13	1.18	0.92	0.91	0.80	0.81	0.84	0.78	0.73
Belize	0.93	0.56	0.59	0.49	0.44	0.57	0.80	0.52	0.40	0.43	0.27	0.25	0.28	0.35
The Bahamas	1.16	0.99	1.14	1.21	1.08	0.97	0.85	0.68	0.39	0.60	0.75	0.83	…	…
Jamaica	0.66	0.82	0.92	0.54	0.95	0.60	0.46	0.41	0.42	0.55	0.42	0.24	0.17	0.29
Average	0.65	0.62	0.79	0.72	0.75	0.66	0.65	0.56	0.56	0.58	0.59	0.58	0.46	0.50

Note: … denotes not available.
Source: ECLAC on the basis of official information.

Table 6
Foreign Direct Investment (as a percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Anguilla	19.7	11.3	25.6	10.1	15.0	23.7	42.1	23.8	29.8	36.3	36.4	24.9	13.7
Antigua and Barbuda	15.5	13.3	4.6	3.3	5.0	6.4	3.6	4.0	4.4	5.6	5.0	7.8	50.5
Barbados	1.2	2.0	1.7	0.1	2.3	-0.3	1.2	1.4	0.7	2.2	6.0	3.6	6.8
Belize					3.3	3.1	1.8	1.3	7.5	7.2	2.5	5.0	2.7
Dominica	7.7	8.4	10.7	6.6	10.5	24.7	7.6	10.3	3.0	8.0	4.7	6.4	4.3
Grenada	5.8	6.3	9.0	8.1	7.3	7.2	6.6	10.6	13.9	11.0	8.8	8.6	19.8
Guyana	4.1	8.0	36.9	13.6	8.8	8.6	8.4	7.0	6.7	6.7	9.5	7.9	…
Jamaica		1.4	9.8	7.3	10.2	5.5	8.1	-0.1	2.0	-0.1	6.0	12.1	5.4
Montserrat	14.3	14.4	7.9	7.8	11.3	5.0	-0.7	6.3	6.8	23.4	9.9	10.2	0.6
St. Kitts and Nevis	6.0	4.9	2.5	6.9	6.9	8.9	14.3	7.2	11.1	19.0	29.2	24.1	22.8
St. Lucia	10.8	1.8	0.9	6.9	6.3	5.9	3.2	8.3	13.3	12.4	7.1	7.7	7.2
St. Vincent and the Grenadines	3.9	4.2	6.4	13.2	19.4	11.6	15.3	31.5	28.0	16.9	8.4	10.2	9.2
Trinidad and Tobago	2.2	2.5	3.1	8.8	10.5	5.5	6.2	17.2	11.6	5.5	8.1	6.2	7.1
Average all	8.3	6.5	9.9	7.7	9.0	8.9	9.1	9.9	10.7	11.9	10.9	10.4	12.5
Standard deviation	6.0	4.6	10.7	3.7	4.7	7.4	11.0	9.2	9.1	9.9	10.0	6.7	13.1
Average OECS	10.5	8.1	8.5	7.9	10.2	11.7	11.5	12.7	13.8	16.6	13.7	12.5	16.0
Average Larger	1.9	3.5	3.6	7.4	8.0	4.8	6.0	6.4	5.2	3.6	7.4	7.5	14.5
Average RBE with Guyana	2.1	3.5	13.3	7.5	7.6	5.7	5.5	8.5	8.6	6.5	6.7	6.4	….
Average RBE without Guyana in 1992	2.1	5.4	1.0	7.5	7.6	5.7	5.5	8.5	8.6	6.5	6.7	6.4	….
Average SBE	8.4	6.0	5.4	4.4	5.8	6.2	8.0	6.4	8.3	12.4	11.7	9.8	15.0

Note: SBE = service based economies. RBE= resource based economies. …denotes not available.
Source: ECLAC on the basis of official data.

In the case of the OECS foreign direct investment is destined mainly to the tourism industry. As shown in Table 7 below between 1997 and 2004 tourism received 60% of total foreign direct investment in the OECS outstripping by far any other sector. Also tourism and manufacturing are the only two sectors that receive foreign direct investment on a yearly basis. However, the inflows to the manufacturing sector are negligible (less than 1% of the total).

Table 7
OECS
Share Foreign direct investment per economic sector
1997-2004
In percentage of the total

Sector	1997	1998	1999	2000	2001	2002	2003	2004	Average
Tourism	60.12	74.83	81.56	63.86	47.04	56.67	35.43	60.99	60.06
Manufacturing	1.53	0.16	0.40	1.20	1.90	0.24	0.52	0.74	0.84
Transportation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Construction	2.89	0.92	0.00	0.00	0.00	0.00	5.56	11.48	2.61
Sporting	2.06	6.24	1.14	0.00	0.00	0.00	0.00	0.00	1.18
Medical	0.00	0.00	0.00	0.00	0.24	0.34	0.00	0.00	0.07
Financial	0.00	0.00	0.00	0.00	0.24	1.20	0.00	0.00	0.18
Banking and Insurance	1.42	0.00	0.74	0.30	0.00	0.00	0.00	0.00	0.31
Commercial	2.11	0.08	0.00	4.84	0.84	0.00	0.00	0.00	0.98
Petroleum	1.50	0.72	0.25	0.00	0.00	0.00	0.00	0.00	0.31
Education	0.00	3.12	1.88	0.00	0.00	0.00	1.47	0.00	0.81
Agriculture	0.00	0.00	2.04	0.62	0.25	0.67	0.28	0.01	0.48
Other	28.36	13.94	11.99	29.18	49.48	40.87	56.73	26.79	32.17
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

The focus of policy on foreign direct investment has had four major consequences for CARICOM economies.

First, it has not been accompanied by a rise in domestic investment. Indeed, at the same time that, foreign direct investment inflows have increased, for some economies domestic investment as a percentage of GDP for the economies of the Caribbean have remained unchanged at the regional level, for the past twenty years, and in many country cases this ratio has decreased (See Table 47 in the annex). The decomposition of domestic investment into its private and public component shows that at least in the case of the OECS private domestic investment has experienced a marked decline in the past twelve years (25% and 15% of GDP between 1990 and 2003).[10]

The evidence indicates that there is a significant statistical relationship between the levels of foreign direct investment and domestic investment (the correlation

[10] World Bank (2005) Organization of Eastern Caribbean States. Towards a New Agenda for Growth. Washington D.C.: The World Bank.

coefficient is 0.53) (See Figure 4 below). This may reflect the fact that foreign direct investment flows have been directed to those economies that have high levels of investment. Or in other words, high levels of domestic investment may provide an incentive for the attraction of foreign direct investment. At the same time the empirical evidence shows that the statistical relationship between the changes in the levels of foreign direct investment and domestic investment is weak (the correlation coefficient is 0.09) (See Figure 5 below). This may provide an indication that, contrary to common belief; foreign investment may not have acted as a catalyst for growth.[11] In fact, it may have simply replaced domestic investment. In other words, foreign investment may have crowded-out domestic investment[12]

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

The manufacturing sector started to stagnate in the 1980's in the MDCs due a number of factors including severe macroeconomic imbalances, foreign exchange shortfalls, high costs, poor infrastructure and low levels of productivity. In turn the reduction in manufacturing activities in the MDCs severely curtailed the expansion of the development of the manufacturing sector in the OECS.

The OECS whose manufacturing production was largely oriented to the MDCs market faced declines in terms of trade brought about by devaluations in the bigger economies, reduced demand and high levels of trade restrictions.[13] The historical evolution of the manufacturing sector illustrates the dependence of the OECS, the most intra-regional oriented group of economies within CARICOM, on the performance and economic policy choices of the bigger economies.

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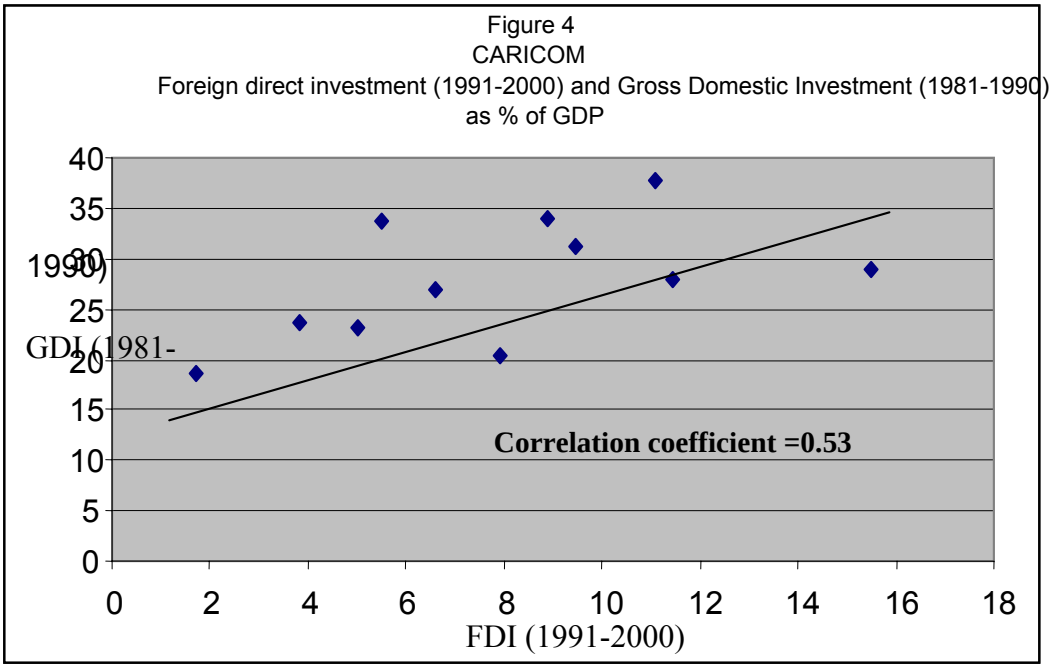
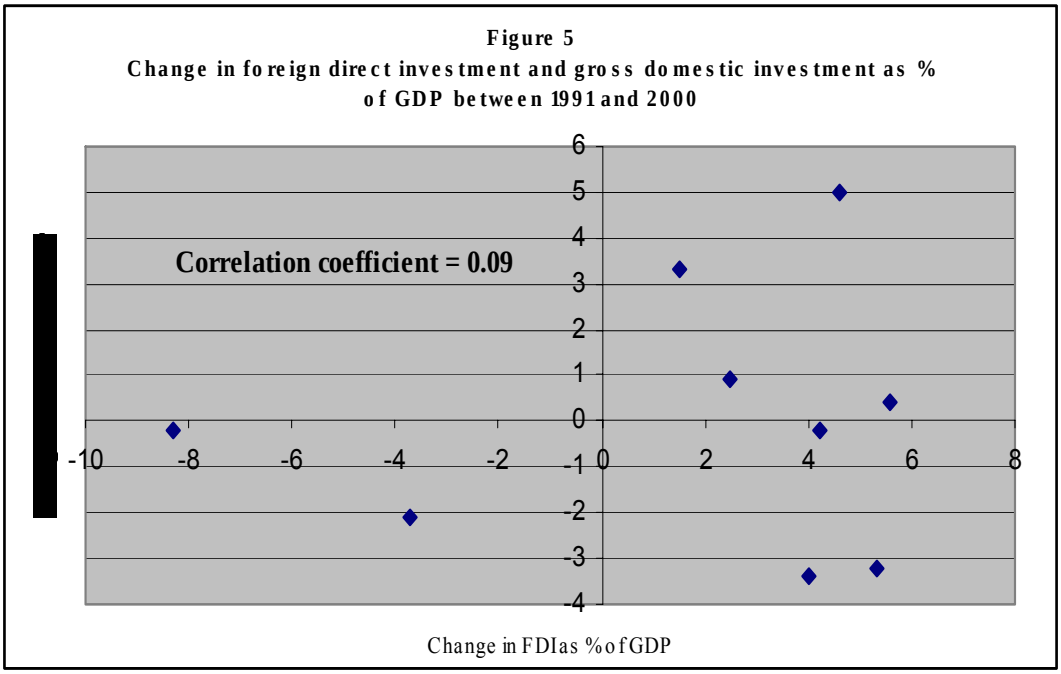
[11] In his examination of the relationship between foreign direct investment and trade in the Eastern Caribbean Currency Union Cannonier (2004) finds a negative impact of foreign direct investment flows on exports. He explains the results in the following way: "One such explanation…is that not much of a linkage between takes place between FDI and local industries. The high import content of FDI flows has tended to weaken local industries and has often led to the closure of some of these firms with the potential for weakening the export base. This has been the case to some extent in the manufacturing sector". See, Cannonier, C.(2004) Foreign Direct Investment and Trade in the Eastern Caribbean Currency Union. Paper presented at the XXXVIth Annual Monetary Studies Conference. Central Bank of Trinidad and Tobago. November 1-4, 2004.

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

[13] World Bank (1990) p.69.





Third, governments have actively promoted those activities, which are foreign exchange intensive through a gamut of fiscal incentives. This has impaired the use of taxation as tool to achieve a more equitable distribution of income or to equilibrate the budget. Fiscal policy is mainly a microeconomic tool providing incentives to develop activities in selected economic sectors. The instruments include profit tax holidays, tariff

exemptions, export allowances for extra-regional exports following the expiration of the tax holidays, dividend payments, loss-carry forward, and depreciation allowances.

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

The high opportunity cost is compounded by the fact that incentives are not correlated either with the level or change in foreign direct investment. That is, those countries that have the most significant level of incentives (measured as a percentage of GDP) do not exhibit the highest level of foreign direct investment as a percentage of GDP. In the same vein the countries that have increased their incentives are not the ones that have also experienced an increase in foreign direct investment flows. According to IMF estimates the correlation between the change in foreign direct investment flows and the increase in tax concessions is negative for Antigua and Barbuda, Dominica, St.Lucia and St.Vincent and the Grenadines.[14]

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

In the case of the Caribbean, the deterioration of the current account from 1995 onwards, given the stagnation of investment, has led the government to adopt an expansionary fiscal stance[15]. It is measured as the percentage deviation to GDP. When the fiscal stance is neutral the value of the fiscal stance ratio is equal to 0. When the fiscal stance is restrictive, the ratio is negative. Finally when the fiscal stance is expansionary, the ratio is positive. For any one year the percentage deviation between the fiscal stance

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[14] IMF. Tax Concessions and FDI in the ECCU. Mimeo.

[15] The fiscal stance is formally defined as government expenditure divided by the tax ratio (tax revenue over GDP). Formally,

(1) $FS = G / (T/GDP)$

Where,
FS = fiscal stance
G = government revenue
T = total tax revenue
GDP = Gross Domestic Product
See, W. Godley and FD. Cripps.(1983) *Macroeconomics* (New York: Oxford University Press).

and 0 provides an indication of the percentage deviation of a contractive or expansive fiscal stance from a neutral fiscal stance.

Figures 16 to 22 in the Annex show that fiscal expansion in the 1990's is not exclusive to the OECS but that it occurred throughout CARICOM.

In all of the cases presented with the exception of Guyana, the fiscal stance has been, as expected, expansionary. That is it has always surpassed the level of nominal GDP. In addition in all countries with the exception of Guyana and Trinidad and Tobago, the fiscal stance has been increasingly expansionary since the middle of the 1990's. In other words in the middle of the 1990's the fiscal stance registers an inflection point. At the same time the tax to GDP ratio remained increasingly constant for the same period. It is important to note that the expansion of fiscal policy coincides with the deterioration of the current account of the balance of payments.

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

On average the public debt to GDP ratio has increased from 65% to 87% of GDP from 1997 to 2003. When decomposed in terms of its internal and external component, the former represents 35% of GDP of the total while the latter has reached 56% of GDP. In the cases of The Bahamas, Barbados and Jamaica the internal debt ratio is greater than the external debt ratio (See Table 48 in the Annex).

Currently, eleven of these economies (Guyana, St. Kitts and Nevis, Jamaica, Antigua and Barbuda, Dominica, Grenada, Belize, St. Vincent and the Grenadines, Barbados, St. Lucia, Suriname and The Bahamas) are among the 30 most indebted emerging market countries. Down to the detail, Guyana, St. Kitts and Nevis, Jamaica, Antigua and Barbuda, Dominica, and Belize rank with the first ten most indebted ones.[16].

These developments have had, in turn major consequences for the development of intraregional-trade and can have important implications for the implementation of the CSME.

- The stagnation of domestic investment and the formation of a dual economic structure with a decline in agriculture and an increasing dynamism in services has severely hampered the potential for the expansion of trade in manufacturing and agricultural goods.

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

- The stagnation of the manufacturing sector especially in the OECS has led to very high levels of indebtedness for the industry and to the substitution of commercial activities for manufacturing ones. A major concern for some economies is the possible extinction of the manufacturing sector.

- The substitution of commercial for manufacturing activities will have a bearing on the composition of GDP, its growth potential, and in general on the direction of economic policy.

- Contrarily these current developments have set the stage for the expansion in services, which are a major source of foreign exchange earnings.

- However, part of the expansion in services is due to the growth of the financial sector whose dynamism at the intra-regional level is driven by government debt. Government debt represents significant share of the loan portfolio of commercial banks trading in the region. This is a factor that should be taken into account when analyzing the potential effects of capital mobility within the framework of the CSME.

- Anchoring the tax structure to an incentive strategy aimed at developing activities that attract foreign exchange flows and tuning government spending to maintain a given level of aggregate demand has reduced governments' scope to support the development of intra-regional trade in goods and services.

- The existing current account imbalances, the stagnation of domestic investment, and the high levels of indebtedness have definite implications for countries' ability to take advantage of potential production possibilities and capabilities. More to the point it undermines countries' readiness to fully participate and partake in the benefits of the CSME. These imbalances have significant implications for convergence requirements and for the economic and social cost of convergence.

- Finally and most important, countries will not be able to realize the desired levels of efficiency and competitiveness as long as the external constraint is binding. Softening or overcoming the balance-of-payments constraint is a pre-condition to reach optimal intra-regional efficiency levels.

4. CARICOM's trade regime

This section examines three aspects of CARICOM's trade regime, which are relevant for the workings of the CSME. These are the common external tariff (CET, hereafter), the accompanying established rules of origin and non-tariff barriers. The section then provides estimates for nominal and effective protection.

The CET, the rules of origin and non-tariff barriers play a fundamental role because these are basic means to attain one of the main goals of a customs union, that of changing the pattern of trade of its member countries. [17] As shown in the first section of this paper, this objective has not been fulfilled. It has even been suggested that in the case of the OECS, the decline of its intra-regional trade share coincides with the implementation of the CET.[18] Thus a key question to be addressed is to what extent was CARICOM's trade regime conducive to such an outcome.

Nominal protection derives directly from the level of effective tariff rates and non-tariffs applied. Effective protection estimates require, in addition, value added computations. Nominal and effective protection estimates provide respectively measures of the impact of an existing system of protection upon the price of an activity's output and upon the value added generated with the output.[19]

4.1. The Common External Tariff

The objectives of the CARICOM Common External Tariff (CET, hereafter) included (Mitchell, 1992)[20]: (i) the provision of protection for regional agricultural and industrial production of finished goods, raw and intermediate materials and capital goods; (ii) the support the development of internationally competitive production in CARICOM; (iii) the containment in the cost of certain socio-economic activities and conditions such as the training and the provision of basic services. In order to achieve simultaneously objectives (i) and (ii) it was agreed that the rates of the CET should be moderate and encourage efficiency in production and reduce production costs.

In its initial stages the Common External Tariff (CET) together with a host of other non-tariff barriers was very protectionist.[21] It was highly dispersed with 16 tariff rates ranging from 0 to 70% but with most of the tariff positions (around 96%) at or below 45%. Available data for the 1980's decade show that, in general, manufacturing attracted the highest average tariffs of 21% in the more developed countries (MDCs) and 15% in the less developed countries (LDCs). Within the manufacturing sector consumer

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[17] Neal, L.and Barbezat, D.(1998) The Economics of the European Union and the Economies of Europe (New York: Oxford University Press).

[18] See World Bank(2005). Op.cit.

[19] See, Ten Kaate A. (1987) Measuring Nominal and Effective Protection. Gower Publishing Company:Brookfield. The system of protection is "the set of all foreign-trade regulations complemented with those policy instruments which feasibly be kept in force when the foreign trade regulations are eliminated." Ibid. p.179.

[20] Mitchell, C.L. (1992) The CARICOM CET: An OECS Solution and its implications. Mimeo. Economic Affairs Secretariat,OECS. Antigua and Barbuda.

[21] According to the World Bank (1991, op.cit). the CET agreement became effective in 1973. The same source states "that Guyana, Jamaica and Trinidad and Tobago implemented the CET by 1976 and Barbados by 1981." Belize and the OECS did not conform to the CET schedule. The Nassau Agreement (1984) led to revisions in the CET, which were not implemented uniformly. In practice this led to the establishment of four different tariff schedules in CARICOM. That of the MDCs, Belize, Montserrat and the OECS. In 1991, an agreement was reached on the structure and level of the CET. The scheduled phase reduction of the CET was established in 1992 for an initial five year period from January 1993 to June 1998. See, World Trade Organization. Caribbean Community and Common Market. WT/REG92/R/B/1.G/L. 12 April 2000.

goods received the highest tariff protection of 29% in the MDCs and 21% in the OECS. Agriculture was the next highest protected sector attracting an average tariff of 21% in the MDCs and 15% in the LDCs.

As shown in table 8 below both the average and weighted tariffs have declined over time. The weighted tariff stood at 20% in 1998 and diminished to 15% in 2002. As well the levels of dispersion have been reduced. The standard deviation decreased from 23% to 12% between 1998 and 2002. In terms of the relationship between measures of central tendency the empirical evidence shows that that the mean is greater than the median, which in turn is greater than the mode.

Table 8
Basic tariff schedule parameters
1998, 2000 and 2002

	Tariff schedule 1998	Tariff schedule 2000	Tariff schedule 2002
Simple Average	20.0	13.5	15.1
Weighted average	20.0	13.6	14.9
Standard deviation	23.3	14.8	12.4
Maximum	200	217	100
Minimum	0	0	0
Median	17.5	8.5	14.8
Mode	5	5	5
Correlation between tariffs and import share	0.09	0.01	0.00

Source: WITS(2005)

The tariff structure at the most disaggregated level shows that the CET positions are concentrated in tariff rates ranging from 15% to 25% (41% of the total). The lower and upper tariff rate bounds (0% and >50%) represent less than 1.5% of all total tariff lines (See Figure 6 below).

The sectoral structure of the CET reveals that agriculture has the highest weighted tariff both for CARICOM and for the OECS. Using two sets of trade data (WTO data base and Trains) the agricultural sector has a weighted tariff of 24% and 19% respectively for CARICOM. The rates for industry (i.e., manufacturing) and textile and clothing are 14% and 13%, 17% and 16% for both data sets respectively. Studies dealing with earlier time periods, in particular the 1980's, report that tariffs in the manufacturing sector higher than those afforded to agriculture.[22] (See Tables 9 and 10 below).

[22] See World Bank(1991).

Figure 6
Histogram of weighted tariff rates for CARICOM (2002)

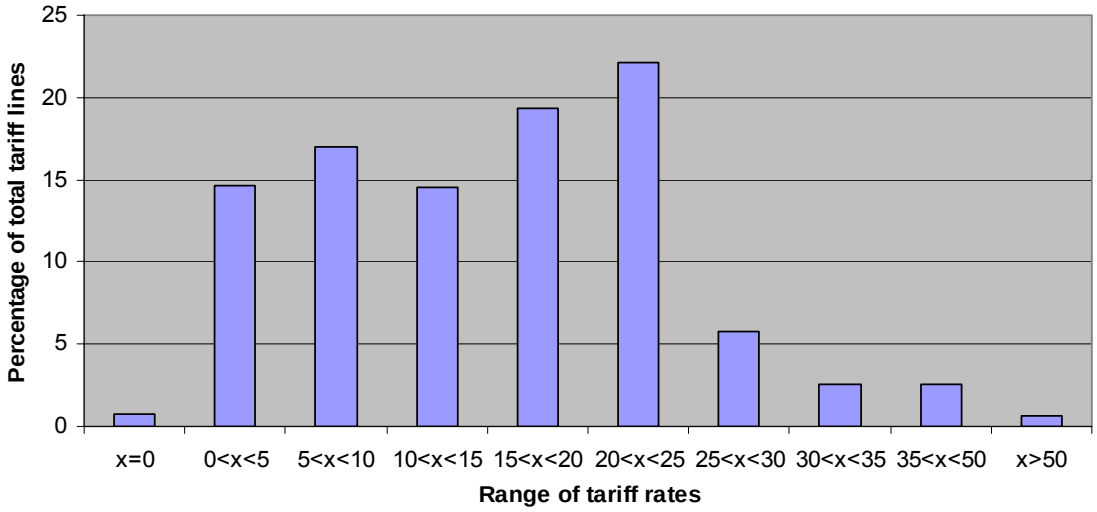


Table 9
Average weighted tariff by sector and economic activity
1998-2002

	1998	1999	2000	2001	2002	Average 1998-2002
CARICOM						
Agriculture	25.1	17.5	28.0	29.2	17.6	23.5
Industry	13.3	11.2	11.7	11.8	22.0	14.0
Petroleum	6.5	6.3	8.1	8.2	12.8	8.4
Textile and clothing	18.4	13.3	15.8	16.0	22.0	17.1
Capital goods	8.0	5.9	7.3	7.5	24.8	10.7
Consumer goods	24.1	18.1	17.5	18.1	21.8	19.9
Intermediate goods	8.1	5.2	8.7	8.7	16.5	9.4
Raw materials	15.6	13.1	27.6	27.4	14.0	19.5
OECS						
Agriculture	25.1	24.6	18.4	18.4	16.1	20.5
Industry	13.3	12.5	10.6	10.6	11.5	11.7
Petroleum	6.5	6.5	7.8	7.1	7.3	7.0
Textile and clothing	18.4	17.5	16.5	17.0	19.3	17.7
Capital goods	8.0	7.6	6.8	7.7	7.3	7.5
Consumer goods	24.1	23.1	16.4	16.4	16.8	19.3
Intermediate goods	8.1	7.5	7.7	7.6	6.7	7.5
Raw materials	15.6	15.6	11.1	9.7	7.7	11.9

Source: WTO; WITS (2005)

Table 10
Average weighted tariff by sector and economic activity
1999-2002

	1999	2000	2001	2002	Average 1999-2002
CARICOM					
Agriculture	19.1	17.7	19.7	19.6	19.0
Industry	20.12	11.6	7.8	10.8	12.6
Petroleum	11.0	6.2	4.4	3.9	6.4
Textile and clothing	20.8	14.3	12.6	15.6	15.8
Capital goods	22.7	7.5	3.9	8.0	10.5
Consumer goods	20.7	16.4	15.8	18.9	18.0
Intermediate goods	17.0	6.6	5.8	7.7	9.3
Raw materials	17.2	9.6	5.9	5.7	9.6
OECS					
Agriculture	19.1	18.6	17.7	17.5	18.2
Industry	16.8	14.7	12.1	11.8	13.9
Petroleum	8.7	8.4	7.9	7.8	8.2
Textile and clothing	19.7	19.7	17.3	17.6	18.6
Capital goods	20.2	12.7	9.5	8.6	12.8
Consumer goods	18.1	17.8	16.2	16.3	17.1
Intermediate goods	13.4	11.4	8.6	7.9	10.3
Raw materials	16.0	13.2	12.8	12.1	13.5

Source: Trains; WITS (2005)

As expected the distribution of tariffs by economic category of imports shows that the tariffs on consumer goods is greater than that on capital goods, intermediate goods and raw materials indicating that the CET yields positive levels of effective protection. On average for some of the databases the weighted average tariff on final consumption goods (20%) for CARICOM is twice that of intermediate and capital goods (roughly 10%). (See Tables 9 and 10 above).

The empirical evidence for the sectoral and economy category tariff distribution at the country grouping level is not consistent. According to computations using WTO data, the OECS has, for the most part, lower average weighed tariff rates than CARICOM (See Table 9 above). Trains data show the opposite result (See Table 10 above).

Comparisons at the country level could only be carried out using Trains data. The sectoral distribution of tariffs shows that Barbados and Bahamas have the highest tariffs on agricultural and manufacturing products (20% ad 32% and 29% and 17% respectively). St. Vincent and the Grenadines and Trinidad and Tobago exhibit the lowest tariffs in agriculture and manufacturing respectively (16% and 8% respectively) (See Table 11 below).

In terms of economic classification the Bahamas has the highest tariffs for capital goods, consumer and intermediate goods (34%, 26% and 25%). Trinidad and Tobago, Belize and Guyana have the lowest tariffs for each of these categories (6.1%, 12.8% and 6.7%) (See Table 11 below).

Table 11
Average tariff rate by country, sector and economic category
1999 – 2002
Average

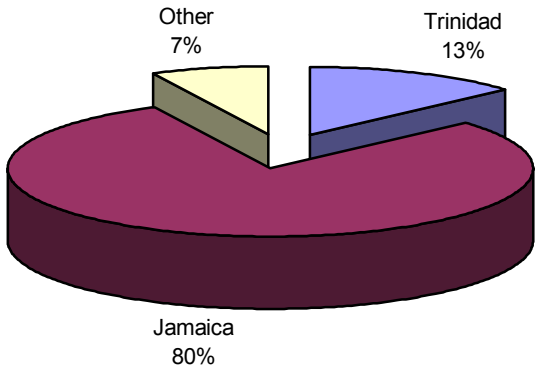
	Average tariff by sector				Average tariff by economic Category			
	Agriculture	Industry	Petroleum	Textile and clothing	Capital goods	Consumer goods	Intermediate goods	Raw materials
Bahamas	**19.8**	**28.7**	**16.8**	**26.0**	34.0	26.3	25.3	16.2
Barbados	**32.0**	**17.1**	7.6	18.4	11.6	21.6	13.8	36.7
Belize	18.2	9.5	4.0	16.0	8.7	12.8	9.5	15.6
Jamaica	17.1	10.5	4.8	14.3	6.9	16.1	6.8	6.9
Guyana	20.2	12.2	**11.3**	16.4	10.0	16.5	6.7	15.9
Surinam	23.0	11.3	7.0	16.8	11.8	14.8	14.1	10.4
Trinidad and Tobago	15.8	8.2	7.2	10.9	6.1	15.7	7.8	6.0
Antigua and Barbuda	21.0	15.2	7.8	18.3	14.5	17.9	11.0	21.7
Dominica	20.9	12.5	7.4	16.2	10.5	18.0	10.6	11.4
Grenada	14.5	16.1	10.9	14.5	14.5	16.1	10.9	14.5
St. Kitts and Nevis	16.3	13.4	8.8	**19.7**	12.3	16.8	9.1	10.6
St. Lucia	16.8	13.6	7.8	18.8	14.1	16.8	10.2	9.7
St. Vincent and the Grenadines	15.5	13.0	8.0	18.1	11.2	16.2	10.4	10.1
OECS	**17.5**	**14.0**	**8.5**	**17.6**	**12.9**	**17.0**	**10.4**	**13.0**
LDCS'	**17.6**	**13.3**	**7.8**	**17.4**	**12.3**	**16.4**	**10.2**	**13.4**
MDC's	**21.6**	**11.9**	**7.6**	**15.4**	**9.3**	**16.9**	**9.8**	**15.2**
MDSC'sW/T Trinidad	**23.1**	**12.8**	**7.7**	**16.5**	**10.1**	**17.3**	**10.4**	**17.5**

Note: The average computations for the MDC's does not include the Bahamas.
Source: Trains data base. WITS (2005)

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

Recent available data shows that the CARICOM Secretariat received for the period for May to December 2004, 409 requests for the suspension of the common external tariff under paragraph 3 of article 83 of the revised treaty. Own estimations reveal that this represents 3% of CARICOM total imports but 24% of intraregional traded products. A close inspection of the data also shows that 93% of the requests were made by the bigger economies (80% for Jamaica and 13% for Trinidad and Tobago) (See Figure 7 below). The number of OECS requests for the application of the suspension mechanism was minimal.[25]

Figure 7
Share of requests for the application of the suspension of the CET
May-December 2004



Source: On the basis of information provided by CARICOM Secretariat

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

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

Greater diversification and the use of the CET suspension mechanism are correlated. However, it has not been determined whether diversification leads to the greater use of the suspension mechanism or contrarily the use of the suspension mechanisms leads to greater diversification. There is also the possibility that diversification and the suspension facility of the CET have a bi-directional relationship and feed upon each other.[26]

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

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

4.3 Non-tariff trade barriers

Although one of CARICOM objectives is the free movement of goods within its boundaries, non-tariff trade barriers remain a pervasive feature of intra-regional trade. Non-tariff barriers include differences in taxation systems and laws, price control measures, automatic and non-automatic licenses, quotas and a single channel for imports.

Table 12 below shows non-tariff barriers by county for 2002 and the number of products affected.

All OECS member states apply a customs charges on imports from all sources. Custom charges were introduced when countries began to implement the CET.

Customs charges vary from 2% (Dominica) to 10% (Antigua and Barbuda). Custom service charges increase the level of tax incidence and tariff protection. Using monthly customs data at the most disaggregated level from one of the OECS countries (St. Vincent and the Grenadines) for January 2004 to March 2005 that includes the actual tax exemptions, customs charges can be shown to represent 2% to 3% of the CIF value of all imports. In this case the effective customs tariff rate is below the statutory one and affects a minority of products.

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[26] In their review of trade policy instruments and administrative practices governing the operation of the CARICOM CET and rules of origin, Hamilton and Associates write (2002, p.17): "The use of the CET suspension mechanism stimulates competitiveness in intra-regional trade. Countries or exporters, which secure most of the suspension of the CET/derogation from the Rules of Origin, are the most competitive exporters to CARICOM. See, Hamilton, T. and Associates (2002). Final Report to Review of trade policy instruments and administrative practices governing the operation of the CARICOM CET and rules of origin. CARICOM-Secretariat.

Table 12 Non-tariff barriers				
Difference in taxes	Price control measures	Automatic licenses	Non-automatic licenses	Monopoly of imports
Antigua and Barbuda				
Customs service charge10% Environmental levy Foreign exchange tax 1% Affects in principle all tariff lines	Affects 44 products	Affects 36 products.	Affects 32 products.	Affects 4 products.
Barbados				
Customs service tax Environmental Levy	Affects 8 products	Affects 18 products	Affects 6 products	Affects 2 products
Belize				
Revenue replacement duty. It affects 40 products. Environmental Levy		Affects 3 products	Affects 17 products	Affects 1 product
Dominica				
Customs Service Charge 2%	Affects 6 products	Affects 9 products Applies only to non LDCs.	Affects 3 products	Affects 2 products
Source: Own computations on the basis of the Caribbean Export Development Agency (2002).				

Table 12 (Continued) Non-tariff barriers				
Difference in taxes	Price control measures	Automatic licenses	Non-automatic licenses	Monopoly of imports
Grenada				
Customs service surcharge (5%) Environmental Levy (applies to 29 products)	Applies to 26 products		Applies to 15 products	Affects 3 products
Guyana				
Environmental tax Registration fee Consumption tax			Affects 1 product	Affects 1 product. Technical regulations affect 1product.
Jamaica				
Customs user fees. Other fees		Affects 2 products	Affects 44 products	
Montserrat				
Customs service tax (8%). Foreign exchange charges (1%). Special produce import tax.(affects 3 products)	Affects 25 products.			Affects 34 products.
Note: Montserrat also imposes quotas on Chapter 7 (Onions, white potatoes and cabbage)				
Source: Own computations on the basis of the Caribbean Export Development Agency (2002).				

Table 12 (Continued) Non-tariff barriers				
Difference in taxes	Price control measures	Automatic licenses	Non-automatic licenses	Monopoly of imports
St. Kitts and Nevis				
Customs service tax (5%). Bottle deposit levy	Affects 47 products.	Affects 87 products	Affects 11 products	Affect 2 products
St. Lucia				
Customs surcharge (4%). Environmental levy (Affects 9 products).	Affects 28 products.		Affects 26 products.	Affects 3 products.
St. Vincent and the Grenadines				
Customs service charge 4%. Trade bottle deposit Levy (affects 1 product)			Affects 18 products (applies to non-OECS states).	Affects 2 products.
Surinam				
Consent and statistics fee.		Affects 12 products.	Affects 7 products.	Affects 1 product (quantity control).
Trinidad and Tobago				
Inspection fee and VAT (affects 8 products).			Affects 12 products.	
Trinidad applies quotas for sensitive products. These affect 6 products.				
Source: Own computations on the basis of the Caribbean Export Development Agency (2002).				

Filtering the said data to take into account only on intraregional imports showed that customs service charges represent 3% to 4% of interregional imports. The customs service charge was not applied on all intraregional imports. Estimations show that on average 23% of all intraregional tariff lines are exempt from the payment of the customs service charge. For purposes of comparison, note that 29% of all tariff lines and 24% of extra-regional imports are exempted from the customs service charge. That is the customs service charge does not discriminate between intra and extra-regional imports.

For other OECS economies, customs charges as a percentage of imports represent less than 2% for Dominica; 4% and 5% for St. Lucia and Grenada. The average for the OECS is approximately 3%.

On the one hand, the customs service charge seen in the light of a non-tariff barrier is a source of trade distortion. On the other hand, it is a significant source of tax revenue. As shown in Table 49 in the annex the customs service charge represents on average 17% of the tax revenue on international trade and transactions and 9% of total tax revenue for the OECS. Grenada is the OECS member which is most dependent on the customs service charge (18% and 11% of international trade and transactions and total tax revenues respectively). (See also Table 50 in the annex).

When a number of private sector firms were surveyed for this study to find out whether they viewed customs surcharges as a deterrent to the development of intraregional trade the responses were far from uniform. Firms, particularly in the case of St.Vincent and the Grenadines, felt that the customs surcharge was one of a range of costs hampering their development. Contrarily, in the cases of St. Kitts and Nevis and St.Lucia, the surcharge was viewed, by the majority of firms, as necessary for the proper functioning of customs offices.

Regarding licenses the OECS and in general CARICOM imposes non-automatic licenses, which are applied to a range of products. The licensing regime for the OECS/LDCs' derives form the application of article 56 of the CARICOM Treaty.

The application of licenses discriminates in favour of intra-regional trade. On average, data available for the OECS shows that, on average, the ratio of licenses applied to products originating in non-CARICOM members relative to products originating in CARICOM members is equal to 4. Notwithstanding this fact, licenses, especially the non-automatic kind, distort trade flows largely because they are granted on a discretionary basis. Countries have made significant progress in the transformation of quantitative measures into price measures (i.e., tariffication).

Other non-tariff barriers such as price control measures mainly applied by the OECS ensure the stability of the price of basic necessities, which in many cases are not major traded commodities. For its part the monopoly of imports protects 'sensible products' and complements, in some cases, the implementation of article 56. As plans for the tariffication of article 56 are implemented, the monopoly for imports will lose importance as a trade distorting measure.

There are non-tariff barriers that fall outside the authorized exceptions to the CET imposed by some economies as retaliatory measures. Generally they affect one product or one product category and are isolated cases.

4.4 Nominal and effective protection estimates

The tariff level does not necessarily reflect the degree of protection granted to a product, a firm, a sector or an economy, or for that matter to intraregional trade flows. In order to identify the degree of protection it is necessary to take into consideration tariff as well as non-tariff barriers.

The rate of nominal protection measures the impact of a given system of protection upon the price of the industry's output. It is defined as the excess over which the domestic price of a good or merchandise exceeds the domestic price that would have prevailed under a free trade situation. Effective protection measures the impact upon the value added generated within a given industry or economic activity. It is defined as the percentage by which the valued added generated by a domestic activity exceeds the value added generated under conditions of free trade.[27]

Table 13 shows a rough estimate of nominal protection by CARICOM economy for 1990, 1995, 2000 and 2002. The estimates were obtained using government revenue and import data.

The results show that in the case of the OECS nominal protection has increased (24% and 28% in 1990 and 2002). At the same time the coefficient of variation shows a decline (0.25 and 0.11 for the same period) indicating that the inter-country levels of dispersion have narrowed over time. Finally the data shows that the OECS do not have the highest levels of nominal protection among all CARICOM economies.

For the rest of the CARICOM group the empirical evidence reflects a wide degree of dispersion. The Bahamas followed by Guyana and Belize exhibit the highest levels of nominal protection. It is worthy to note that the Bahamas has the highest trade and transactions tax dependency ratio in CARICOM (65% of total tax revenue).

Contrarily Trinidad and Tobago has the lowest level of nominal protection among CARICOM economies. The results for Trinidad and Tobago and the Bahamas mirror those obtained for the tariff computations.

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[27] The nominal and effective rates of protection are usually calculated by activity using an input-output matrix, the gross value of production in the case of the former and the value added in the case of the latter. Lacking an input-output matrix the calculations here obtained follow from government revenue and import statistics. Effective protection estimates were obtained with the formula: [(1+tariff)-(1-%VA)]/%VA-1))*100. See World Bank (1990, p.25).Value added ratios (VA) was obtained from different sources including national statistical offices.

Table 13
CARICOM
Nominal protection estimates
1990-2002

	1990	1995	2000	2002
The Bahamas	…	51.1	46.1	44.6
Barbados	24.4	22.8	21.6	23.6
Belize	42.0	46.8	31.4	33.6
Guyana	…	34.2	34.7	34.2
Jamaica	…	…	…	20.0
Trinidad and Tobago	…	19.5	18.7	18.8
Average	…	48.95	30.5	39.1
Antigua and Barbuda	23.0	24.3	23.4	27.3
Dominica	23.4	27	25.2	27.5
Grenada	35.0	25.7	25.6	29.4
St. Kitts and Nevis	15.8	21.9	20.1	21.7
St. Lucia	23.2	26.3	27.8	29.8
St. Vincent and the Grenadines	20.7	26.3	26.3	29.9
OECS	22.2	23.8	23.4	…
Average	23.5	25.3	24.7	27.6
Coefficient of variation	0.25	0.07	0.10	0.11

Note: … denotes not available.
The OECS data and the average do not coincide. The OECS data include Anguilla and Montserrat in addition to the countries included in the table.
Source: On the basis of official and ECLAC data.

Estimates of effective protection can be computed for countries for which value added computations per sector, economic activity and product are available. Table 14 shows these estimates in the case of Jamaica for coefficients of value added for 2003.

The results of this exercise, which are representative also of other CARICOM countries, show for one thing the wide range of existing effective protection rates. The rates range from 22% for mining and quarrying to 600% in the case of manufacturing and more than 700% in construction and installation. In addition, the levels of nominal tariff rates do not necessarily coincide with the levels of effective protection. As an example, a tariff rate of 25% yields a level of effective protection of 78% for the manufacturing sector while a tariff rate of 30% yields an effective rate of protection of 65% for the agricultural sector. As a result, the sectors that are have the highest levels of tariff rates may no be the ones that are in fact being protected. Finally, the maximum and minimum tariff rates provide the most protection for the manufacturing sector and not for the agricultural sector, which is the one that was afforded the highest level of protection by the CET.

Table 14
Jamaica
Levels of effective protection for different tariff rates and economic sectors on the basis of value added coefficients for 2003
In percentages

Economic Sectors	Tariff rates							
	10	15	20	25	30	50	100	200
Agriculture forestry & fishing	21.74	32.61	43.48	54.35	65.22	108.70	217.39	434.78
Mining & quarrying	22.73	34.09	45.45	56.82	68.18	113.64	227.27	454.55
Manufacture	31.25	46.88	62.50	78.13	93.75	156.25	312.50	625.00
Electricity & water	22.73	34.09	45.45	56.82	68.18	113.64	227.27	454.55
Construction & installation	38.46	57.69	76.92	96.15	115.38	192.31	384.62	769.23
Distributive trade	14.93	22.39	29.85	37.31	44.78	74.63	149.25	298.51
Transport, storage & communication	20.41	30.61	40.82	51.02	61.22	102.04	204.08	408.16
Financing & insurance services	15.87	23.81	31.75	39.68	47.62	79.37	158.73	317.46
Real estate & business services	14.93	22.39	29.85	37.31	44.78	74.63	149.25	298.51

Source: WITS (2005) and on the basis of information provided by the Statistical Institute of Jamaica.

5. The analysis of intra-regional trade flows

5.1. Preliminary considerations

As stated in the first section the main benefits of a single market and economy are transmitted through the 'trade channel.'

The greater is the level of intraregional trade of a given grouping the greater is the potential for growth and development. In turn, the level of intra-regional trade is determined in part by the level of intra-regional trade openness. Countries that have a high level of intra-regional trade openness are candidates for reaping the benefits from joining a single economy and market arrangement.

Table 15
Intra-regional trade openness
Intraregional exports and imports as percentage of GDP
1995 and 2000

Country	1995	2000
Barbados	11.50	13.54
Belize	3.70	2.79
Dominica	**23.24**	**26.11**
Grenada	15.09	17.04
Guyana	0.00	0.00
Jamaica	6.22	6.43
Montserrat	….	13.02
St. Kitts and Nevis	11.03	12.12
St. Lucia	15.46	13.47
St. Vincent and the Grenadines	**24.36**	**21.59**
Trinidad and Tobago	12.17	12.31
CARICOM	10.50	10.85
OECS	12.74	14.76

Source: CARICOM (2002) and on the basis of official data

As table 15 shows the levels of intra-regional trade are not for the most part high. OECS member states are amongst those CARICOM countries exhibiting the highest level of intra-regional trade openness. Trinidad and Tobago and Barbados (12% and 14% for 2000) also have a relatively high level of intra-regional trade openness. Contrarily Jamaica and Guyana have low levels of intra-regional trade openness (0% and 6% respectively).

The intraregional trade openness levels shown in Table 15 are not surprising. These simply reflect the empirical fact that the level of intra-regional is low, roughly 10% of total trade when Trinidad and Tobago is excluded from the computations.

As explained in the second section of this study a key stylised fact of intra-regional trade is that it is polarized. Polarization can be a common phenomenon of

customs union.[28] The polarization effect means that the productivity of an exporting country is growing more rapidly than the productivity in the importing country or in the trade partner of a customs union. This can be a critical factor in accounting for the fact that Trinidad and Tobago's intra-regional export share far out spaces its import share.

In addition, there is a high level of trade concentration at the product and firm levels. Finally, intra-regional exports have stagnated or declined, at least, over the past fifteen years. This defeats, to some extent, the purpose of a customs union whose main feature is to change the pattern of trade of its member countries.

5.2. The direction of intra-regional trade

Traditionally the OECS has been the most intra-regionally oriented group. The intra-regional exports and imports of the OECS represent 38%.and 22% of the total for 2003 on average.

Customs data available for 1995 to 2002 shows that on an intra-regional country-by-country basis the major trading partners of the OECS as a group are, from the export side, Trinidad and Tobago, Jamaica, Barbados, St. Lucia, Dominica and St. Kitts and Nevis (18%, 18%, 14%, 12%, 12% and 6% of the total intra-regional exports respectively). On the import side the main suppliers are Trinidad and Tobago and Barbados. Trinidad and Tobago and Barbados provide 65% and 13% of the OECS intra-regional imports (See Tables 16 and 17 below).

Taking into account only the OECS as a trading block, the data shows that St. Lucia, Antigua and Barbuda, Dominica and St. Kitts and Nevis are the main destinations of intra-OECS exports (28%, 26%, 16% and 13% of the total for the period 1995 to 2002). St. Vincent and the Grenadines, St. Lucia, Grenada and Dominica are the main import providers within the OECS (34%, 20%, 16% and 15% of the total on average for 1995 to 2002).

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[28] One of the main reasons for the proposal for the establishment of a Regional Integration Fund by CARICOM (1995) and the Government of Guyana in 1998 was to avoid the occurrence of a polarization within the Free Trade Area of the Americas Agreement. See footnote 46 below. Cheddi Jagan (1997) also mention polarization as occurring within CARIFTA. In this regard he wrote:"Goods produced particularly in Trinidad and Jamaicain many cases high-priced and ofinferior quality, now move freely within the region with the result that on the second anniversary of CARIFTA, Jamaica increased her trade by over 60 percent, Trinidad bo over 30 percent, and Guyana by a mere 5 percent. St. Lucia and Dominica and other territories are now questioning the usefuleness of CARIFTA.". See Jagan, Ch.(1997) The West On Trial. St. John's: Hansib Caribbean. p.399. If polarization is deemed to be an inevitable phenomenon of a customs union, then it should be used as a means to ensure its growth and development. This is one of the policy recommendations of this study. See Section 8.

[Insert tables 16 and 17 with values and volume]

On a country by-country basis the strongest export ties between OECS member states and all CARICOM economies are found between Antigua and Barbuda and St. Kitts and Nevis; Dominica and Jamaica; Grenada and St. Lucia; St. Kitts and Nevis and Dominica; St. Lucia and Barbados; St. Lucia and Trinidad and Tobago; St. Vincent and the Grenadines and Trinidad and Tobago.

Taking into account only the OECS member states the most relevant export relations include Antigua and Barbuda and St. Kitts and Nevis; Dominica and Antigua and Barbuda; Dominica and St. Lucia; Grenada and St. Lucia; St. Kitts and Nevis and Dominica; St. Lucia and Dominica; and St. Vincent and the Grenadines and St. Lucia.

On the import side the analysis on a country-by-country basis mirrors that found at the aggregate level. Trinidad and Tobago, Barbados and St. Vincent and the Grenadines are the most important suppliers. A similar result holds when considering solely the OECS. In this case the main suppliers of the OECS are St. Vincent and the Grenadines, St. Lucia and Dominica.

The analysis presented can be ratified by the computation of the trade intensity index adapted to the regional context. It is generically defined as the share of country's i exports that are destined to partner country j divided by the share of country j in world imports, or in the context of this study in the imports of a given regional grouping. [29]

The trade intensity index reflects the pattern of export orientation. A value greater than unity between the home country say Antigua and Barbuda, and a trade partner, say Dominica, indicates the existence of a bias to trade with that country. The trade intensity index was computed for trade between OECS and CARICOM and OECS and OECS for 1995-2002 on a country basis.

The results are shown in table 18 below. A bias for trade exists between Grenada and Barbados, Dominica and Jamaica; St. Lucia and St. Vincent and the Grenadines and Barbados.

At the level of the OECS and excluding Montserrat the results show a bias for trade between Antigua and Barbuda and St. Kitts and Nevis; Antigua and Barbuda and Dominica; St. Kitts and Nevis and Dominica; St. Lucia and Dominica and St. Vincent and the Grenadines and Grenada.

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[29] The trade intensity index (ITII) is equal to (4) $(X_{ij}/X_i)/(M_j/M_w)$ where,
X_{ij}= imports of reference country i from partner country j.
X_i= total exports of reference country i.
M_j = total imports of reference country j.
M_w = world imports.

Table 18
Intra Intensity Index
OECS/CARICOM
1995-2003

OECS	Barbados	Belize	Guyana	Jamaica	Trinidad and Tobago
Antigua and Barbuda	0.63	0.03	0.07	0.36	0.27
Dominica	0.75	0.054	1.81	**1.24**	0.25
Grenada	**1.61**	0.01	0.28	0.15	0.30
Saint Lucia	**2.42**	0.29	0.51	0.02	0.55
Saint Kitts and Nevis	0.61	0.03	0.17	0.03	0.28
Saint Vincent and the Grenadines	**1.48**	0.01	0.27	0.18	0.56
Montserrat	0.05	…	…	…	…0.15

OECS/OECS
1995-2003

OECS	Antigua and Barbuda	Dominica	Grenada	Saint Lucia	Saint Kitts and Nevis	Saint Vincent and the Grenadines	Montserrat
Antigua and Barbuda	-	**1.54**	0.18	0.36	**1.79**	0.28	**15.64**
Dominica	0.43	-	0.42	**0.19**	0.32	0.14	0.51
Grenada	0.44	0.85	-	0.67	0.47	0.14	0.27
Saint Lucia	0.63	**1.13**	0.95	-	0.21	0.28	0.85
Saint Kitts and Nevis	0.82	**3.36**	0.17	0.42	-	0.17	**8.27**
Saint Vincent and the Grenadines	0.54	0.58	**1.04**	0.55	0.53	-	0.43
Montserrat	**2.28**	**1.63**	0.00	0.03	**2.08**	0.00	-

Note: … denotes not available. Values greater than 1 are highlighted in bold.
Source: CARIBTRADE (2003)

5.3 Intra-regional trade at the product level

CARICOM economies produce a narrow range of products and in fact have foregone, with a few exceptions, export diversification objectives. The high values of the diversification index for total exports presented in Table 19 (below) attest to their narrow export base. As shown in table 19, on average the number of products exported by CARICOM economies is 45 and the concentration index is 0.46. These characteristics are more pronounced for the smaller economies. For these the number of exported commodities is on average 19 and the concentration index is 0.47.

Table 19
Total number of commodities exported and diversification and concentration indices for selected Caribbean countries
2000

Country	Number of commodities exported	Diversification index	Concentration index
Barbados	65	0.732	0.177
Dominica	16	0.630	0.433
Jamaica	74	0.857	0.571
Montserrat	25	0.532	0.300
St. Lucia	17	0.824	0.576
St. Kitts and Nevis	14	0.787	0.586
St. Vincent and the Grenadines	22	0.700	0.458
Suriname	35	0.847	0.659
Trinidad and Tobago	144	0.796	0.408

Note: The diversification index refers to the absolute deviation of the country share from the world structure. It is equal to: $D_i = \Sigma (S_{ij} - S_i)/2$, where S_{ij} = share of commodity i in total exports of country j. S_i= share of commodity i in total world exports. The diversification index takes higher values as the export structure is less diversified. The concentration index is the Herfindahl-Hirschmann index. The index ranges from 0 to 1. A value of 1 is an indication of maximum concentration.
It is equal to: $(\sqrt{\Sigma(x_i/X)^2} - \sqrt{1/n})/(1- \sqrt{1/n})$
x_i = value of exports of product i.
X = total exports.
n = number of commodities.
Source: UNCTAD (2002)

Intra regional trade, as explained earlier, is also concentrated at the product level At the most disaggregated level the available data shows that intra-regional trade flows are driven mainly by two commodities, petroleum products and cement (See Table 20 below). Both of these, which are produced in Trinidad and Tobago account for 51% of intraregional trade on average between 1998 and 2002. This is reflected in the Herfindahl-Hirchmann index, which is equal to 0.38 showing a relatively high degree of concentration. However, when both commodities are excluded from the sample intra-regional trade is fairly diversified and the Herfindahl-Hirchmann index drops to 0.09.

Table 20
CARICOM
Intra-regional exports by product at the six digit level (in 000' US dollars)
1998-2002

Product Name	1998	1999	2000	2001	2002	Grand Total	Average	Share	Accumulated Share
(-2001) Petroleum oils and oils obtained from bitu	6,688.2	260,037.1	193,727.2	165,738.8	47,737.3	673,928.5	134,785.7	36.4	36.4
Other	7,058.8	84,613.3	82,123.6	69,149.0	37,580.5	280,525.3	56,105.1	15.1	51.5
Waters, including mineral waters and aerated water	398.1	15,404.2	5,084.1	10,810.5	3,971.4	35,668.3	7,133.7	1.9	53.4
Preparations put up for retail sale	622.1	11,292.1	8,479.8	8,215.8	4,583.8	33,193.7	6,638.7	1.8	55.2
Beer made from malt.	806.7	7,085.6	9,972.8	9,485.3	2,572.7	29,923.2	5,984.6	1.6	56.8
Sanitary towels and tampons, napkins and napkin li	393.7	12,497.8	6,287.8	5,890.0	3,058.9	28,128.3	5,625.7	1.5	58.4
Wheat or meslin flour.	2,250.9	4,652.9	8,700.3	8,217.7	3,332.6	27,154.3	5,430.9	1.5	59.8
Husked (brown) rice	649.0	15,522.3	3,307.0	2,277.8	1,069.0	22,825.1	4,565.0	1.2	61.1
(-2001) Sweet biscuits; waffles and wafers	295.4	8,720.0	4,879.4	4,291.9	2,393.6	20,580.4	4,116.1	1.1	62.2
Cigarettes containing tobacco	1.7	4,211.5	5,068.4	5,935.5	4,216.4	19,433.6	3,886.7	1.0	63.2
Urea, whether or not in aqueous solution		3,594.0	3,495.7	3,168.8	3,253.1	13,511.6	3,377.9	0.9	64.1
Containing indentations, ribs, grooves or other de	290.8	3,809.0	5,531.5	5,030.4	818.2	15,479.8	3,096.0	0.8	65.0
Doors and their frames and thresholds	131.4	5,127.5	5,496.3	3,512.5	489.5	14,757.2	2,951.4	0.8	65.8
Toilet paper	279.1	4,975.5	3,613.0	3,231.3	1,730.7	13,829.6	2,765.9	0.7	66.5
For toilet use (including medicated products)	58.1	8,589.4	2,201.6	1,798.7	1,151.9	13,799.6	2,759.9	0.7	67.3
Propane	813.6	1,704.2	3,692.1	2,871.4	3,824.7	12,906.0	2,581.2	0.7	68.0
Cane sugar	298.1	3,056.7	4,039.5	4,312.7	1,077.7	12,784.6	2,556.9	0.7	68.6
Butanes	82.2	4,901.5	2,443.9	2,615.0	2,716.2	12,758.8	2,551.8	0.7	69.3
Prepared foods obtained by the swelling or roastin	115.6	5,841.5	3,112.6	2,118.7	888.4	12,076.7	2,415.3	0.7	70.0
Of other plastics	263.2	2,495.3	3,939.2	3,481.9	1,597.5	11,777.0	2,355.4	0.6	70.6
Carboys, bottles, flasks and similar articles	122.7	4,691.3	4,496.1	1,795.8	626.1	11,732.1	2,346.4	0.6	71.3
Of other textile materials	130.8	3,654.9	4,211.1	3,171.6	541.8	11,710.1	2,342.0	0.6	71.9
Of cotton	179.4	3,177.0	3,906.8	2,833.2	759.4	10,855.7	2,171.1	0.6	72.5
Dentifrices	30.1	5,670.9	2,250.0	1,587.9	1,146.5	10,685.5	2,137.1	0.6	73.0
(1996-) Other	238.0	1,322.0	3,134.1	2,778.6	2,500.9	9,973.5	1,994.7	0.5	73.6
Printed	294.4	3,202.5	2,514.4	2,303.1	1,302.5	9,616.8	1,923.4	0.5	74.1
White cement, whether or not artificially coloured	71.8	5,353.8	2,384.7	105.9	1,606.1	9,522.4	1,904.5	0.5	74.6

Table 20
CARICOM
Intra-regional exports by product at the six digit level (in 000' US dollas)
1998-2002

Doors, windows and their frames and thresholds for	706.8	1,231.2	4,098.9	1,973.4	1,120.4	9,130.8	1,826.2	0.5	75.1
Margarine, excluding liquid margarine	541.2	2,775.6	2,675.0	2,165.8	960.8	9,118.3	1,823.7	0.5	75.6
Insecticides	211.9	2,833.9	2,279.0	1,987.0	1,466.4	8,778.2	1,755.6	0.5	76.1
Cartons, boxes and cases, of corrugated paper or p	57.5	2,878.2	2,844.2	2,506.5	247.3	8,533.7	1,706.7	0.5	76.5
Semimilled or wholly milled rice, whether or not p	39.4	5,098.9	1,563.1	1,143.6	216.3	8,061.4	1,612.3	0.4	77.0
Tomato ketchup and other tomato sauces	141.2	1,777.6	2,637.5	2,211.8	1,176.6	7,944.7	1,588.9	0.4	77.4
Frozen	174.4	3,227.9	2,763.9	1,471.3	263.6	7,901.0	1,580.2	0.4	77.8
Other paints and varnishes (including enamels, lac	163.7	1,006.0	2,399.0	1,900.3	1,795.8	7,264.8	1,453.0	0.4	78.2
(-1995, 2002-) Other		1,184.8				1,184.8	1,184.8	0.3	78.5
Sacks and bags, having a base of a width of 40 cm	164.4	2,419.3	1,617.8	1,630.8	46.0	5,878.3	1,175.7	0.3	78.9
Sausages and similar products, of meat, meat offal	238.8	2,815.0	1,219.2	989.3	553.3	5,815.6	1,163.1	0.3	79.2

Source: WITS (2005)

The degree of concentration at the aggregate level reflects the fact that, even when decomposed by pairs of countries, the bilateral Herfindahl-Hirschmann index exhibits for most of the 136 observations a high degree of concentration (See Table 22 below). Taking 0.25 as a rule-of-thumb benchmark for measuring concentration it can be shown that 64% of the bilateral trading relationships are above that level. The OECS, Suriname, Bahamas and Trinidad and Tobago exhibit some of the highest ratios (0.42, 0.51, 0.61 and 0.39 on average respectively). Among OECS member states, Grenada has the highest average bilateral ratio (0.50). Barbados and Jamaica have the lowest degree of concentration among all CARICOM member states (0.23 and 0.19, respectively).

Further analysis of intra-regional trade was undertaken involving the classification of exports and imports into different standardized categories. These include economic sectors and categories, and broad aggregates. The results show that at the level of economic sectors industrial, agricultural and petroleum products account for 55%, 17% and 27% of intra-regional exports shares (See Figure 8 above).

In terms of economic categories, the evidence highlights the fact that 79% of all traded intra-regional exports are consumer goods while intermediate and raw materials represent 19% of the total. For their part, capital goods account for 2% of total intra-regional exports (See Figure 9 above). These results are in accordance with the production capabilities of the region and also the principles of the CET, which provide protection to the production of final goods.

Finally, the classification by broad category shows that, as expected and explained earlier, petroleum products and fuels are the main traded commodity (41% of the total in 2002). The results also show that manufactures, transport equipment, and food and beverages play a non-negligible role accounting for 13.9%, 13.5% and 12% of the total for 2002 (See Table 21 below).

Table 21
Intra-regional CARICOM import by broad categories
1996-2002
Percentage of the total

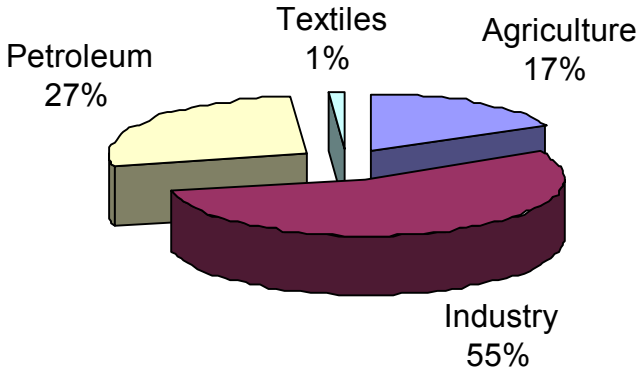
	1996	1999	2000	2001	2002
Agriculture	11.1	11.1	10.5	12.0	12.5
Agriculture raw materials	0.6	0.7	0.4	0.5	0.7
Chemicals	5.2	4.0	3.7	3.7	4.1
Food	10.5	10.4	10.1	11.4	11.9
Fuels	13.2	17.9	19.5	16.5	15.0
Manufactures	16.9	13.4	12.6	13.4	13.9
Ores and metals	0.0	0.0	0.0	0.0	0.0
Petroleum products	28.0	24.5	23.1	25.4	26.4
Textiles	0.3	0.4	0.2	0.2	0.3
Transport equipment	12.2	16.2	18.6	15.4	13.5

Source: WITS (2005)

Table 22
Bilateral Herfindahl-Hirschmann Index (2002)

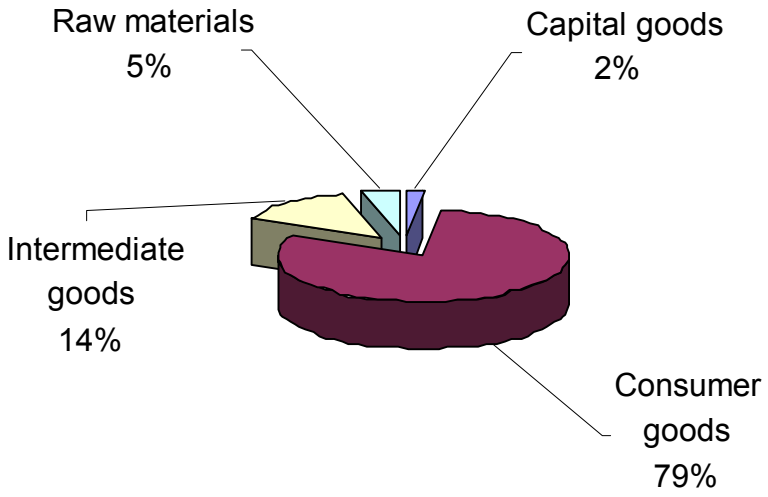
	Antigua and Barbuda	Bahamas	Barbados	Belize	Dominica	Grenada	Guyana	Jamaica	Montserrat	St. Kitts and Nevis	St. Lucia	St. Vincent and the Grenadines	Suriname	Trinidad and Tobago	Average
Antigua and Barbuda	….	**0.64**	0.22	0.08	0.25	0.4	0.19	0.17	0.32	0.23	0.45	0.46	…	0.19	0.30
Dominica	0.3	0.38	0.22	0.51	…	0.54	0.44	0.22	**0.84**	0.24	0.51	0.35	0.12	0.43	0.39
Grenada	0.25	0.21	0.17	0.13	0.2	…	0.28	0.14	…	0.29	**0.41**	0.34	0.09	0.34	0.24
St. Kitts and Nevis	0.23	**0.91**	0.2	0.33	0.22	0.64	0.19	0.15	0.71	…	0.4	0.24	…	0.48	0.39
St. Lucia	0.39	0.22	0.17	0.16	0.26	**0.58**	0.39	0.17	…	0.34		0.37		0.37	0.31
St. Vincent and the Grenadines	0.54	**0.84**	0.18	0.2	0.35	0.53	0.46	0.15	0.07	0.36	0.25	…	0.79	0.34	0.39
The Bahamas	0.2	…	0.22	…	0.74	**0.83**	0.35	0.34	…	…	0.33	…	…	0.39	0.43
Barbados	0.39	0.75	…	0.62	0.33	0.47	0.26	0.17	…	…	0.69	0.3	**0.94**	0.4	0.48
Belize	0.65	0.83	0.57	…	0.63	0.16	0.5	0.2	…	0.55	**0.97**	…	…	0.25	**0.53**
Guyana	0.47	0.52	0.23	0.29	0.27	0.33	…	0.14	…	…	**0.8**	0.1	0.33	0.32	0.35
Jamaica	…	0.46	0.27	0.44	0.37	0.7	0.37	…	…	0.18	0.36	**0.72**	0.44	0.61	0.45
Suriname	…	…	….	…	…	…	…	…	…	…	…	…	….	…	…
Trinidad and Tobago	0.35	**0.96**	0.07	0.6	0.49	0.18	0.38	0.2	…	0.26	0.57	0.27	0.86	…	0.43
Average	0.38	0.61	0.23	0.36	0.39	0.50	0.36	0.19	**0.54**	0.32	0.53	0.34	0.51	0.39	….

Figure 8
CARICOM
Share of Intra-regional exports by economic category
1998-2002 (Average)



Source: WITS (2005)

Figure 9
CARICOM
Share of intra-regional exports by economic category
1998-2002 (Average)



Source: WITS (2002)

5.4. Trade between the OECS and CARICOM

The balance of trade between the OECS and CARICOM has become increasingly unfavorable for the former. The available evidence shows that between 1980 and 2003 it has widened from –214 to –481 EC$ representing an increase of more than 100% (See Figure 10 below). In relative terms the trade imbalance represented 6.0% and 6.5% of the combined OECS GDP for 1990 and 2003. The increasing trade imbalance has been particularly noticeable in the cases of Grenada, St.Kitts and Nevis, St Lucia and St. Vincent and the Grenadines (See table 23 below).

Figure 10
Balance of trade between the OECS and CARICOM (000'EC$)
Selected Years

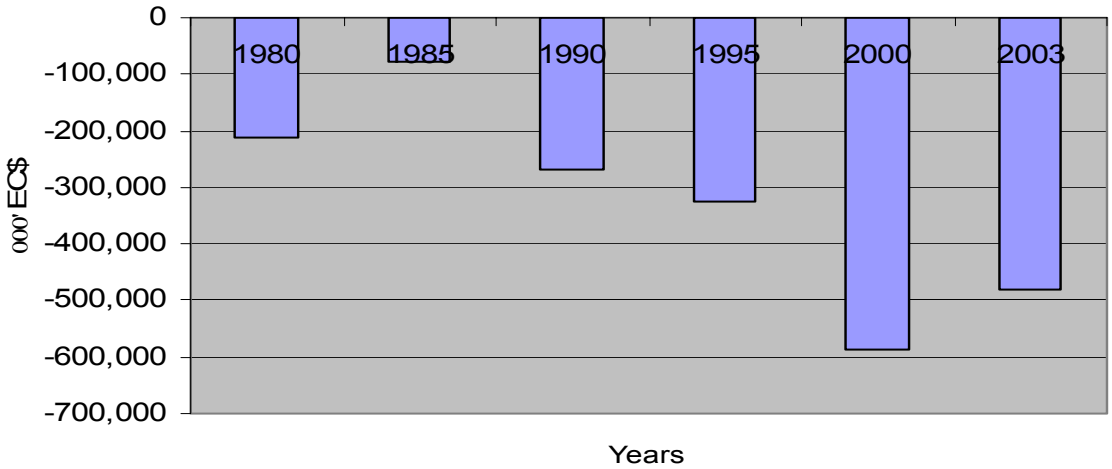


Table 23
Balance of trade between OECS and CARICOM (EC$000')
Selected years

	1980	1985	1990	1995	2000	2003
Antigua and Barbuda	-72,844	-58,271	-63,245	0	-86,286	…
Dominica	-18,604	-7,636	-29,976	-33,126	-23,983	-34,479
Grenada	-38,231	-20,705	-50,732	-78,322	-123,059	-134,987
Montserrat	-11,690	-9,575	-19,676	1,905	-11,299	-5,047
St. Kitts and Nevis	-13,894	-10,767	-33,228	-56,312	-91,678	-100,316
St. Lucia	-31,721	-36,903	-72,813	-137,309	-179,981	-138,567
St. Vincent and the Grenadines	-26,749	65,424	274	-23,444	-69,277	-68,233
Total	-213,733	-78,433	-269,396	-326,608	-585,563	-481,629

Note: … denotes not available.
Source: CARICOM Secretariat (2003 & 2005)

It must be taken into account that all CARICOM members with the exception of Trinidad and Tobago show a negative result in their balance of trade with CARICOM. Thus this is not an exclusive OECS phenomenon.

However, while there is no difference in the trend there is some difference in terms of orders of magnitude. A comparison for 1995 and 2000 show that, the regional trade imbalance for the OECS represents 6% and 7% of GDP. For Barbados and Jamaica the regional trade deficit for the same years is equivalent to 2% and 4%; 4% and 5% of GDP respectively.

Taking the analysis at the product level by broad category, the evidence shows that the OECS exports agricultural materials, chemicals, food, manufactures to the MDC's (14%, 15%, 14% and 21% of the total intra-regional trade to the MDC's). Exports within the OECS are concentrated on agricultural materials and food products (48% of the total) (See Table 23 below). As a result exports to the MDCs appear to be more diversified and have higher value added than those destined to the OECS member states.

Table 23
OECS imports and exports to MDCs and CARICOM by broad categories
Averages
1995-2002

	Exports		Imports	
	To MDCs	To OECS	From Caricom	From MDCs
Agricultural materials	13.96	23.91	7.91	6.93
Agriculture raw materials	0.01	0.04	0.14	0.15
Chemicals	14.53	4.23	2.69	2.53
Food	13.95	23.87	7.78	6.78
Machinery and transport equipment	0.00	0.70	0.80	0.80
Fuels	0.22	0.00	7.00	7.94
Manufactures	21.18	11.16	11.74	12.10
Miscellaneous goods	0.03	0.00	0.00	0.00
Ores and metals	0.03	0.28	0.24	0.18
Other manufactures	…	….	8.23	8.77
Petroleum products	0.00	0.00	6.11	6.90
Textiles	0.90	0.44	0.62	0.68

Source: WITS (2005)

In so far as the OECS exports more chemicals and manufactures to the MDCs than it imports, the terms of trade may not be a determining factor in the OECS trade balance result. In fact, it should be taken into account that the increase in the OECS balance of trade deficit with CARICOM coincides with the period during which, the OECS lost intra-regional market share, the CET was progressively implemented and the OECS experienced significant macroeconomic imbalances including the widening in the current account gap. In short the OECS trade performance may respond to factors that are not necessarily exclusively related to those of an intra-regional nature.

Table 25 to 28 below provide a more precise picture of OECS intra-regional trade by showing the main export products to the OECS, and the MDC's at the most aggregated and disaggregated level (Harmonized System, 2 and 6 digits).

The data shows that the OECS export composition to the MDCs is concentrated both at the two and the six digit level. Furthermore the degree of concentration does not vary substantially among levels of aggregation. At the two-digit level 6 products account for 72% of the exports of the OECS to the MDCs. At the six-digit level 11 products account for 69% of the total. The product concentration is compounded by the fact that both at the two and six-digit levels, that the first two or three products have the lion share of the export market.

Contrarily in the case of intra-OECS the export composition is more diversified. At the two and six-digit level 9 and 22 products account for 72% of total intra-OECS exports.

Table 24
Main export products of the OECS to CARICOM
1995-2000

Product	1985	1990	1995	2000
054 Vegetables, fresh, chilled, frozen or simply preserved;	27.09	2.32	nre	3.14
554 Soap, cleansing and polishing preparations;	9.54	17.10	18.05	14.02
057 Fruit and nuts (not oil nuts) fresh or dried;	8.83	3.03	3.50	4.23
642 Paper and paperboard, cut to size or shape, articles of;	7.48	10.93	11.49	6.79
674 Universals, plates and sheets, of iron or steel;	6.23	3.79	2.37	3.37
046 Meal and flour of wheat and flour of meslin;	5.87	8.41	11.96	11.71
424 Other fixed vegetable oils, fluid or solid, crude, etc.;	4.53	7.03	2.33	nre
081 Feeding stuff for animals (excl. unmilled cereals);	2.93	2.68	2.95	2.75
846 Under garments, knitted or crocheted;	2.42	1.71	1.30	1.38
821 Furniture and parts thereof;	2.34	2.87	nre	nre
091 Margarine and shortening;	1.98	1.80	1.27	nre
112 Alcoholic beverages;	1.98	4.27	5.49	10.60
775 Other household type, electrical and non-elec. eqpt.;	1.19	2.13	1.15	nre
697 Household equipment of base metal, n.e.s.;	1.00	1.08	0.77	nre
533 Pigments, paints, varnishes and related materials;	0.94	2.29	3.26	3.63
111 Non-alcoholic beverages n.e.s.;	0.80	2.19	2.68	4.56
423 Fixed vegetable oils, soft, crude, refined or purified;	0.18	1.72	nre	nre
058 Fruit, preserved and fruit preparations;	0.08	2.02	nre	nre
553 Perfumery, cosmetic and toilet preparations;	0.07	1.12	nre	6.32
042 Rice;	0.00	3.48	8.52	6.79
Total	85.48	81.96	77.07	79.28

Source: TradeCAN (2002)

The most important export products to the MDCs and other OECS economies are also the traditional ones (See Table 24 above). The data furthermore shows a high degree of specialization in the case of the OECS, so that particular export products are associated with specific countries. The main export products and associated countries are milling products (St.Vincent and the Grenadines, Grenada), rice (St.Vincent and the Grenadines),

cereals (St.Vincent and the Grenadines), soap and dentifrice (Dominica), paper and paperboard (St Lucia), food and beverages (St Lucia), paints, and water.

The export composition of the OECS to CARICOM has not changed substantially over time. Table 24 above shows that taking 1985 as a reference year, the majority of products exported in 1985 (85% of the total) are also those that were exported in 2000 (79% of the total). Some of the products exported in 1985 are no longer exported in following years, while there have been new products coming on stream. Two examples of products that are no longer exported are furniture and parts and fixed vegetable oils. New products include stones and ships and boats.

These cases represent however a minority of total exports. These results point to an important policy recommendation. Rather than seeking to diversify their export structure, OECS member states should consolidate and enhance the present export structure, which has shown remarkable resilience and constancy over time, even at a time during which the OECS lost market share at the extra-regional level.

The case for consolidation is strengthened by the decomposition of exports by factor intensity. Using an UNCTAD methodology exports were classified by technological content according that distinguishes six categories: primary goods, labour intensive manufactures, manufactures with low value added content, manufactures with a medium technological content, manufactures with a high technological content, and non-classified products.

The results of this exercise show that 42% of OECS exports to the MDCs are considered manufactures with high skill and technological intensity. Primary commodities represent 39% of the total and 17% are considered labour intensive and resource-based manufactures. Contrarily, in the case of MDCs exports to the OECS, manufactures with high skill and technological intensity represent 10% of the total. Primary commodities represent 27% of the total and 19% are considered labour intensive and resource-based manufactures (See Figures 11 ad 12). Independently of the existing degree of concentration, this exercise shows that the current export structure can be conducive to the generation of dynamic processes, which are most important for the development and increase of intra-regional trade.

Table 25
Exports of the OECS to MDCs
2002

Product	Product Name	No. of Total Lines	Imports Value	Percentage share	Accumulated share
34	Soap, organic surface-active agents, washing prep	76	10666.09	23.98	23.98
22	Beverages, spirits and vinegar.	135	6805.85	15.30	39.29
33	Essential oils & resinoids; perf, cosmetic/toilet	47	4719.95	10.61	49.90
48	Paper & paperboard; art of paper pulp, paper/pape	68	3848.09	8.65	58.55
03	Fish & crustacean, mollusc & other aquatic invert	78	3111.32	7.00	65.55
08	Edible fruit and nuts; peel of citrus fruit or me	119	2556.31	5.75	71.30
10	Cereals	42	2467.10	5.55	76.85
25	Salt; sulphur; earth & ston; plastering mat; lime	9	1789.45	4.02	80.87
38	Miscellaneous chemical products.	26	1318.55	2.96	83.84
07	Edible vegetables and certain roots and tubers.	69	1226.37	2.76	86.59
27	Mineral fuels, oils & product of their distillati	112	669.85	1.51	88.10
61	Art of apparel & clothing access, knitted or croc	40	589.19	1.32	89.42
84	Nuclear reactors, boilers, mchy & mech appliance;	102	557.84	1.25	90.68
32	Tanning/dyeing extract; tannins & derivs; pigm et	36	554.50	1.25	91.93
09	Coffee, tea, matn and spices.	33	317.60	0.71	92.64
39	Plastics and articles thereof.	93	281.13	0.63	93.27
11	Prod.mill.indust; malt; starches; inulin; wheat g	14	277.77	0.62	93.90
44	Wood and articles of wood; wood charcoal.	35	272.23	0.61	94.51
23	Residues & waste from the food indust; prepr ani	22	209.69	0.47	94.98
73	Articles of iron or steel.	55	184.61	0.42	95.39

Source: WITS (2005)

Table 26
Exports of the OECS to OECS
2002

Product	Product Name	No. of Total Lines	Imports Value	Percentage share	Accumulated share
11	Prod.mill.indust; malt; starches; inulin; wheat g	36	6997.167	19.336427	19.336427
22	Beverages, spirits and vinegar.	338	5240.531	14.482025	33.818452
48	Paper & paperboard; art of paper pulp, paper/pape	125	2992.246	8.2689676	42.08742
32	Tanning/dyeing extract; tannins & derivs; pigm et	271	2374.752	6.5625445	48.649964
23	Residues & waste from the food indust; prepr ani	80	2006.615	5.5452107	54.195175
10	Cereals	53	1889.455	5.2214431	59.416618
72	Iron and steel.	116	1808.641	4.9981164	64.414735
08	Edible fruit and nuts; peel of citrus fruit or me	162	1566.563	4.3291423	68.743877
34	Soap, organic surface-active agents, washing prep	132	1364.938	3.7719586	72.515835
85	Electrical mchy equip parts thereof; sound record	185	995.44	2.7508638	75.266699
84	Nuclear reactors, boilers, mchy & mech appliance;	281	940.413	2.5987986	77.865498
25	Salt; sulphur; earth & ston; plastering mat; lime	35	861.238	2.3800012	80.245499
39	Plastics and articles thereof.	366	523.575	1.4468813	81.69238
87	Vehicles o/t railw/tramw roll-stock, pts & access	181	475.704	1.3145914	83.006972
33	Essential oils & resinoids; perf, cosmetic/toilet	109	446.017	1.2325524	84.239524
62	Art of apparel & clothing access, not knitted/cro	245	431.779	1.1932062	85.43273
19	Prep.of cereal, flour, starch/milk; pastrycooks'	50	420.787	1.1628302	86.595561
07	Edible vegetables and certain roots and tubers.	144	372.718	1.0299932	87.625554
94	Furniture; bedding, mattress, matt support, cushi	135	368.469	1.0182513	88.643805
04	Dairy prod; birds' eggs; natural honey; edible pr	11	328.865	0.908807	89.552612
61	Art of apparel & clothing access, knitted or croc	123	293.009	0.8097202	90.362332
15	Animal/veg fats & oils & their cleavage products;	31	264.25	0.7302457	91.092578
38	Miscellaneous chemical products.	58	235.699	0.651346	91.743924
76	Aluminium and articles thereof.	46	223.758	0.6183474	92.362271
73	Articles of iron or steel.	180	204.367	0.5647611	92.927032

Source: WITS (2005)

Table 27
Exports of the OECS to MDCs (6 digit level)
2002

Product	Product Name	No. of Total Lines	Imports Value	Percentage share	Accumulated share
340111	For toilet use (including medicated products)	15	5426.1	12.201	12.201
220300	Beer made from malt.	47	5138.5	11.555	23.756
330610	Dentifrices	12	4687.9	10.541	34.297
340119	Other	8	3367	7.5711	41.869
080300	Bananas, including plantains, fresh or dried.	13	2236.8	5.0298	46.898
481910	Cartons, boxes and cases, of corrugated paper or p	10	2072.3	4.6597	51.558
100630	Semimilled or wholly milled rice, whether or not p	24	1964.7	4.418	55.976
252321	White cement, whether or not artificially coloured	1	1585.3	3.5647	59.541
340220	Preparations put up for retail sale	31	1511.6	3.399	62.94
481810	Toilet paper	8	1442.9	3.2445	66.184
380840	Disinfectants	8	1301.8	2.9273	69.112
030379	Other	18	1240.9	2.7904	71.902
030231	Albacore or longfinned tunas (Thunnus alalunga)	2	1088.2	2.447	74.349
220290	Other	15	1061.7	2.3873	76.736
071490	Other	42	987.06	2.2195	78.956
271000	(-2001) Petroleum oils and oils obtained from bitu	111	657.54	1.4786	80.434
321000	Other paints and varnishes (including enamels, lac	28	552.38	1.2421	81.676
610910	Of cotton	10	510.53	1.148	82.824
100620	Husked (brown) rice	12	448.15	1.0077	83.832
340520	Polishes, creams and similar preparations for the	3	290.09	0.6523	84.484
110100	Wheat or meslin flour.	4	266.19	0.5986	85.083
071420	Sweet potatoes	3	231.29	0.5201	85.603
030621	Rock lobster and other sea crawfish (Palinurus spp	1	222.56	0.5005	86.104

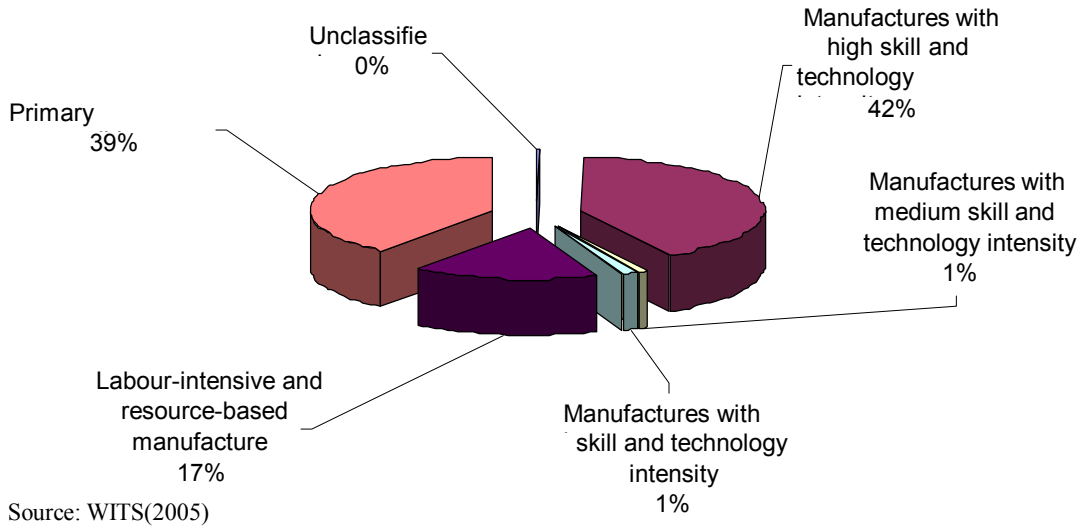
Source: WITS (2005)

Table 28
Exports of the OECS to OECSs (6 digit level)
2002

Product	Product Name	No. of Total Lines	Imports Value	Percentage share	Accumulated share
110100	Wheat or meslin flour.	22	6739.827	18.62527	18.62527
220300	Beer made from malt.	41	2777.074	7.674346	26.29962
481910	Cartons, boxes and cases, of corrugated paper or p	11	2339.258	6.464457	32.76408
230990	Other	69	1949.803	5.388212	38.15229
220210	Waters, including mineral waters and aerated water	53	1653.538	4.569494	42.72178
321000	Other paints and varnishes (including enamels, lac	70	1600.094	4.421803	47.14358
100630	Semimilled or wholly milled rice, whether or not p	25	1314.345	3.632146	50.77573
721041	Corrugated	22	1216.421	3.361536	54.13727
080300	Bananas, including plantains, fresh or dried.	18	914.097	2.526075	56.66334
852520	Transmission apparatus incorporating reception app	4	693.834	1.917386	58.58073
340111	For toilet use (including medicated products)	29	580.467	1.6041	60.18483
100620	Husked (brown) rice	23	574.534	1.587704	61.77253
252329	Other	9	531.892	1.469865	63.2424
320810	Based on polyesters	42	515.504	1.424577	64.66697
481810	Toilet paper	10	504.713	1.394756	66.06173
340119	Other	11	494.647	1.366939	67.42867
330610	Dentifrices	14	338.565	0.935612	68.36428
842959	Other	3	315.745	0.87255	69.23683
040229	Other	1	289.11	0.798945	70.03578
190219	Other	12	286.489	0.791702	70.82748
071490	Other	30	233.44	0.645103	71.47258
721240	Painted, varnished or coated with plastics	6	228.755	0.632156	72.10474
220290	Other	57	228.713	0.63204	72.73678
610910	Of cotton	34	217.196	0.600213	73.33699
761010	Doors, windows and their frames and thresholds for	6	216.202	0.597467	73.93446

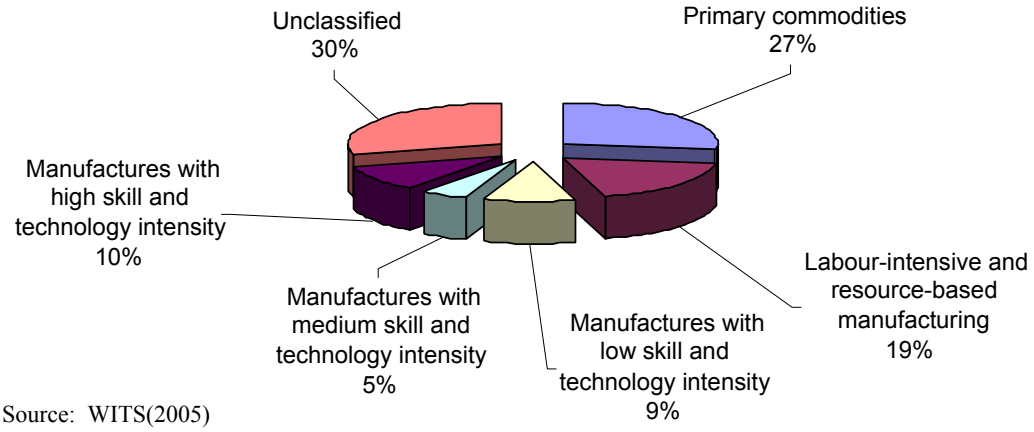
Source: WITS (2005)

Figure 11
Exports of the OECS to the MDC's clasified according to factor
1995-2002



Source: WITS(2005)

Figure 12:
Exports of the MDCs to the OECS classified by factor intensity
1995-2002



Source: WITS(2005)

5.5 A competitive analysis of OECS exports to CARICOM

In order to gauge the competitiveness of OECS exports to CARICOM a competitiveness matrix was constructed (see Table 29 below). The computations were carried out using ECLAC's Competitive Analysis of Nations (CAN) software programme.

The analysis combines the increase or decrease of country's market share in a given product in a given import market with the increase or decrease in the share of a product in a given market. When a country's market share in a product increases (decreases) the country is a winner or efficient (inefficient or loser) in the export of that product. When the import market share of a commodity increases (decreases) the demand for the product in the said market is dynamic (stagnant).

Competitiveness movements refer to the change over time of a product in a market with respect to the market share for that product and the share of the product in that market. An increasing country share (say in St. Lucia) in a product whose relative importance in the imports of the reference country or trade partner (say Barbados) is growing is referred to as a Rising Star. An increasing (declining) country share (say St. Lucia) in a product whose relative importance in the imports of the reference country or trade partner (say Barbados) is growing (is shrinking) is referred to as a Rising Star (Retreat). A declining country share (say Belize) in a dynamic (stagnant) product (a product that is increasing (decreasing) its importance in the imports of Barbados) is referred to as a Missed Opportunity (Declining Star).

Table 29
OECS exports to CARICOM
Market share competitive matrix, 1985-1990, 1990-1995 and 1995-2000
at the three digit level and expressed as a percentage of the final year exports

		Stagnant commodities		Dynamic commodities	
		First period	59.8	First period	36.6
		Second period	37.1	Second period	62.8
		Third period	62.2	Third period	37.7
Market share gains		Declining stars		Rising stars	
First period	73.4	First period	41.1	First period	32.3
Second period	43.6	Second period	29.1	Second period	14.4
Third period	44.0	Third period	19.7	Third period	24.4
Market share losses		Retreats		Missed opportunities	
First period	23.0	First period	18.7	First period	4.3
Second period	56.3	Second period	8.0	Second period	48.3
Third period	55.9	Third period	42.6	Third period	13.4

Source: CAN (2002)

The matrix orders commodities following two criteria: their dynamism/stagnation and market share gains and losses for three time-periods spanning 1985-1990; 1990-1995 and 1995-2000 (Again see Table 29 above).

In the first period (1985-1990) OECS benefited from favorable demand conditions mainly in stagnant markets. OECS registered market share gains for most exports (73% of the total). The majority of the market share gains (60%) occurred in stagnant markets and 37% of the total occurred in dynamic markets.

In the second period (1990-1995) OECS reversed their market share gains and witnessed market share losses in the case of more than 50% of their intra-regional exports. Also the market share losses occurred mostly in dynamic commodities (63% of the total).

In the third period (1995-2000) OECS member states maintained their market share standing from the previous period (that is the percentage of market losses remained roughly constant). However, contrarily to the second period the majority of market share losses occurred in stagnant commodities.

Detailed empirical evidence at the product level (presented in tables 30 and 31 below) reveals that on average the OECS intra-regional market share for its major commodities steadily declined between 1985 and 2000 (7.6%, 7.6%, 5.98%, 5.75% for 1985, 1990, 1995 and 2000 respectively). At the same time, the average import share of the commodities exported by the OECS to CARICOM decreased from 0.40 to 0.33 between 1985 and 1990 and then increased to 0.41 in 1995 and remained at that level in 2000.

The same evidence also shows that in 1985, the OECS held a market share greater than 25% in five products and a market share greater than 10% in 9 of the products exported intra-regionally. In 2000, the OECS had an intra-regional export market share greater than 25% in only one commodity (Meal and flour of wheat and flour of meslin) and a market share greater than 10% in only 5 products (soap, fruit and nuts, meal and flour of meal, alcoholic beverages and rice).

Furthermore the results presented indicate that only five products witnessed an increase in intra-regional market share between 1985 and 2000. This list comprises meal and flour of wheat (25% and 44% in 1985 and 2000 respectively), alcoholic beverages (5% and 12% in 1985 and 2000), non-alcoholic beverages (6% and 9% in 1985 and 2000), travel goods (1% and 2% in 1985 and 2000), perfumery and cosmetics (0.2% and 7% in 1985 and 2000), stone, sand and gravel (0.2% and 6% in 1985 and 2000) and rice (0% and 11% in 1985 and 2000).

[INSERT TABLE 30]

[INSERT TABLE 31]

6. The potential for expanding intra-regional trade

This section focuses on the potential for intra-regional trade. By standard static measures such as the export-import similarity index there is little potential for expanding intra-regional trade. However, when dynamic factors are taken into account, such as production restructuring and processes of learning-by-doing, the region has a clear potential to expand trade. Trade in services is another contributing factor that must be taken into account although there is barely any data on intra-regional trade in services and the data here presented refers to total trade in services. The crucial pending task for governments is to guide policy to facilitate the unfolding of these dynamic processes and guarantee, to the extent of the possible, their success.

6.1. The export similarity index

A standard static approach to determine the extent of the potential for expansion in intra-regional trade is to compute a product complementarity index.

The index compares import structure of a 'home country' with that of a partners' export structure. It can take two extreme values 0 and 1. A value of 0 indicates that there no compatibility in trade and that the partner country does not export any commodity or group of commodities that the home country imports. At the other extreme a value of one indicates that there is full trade compatibility between two trade partners and that the composition of the partner country exports coincides with that of the home country's imports.[30]

Strictly speaking there is no demarcation line between what constitutes a significant and insignificant product complementarity index. However, empirical studies show that trading arrangements with values below 25 have not survived.

Table 33 below shows the bilateral product complementarity index for all CARICOM economies. The computations were carried both at the three digit level using the Standard International Trade Classification Rev. 2 (SITC). The results indicate that on average the index is below the rule-of-thumb value of 25. It is highest for Trinidad and Tobago (21) and lowest for Dominica and Suriname (6 for both).

Trinidad and Tobago records values above 20 for the bilateral indices with Barbados (21), Dominica (21), Grenada (29), Jamaica (25), and St. Kitts and Nevis (26). Amongst other MDCs Barbados records values above 20 for Dominica, St. Lucia and Trinidad and Tobago (26, 22, and 48). Belize registers high values in its trade relations with St. Kitts and Nevis (50). Jamaica records a value above 20 for the bilateral product complementarity index with Barbados (22) and Trinidad and Tobago (22).

[30] Formally it is equal to $PCjk=100-\Sigma i(Mik - Xij)/2)$, where Xij is the share of good I in total exports of country j and Mik represents the share of good I in the total imports of country k.

In the case of the OECS Grenada, and St. Kitts and Nevis show overall the greatest potential for the expansion intra-regional trade. The complementarity index is strong between Grenada and St. Vincent and the Grenadines (38) and Trinidad and Tobago (41). St. Kitts and Nevis has the potential to increase trade with Belize and Guyana (50 and 24 respectively). For their part St. Lucia and St. Vincent and the Grenadines exhibit indices that surpass 20 for Barbados and Grenada (21 and 34 respectively).

Table 33
Bilateral Product Complementarity Index
Average 1995-2002

	Barbados	Belize	Dominica	Grenada	Guyana	Jamaica	St Kitts and Nevis	St Lucia	St Vincent and the Grenadines	Suriname	Trinidad and Tobago	Average
Barbados		2	26	12	13	20	14	22	16	2	48	**15**
Belize	0		0	0	3	4	50	0	0	0	3	**9**
Dominica	19	1		4	3	9	6	9	5	8	8	**6**
Grenada	14	0	5		6	4	4	17	41	0	38	**10**
Guyana	10	1	3	2		3	2	3	10	7	17	**9**
Jamaica	22	6	16	11	4		5	12	2	7	22	**11**
St Kitts and Nevis	18	50	5	2	24	11		8	2	-	11	**13**
St Lucia	21	1	7	8	4	3	6		9	6	8	**7**
St Vincent and the Grenadines	12	0	7	34	6	6	3	11		0	8	**8**
Suriname	1	0	0	3	7	6	0	0	0		14	**6**
Trinidad and Tobago	21	9	21	29	19	25	26	11	10	9		**21**
Average	**13**	**14**	**8**	**8**	**15**	**8**	**10**	**8**	**9**	**16**	**14**	

Source: WITS (2005)

6.2. The cost structures

The competitiveness of firms and countries is determined to a large extent by their cost levels and structure. Costs include prime costs (mainly wages and raw materials) and the overhead costs. The price of the product then reflects the combination of the cost level and structure and the mark-up. Cost levels and structures and mark-ups vary across the region.

As example energy costs (mainly electricity) represents 8% of total costs in the case of St. Vincent and the Grenadines but lower in the rest of the region. In the same way, the mark-up can represent in some cases 25% of the production cost. In turn price is one key determinant of the competitiveness of firms and countries.

As a general rule firms or countries that have lower costs have a greater potential to improve their competitiveness. In the particular case of the Caribbean region some countries such as Trinidad and Tobago have lower costs due the comparative large scale of production, access to lower cost materials due plainly to natural resource endowments (comparative advantage) and to marketing strategies based on a trade-off between the volume of sales and profit margins.

Other CARICOM members, notably the OECS, have higher prime costs resulting from a higher level of the wage rate, and higher overhead costs. The wage rate level is ultimately a government policy decision even in the case of the private sector. That is the government wage policy influences to a large extent the private sector wage policy.

Overhead costs, in the smaller economies are higher. The electricity cost (US cents/kWh) is above 0.15 for the OECS while for the rest of CARICOM it ranges from 0.03 for Trinidad and Tobago to 0.25 for Guyana (See Table 52 in the Annex). The difference can be explained in terms of size considerations. It can also be attributed to mistaken decisions involving fixed capital. St. Vincent and the Grenadines which has the highest electricity cost within the OECS and perhaps CARICOM is a case in point. The electricity plant (VINLEC) whose generation capacity largely surpasses the demand for electricity charges according to installed capacity.

According to traditional customs theory differences in cost structures can be seen a giving rise to greater specialization, trade creation and increased welfare. However, in the case of CARICOM the differences in cost structures as a hindrance to greater diversification and trade creation. Indeed, differences in cost structure are seen as leading to a cumulative process of asymmetries such as that described by Verdoorn's Law.[31]

[31] In a nutshell Verdoorn's Law establishes a relation between growth of output and productivity growth. It states that greater output leads to greater productivity. In the particular case refereed to above lower costs lead to greater output which in turn induce a faster rate of growth of productivity. See, McCombie J., Pugno, M. and Soro B. (2002) Productivity growth and economic performance (Macmillan: New York).

6.3. The current movement towards restructuring

Firms that were interviewed for this study expressed different and sometimes contradictory viewpoints regarding the potential benefits of the CSME. In general firms in the bigger countries, Trinidad and Tobago and Barbados viewed the CSME with optimism. In general they were of the opinion that the CSME will have a favorable impact on their businesses. This was especially the case for Trinidad and Tobago that dominates intra-regional trade.

In a survey of manufacturing exporters undertaken by TIDCO at the trade and investment corporation, 70% of the firms interviewed felt that the CSME will have a positive effect and only 4% expressed concerns (9% answered that there would be no impact and 17% of the firms did not answer the survey).

The survey also showed that OECS member states are among the main primary markets for Trinidadian exports. More specifically 91% of the manufacturers answered that they export Grenada and St. Vincent and the Grenadines. 83% of the manufacturers surveyed indicated that they export to St. Lucia and Antigua and Barbuda. 65% and 47% export to Dominica and St. Kitts and Nevis.

A similar result was obtained by a recent questionnaire prepared by ECLAC for this study and sent through the Trinidad and Tobago Chamber of commerce to 400 Trinidadian firms in February 2005 Seventeen firms answered the questionnaire. Of these, eight companies trade in goods, four trade in services and one trades in both goods and services. Fourteen of the firms surveyed trade with Grenada. Twelve companies trade with St. Lucia and St. Vincent and the Grenadines and eleven with Antigua and Barbuda. Seven companies trade with Dominica and St. Kitts and Nevis.

Companies in the bigger countries (Trinidad and Tobago; Barbados) expressed interest in continuing their trade with the OECS and also in expanding their business in the OECS territories. Entrepreneurs expect that the CSME will create the opportunities for reaping the benefits of a larger market.

In the smaller economies the firms surveyed expressed, in general, concern over the CSME. The CSME is seen as increasing competition, as an arrangement that will force the smaller countries to compete with larger and thus more cost effective partners. A business performance survey carried out by the Chamber of Commerce of St. Lucia shows that 84% of firms answering the survey considered that the business community was note prepared for the CSME. However, 52% (42%) of the respondents considered that their particular business was (not) ready for the CSME.

In addition at least in the manufacturing sector the high levels of debt in some of the OECS economies, the declining trend in domestic investment as a percentage of GDP, the meager and discontinuous flows of foreign direct investment to the manufacturing sector aggravates the existing concerns. Fieldwork undertaken for this

study revealed that there is serious concern that the manufacturing sector will not be able to compete and will dissolve into the commercial (trading) activities.

Furthermore some of the most important firms within the OECS also benefit from higher levels of nominal protection and the special protection afforded to the LDC's through article 56. It is still unclear how the implementation of the CSME will affect or modify the provisions of article 56.

At a more general level the field work undertaken for this study showed that firms in both larger and smaller economies equate the CSME with a lowering of the levels of tariffs and in general of protection. As a result to increase their competitiveness firms have begun a process of restructuring of production aimed at reducing costs. Firms expect to achieve a reduction in costs via; (i) the expansion of their installed capacity; (ii) a change in the methods of production; (iii) diversification in their product lines.

Both the expansion of capacity and the diversification in the lines of production is under consideration by firms that are capital intensive. The cement, brewery, paint, metal, food and beverage, paper and paperboard, and distiller industries are cases in point.

The change in method of production corresponds to a strategy adopted by smaller firms that by definition are more flexible and for whom it is not as costly, as for firms that are capital intensive, to implement such a change.

Beverage companies that still use returnable glass bottles to package their product are a case in point. A beverage company that exports within the region and uses glass bottles must pay freight costs twice. It must import the bottles to produce and export the beverage and then, to continue its production cycle, it must pay for the import of the empty bottles. One such beverage company expressed its commitment to change its production process from glass to polyethylene-terephthalate (PET) which a type of plastic material. The process of restructuring in this case has an estimated cost that is equivalent to the volume of sales for one year.

In some cases restructuring processes are also being undertaken by governments. In this regard the government of St. Vincent and the Grenadines has plans to enhance the competitiveness of its agricultural products through projects to improve the of the broiler industry. It also plans to establish a commercial agro processing enterprise to supply fresh crop, vegetables, and fruits to retailers and institutions in the domestic and export markets. Finally, it also plans the establishment of a new cassava plant for the domestic and export markets.

Trinidad and Tobago has drafted several plans to improve its external competitiveness. These include programs for the modernization of the current port and transport infrastructure, the merchant marine industry, fish and processing industry, food and beverage, printing, packing industry and the music and entertainment industry.[32]

[32] The information provided for St. Vincent and the Grenadines and Trinidad and Tobago is based on official sources.

The process of restructuring and reduction of costs can if pursued at a wide enough level rationalize production by achieving or more precisely approximating international scales of efficiency. Rationalization of production in the Caribbean is not new.[33] However, this would be the first instance where the initiative comes from the private sector. It can and should be guided and encouraged by policy makers.

In order to provide an idea of the type of restructing needed in the region comparative estimates of firm efficiency scale were carried out for the region and the United States. A comparison of both at a point in time or the evolution of both through time can provide a proxy of the 'scale-efficiency gap' between CARICOM and international firms.[34]

The scale of production was measured by dividing the output in volume of one commodity or one sector by the number of existing firms for that commodity or that sector. This was calculated at the regional and international level.

The results are shown in Table 34 for selected intra-regional products. These include cement, beer, cigarettes, sugar, crude steel, and cereals. In most cases the current output per firm at least 50% below that of international levels.

Table 34
Regional and international output per firm for selected products

Product	Unit of measurement	Output per firm in the region	International efficiency scale
Cement	Mt (000')	399	675
Beer	Hectolitre (000')	291	4,608
Cigarettes	Millions	1042	29,139
Sugar	Mt (000')	110	243
Crude steel	Mt (000')	106	90
Cereals	Mt (000')	97	661

Note: Output per firm refers to the year 2000 for cement, beer, cigarettes, crude steel and cereals and to the year 2001 for sugar. The international efficiency scale for the beer industry corresponds to the year 2004 and 2002 for the rest.
Source: United Nations Statistical Yearbook. Forty-seventh issue (2003). United States Census Bureau.

If the current drive for the restructuring of the manufacturing and other sectors in the Region is to qualify as a successful endeavor, governments should ensure that it is indeed undertaken at the proper scale.

[33] In 1974 OECS countries implemented an Industry Allocation Scheme (IAS). Its goal was to encourage the equitable development and rationalization of industry in the OECS. More precisely the agreement was meant to allocate the production of 35 commodities in an equitable way between OECS economies. See World Bank (1990).
[34] The methodology is based on World Bank (1990).

Restructuring involves what is termed a crucial decision. Economic agents engage in crucial decisions when these cannot exclude from their mind the possibility that the very act of performing the experiment may destroy forever the circumstances in which the decision was made.[35] In other words, crucial decisions are an act of creative destruction. They destroy the environment in which the decision was made so that the same process cannot be repeated.[36] This is the underlying reason that justifies the pressing need to ensure that restructuring accomplishes its objective.

6.4. Learning by doing in CARICOM

Leaving aside cost considerations and issues of restructuring and economies of scale, the accumulation and transmission of technology and knowledge is cited as an important source of dynamic gains from trade. Indeed both are used in the literature to link trade with growth. Trade allows access to foreign capital goods and inputs which through processes of learning by doing increase the productivity and growth in the recipient economy. At least in their initial formulation processes of 'learning-by-doing' assume implicitly that 'the experience of production carries with it, as a by-product, an automatic improvement in productivity'.[37]

As explained in a previous section, the CET suspension mechanism provides a channel through which bigger economies can acquire inputs with high technological content and lead to processes of learning-by-doing. In at least one case in the OECS (i.e., Grenada) access to imported capital goods is cited as a way through which technology transfer mechanisms take place.[38]

The transfer of technology though processes of 'learning-by-doing' has important limitations for smaller developing economies. These include the technological gap defined as the difference between the productivity of a leader country and that of its followers and the learning capacity of the follower country. In some specifications of the standard literature on the subject the learning capacity is a function of the absorptive capacity of the follower country.[39] In some models the absorptive capacity must be attuned to the level of education and skill of the labour force.[40] For a given productivity gap the more skilled is the labour force the greater will be the transfer or spillover effect.

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[35] Davidson, P. (2003) Financial Markets, Money and the Real World (Northhampton: Edward Elgar), note 36, p.67. The term 'crucial decision' was coined by Shackle. See, G.L. Shackle (1955) Uncertainty in Economics. Cambridge University Press: Cambridge.
[36] Ibid.p.57.
[37] Solow, R.M (1997) Learning from "Learning by doing." Lessons for Economic Growth. Stanford University Press: Stanford.
[38] See, World Bank (2005).
[39] F. Targetti and A. Foti, Growth and Productivity: a model of cumulative growth and catching up. Cambridge Journal of Economics, 1997, 21, 27-43.
[40] S. Deraiyagalaand B. Fine, New Trade Theory versus old trade policy: a continuing enigma, Cambridge Journal of Economics, 2001, 25, 809-825.

Table 35
Learning-by-doing
Product Similarity Index for the extra and intra-regional composition of exports
1995-2002

Intra-regional composition of exports	Extra-regional Composition of exports							
	1995	1996	1997	1998	1999	2000	2001	2002
1995	**40.93**	41.55	36.91	40.64	42.81	45.53	41.50	42.71
1996	40.02	**42.68**	37.90	41.12	43.58	46.81	42.58	43.35
1997	40.83	43.65	**40.15**	43.35	44.20	47.14	42.53	43.75
1998	41.06	43.28	40.14	**44.13**	44.82	47.61	43.02	44.40
1999	42.25	43.83	41.06	45.13	**46.28**	48.68	44.36	46.07
2000	40.04	41.34	38.88	42.93	45.45	**47.90**	44.09	45.23
2001	40.12	41.18	38.49	43.03	47.23	52.22	**48.63**	49.82
2002	43.10	44.62	41.74	45.90	47.05	49.75	45.57	**47.48**

Note: The values in bold refer to the point in time from which Learning By Doing should start.
Source: On the basis of WITS (2005)

In the case of the OECS the increase in the incremental capital-output ratio and the absence of a skilled stock of labour force pose severe constraints to the realization of the positive effects that can be derived from the transfer of knowledge and technology.[41]

As described above learning-by-doing processes materialize through the transfer of foreign knowledge and technology to the domestic economy. However, within the CSME context, learning-by-doing processes are viewed from a different perspective.

The CSME, as explained earlier, is viewed as a training ground for firms and countries to achieve a level of competitiveness commensurate with international standards. In this sense, the realisation of the objectives of the CSME is a pre-condition for firms and countries to gain external competitiveness.[42] In other words intra-regional competitiveness precedes and is a pre-requisite for extra-regional competitiveness.

As a result, from the CSME point of view 'learning-by-doing processes' unfolds at the intra-regional level. The skills and knowledge acquired are then used for extraregional activities. That is the regional know-how is applicable extra-regionally and the extra-regional market is really an extension of the intraregional market.

Testing empirically this hypothesis involves comparing the intra and extra regional export composition. More precisely, it involves testing for the adaptation over time of the extra-regional export composition over time to a given intraregional export composition at a point in time. In more practical terms, the hypothesis was thus tested by calculating the evolution of an index for the product similarity between the intra and extra-regional composition of exports for the period 1995 to 2002 in relation to the composition of intra-regional exports for a given year. In this case that year is 1995.

The results are shown in table 35 above. The rows and columns correspond to the composition of intra and extra-regional exports. The values in bold represent the point in time from which the effects of Learning by Doing should become visible. That is, for example, if Learning by Doing occurred relative to the year 1995, then the value of the product similarity index in the row corresponding to that year should increase between 1996 and 2002.

The empirical evidence indicates two important findings. First, in all cases the values for the similarity index are non-negligible by standard empirical computations. These are in general of the order of 40 and above. Second, there is an increase in the value of the product similarity index for the current intra and extra-regional composition of exports. Third, the product similarity index increases over time relative to a given year (or point in time) (See again Table 35 above).

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[41] For the period 1993 to 2001, the incremental capital-output ratio rose from 8.4 (1993-1996) to 8.7 (1993-2001) to 11.4 (1997-2001). See, Tax Reform and Administration Commission. New Approaches to Taxation and Tax Administration in the Eastern Caribbean Currency Union. Volume 1: A Framework for Tax Reform. June 2003.

[42] This is the point of view of several officials that were interviewed for this study and also that inherent in the CDB development fund paper. It is certainly the point of point and ultimately underlying justification of the CARICOM Trade Support Programme.

These results indicate that there is not a strict duality between the products traded within CARICOM from those traded outside the borders of CARICOM. For here it can be inferred that, perhaps, there is no absolute divide between the firms that export intra-regionally from those that export extra-regionally. That is, according to the results there is scope for expanding trade through Learning-by-Doing processes where the Learning-by-Doing would occur at the intra-regional level allowing firms to acquire the skills and competitiveness to export to extra-regional trade partners.

6.5. Trade in services

Services form a major portion of CARICOM economies and in particular of those of the OECS domestic economies (ranging from 56% to 81% of GDP with a 70% for the member states at the aggregate level. See Table 51 in the annex). Services represent also the bulk of CARICOM and OECS' foreign exchange earnings. In the case of the OECS, services represent between 65% and 90%% of total exports of goods and services. The average stands at 80% for the OECS in the aggregate for 2003 (See Table 36 below). OECS economies are highly specialized in services not only at the regional level but also at the world level.

Computations of revealed comparative advantage[43] indices for the services sector from 1985 to 2001 for 147 countries show that Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Dominica hold the 9, 14, 15, 24, 28 and 33 ranking respectively.

Services play in addition an important social role and have a major impact on the financial stability of a country, growth and the balance of payments. The services sector has traditionally been identified as the sector that will provide the impetus for growth in the future and thus should continue to contribute to output, growth, employment and the provision for basic needs [44]

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[43] This follows the methodology of Karsenty (2000), "Just How Big are the Stakes?", GATS 2000: New Directions in Services Trade Liberalization. Pierre Sauve and Robert Stern, eds. Washington, DC. Brookings Institution, 2000. The revealed comparative advantage of say country i for product j is measured by the item's share in the country's exports relative to its share in world trade. The data for the computations were obtained from UNCTAD's Handbook of Statistics, 2002.

[44] See for example Economic and Social Report of St. Lucia. 2003. St. Kitts and Nevis has also guided economic policy in this direction. However, as stated in the text the identification of tourism as the linchpin sector for economic growth is not. It is at least forty years old. In this sense the current recommendations of international organizations to develop the services sector and tourism are simply more of the same.
The key question that has not been addressed and which may be crucial for the development and future of the CSME is what explains the tardiness in the development of the tourism sector?
It is worth quoting Worrel (1987) at length on this point. He writes (Ibid, p. 165):

> "By 1965 the production patterns that we observe in the East Caribbean were already established. Tourism was the main activity in Antigua and it was growing in importance alongside banana production in St. Lucia. The Bahamas had long been a tourism monoculture…In the mid-1960's tourism was seen as the sector with potential to stimulate economic growth. Antigua, St. Lucia, St. Kitts, and the Grenadines were the territories deemed to have good tourism potential. In Antigua, tourism was already on the way to replacing completely the country's agriculture…Some tourism

Table 36 Share of exports in services as a percentage of total exports of goods and services for OECS economies 1985 – 2003 (In percentages)					
	1985	1990	1995	2001	2003
Antigua and Barbuda	88.3	94.0	86.8	91.2	89.9
Dominica	25.4	35.7	55.0	63.0	69.2
Grenada	60.5	68.5	80.1	67.7	77.6
St. Kitts and Nevis	53.3	64.3	68.9	64.3	60.5
St. Vincent and the Grenadines	24.2	35.9	54.6	75.5	77.8
St. Lucia	53.7	53.7	69.8	84.0	82.8
OECS	59.0	65.2	74.0	80.0	81.1
CARICOM	29.6	45.6	48.0	48.3	58.4
Latin America	15.1	17.5	16.1	14.4	15.0
Note: The data for CARICOM for 2003 was available for Barbados, Belize and Jamaica. Source: ECLAC (2003) and ECCB (2002 and 2004)					

Table 37 Revealed comparative advantage index for commercial services for selected countries 1980-2000 Ranked according to the average for 1980-2000						
Ranking	Country	Time Period				
		Average	Average	Average	Average	Average
		1980-1985	1985-1990	1990-1995	1995-2000	1980-2000
1	Aruba		5.17	4.94	4.92	4.99
3	Belize	5.07	4.96	4.42	4.45	4.72
4	Barbados	4.83	4.96	4.55	4.48	4.70
5	Montserrat	….	4.91	4.66	4.23	4.55
9	Grenada	3.41	3.59	4.05	4.16	3.78
14	Saint Kitts and Nevis	2.57	3.49	3.88	4.11	3.48
15	Saint Lucia	3.20	3.10	3.25	4.17	3.44
18	Bermuda	2.52	3.00	3.46	3.68	3.30
21	Dominican Republic	2.08	3.04	3.54	3.77	3.09
23	Bahamas	….	1.15	3.79	3.94	2.97
24	Antigua and Barbuda	….	3.61	2.68	3.15	2.94
26	Jamaica	2.47	2.88	2.61	2.94	2.71
28	Saint Vincent and the Grenadines	2.30	1.84	2.45	3.56	2.58
30	Cuba	….	….	2.23	2.71	2.47
33	Dominica	1.71	1.70	2.41	3.10	2.23
35	Netherlands Antilles	1.23	2.29	2.43	2.56	2.08
88	Guyana	0.65	1.26	1.22	1.09	1.01
105	Trinidad and Tobago	0.64	0.80	0.82	0.84	0.78
108	Mexico	0.97	0.89	0.73	0.47	0.76
Note: The revealed comparative advantage index for services was computed for 147 countries.						

development was already under way in St. Lucia, but there was not much new investor interest in St. Kitts and the Grenadines. Agriculture has now disappeared in Antigua, in St. Lucia tourism and bananas provide a measure of diversification. But still there has been little tourism development in the Grenadines, and interest in St. Kitts has developed only in the 1980's."

Source: UNCTAD (2000)

Figure 13
OECS percentage share in World and developing country exports of commercial servivces
1985-2000

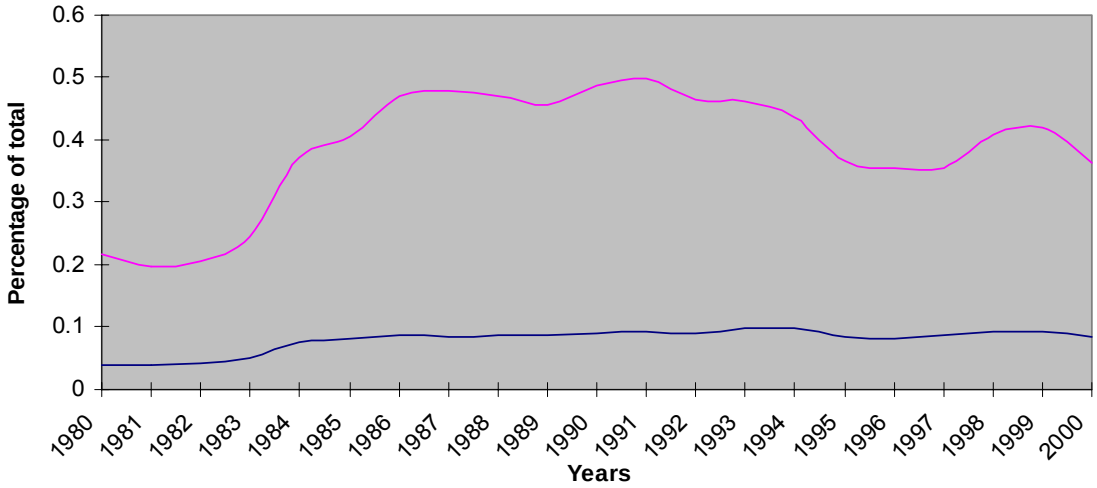
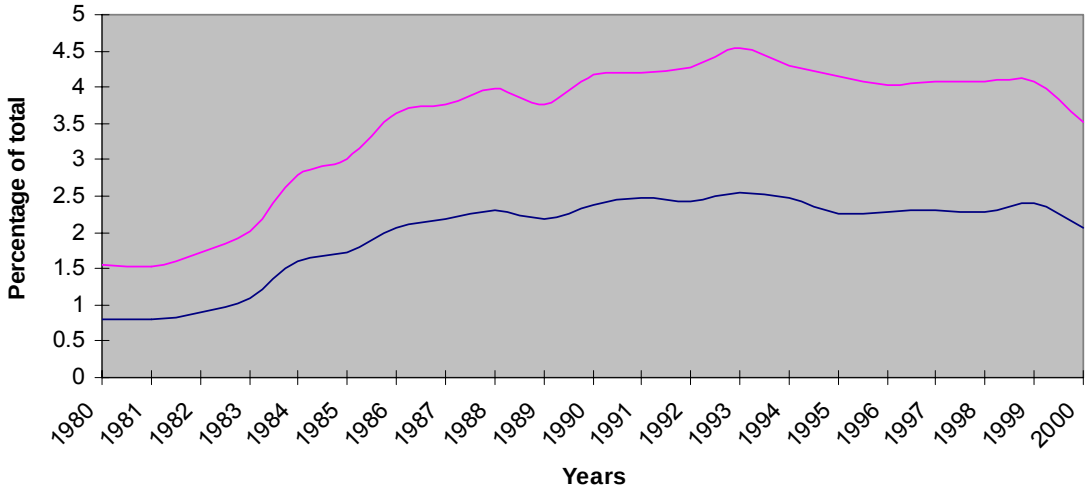


Figure 14
OECS percentage share of developing America and Central America and Caribbean commercial services exports
1985-2000



However, OECS market share of world commercial services exports has stagnated over time and OECS market share of developing countries commercial services exports has declined since 1991 indicating a deterioration in their competitiveness. A similar pattern can be observed with respect to developing America and Central America

and the Caribbean (See Figures 13 and 14 below). Note once again that the 1990's mark a turning point in the economic performance and evolution of the OECS.[45]

The decomposition by services category (transport; travel; communications; construction; computer and software; insurance, financial services; royalties and license fees, other business services; and personal, cultural and recreational services) for the OECS and MDCs shows that (see Table 40 below):

(i) The services export structure is more diversified for the MDCs' than for the OECS.

(ii) The travel category is the most important component of total services exports for both the OECS and the MDCs.

(iii) The travel category has witnessed a decline in its share of the total since the 1980's for the OECS economies.

(iv) On average during 1980-1985 the travel category represented 89% of the total and declined to 74% in 1995-2000 for the OECS. In the case of the MDCs the travel category represented 67% of the total for 1980-1985 increasing to 74% in 1985-1990 and then decreasing again to 70% of the total in 1995-2000.

(v) Other business services are the next most important services export category in the case of the OECS representing 12% of the total for 1995-2000.

(vi) The transport and insurance categories have maintained their share of export services over time (9.4%, 8.6%, and 8.7% for transport and 1.0%, 1.9% and 2.0% for insurance services for 1985-1990, 1992-1995 and 1995-2002, respectively) for the OECS.

(vii) In the case of the MDCs, the transport category has, as in the case of the OECS, maintained its share over time. However, insurance services have increased their share (1.7% and 2.5% in 1985-1990 and 1995-2000 respectively).

(viii) Communication services have also increased their importance over time for the MDCs (1% and 6% of the total in 1985-1990 and 1995-2000).

The state of existing data allows the classification of services exports only for GATS Modes 1 and 2. Mode 1, which is defined as 'the supply of a service from the territory of one Member into the territory of any other Member' is measured as the sum

[45] This is also the case of other CARICOM economies as has been pointed earlier in this report.

of the commercial services in the disaggregated balance of payments data minus travel. Mode 2, which is defined by GATS as 'the supply of a service in the territory of a Member to the service consumer of any other member,' is measured as the sum of travel found in the balance of payment statistics. Mode 3 (defined as 'the supply of a service by a service supplier of one Member through commercial presence in the territory of any other Member) is proxied by FATS accounts and Mode 4 (defined as 'the supply of a service by a service supplier of a Member, through presence of natural persons of a Member in the territory of any other Member) by the balance of payments line, compensation of employees. Data to provide estimates for Modes 3 and 4 is not available.

Table 38
Exports of services
Decomposition by category
In percentage of the total
1985 -2002

	1980-1985	1985-1990	1990-1995	1995-2000	1992-1995	1995-2002
OECS						
Percentage contribution of services subcategories to the total						
Transport	0.44	9.40	10.94	9.31	8.57	8.67
Travel	88.91	79.20	77.12	73.83	74.6	66.6
Communications	….	1.64	1.27	….	…	…
Construction	….	….	0.12	0.08	0.00	0.09
Computer and information services	….	….	….	….	0.00	0.09
Insurance	….	1.01	1.20	2.01	1.93	2.03
Financial services	….	….	….	1.78	0.00	2.28
Royalties and license fees	….		0.12	….	0.00	0.02
Other business services	10.49	7.70	9.17	11.92	13.40	18.36
Personal, cultural and recreational services	….	….	….	….	…	…
Government services n.i.e.		1.71	1.02	1.44	0.21	1.18
MDCs						
Transport	15.6	11.7	11.41	10.76	15.6	11.29
Travel	67.07	74.67	72.69	70.43	63.43	65.68
Communications	0.56	0.72	2.66	5.92	4.88	7.52
Construction	…	…	…	0.04	1.96	3.68
Computer and information services	…	…	0.39	1.18	1.18	2.21
Insurance	1.71	1.67	1.63	2.45	4.35	4.44
Financial services	…	…	0.22	1.45	5.13	4.86
Royalties and license fees	0.03	0.20	0.11	0.12	0.09	0.17
Other business services	10.54	7.21	7.93	5.25	1.60	2.48
Personal, cultural and recreational services	…	…	0.05	0.18	0.39	0.53
Government services n.i.e.	4.47	3.30	2.90	2.21	2.62	3.48

Source: On the basis of UNCTAD (2002) for the first four columns (1980-2000) and CARICOM (2005) for the last two columns (1992-2002).

Table 39
Revealed comparative advantage index for commercial services for CARICOM economies
1980-2000

	Average 1980-1985	Average 1985-1990	Average 1990-1995	Average 1995-2000	Average 1980-2000
Bahamas	…	0.46	1.39	1.44	1.10
Barbados	…	2.23	1.67	1.64	2.37
Belize	3.90	2.24	1.62	1.63	2.39
Jamaica	1.83	1.31	0.96	1.08	1.31
Suriname	1.14	0.37	0.21	0.30	0.53
Trinidad and Tobago	0.49	0.36	0.30	0.20	0.35
OECS					
Antigua and Barbuda		1.35	0.98	1.15	1.08
Dominica	1.31	0.76	0.88	1.13	1.04
Grenada	2.63	1.62	1.49	1.52	1.83
Saint Kitts and Nevis	1.89	1.57	1.42	1.50	1.60
Saint Lucia	2.43	1.41	1.19	1.53	1.67
Saint Vincent and the Grenadines	1.88	0.83	0.90	1.30	1.27
Average OECS	2.03	1.26	1.14	1.36	1.42
Average LDCs	2.01	1.40	1.21	1.40	1.55
Average MDCs	0.69	0.95	0.91	0.93	1.13
Average CARICOM	1.95	1.21	1.08	1.20	1.38

Note: … denotes not available.
Source: UNCTAD (2002)

Table 40
Exports of services
Decomposition by Mode 1 and Mode 2 of services delivery
1985 -2002

	1980-1985	1985-1990	1990-1995	1995-2000
OECS				
Mode 1 Value (US$ million)	22.67	104.50	888.70	306.83
Mode 2 Value (US$ million)	174.17	378.33	1,004.04	854.17
Mode 1 Share in total service exports	11.09	20.80	22.88	26.17
Mode 2 Share in total service exports	88.91	79.20	77.12	73.83
Mode 1 Share in GDP	4.09	7.75	10.18	12.12
Mode 2 Share in GDP	26.68	29.14	34.40	34.14
MDCs				
Mode 1 Value (US$ million)	743.2	765.3	1,079.2	1,444.0
Mode 2 Value (US$ million)	1,524.8	2,268.0	2,838.3	3,447.0
Mode 1 Share in total service exports	32.96	25.33	27.31	29.57
Mode 2 Share in total service exports	67.04	74.62	72.69	70.43
Mode 1 Share in GDP				
Mode 2 Share in GDP				

Source: On the basis of UNCTAD (2002) for the first three columns (1980) and CARICOM (2005) for the last column.

The available empirical evidence shows that as expected and reiterated Mode 2 is the main form of CARICOM provision of services. For the OECS Mode 1 has increased its share over the total provision of services over time and represented 20% of the total in 2001. As a result the gap between both has narrowed over time. Contrarily the MDCs have witnessed an opposite trend with Mode 2 increasing as a percentage of the total (i.e., Mode 1 falling as a percentage of the total). Overall for the last period for which data is available (1995-2000) Mode 1 and 2 represent on average roughly the same share of export services for both OECS and MDCs (See Table 40 above).

The existing studies dealing with services have identified sub-sectors that have potential for growth and expansion. In the case of the OECS these include, apart from tourism services, off-shore education (Dominica and Grenada), information and communications technology clusters (call centers and internet gaming in Antigua and Barbuda; Open Source Software in St. Lucia; information related services in Grenada), health (St. Lucia and Antigua and Barbuda) cultural and recreational services (Intra-regional just-in-time recording services in Dominica) and water services (Dominica) as potential areas for development and expansion.[46]

Finally it is also expected that with the CSME distribution and commercial activities will gain in importance due to the fact that some manufacturing companies will not survive the challenge of increasing external competition and exposure. Some of these will substitute wholesale and retail for their current manufacturing activities.[47]

7. Moving from the customs union to the single market and economy

Currently CARICOM is an imperfect customs union. The level of regional integration required by the CSME implies by definition completing to formation of the customs union, which would imply that St. Kitts and Nevis comply with the last phase (i.e., phase IV) of the CET, the move from a customs union to a single market (i.e., common market) and finally to a *sui generis* type of economic union.

The move from the customs union to a single market means that the member states of CARICOM grant free movement to goods, services, and most important to factors of production (labour and capital).

According to standard trade theory, labour mobility can increase output and is thus complementary to free trade in goods under conditions of imperfect competition. Perfect competition does not require labour, or for that matter, capital mobility to achieve the equalization of factor prices. Under perfect competition factor mobility and goods

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[46] See, World Bank (2005) Organization Of Eastern Caribbean States. Towards a New Agenda for Growth. Washington D.C.: The World Bank.
Sanatan, R. Interim Report of a study on a taxonomy of services suppliers/exporters in the Caribbean. September 23, 2004. Mimeo.

[47] Some of the manufacturing companies interviewed for this study are already partially undertaking distribution activities.

mobility are substitutes and not complements as under imperfect competition. However, it is important to understand that within trade theory labour mobility is equivalent to migration.

Optimum currency area theory also attributes a significant importance to labor mobility. The movement of labour, and wage flexibility are considered alternative means to restore equilibrium when countries are subject to asymmetric demand shocks.

In practice in the source case for the most advanced form of regional integration, that of the European Union, labour mobility has not played a significant role.

For one thing the blueprint for monetary unification in Europe, the Maastricht Treaty, stresses macroeconomic rather than microeconomic conditions, and in particular definite convergence criteria for the formation of a successful monetary union.[48] Contrarily the CSME places much importance on factor mobility as a pre-requisite for its success.

Also the available labour data for Europe shows that there has been little intra-European labor migration. In spite of the efforts undertaken to suppress formal barriers to the movement of intra-European labour, the percentage of West Europeans that migrate and settle permanently in other European countries is low.

Table 41
Share of the stock of European Citizens in foreign and total population

	Share of EU citizens in total population		Share of EU citizens in total foreign population	
	1993	2000	1993	2000
Austria	0.4	1.1	6.9	12.6
Belgium	5.4	4.7	59.0	57.0
Denmark	0.6	0.8	16.5	28.2
Finland	…	0.2	…	22.4
France	3.5	2.0	36.5	33.8
Germany	2.8	2.3	22.3	26.6
Italy	0.4	0.1	15.5	21.3
Luxembourg	31.8	30.0	71.8	90.5
Netherlands	1.8	1.4	24.1	28.7
Spain	0.5	0.3	44.6	41.2
Sweden	…	2.1	…	42.4
United Kingdom	1.9	1.4	36.0	40.4
Average	4.9	3.9	33.3	37.1
Average WT Luxembourg	1.9	1.6	29.0	32.2

Source: SOPEMI, Trends in International Migration Annual Report ,1994 and 2000, Paris: OECD.

Table 41 above shows the share of European Union Citizens as a percentage of total population and of total foreign population by country for 1993 and 2000 (two and

[48] De Grauwe (2003),p.131.

nine years after the Maastricht Treaty was signed). The data shows that on average the share of European Union citizens in total population (excluding Luxembourg) is less than 2% for both years. In addition, in all cases considered the said ratio has barely changed between 1993 and 2000 (that is in seven years).[49]

One explanation is that the existing differences in welfare and social security systems, different health insurance systems, and different educational systems made costly and risky to move.[50] Another more recent explanation based on field work focuses on a 'quality of life' argument. As put by Favell (2003):"The limited cross-national mobility of professionals in Europe suggests that the dominant national organization of access to 'quality of life' benefits might still constitute the major barrier to sustained intra-European migration.'[51]

In summary as Favell (Ibid, p.30) states: "the principle of free movement of persons, and the systematic breaking down of national barriers to economic migration and re-settlement across borders in Europe, remains one of the core achievements on paper of the European Union."

Data on intra-regional Caribbean labor mobility is limited and incomplete. Nonetheless a picture can be gained by analyzing the data on work permits. Data on work permits is available for Barbados, Jamaica, St. Lucia and Trinidad and Tobago. The data allows the percentage of work permits as a percentage of the total the annual flow of intra-CARICOM immigrants as a percentage of the total population. This is shown in Table 42 below for 1994 to 2004.

The share of work permits granted to CARICOM nationals is high, reaching more than 60% of the total in the case of Barbados and 30% in the case of St. Lucia. The share of work permits granted to OECS workers represent 7%, 3%, 8% and 1% of the total for the last available comparable year (2003) for Barbados, Jamaica, St. Lucia and Trinidad and Tobago. The annual flow of legal CARICOM immigration as a percentage of the total stock of population as measured by work permits issued (including dependents) is by all standards very low never exceeding 1%.

The CSME provisions, as they stand, contemplate only the mobility of certain categories of skilled labour. CARICOM nationals have the right to live and work in any member state without work permits. These categories of skilled labour include university graduates, artistes, sports persons, musicians and media workers.

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[49] Other references indicate that the annual flow of intra-European immigrants is less than 0.1% of their total population, that is, 225,000 people. See, Barthe, M.A. (2003) Economie de L'Union européene. Economica:Paris.2e édition.

[50] See Neal at Al. Op.cit. p.79.

[51] Favell, A. (2003) Free Movers in Brussels, London and Amsterdam: Participation and Integration of European Professionals in Three Cities. 6th ESA Conference, Murcia.

Table 42
Annual flow of CARICOM nationals in selected CARICOM countries (In percentages) based on issued work permits
1994-2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Barbados											
Annual flow of legal immigration as percentage of total population	0.30	0.34	0.37	0.22	0.25	0.40	0.97	1.39	1.30	1.06	…
Annual flow of legal CARICOM immigration as percentage of total population	0.06	0.09	0.09	0.04	0.06	0.21	0.56	0.92	0.86	0.69	…
Work permits granted to CARICOM nationals as percentage of the total	20.20	25.45	24.82	19.51	24.27	52.52	57.72	65.97	66.15	64.44	…
Work permits granted to OECS nationals as percentage of the total	4.48	6.14	3.93	2.28	6.87	7.96	10.08	6.41	7.26	6.79	…
Jamaica											
Annual flow of legal immigration as percentage of total population	0.11	0.10	0.11	0.12	0.10	0.10	0.10	0.08	0.09	0.10	0.10
Annual flow of legal CARICOM immigration as percentage of total population	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Work permits granted to CARICOM nationals as percentage of the total	7.73	8.80	5.97	6.45	7.78	7.36	7.61	6.29	5.45	7.52	7.10
Work permits granted to OECS nationals as percentage of the total	1.12	2.48	1.16	0.94	1.20	1.16	0.64	0.83	0.96	3.41	3.19
St. Lucia											
Annual flow of legal immigration as percentage of total population							0.17	0.27	0.33	0.56	0.54
Annual flow of legal CARICOM immigration as percentage of total population							0.08	0.10	0.11	0.18	0.18
Work permits granted to CARICOM nationals as percentage of the total							43.33	38.24	31.17	31.00	30.38
Work permits granted to OECS nationals as percentage of the total							9.33	5.46	5.25	8.24	5.77
Trinidad and Tobago											
Annual flow of legal immigration as percentage of total population	…	…	…	…	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Annual flow of legal CARICOM immigration as percentage of total population	…	…	…	…	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Work permits granted to CARICOM nationals as percentage of the total	…	…	…	…	0.03	0.04	0.05	0.05	0.03	0.02	0.03
Work permits granted to OECS nationals as percentage of the total	…	…	…	…	1.60	2.40	3.09	2.34	1.65	1.30	1.94

Note: … denotes not available.
Source: On the basis of official information.

Skilled labour is in demand throughout CARICOM. The smaller members of CARICOM (i.e., the OECS) consider that the lack of access to skilled labour is a major constraint to their development. For the bigger economies, the responses to the above referred survey undertaken by the Chamber of Commerce of Trinidad and Tobago, at the request of ECLAC, indicate that Trinidadian firms seem willing to hire skilled labour from the OECS on a long term basis.

Granting the right of free movement and establishment to certain categories of skilled labour should be seen in a positive light. However, the current provisions are incomplete and fail to address the issue in all of its dimensions. As is clear from the description and analysis of the European case, the work permit is not the only cost or impediment to labour mobility. Labour is not like other commodities and the degree of labour mobility depends not only on barriers to cross-border transactions but also on differences in social protection systems, institutions, lifestyles and even cultural patterns. This is one fundamental reason why Europe decided to establish a common social policy, a policy that is absent in the CSME provisions. It should be noted however, that the CARICOM agreement on social security (in operation since 1997) which allows the transfer of social security benefits among member states is positive step in that direction.

Limiting the movement of labour to certain categories of skilled labour and even to skilled labour as a whole is to a certain extent, justifiable. Labour migration flows have been historically unskilled and moving in one direction from poorer (origin) to richer (destination) countries. And these flows have economic, social and political costs.[52]

Economic costs comprise the slowdown in the adoption of advanced technologies and the possibility that the contribution of migrants to production and revenue falls below the social services and transfer payments they receive. The social and economic costs include the infringement on a country's sovereignty and the influence of migration on the racial composition of a society and on its politics. In addition, it also should be taken into account that countries tend to oppose the unrestricted migration of labour because they want to regulate foreign labor flows to suit their economic needs. Countries may be willing to accept unskilled labour in times of plenty but tend to reject it under scarcity conditions or during recessions.

However the failure to address the issue of unskilled labour has also its costs. Placing the focus on skilled labour and giving it the facilities of free movement within the region may widen the existing disparity between skilled and unskilled labour and their remuneration levels. Skilled labour can acquire and enhance its existing level of skills by the virtue of free movement. Unskilled labour is denied that right.

Besides the negative effects that this can have on equality and income distribution and thus economic growth the current provisions on labour mobility place at a disadvantage those economies that have a relatively high percentage of the labour force

[52] This and the following paragraphs are based on Meyers, E (2002) Multilateral Cooperation, Integration and Regimes: The Case of International Labor Mobility. Working PaperNo.61.University of California-San Diego. La Jolla, California.

that is unskilled. Barring the right of unskilled labour to move can further widen the existing economic and social asymmetries within the CARICOM region, which is contrary to the spirit of the CSME and to the basic principles of regional integration.

Finally it is important to note that, as shown by the available empirical evidence, the success of labor mobility agreements depend on the extent of the economic gap and asymmetry in the economic development of the signatory countries. The greater the economic gap and asymmetry in economic development the less likely are the chances for its success. Thus policy makers must note that economic convergence and labour mobility are really two sides on the same coin.

Capital mobility is complementary to labour mobility. Capital mobility is a reality, at least partially, within CARICOM. It may even be asserted that capital mobility is a phenomenon that has occurred with independence of the advancement and progressive implementation of the CSME.

There are several issues that need to be addressed in this area. First, the portfolio risk of some commercial banks is high. The dynamism of the financial sector has been driven to a great extent by government debt. It has not responded to the performance of the real sector of the economy. Thus finance is debt driven when in fact it should be real-investment driven. As explained earlier in this study, most Caribbean governments have government debt levels that are by standard criteria deemed to be unsustainable.

Second, the positive effects of the mobility of capital may not have been fully realized due to the disparity in the degrees of implementation and interpretation of existing laws and provisions. Third, there is also a high degree of discretion in government interventions, which can lead to undermine any climate of certainty needed for investment decisions across the region.

Finally, the currency problem is a significant obstacle for the development of intra-regional capital mobility and capital markets. Some currencies are not convertible due to their high levels of instability. Other currencies are simply no acceptable. Finally even the strongest currency is not used as means of payments in intra-regional trade due to its high transactions costs. It is unclear how a regional agreement can progress in its economic and social integration without any common regional means and standard of payment.

8. Asymmetries and their treatment

8.1. The treatment of regional inequalities in practice

Regional inequalities and disparities are inescapable facts of any economic integration scheme. Disparities exist in terms of size, economic structure, performance and development. It is a question of the initial endowments of a country or region. A country that specializes in goods that are intensive in capital will have greater levels of productivity relative to a country whose output of goods is highly labor intensive.

There are two approaches to deal with the disparities. The first is to let market forces work their way through free trade and movement of capital and narrow the disparities. Within such a setting capital flows should flow to the country which is relatively undercapitalized and which also in general the less developed region, responding to the expectation of higher returns. Greater levels of investment would translate into higher levels of productivity, income and development. This would eventually lead to a process of income and growth convergence.

This is the approach envisaged in NAFTA and the Free Trade Area of the Americas. In the latter case, countries agreed to take into account in the negotiations the different levels of size and development of the countries. This involves mainly the provision of a flexible, transparent, simple and easily applicable framework that takes into account the heterogeneity, the differing needs, the characteristics that are specific to each member, and the differences in market access among the member countries. As part of the recognition of the differences in size and development member countries agreed on a Hemispheric Cooperation Plan (HCP) as a supporting pillar of the trade negotiations. The HCP has six objectives. In a nutshell, these can be summarised as providing a basis permitting countries to confront and overcome the challenges associated with trade liberalization. The HCP consists in building 'trade capacity' through technical assistance aimed to enable member governments to take part in the trading negotiations and to implement the clauses and provisions of the treaty.

The second approach recognizes that a regional agreement among unequal members is bound to aggravate their existing disparities. As a result regional agreements must have a mechanism and more precisely a regional policy to level the plain field among different member countries or regions. This is the approach adopted by the European Union.

Europe's regional policy is one of economic and social cohesion. It is a question of social articulation rather than one focused on economic growth. The policy of social articulation is carried out through structural actions. These comprise structural and cohesion funds (See Table 43 above). The former and latter represent 90% and 10% of the total funds allocated to structural actions. The largest programme is the European Regional Development Fund (ERDF), which absorbs 58% of structural funds.[53] Structural actions represent one-third of the European Union budget and for 200-2006 are estimated at 3% of the European Union's GDP for 1999.

[53] The others include the European Social Fund, the European Agricultural Guidance and Guarantee Fund and the Financial Instrument for Fisheries Guidance.

Table 43
Structural actions in Europe
Objectives and funds

Objectives	
Structural funds	Cohesion funds
Objective 1: Development and structural adjustment of the poorest regions of Europe. The poorest regions are those whose GDP per capita is below 75% of the European average expressed in purchasing power **Objective 2:** Economic and social restructuring of regions with regional deficiencies. **Objective 3:** Adaptation and modernization of education systems, training and employment.	**Objective:** Supports transportation and infrastructure projects. Cohesion funds are allocated to the states with a per capita national product below 90% of the European Average measured in purchasing power. These states are: Greece, Portugal, Spain.

Structural actions by beneficiary countries as a percentage of the total and of their respective GDP's

Countries	Percent of the total	Percent of GDP
Spain	26.4	1.4
Germany	14.0	0.2
Italy	13.9	0.4
Greece	11.7	3.0
Portugal	10.7	3.1

Source: On the basis of World Bank. European Integration, Regional Policy, and Growth. Washington D.C.: The World Bank (2003).

The disparities in regional agreements such as for example the European Union are measured by the respective GDP's per-capita relative to the mean. The countries that are below the mean are termed 'disadvantaged.' Those exhibiting a GDP per capita above the mean are the 'advantaged' regions. The advantaged/disadvantaged threshold has changed over time. In the case of the European Union the threshold was set at 90% in 1991 and then at 75% in 1999 of the average GNP and GDP for Europe

In the case of CARICOM, income disparities can not be viewed as the main vehicle to draw the dividing line between disadvantage and advantage countries. In the

case of CARICOM economies the main dividing line or concept is size. In turn size is related to vulnerability.[54]

The impact of structural funds in the European Union can be divided into a demand and supply side effects. The former refers to the effect of increasing expenditure on aggregate demand. The latter refers to the effect on the productive potential of an economy. The demand effect is generally visible in higher expenditure levels and short-term reduction regional income disparities. Nonetheless, it is insufficient to justify the use of structural funds because it is tantamount to equating structural funds with income transfer mechanisms. However, supply-side effects are harder to identify.

It is generally accepted that structural funds have had a positive impact on the development of Europe and the convergence of its member countries as attested by the Spanish and Irish experiences. Besides demand and supply effects some authors have also identify the positive effects of regional aid on the improvement in the 'quality of expenditures and institutions.'[55]

However, the usefulness of structural funds and regional aid in Europe has not gone unchallenged. Bodrin and Canova (2003, p.89) view structural funds as pure transfer mechanisms with few positive long-term effects. In addition, both authors claim that these generate rent-seeking behavior and they lead to "inefficient allocation of resources within regions that are the main beneficiaries of such transfers". In their own words structural funds lead to: "…suboptimal allocation of regional labour, capital and entrepreneurship and to a self-perpetuating system of expectations in which below-average income levels are almost 'sought' by the regional administrations as a conduit for additional funding."[56]

The European experience should alert policy makers in the Caribbean that structural funds should no be seen as a panacea for growth and convergence. Structural funds are a means to attain those goals. Fundamental to this endeavor is the precise specification of the mechanisms that should be used for their attainment, and the precise identification and demarcation criterion for their use and beneficiaries. Structural fund provisions, if they are to be useful, must move beyond the realm of the general principles.

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[54] According to the standard definition vulnerability is "associated with exposure to external economic factors. It is the consequence of two sets of factors: (1) the incidence and intensity of risk and threat; and (2) the ability to withstand risks and threats and to 'bounce back' from their consequences." In turn the threats have their origin in the particular characteristics of some of the smaller economies, remoteness insularity, and economic exposure. This general definition of vulnerability has paved the way for arguing that the vulnerability of the smaller economies is structural rather than conjectural. That is, it does not depend or is not a consequence of policy decisions. It is independent of political or economic choice. Vulnerability proponents have clearly emphasized that this concept is not related to measures of economic performance such as GDP per capita. A country can have an internationally relatively high GDP but be still vulnerable (i.e., The Bahamas).

[55] Funck et Al. Overview in European Integration, Regional Policy and Growth. Eds. Bernard Funck and Lodovico Pizzati (2003). The World Bank: Washington D.C.

[56] Boldrin, M. and Canova, F. (2003) Regional Policies and EU Enlargement in Funck et Al. Op.cit.

8.2. Asymmetries in CARICOM

The level of disparity in size, economic development and performance within CARICOM is significant (see Table 44 below).

In addition over time the disparity of economic conditions seems to have widened as shown by a simple convergence analysis. Available data does not show the existence of absolute GDP convergence for CARICOM members (that is the states situated at the lower end of the output scale do not tend to grow faster than those situated at the higher end in order for the former to catch up with the latter)[57].

Figure 15 below plots the relationship between the real gross domestic product per capita (1960=100) and the real gross domestic product per capita growth for the period 1960-2002 for all countries. As eye-inspection of the figure shows the relationship could be roughly approximated by an upward slopping curve which reflects a lack of convergence among Caribbean economies.

The existence of asymmetries can imply that countries' macroeconomic performance is unsynchronized and that therefore members of a regional block will continue to experience non-trivial macroeconomic shocks. This has in turn an important implication. To the extent that, market integration encourages regional specialization by industry or product, the incidence of country-specific shocks may even increase with persistent shifts in relative demand.

[57] The literature distinguishes two concepts of convergence. These are termed sigma and beta convergence. Sigma convergence refers to a decline in the dispersion across a group of countries or regions declines over time. Sigma convergence can be measured by the standard deviation say of GDP per capita or by a coefficient of variation (defined as the ratio of the standard deviation over the mean). Beta convergence refers to the relationship between the rate of growth of a variable over time (say GDP) and the level of that variable for a given year. The existence of sigma convergence between a lower and higher level income countries implies that there is a process of catching-up between the former and the latter. That is, the lower income level countries grow at a faster rate than the higher level income ones. Sigma convergence is compatible with absolute convergence (See, Barro and Xala-i-Martin, 1995, pp.26-28 and 383-386). More recently some authors have explored the possibility of simultaneous convergence and divergence. See, Elmslie and Milberg (1996) and Carter (2004).

Table 44
Indicators of size and development for Caribbean States
2003

Caribbean states	Area in Thousands of Km^2	Population Thousands of inhabitants 2003	GDP per capita US dollars 2003	Poverty Percentage of population below the poverty line	Unemployment rate 2003	Inflation 2003	Fiscal balance as percentage of GDP 2003	Current account as percentage of GDP 2003	Public debt as percetage of GDP 2003
The Bahamas	14	312	16691	....	10.8	3.0	....	-8.17	45
Barbados	0.43	272	9651	14	11.1	1.6	-2.5	-8.0	71.1
Belize	23	290	3646	....	12.9	2.6	-10.9	-18.3	88.9
Guyana	216	762	911	35	...	4.9	-34.7	-11.0	172
Jamaica	11	2 600	2962	19	13.1	14.1	-5.9	-12.4	142
Suriname	164	439	2470	....	...	26.0	0.2	-14.0	37.0
Trinidad and Tobago	0.44	1 300	7836	21	10.6	3.0	2.7	9.6	28
OECS	2.81	578	4338	.....	....	1.8	-9.0	-19.0	109.0
Anguilla	0.1	12	7840	.....	.....	6.9	2.	-34.7	17.2
Antigua and Barbuda	0.44	74	8369	12	....	...	-9.0	-12.7	151.68
Dominica	0.75	72	3023	33	....	3.0	-5.0	-13.2	127.04
Grenada	0.34	102	3353	32	....	1.1	-10	-34.5	110.12
Monsterrat	0.1	4	7569			1.2	-28	-17.4	16.3
St. Kitts and Nevis	0.27	50	6510	31	....	3.1	-9	-23.7	162.00
St. Lucia	0.62	167	3658	19	....	0.4	-9	-15.4	66.51
St. Vincent and the Grenadines	0.39	112	2819	33	....	2.7	-2.4	-18.2	76.68
British Virgin Islands	0.1	21	10000	.....	....	0.4	-0.7	....	....

... denotes not available.
Source: ECLAC, based on official statistics.

Table 45
CARICOM
Synchronisation of GDP growth
1995-2003

	Antigua and Barbuda	Barbados	Belize	Dominica	Grenada	Guyana	Jamaica	Saint Kitts	Saint Lucia	Saint Vincent	Suriname	Trinidad and Tobago	Bahamas
Antigua and Barbuda	1.00												
Barbados	-0.14	1.00											
Belize	-0.18	-0.35	1.00										
Dominica	-0.22	0.10	-0.13	1.00									
Grenada	0.03	0.36	-0.42	-0.20	1.00								
Guyana	-0.23	-0.24	-0.12	0.41	-0.41	1.00							
Jamaica	-0.18	-0.56	0.52	-0.26	-0.50	-0.07	1.00						
Saint Kitts	-0.12	-0.05	0.32	0.54	-0.20	0.47	-0.39	1.00					
Saint Lucia	-0.05	0.24	-0.51	-0.33	0.18	-0.34	0.00	-0.47	1.00				
Saint Vincent	-0.81	0.35	-0.20	0.12	0.04	-0.07	0.11	-0.27	0.52	1.00			
Suriname	0.27	-0.20	0.15	-0.24	-0.60	0.07	0.29	-0.31	-0.21	-0.13	1.00		
Trinidad and Tobago	0.21	-0.38	0.32	-0.81	0.05	-0.58	0.60	-0.63	0.21	-0.09	0.34	1.00	
Bahamas	0.13	0.00	-0.15	0.14	0.55	0.00	-0.37	0.23	-0.07	-0.30	-0.72	-0.33	1.00

Source: On the basis of official data

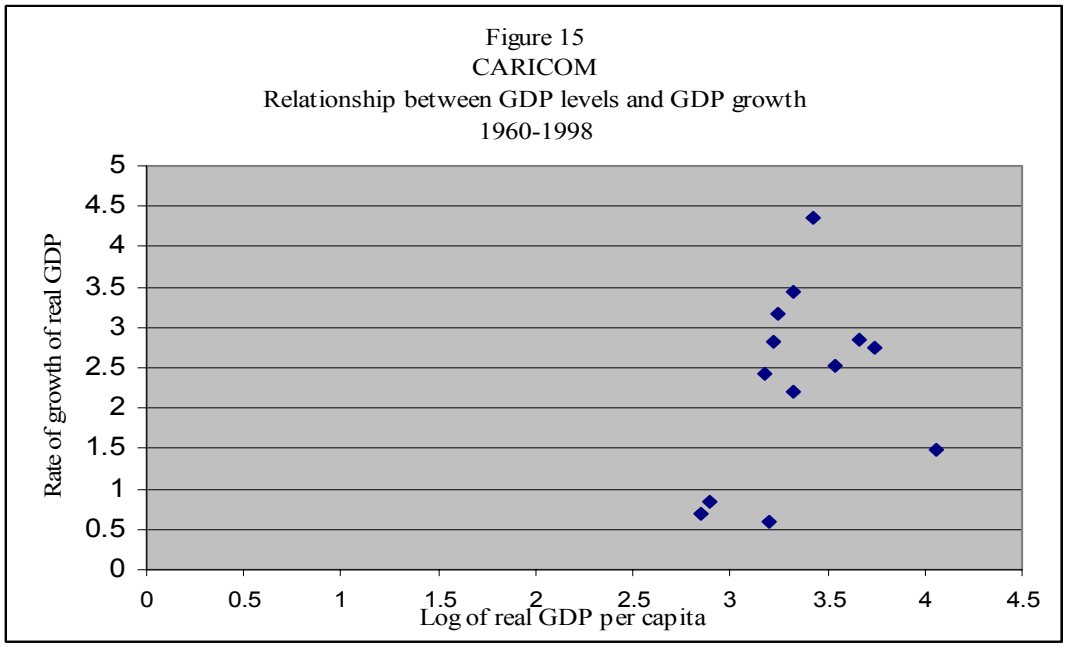

Table 45 above presents the results of an exercise correlating the deviation in each country's rate of growth of GDP from the regional average. The exercise starts by constructing an unweighted average rate of growth for the region for the available time domain, which in this case is 1995-2003. The next step is to obtain the deviations of each country from the regional average for each year. Finally, the correlation coefficient between the deviations of each country member from the average to each other country member is computed and the pair wise coefficients are reported in Table 45. A negative (positive) coefficient between any two countries, especially when its value is significant, implies that both are out of phase (move together) in the business cycle. The results indicate that 58% of the observations have negative correlation coefficients. A minority of these estimates (6%) are not statistically significant. These results make a case for the absence of synchronization of GDP growth for 1995 to 2003 among CARICOM countries.

8.3 Chapter VII- Disadvantaged Countries, Regions and Sectors

The asymmetry issue was recognized early on in CARICOM as attested by the divide between More Developed and Less Developed countries (MDCs and LDCs) in the Chaguaramas Treaty (1973). The treaty had also several provisions providing asymmetric treatment to the LDCs. These were contained in the Special Regime for Less Developed Countries (Chapter VII, arts. 51 to 62) and in several other provisions in the Treaty.

In the Revised Treaty of Chaguaramas the asymmetry issues are explicitly addressed in Chapter VII of the revised Treaty of Chaguaramas. Following preliminary considerations Chapter VII is divided into two sections. The first provides a regime for disadvantaged countries, regions and sectors. The second provides a special regime for less developed countries.

Central to the first regime is the establishment of a development fund (Art. 158) whose purpose is the provision of financial or technical assistance to disadvantaged countries, regions, and sectors. Disadvantaged countries, regions and sectors are defined in article 1 of the Revised Treaty. [58]

The term 'disadvantaged' should be understood as the inability to fully participate in the CARICOM integration agreement. From the point of view of this study, 'disadvantage' results mainly from size, policy implementation, external shocks and temporary development conditions (See Table 46 below).

The less developed countries are, at least for the OECS, considered disadvantaged mainly because of the limitations imposed on their development by their small size.

Policy implementation refers to the negative impact or consequences of the operation of the CSME. In the case of disadvantaged countries the Revised Treaty (Art. 1) makes

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[58] The concept of a development fund is not new. The concept was put forward at the Twenty First Meeting of CARICOM Ministers Responsible for Foreign Affairs. The objective was to guarantee the effective participation of the smaller less developed economies by facilitating their international trade competitiveness within the context of the Free Trade Area of the Americas Agreement. In 1998, the government of Guyana under President Cheddi Jagan submitted a proposal for the establishment of a Regional Development Fund to the XXI Latin American Council Meeting of the Latin American Economic System. The Regional development Fund was renamed as the Regional Integration Fund. The objectives of the Regional Integration Fund were fourfold:

(i) strengthen and diversify the productive base of the smaller economies of the Western Hemisphere through the promotion and facilitation of enterprise development and private sector participation;
(ii) foster infrastructural development, including telecommunications infrastructure, in these economies;
(iii) encourage human resource and technological development in the smaller economies, and
(iv) facilitate the competitiveness of the goods and services produces by the smaller economies.

See, The Regional Integration Fund. Assisting the Smaller Economies Towards the Free Trade Area of the Americas. Second Summit of the Americas. Santiago, Chile, April 18-19, 1998. Compiled by the Ministry of Foreign Affairs, Guyana. See also, Address by His Excellency Dr. Cheddi Jagan, to the Hemispheric Summit Conference on Sustainable Development. Santa Cruz, Bolivia, December 7-8, 1996.

reference to "the adverse impact of the operation of the CARICOM Single Market and Economy." In the case of both disadvantaged regions and sectors the Treaty makes explicit reference to economic dislocation. At the sectoral level disadvantaged sectors refer to a sector in which 'economic enterprises experience dislocation from the operation of the CSME." (Art. 1.)

Table 46
The Regional development Fund

	Disadvantaged		
	Country	Region	Sector
Size	Less Developed Countries		
Policy implementation	Adverse impact of the operation of the CSME	Economic dislocation from the operation of the CSME	Economic Dislocation from the operation of the CSME
External factors	Natural disasters	Natural disasters	Natural disasters
Development condition	Temporary low levels of development HIPC Status	Temporary low levels of development	

External shocks refer to natural disasters, which cause impairment of resources at the country level and region levels, and economic disorder at the sectoral level. Note that the level of exposure to natural disasters is one of the main explanatory variables of vulnerability.[59]

Finally temporary development conditions include 'temporary low levels of economic development' and Highly Indebted Poor Country status.

In the first regime, the provision of technical and financial assistance through the development fund is complemented by other measures and arrangements. These include at the general level temporary derogations form the obligations of the Treaty, measures to attract investment and industries among others (See Figure 16 below for synthetic schema of the major provisions of the regimes included in Chapter VII).

[59] The vulnerability index for any country is defined as the predicted value of its output volatility. The predicted value of output volatility is obtained by regressing the actual value of output volatility on variables for economic exposure remoteness and insularity and susceptibility to environmental events and hazards (Atkins, Mazzi, and Easter, 2001). According to the results the preferred estimated equation was:
$Outvol_i = \beta_o + \beta_1 Vuln_i * D_i + \beta_2 Exdep_i + \beta_3 Div_i$
Where, $Outvol_i$ = actual output volatility
$Vuln_i$ = susceptibility to natural disasters
$Exdep_i$ = export dependence
Div_i = export diversification index
D = dummy variable
i = 1,...., N and N is the number of selected countries.

INSERT FIGURE 16

The debate and analysis of the regional fund has centered to a great extent on the size and financing mechanisms of the fund. These aspects are certainly important. There are, however, from the point of view of this study, some conceptual fundamental issues that must be clarified and addresses if the development fund is to be used for the countries, regions and sectors it seeks to benefit.

First, Chapter VII should provide a clearer and accurate definition of the role of the development fund. As matters stand, due to the broad definition of 'disadvantaged,' the Development Fund has a dual role. It acts as a development fund per-se and at the same time as a compensatory fund. These are two separate and distinct concepts requiring perhaps different actions and funding mechanisms as well.

Second, Chapter VII states that the measures for disadvantaged countries, regions and sectors for both regimes are of a transitory or temporary nature (Art.143.1). It is understandable that measures of a transitory or temporary nature be undertaken to deal with short-run factors such as 'temporary low levels of development' or negative impact arising out of the operation of the CSME or 'external shocks.' It is harder to understand how measures of a transitory or temporary nature can deal effectively with the economic limitations imposed by small size. These are not of a temporary nature.

Third, Chapter VII should define dislocation and the economic boundary between dislocation and non-dislocation in a precise manner. In addition it should specify, at least in terms of broad principles, the reasoning, mechanisms and institutions through which it can be determined that a given dislocation is indeed caused by the operations of the CSME and not by any other factor or phenomenon.

Fourth, Chapter VII should define the relationships and interdependence between sector, region and country for this affects the type of measure that should be implemented when one of these geographical entities is affected by the operations of the CSME. A negative impact on a sector may spill over to the regional and eventually to the country level. Chapter VII should explain, at least at the general level, how the measures contained in the Chapter are to deal with geographical externalities.

Fifth, as currently defined the development fund can lead to a free-rider problem and moral hazard issues. As explained in Section 6 of this study, some firms have undertaken plans to restructure. Restructuring is a strategy to achieve a higher level of competitiveness in the face of greater competition brought in part by the operation for the CSME and thus a strategy to avoid the negative impact of the CSME. Firms that restructure have less likelihood of being negatively affected by the operation of the CSME. Firms that do not restructure have more of a likelihood of being negatively affected by the operation of the CSME. Thus the firms that do not restructure are likely to benefit from the development fund whereas firms are restructuring may not benefit from the financial and technical assistance provided by the Development Fund, since they may simply not be considered 'disadvantaged.'

Finally, the development fund should address the basic development problems of the Caribbean in a regional and concerted strategy. The development fund should specifically give priority to the factors that have been found to be the drivers of economic growth. These include the development of human capital, investment in research and development and the reform and design of an infrastructure facilitating competitiveness. In this sense the development fund should follow the broad guidelines and objectives of the Integration Regional Fund (See footnote 45 above).

The second regime of Chapter VII is targeted to Less Developed Countries, comprises eight articles (Articles 160 to167). These in turn can be divided into three groups. The first group (comprising articles 165 and 167) provides provisions in favor of the LDCs and Belize. The article referring to the LDCs refers to public undertakings.

The second group can be termed 'the good intention clauses'. These are four (articles 161, 162, 163 and 166) that is half of the total. They are articles in which the special needs of the less developed countries are taken into account. The special needs are taken into account in the application of the common external tariff, rules of origin and the implementation of incentives. However, throughout these articles there is no commitment or guarantee that this will be the case.

The third group comprises article 166 which makes reference to the imposition of import duties and most important article 164, which replaces at the end of December 2005 article 56 of the CARICOM Treaty. The application of both is subject to the authorization of COTED and in the second case the decision of COTED requires "the affirmative votes of all the less developed countries and at least two of the more developed countries."

From the point of view of this study the recognition that the Less Developed Economies of CARICOM are considered disadvantaged, in the sense of not being able to fully participate in an integration agreement, is equivalent to recognizing that these countries are not competing or negotiating on the same footing as larger and/or more developed economies. As a result, a regime addressing the needs of the Less Developed Economies of CARICOM should include more than 'good intention' or 'conditional clauses or provisions.' In fact it should include a set of provisions providing for asymmetric treatment to level the plain filed. It is only logical that if CARICOM requests on those exact same grounds the granting of special and differential treatment in its trade negotiations with third parties that it also grants that treatment to the disadvantaged countries within its regional integration agreement.

The formulation of special and differential treatment provisions within CARICOM could well follow those put forward in the World Trade Organization texts (1994). In the World Trade Organization the concept of special and differential treatment is embodied in a set of provisions allowing developing countries greater flexibility in terms of obligations and time frames. These provisions are grouped under four headings. These are (i) those recognizing the interests of the least developed and developing countries; (ii) the measures that reduce or ease the rules and obligations that developing economies

have to meet; (iii) the provisions providing for longer time-frames for the implementation of obligations; and (iv) the provisions for technical assistance (WTO, 1999c, p.225).[60] These measures could provide a blueprint for the type of asymmetric treatment needed by disadvantaged countries to be able to fully participate in the Common Market and Single Economy (CSME).

[60] See, WTO. Special and Differential Treatment. Sypnosis of WTO Agreements and Related Topics. MM/LIB/SYN4. 23 October 2000 for a detailed list of the provisions of the WTO Agreements on Special and Differential Treatment. Caribbean economies have built on the WTO provisions to propose additional provisions specific to smaller economies meant to allow the progressive integration of smaller economies in the current multilateral trading regime. These can be grouped under seven headings. (Bernal, 2001): (i) a lower level of obligations; (ii) asymmetrically phased implementation timetables; (iii) best endeavor commitments; (iv) exemptions from commitments in certain areas; (v) flexibility in application and adherence of disciplines under prescribed circumstances; (vi) enabling access to mediation; (vii) technical assistance and training.

9. Conclusions and recommendations

- For CARICOM economies regional integration is not a matter of choice it is a matter of necessity. In this sense within the CARICOM context the issue of the foregone net benefits of non-integration does not arise. The question is not whether to integrate but rather how to integrate.

- In the1990's the process of regional integration in CARICOM was conceived as a positive response to globalisation. It was also meant to establish a united front in international negotiations and constituted a means to attain international efficiency in the production of goods and services.

- CARICOM's approach to regional integration is akin, to some extent, to the one adopted by the European Union. The goal, which was announced in the early 1990's, consists in the eventual creation of a single market and economy for its member states stopping short of a full monetary union. This implies perfecting the current customs union and liberalising in a gradual manner the movement of factors of production and eventually the harmonization of laws and procedures.

- In this regard CARICOM's integration process has amply surpassed, at least in its intentions, those existing in the American hemisphere.

- However, as it stands CARICOM is, like other regional free trading arrangements, an imperfect customs union. One country has yet to implement phase IV of the Common External Tariff schedule. The sources of imperfection also include the differences in the structure of nominal protection and the differences in the implementation of the common external tariff. Finally, even though non-tariff barriers have declined over time, these remain a pervasive feature of CARICOM's intra-regional trade.

- In spite of these imperfections and remaining caveats, the move from a customs union to a common market, is already a partial reality. The full implementation of a common market will be both an economic and most importantly a social and political challenge for CARICOM economies.

- The CSME is a dynamic, continuous and sequential process. Its success requires that policy makers understand that dynamic processes unfold in historical time. And historical time is irreversible. It is, as defined earlier in the document, an extreme case of a 'crucial process.'

- As a result the definition, goals and expectations of the CSME must be attuned to its impending reality. The objectives of the CSME must conform to the economic reality which it seeks to change and transform.

- Size, the existing structures of production and firms, the trading relationships, the current institutionality, customs and practices all should play a role in the final design of the CSME. They will certainly play an important role in its future development.

- As it currently stands the most basic pillar of the CSME, that is the customs union, is a polarized trading regime. It is highly concentrated at the country, product and firm level. One country, Trinidad and Tobago accounts for at least half of the intra-regional trade flows. Two products also represent half of the value of trade. Finally, the most important traded products are associated with a very high level of firm concentration. It is not exaggeration to state that intra-regional trade in CARICOM is to say the least, oligopoly based trade.

- Mainstream standard economic theory would, under these circumstances, condemn oligopoly or monopoly practices on welfare and efficiency basis. However, the existing structures of production may simply be the outcome of size considerations and of the heterogeneous structure of CARICOM economies.

- From this perspective concepts, such as competitiveness, efficiency and optimality, which form part of the objectives of the CSME, at least in the way it is sold to the public, and are generally used in theory under competition conditions must be adapted to fit and adequately describe the existing reality. Otherwise the underlying ideas and goals of the CSME may simply be devoid of content.

- In the same vein policy makers should have a clear idea as to whether polarization will be, given the current state of our knowledge, a permanent feature of the arrangement.

- In such a case the challenge lies not in trying uselessly to suppress polarization but to use polarization to the benefit of the states members of CARICOM. Polarization of countries and products can be transformed into growth and development poles. Polarization may no be en evil but rather a tool and mechanism for leveling the plain field.

- The customs union has, as the evidence demonstrates, not been able for most of its member countries and products to accomplish its most essential function. That of changing the pattern of trade.

- The most intra-regional oriented group and hence the most dependent group (the OECS) has lost, according to most sources, intra-regional market share.

- The contraction or stagnation (if seen from an optimistic perspective) of intra-regional trade does not augur well for the future of the CSME. It provides a weak foundation on which to superimpose factor mobility. Trade is important because empirically it has been identified as the main, and perhaps the only, channel

through which growth spills over to the constituent member of a trading agreement.

- By size considerations CARICOM has a definite limit to the growth of its intra-regional trade. It is unlikely that the share of intra-regional trade will surpass, as in the European Union which is a very different case, the extra-regional share. Nonetheless gravity equation estimates have shown that there is scope for growth that has not been realized. This is a missed opportunity that CARICOM countries should seek to fill before they

- One of the key factors that accounts for the poor intra-regional trade performance is the external constraint. The external constraint has, especially in the case of the smaller economies, become binding over time due mainly to the deterioration of export performance.

- The deterioration in export performance is reflected in CARICOM's loss over time of its market share of goods and services in its major extra-regional markets.

- The external constraint has shaped a pattern of economic development that is not conducive to growth and led, in the case of the smaller economies, through indirect mechanisms to debt accumulation. What appears as a fiscal, and hence internal problem, is ultimately an external one. This has severe implication for integration, asymmetry and convergence within CARICOM.

- The fiscal problem will not be solved and intraregional will not expand until the external constraint is overcome or significantly softened. In the same vein, fiscal reform will be unsuccessful unless the external conditions improve. In smaller economies compartmentalization is a non-sequitur and fiscal is intrinsically tied to external performance.

- This will require a concerted effort to delineate and implement export promotion policies. Export promotion policies are inexistent in most CARICOM countries. Although there are export promotion institutions that provide assistance to firms the linkages and follow-up processes are very weak. Fundamental to the success of an export promotion policy is the creation of an export culture of which export training courses and programmes are an essential component. Export success is not the product of *laissez-faire*.

- Softening the external constraint may also require improving the productivity of imports.

- The other variable that can also account for the stagnation in intraregional trade is the existing trading regime of CARICOM.

- Average weighted tariffs are below statutory levels and have declined over time. Although a pervasive feature of CARICOM's trading regime, the empirical

evidence shows that non-tariff barriers are not a determining factor of the behavior of intraregional trade.

- Customs charges and services are more important, particularly in the case of the OECS, as sources of revenue than as import deterrents. The licensing system which in the OECS affects a few products is a direct consequence of article 56. As the empirical evidence shows, the licensing system has allowed the OECS to build a resilient export structure. Unfettered trade does not belong to the realm of the real world.

- However, the exiting heterogeneity of existing tariff rates, the levels of dispersion and the country differences in the application of the CET has created a structure of effective protection that can be conducive to misallocation of resources.

- In some cases, the protection afforded by the list of ineligibles for duty exemptions has exacerbated this problem.

- The bigger economies of the Caribbean have been able to make frequent use of the CET suspension mechanism. Independently of the direction of causality between diversification and the common external tariff suspension mechanism this facility can set the stage for dynamic learning processes. The effects of having access to low cost and high technological content inputs can be compounded by having access to skilled labor.

- As mentioned previously the OECS has lost intra-regional trade share. The grouping lost on average close to more than a quarter of its market share in the last decade in its major export products.

- Nonetheless, the intra-regional export composition of the OECS has not changed in more than fifteen years. The OECS has a traditional export structure that has demonstrated to be resilient in the face of adversity. The array of intra-regional export products that represented more than 80% of the total in 1985 still account for roughly 80% of the total in 2000.

- The OECS intra-regional export products are not, as the evidence demonstrates, high in labor intensity. A number of products (in fact more than 42% of its exports to the MDCs) have a medium or high skill and technology level.

- Improved access to skill labor, which is identified by a number of firms a key constraint on growth, as currently contemplated in the CSME provisions, can only enhance the OECS competitive potential.

- The OECS is established and has a market presence in its current export products (among which are flour, cardboard and paper, beer, metals, plastics, chemicals, and food and beverages). As a result should seek to consolidate and enhance its

current export structure. Export consolidation of the 'crown jewels' rather than diversification should guide trade policy.

- The potential for trade for the OECS is compounded by the existing presence of learning-by-doing processes. Some firms are acquiring intra-regionally the necessary skills to compete extra-regionally. Learning-by-doing processes can be complemented by the current drive for restructuring which is a fact of many major firms in the region. The use of productive capacity should go hand-in-hand with the creation of productive capacity.

- Given the fact that the scale of efficiency of firms is significantly below that of international standards, governments could approach both the creation and use of productive capacity as a worthwhile goal of an industrial policy which is currently absent from most CARICOM countries.

- This requires the partnership of the government and the private sector and a common understanding of the objectives of the CSME. In general terms, leaving aside a few exceptions, the private sector is currently under or misinformed about the CSME. In other cases the private sector has not expressed the necessary interest. Whatever the reasons the rate of return of questionnaires that were distributed to the private sector on the CSME for this study was below 10%. The private sector must assume a more aggressive and present role in the development and unfolding of the CSME.

- The potential for trade in goods can obviously be complemented by that of services. The OECS is highly specialized in services. The decomposition of services by category shows that, as expected travel is the most important component. However, the importance of travel has declined over time to the benefit of other business services.

- In spite of the on-going efforts to identify services clusters, and niche sub-sectors, the level of information in the services sectors is many instances qualitative. Rational decisions can not be made based on anecdotal evidence.

- An effort must be made to quantify, especially, at the regional level the services sectors and their ramifications and linkages with the rest of the economy.

- The identification of the services sector as a linchpin for economic growth dates back to the 1960's decade. However, governments in the OECS have only recently made the decisive choice to guide policy in that direction.

- The development and expansion of services needs to be sustained by adequate levels of infrastructure and education.

- Moving from an imperfect customs union to a common market is indeed, as expressed by many official sources, a challenge for CARICOM. The mobility of

factors especially that of labor is very low in the source case for an economic union, i.e., the European Union. The mobility of labor in Europe is its most important achievement in paper.

- While for obvious reasons, the European experience can not be transplanted to the Caribbean, it is an example that must be taken into account when addressing and designing the legislation underpinning the mobility of labor within the CSME.

- Labour will not move on its own. The necessary policies must be put in place so that labour mobility becomes a reality. More importantly labour mobility must be conceived in such as way as to attain the full articulation and integration of the market for goods and services which is key goal of the CSME.

- At it stands the CSME contemplates the mobility of labor for certain categories of skilled labor. The issue of expanding the mobility of labor to encompass the additional categories of skilled labor, such as for example agricultural workers and unskilled labor is still a pending but pressing issue.

- The OECS will benefit from skilled labor, to the extent that it does not displace the status of some of its labor force. However, the issue of movement of unskilled labor must be addressed.

- Having different policies for different types of labour within a single market is tantamount to fostering labour segmentation. Labour segmentation can widen inequality, productivity, growth and ultimately hamper macroeconomic convergence criteria.

- Granting the freedom movement and the right of establishment only to skilled labour is equivalent to granting skilled labour the right to progress socially and economically. There is no foundation to deny that right to unskilled labour.

- The OECS could view the incorporation of unskilled labour as a negotiating process.

- In CARICOM the mobility of capital is fact. The factors that are of concern include the high risk portfolio of some commercial banks, the degree of discretion guiding government interventions, and the heterogeneity in the implementation and interpretation of the existing legislations and provisions.

- The current state of currency convertibility and acceptance is an impediment to the integration of the markets for goods, services and inputs. All current CARICOM currencies, even the strongest, have very high convertibility transactions cost. A subset of currencies is non-convertible due to macroeconomic instability. Another subset is simply not acceptable.

- Chapter VII of the Revised Treaty of Chaguaramas is a key component of the CSME and of its success. Chapter VII comprises two regimes. The first deals with disadvantaged sectors, regions and sectors. The second regime deal with the Less Developed Countries of CARICOM (LDCs).

- As explained in the corresponding section of this paper, the first regime should give a more precise definition of the terms guiding its principles, provisions and recommended actions.

- The regional fund, a center piece, of Chapter VII addresses two separate issues, those of compensatory and structural actions. These must be distinguished for they may require different criteria for implementation and funding. The former amounts to an income transfer mechanism whereas the later is meant to establish, at least partly, the foundations for sustainable growth and development.

- In addition, the fund is prone to free-rider and moral hazard issues that must be addressed.

- Finally the fund should tackle some of the fundamental constraints on the development of SIDS and be guided according to the general guidelines conceived in the Caribbean Proposal for the Regional Integration Fund for the Free Trade Areas of Americas.

- The second regime (that for the LDCs) has two types of provisions: the good intention provisions and the conditional provisions. These should be complemented by the standard set of measures for special and differential treatment.

- If special and differential is an important part of CARICOM's position in international trade negotiations as a regional negotiating block on the basis of differences in size and development then it should apply the same principle within its boundaries.

Annex

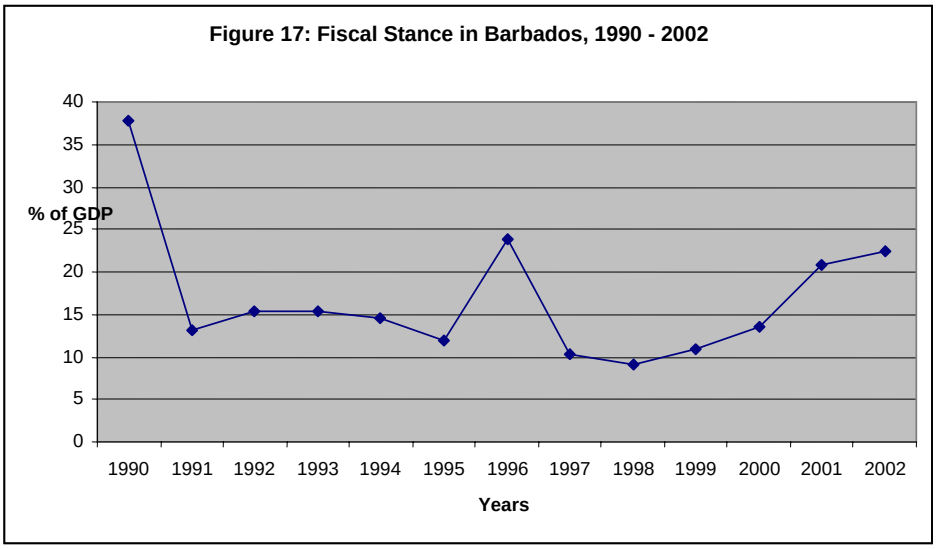


Figure 17: Fiscal Stance in Barbados, 1990 - 2002
% of GDP
40
35
30
25
20
15
10
5
0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
Years

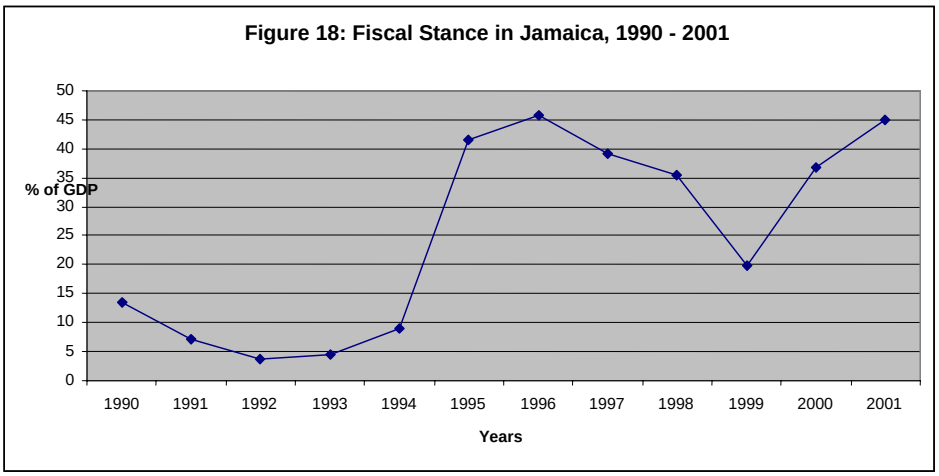


Figure 18: Fiscal Stance in Jamaica, 1990 - 2001
% of GDP
50
45
40
35
30
25
20
15
10
5
0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
Years

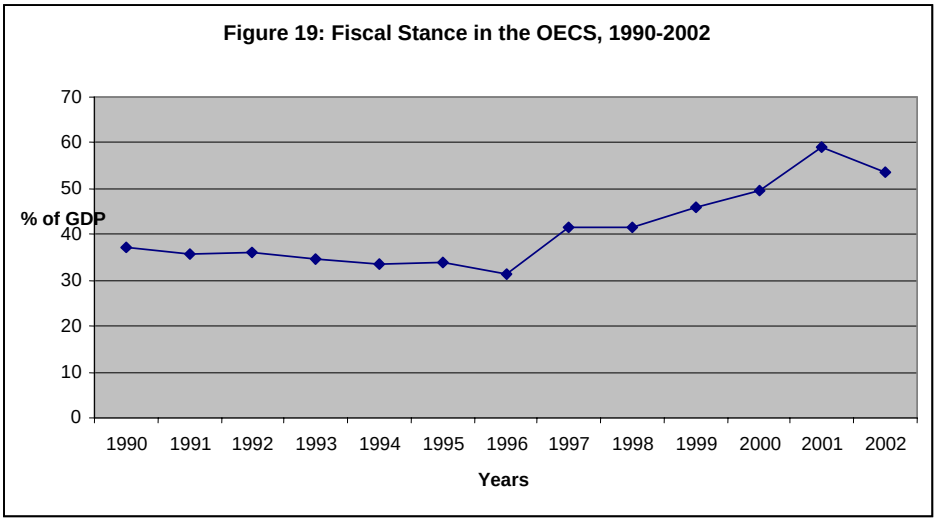


Figure 19: Fiscal Stance in the OECS, 1990-2002
% of GDP
70
60
50
40
30
20
10
0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
Years

Figure 20: Fiscal stance in Belize, 1993 - 2000

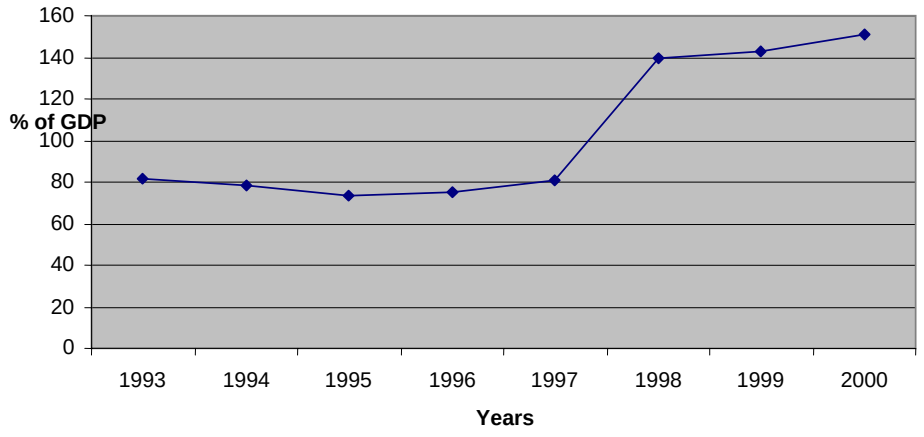


Figure 21: Fiscal stance in Trinidad and Tobago, 1990-2001

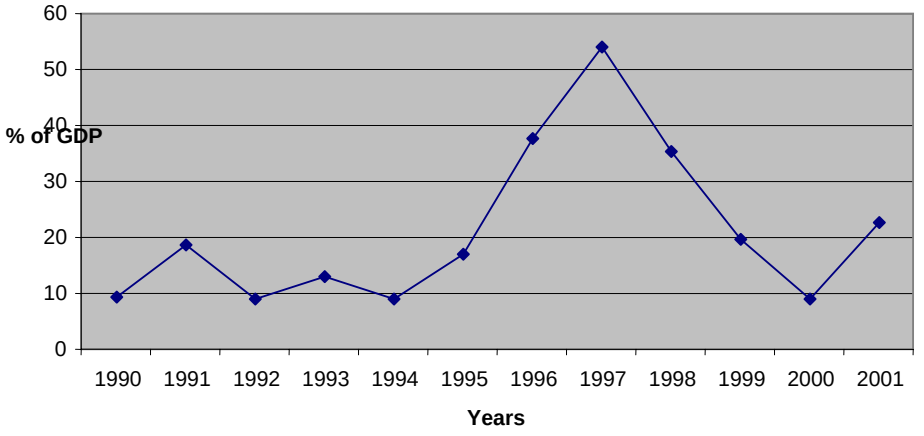
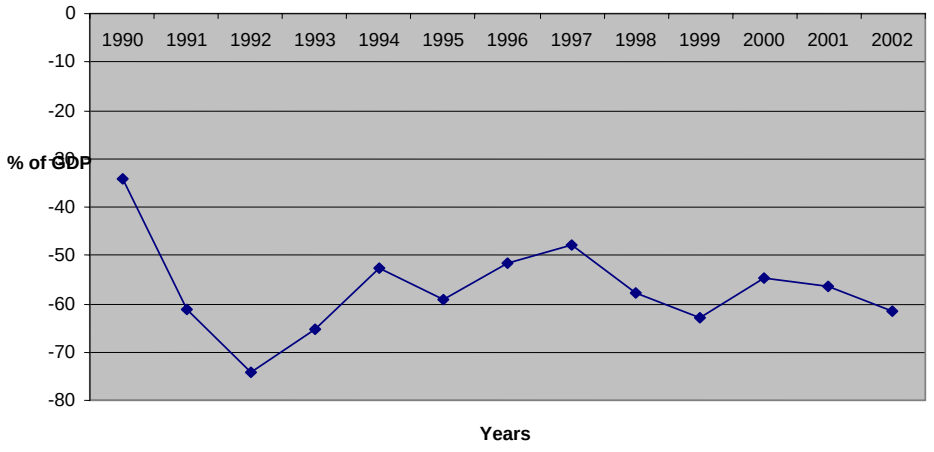


Figure 22: Fiscal Stance in Guyana, 1990 - 2002



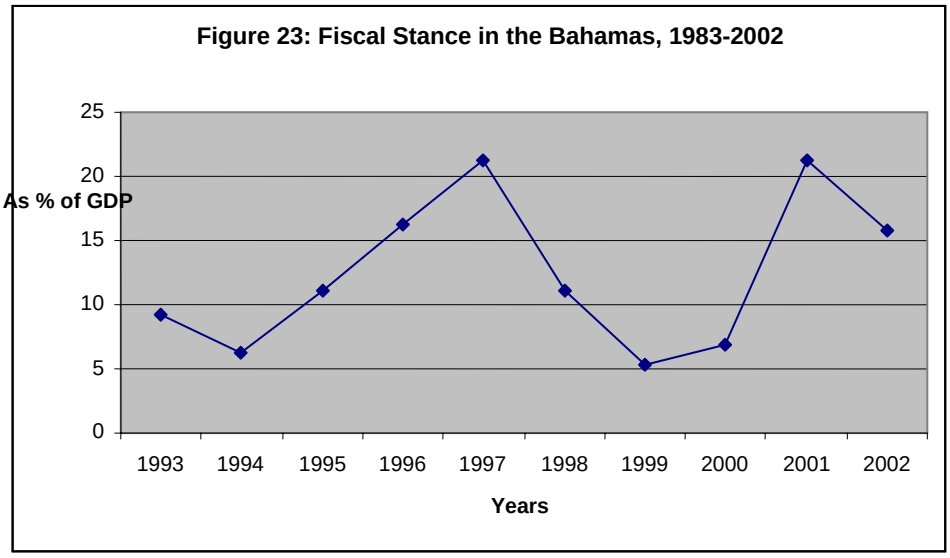


Table 47
Gross Domestic Investment (As percentages of GDP) in the Caribbean
1980 – 2000

Country	1981-1990	1991-2000	1998	1999	2000
Antigua and Barbuda	33.8	33.6	32.4	32.8	29.9
Barbados	18.6	15.2	18.5	19.4	18.1
Belize	23.6	25.9	25.8	26.1	31.6
Dominica	31.1	29.0	27.0	28.5	29.3
Grenada	34.0	34.9	37.4	35.7	38.6
Guyana	28.0	31.3	28.8	24.5	22.3
Jamaica	23.1	28.1	27.2	25.6	26.8
St. Kitts and Nevis	37.7	42.6	43.0	37.4	45.0
St. Lucia	26.8	23.6	23.8	25.8	24.5
St. Vincent and the Grenadines	28.9	28.7	31.8	32.6	28.0
Suriname	19.9	16.4	18.1	15.6	11.0
Trinidad and Tobago	20.3	20.7	27.9	21.4	19.1

Source: World Bank (2002) and on the basis of official data.

Table 48
Public debt in the Caribbean

Country	Total public debt as % of GDP 2003		Internal Debt as a percentage of GDP 2003	External debt as a percentage of GDP 2003
	1997	2003		
Anguilla	10.7	17.2	3.8	13.2
Antigua and Barbuda	107.0	151.7	68.9	83.1
The Bahamas	46.0	45.0	31.5	5.6
Barbados	62.0	71.1	54.9	25.9
Belize	41.0	88.9	13.0	75.8
Dominica	61.0	127.0	39.4	87.6
Grenada	42.0	110.1	30.1	79.9
Guyana	211.0	172.0	….	172.0
Jamaica	103.0	142.0	85.4	56.5
Montserrat	26.0	16.4	2.8	13.2
St. Kitts and Nevis	86.0	162.0	75.4	86.6
St. Lucia	36.0	66.1	19.1	46.9
St. Vincent and the Grenadines	48.0	76.7	25.6	51.4
Suriname	24.0	37.0	9.8	27.2
Trinidad and Tobago	52.0	28.0	....	13.8
Average	64	87	35	56

Source: ECLAC. Economic Survey of the Caribbean.

Table 49
Import tax classification and presentation by country

Country	Presentation format	Import tax dependency (2002)
	International trade and transactions	53.87
	Import duties	46.69
Anguilla	Foreign exchange tax	1.43
	International trade and transactions	60.40
	Import duties	15.53
	Consumption tax	24.64
	Embarkation tax	12.58
Antigua and Barbuda	Foreign currency levy	1.97
	International trade and transactions	65.26
	Import tax	50.24
	Stamp tax from imports	13.01
	Export tax	1.88
Bahamas	Stamp tax from exports	…..
Barbados	Import duties	9.98
Belize	International trade and transactions	45.7
	International trade and transactions	52.71
	Import duties	12.08
	Foreign exchange tax	
	Consumption tax	31.71
Dominica	Customs service charge	3.70
	International trade and transactions	57.65
	Import duties	12.07
	Foreign exchange tax	0
	Consumption tax	31.90
Grenada	Customs service charge	9.70
Jamaica		
	International trade and transactions	45.34
	Import duties	9.21
	Foreign exchange tax	3.63
	Consumption tax	16.44
Monserrat	Customs service charge	14.86
	International trade and transactions	49.17
	Import duties	15.89
	Foreign exchange tax	0.00
St. Kitts and Nevis	Consumption tax	23.95
	Customs service charge	7.42
	International trade and transactions	52.08
	Import duties	13.97
	Foreign exchange tax	0.00
	Consumption tax	26.64
St. Lucia	Customs service charge	7.45
	International trade and transactions	48.77
	Import duties	9.84
	Foreign exchange tax	……
St. Vincent and the	Consumption tax	30.0
Grenadines	Customs service charge	6.99
Trinidad and Tobago	Import duties	7.2
Guyana	International trade taxes	11.4
Suriname		

Source: On the basis of official data.

Table 50
Domestic taxes on goods and services and international trade taxes as a percentage of total tax revenue
2002

	Domestic taxes on goods and services	International trade taxes
Anguilla	31.33	66.99
Bahamas	0.00	65.26
Antigua and Barbuda	34.54	35.96
Dominica	33.16	35.84
St. Kitts and Nevis	31.27	27.21
Montserrat	26.35	26.80
St. Lucia	35.46	25.00
Grenada	54.03	21.77
St. Vincent and the Grenadines	33.25	18.56
Guyana	…	11.40
Barbados	…	9.98
Trinidad and Tobago	…	7.20

Note: … denotes not available.
Source: On the basis of official data.

Table 51
Eastern Caribbean Currency Union
Percentage Contribution of Gross Value Added by Economic Activity (in constant prices)
1995-2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Goods	26.8	26.5	25.9	26.1	25.8	26.0	25.4	25.4	24.8
Agriculture	9.9	9.6	8.6	8.3	7.6	7.5	7.0	7.3	6.7
Mining and quarrying	0.8	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9
Manufacturing	6.2	6.2	6.2	6.0	6.0	6.1	6.2	6.1	5.9
Construction	9.8	9.9	10.3	10.9	11.3	11.4	11.4	11.1	11.3
Services	76.4	77.0	78.3	78.7	79.3	79.2	79.6	80.1	80.6
Electricity and water	3.8	3.8	3.9	4.2	4.4	4.5	4.8	4.9	4.8
Wholesale and retail trade	12.4	12.3	12.3	12.3	12.3	12.1	11.6	11.6	11.7
Hotels and Restaurants	9.9	9.9	10.3	9.9	9.9	9.5	9.1	9.1	9.8
Transportation	11.0	11.2	11.4	11.2	11.2	11.0	10.8	10.7	10.9
Communications	8.8	9.2	9.4	9.8	10.7	11.1	11.3	10.9	10.6
Banks and Insurance	9.4	9.7	10.3	10.6	10.8	11.1	11.2	11.6	11.5
Real Estate and housing	5.5	5.4	5.3	5.2	5.2	5.2	5.4	5.6	5.5
Government Services	15.7	15.5	15.3	15.4	14.9	14.8	15.4	15.9	15.7
Other Services	4.3	4.2	4.1	4.1	4.0	4.2	4.2	4.2	4.1

Source: ECCB (2004)

Table 52
Selected Comaprrative costs estimates for CARICOM economies
(2005)

	Cement price buildup			Port Costs			Electricity Costs	Transportation costs	Wages	Telecommunications
	Landed cost	Average trading cost	Freight prices	Berth Occupancy	Mooring charges	Harbour dues	Kwh	(Ocean freight rates)		
Barbados				1025.60			0.11	1235	1.00	0.65
Jamaica						504.14	0.11	1519	0.80	0.25
Guyana			12.00				0.18	1135		0.57
Surinam			13.50				…	1165		
Trinidad and Tobago				325.53	159.00	724.55	0.03	….	1.27	0.72
Antigua and Barbuda	…	…	…	298.20	55.50	438.42	0.17		3.28	
Dominica	23.81	3.53	12.00	222.00	61.05	221.40	0.26	1790	1.81	0.61
Grenada	8.23	5.51	10.00	179.20	111.00	296.00	0.16	1780	2.12	0.61
St. Kitts and Nevis	38.02	3.69	13.00				0.16		2.87	0.61
St. Lucia	12.37	6.73	10.00	88.80	29.60		0.17	1385	…	
St. Vincent and the Grenadines	8.23	5.51	10.00	148.00	64.80	188.19	0.36	1635	1.32	1.20

Note: The cement price buildup consists of three components, landed costs, average trading costs, and freight prices. Landed cost includes port/cargo and tonnage dues, landing charges, transport dock charges and stevedoring. Average cost comprises transport, average handling and burst of bags costs. Vessel port costs include terminal user and mooring charges, and terminal charges. The data was provided by PLIPDECO. The data is made comparable by using a sample vessel, the Tropic Carib. Specs. The vessel has the following specifications NRT = 3,601; GRT = 10,851 and LOA = 159.9).Electricity costs are defined in terms of US cents per kilowatt hour. Transportations costs refer to ocean freight rates of shipping one 20 foot container from Port of Spain.
Telecommunication cost is the international daytime rate per minute from the country of origin to the United States.Data on wages is expressed on an hourly basis. In the case of the minimum wage, data for St. Lucia refers to the manufacturing and tourism sectors. For Jamaica and Trinidad and Tobago the minimum wage is the national minimum wage. In the case of St. Kitts and Nevis, the minimum wage is that paid in the manufacturing sector (in the Hotel and Casino sector the minimum wage is 1.41 US). All data are in US$ dollars.

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