Ring the alarm!

Guest Column

by Magda Theodate,

DIVERSIFICATION OF CARIBBEAN EXPORT MUST TAKE PRIORITY

The Caribbean's economic report card has just been issued by the Caribbean Development Bank (CARIBANK) and ratified by the International Monetary Fund (IMF). Positive signs hover on the horizon, including projected real GDP economic growth higher than the last few years, at around two per cent; projected expansion in construction, tourism, and extractive industries; enhanced fiscal space and savings through debt and deficit reduction programs; and the proposed adoption of a dual strategy of climate "resilience-building and [digital] transformation" which is to be adopted to accelerate growth.

However, there are four major economic storm clouds keeping the Caribbean sun from shining over the heads of CARICOM's 15-member state governments, and their even more vulnerable neighbours. Swift action is needed to ensure better times ahead for the people of the region.

Altered relations with the US

First, the changing trade relationship with the region's closest and biggest trading partner, the United States. Focusing on extending trade preferences to developing economies and Least Developed Countries (LDCs) has not been a signalled priority for the current US administration, whose protectionist trade policies have wreaked havoc in multi-lateral circles.

The Caribbean Basin Trade Partnership Act (CBTPA) of 2000, which expires in September 2020 (except for Haiti, with an extension through 2025), has provided tariff preferences for imports of apparel products into the US (albeit, with major exclusions, and requirements for US material inclusions); and then there's the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (Haiti HOPE Act), which was amended in 2008 and 2010. Although there are generous preferences to imports of Haitian apparel, both the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) and North American Free Trade Agreement (NAFTA) compete on better footing with apparel and textile exports than the Caribbean. Further, the CBTPA and Haiti HOPE are not meant to support a wide variety of goods, nor services exports. There's no convincing argument to extending these programs as they primarily help boost American exports, not expand economies or provide sustainable growth. A fundamental renegotiation of trade preferences with the US is needed, and the existing preferences may well soon become casualties of the US's current trade stance.

Pressure on the multi-lateral trade system

Second, the evolving jeopardy of the multi-lateral trade system as more and more countries pursue bilateral trade treaties through free trade agreements (FTAs), rather than multi-lateral engagement. With the exception of Canada, which has so far stayed true to the multi-lateral "consensus" mode of operation to achieve trade goals, developed economies in particular, have been pursuing bilateral trade agreements with a vigour not seen in the last two decades.

Bilateral free trade agreements are in full bloom seemingly everywhere across the globe. Singapore has ratified two FTAs in the last three months with both the EU and Sri Lanka, plus upgraded agreements with China and India. Australia is negotiating no less than nine free trade agreements, including three bilateral agreements with China, Japan and South Korea, its largest trading partners. China maintains 14 Free Trade Agreements and is pursuing an additional eight bilateral agreements in every region of the world, from certain Mercosur (Mercado Común del Sur, in Spanish) countries, all the way to Iceland. The EU has ratified at least four free trade agreements over the last two years, including with Canada, Ecuador, Japan, and Ukraine, while negotiations continue with Australia, New Zealand, and a host of others. While the US, for its part, is renegotiating the North American Free Trade Agreement with Mexico and Canada, and already has more than 20 free trade agreements in place. It is now seeking to craft its "take it or leave it" style of bilateral trade agreements with any country it pleases, including maybe a few surprise economies down the line.

More pointedly too, regional blocs are pursuing their own affairs. The African Continental Free Trade Agreement (AfCTA), for example, is set to bring Africa fully into its economic powerhouse potential through a single, 52-member-country market for the movement of goods and services, and eventually a single currency, falling just within weeks of full implementation by the 22 countries needed to ratify it.

The Association of South East Asian Nations (ASEAN) has already achieved important aspects of its economic integration goals (e.g. liberalized business-to-business trade, and lower tariffs) with the ASEAN Free Trade Area, and through comprehensive FTAs with major economies in Asia-Pacific. But the entire region will double its purchasing power and economic clout with the recently enacted 11-Pacific nation CPA-TPPA Comprehensive and Progressive Agreement for Trans Pacific Partnership Agreement (formerly the Trans Pacific Partnership Agreement, championed by former US President Barack Obama).

It is to be noted that these agreements go beyond preferential tariffs through customs unions, and cover expansive economic partnership and often include joint rule-making on how investments, intellectual property, procurement, and phyto-sanitary measures will be managed. The gains are great both for business and for individuals when these partnerships are engaged, and those left out suffer the consequences for decades.

If the Caribbean can fully harness the power of the economies which form it, all the potential to overcome the challenges of free movement of labour, to attract foreign investment as a bloc, and to make it easier to trade in services, will surely be realized.

Britain's exit from the European Union

Third, BREXIT. The United Kingdom has been a solid Caribbean partner for decades since the independence years. With exchanges and investments all over the region, the Caribbean will surely feel the pinch once the UK leaves the European Union (EU). Despite assured post-Brexit continuity of preferential trade status for Caribbean produce and some services through the recently signed UK-CARIFORUM trade agreement, the UK is busy rethinking its international trade policy. Its orientation is shifting from the EU and Americas, to new partnerships in the East, where it is keen to build closer relationships with what it sees as economies of the future. As the UK's International Trade Secretary, the Rt. Hon. Liam Fox, MP laid out in his recent speech **Britain's Place In the Global Trading System** at the Policy Exchange in London, "The global economic centre of gravity is shifting, ... while North America and Europe… remain key trading partners for the UK, the growth in the East represents a huge opportunity for the UK to establish new, and grow existing, trading relationships."

The UK also indicated its hopes to reinvigorate the global governance rules to orient attention to trade in services. We are not just talking about paperless trade or taxing ecommerce; we are talking about a world economy where services are now a larger part than ever before, and as the second largest exporter of services in the world, the UK wants to determine how it will operate within that new trade arena. Providing those UK services to the growing upper and middle-class populations of the world's fastest growing economies in the East, is clearly the UK's new trade focus.

Blacklist from EU Council of Finance Ministers

Last, but not least, earlier this month, the EU Council of Finance Ministers decided to bypass the Organization for Economic Cooperation and Development's (OECD) established authority on Harmful Tax Practices, and disseminate their own blacklist of non-cooperative tax jurisdictions (whether to seek cooperation or coercion is not clear).

The Council has named no less than five Caribbean countries on the "EU Blacklist" including Aruba, Barbados, Belize, Bermuda, Dominica, and Trinidad & Tobago (all with strong foreign investment regimes, and very strong ties to European companies). The "naming and shaming" came just weeks on the heels of an all-clear by the OECD, which essentially cleared the same countries as having delivered on their commitments, and/or making progress to be cleared from any blacklisting. It is a stunning about face, and clearly the affected countries were taken by surprise. The only silver lining is that the EU has claimed the real concern is most countries on the list simply did "not deliver on time" for commitments previously made, so there's hope that with the submission of the appropriate evidence of follow-up, certain countries could quickly be removed from the list. Nonetheless, the CARICOM needs a carefully crafted framework for dialogue with, and rapid response to this problematic EU action to avoid further reputational harm, and limit the economic losses that will surely stem from non-compliance with the requirements under the EU listing process.

Path forward through export diversification

The Caribbean cannot ignore the multiple centers of geo-political-security and economic tensions stretching along its coastlines and extending to its neighbours in the Americas. To compete in today's global economy Caribbean countries must steer away from traditional goods exports and focus on the potential of the digital economy. First, it is imperative that governments and the private sector commit to executing a plan that elevates trade in services and paperless trade, to the highest levels of national trade policy, with a realistic implementation timeline to boot.

Second, workers need to be trained to trade in new service offerings. With a highly educated, English, French, Dutch and Spanish speaking population, and relatively low labour costs, surely the Caribbean can extend its services value proposition beyond the current obsession with attracting outsourcing centers.

The universities of the region and especially the University of the West Indies have long been leaders in steering the intellectual progress of human capital. In order for them to remain on the cutting edge, technical assistance programs focusing on digital and science careers (e.g. IT project management, coding, artificial intelligence, robotics, software engineering, data analytics) which provide high income potential, facilitate expert knowledge, and the possibility to export the "Caribbean brand" all around the world, are urgently needed from multi-lateral and development financing agencies, helping to place the region's professionals at the forefront of the Caribbean's development.

Third, ratifying the World Trade Organization's Trade Facilitation Agreement has the potential to unlock billions in exports for least developed countries. It also offers technical assistance and capacity building to any country requesting assistance to implement the Agreement. So far, six Caribbean countries have ratified it (Grenada, Guyana, Jamaica, Saint Kitts & Nevis, Saint Lucia, Trinidad & Tobago), and once their National Trade Facilitation Committees are set up, they can request assistance to focus on lowering non-tariff trade barriers, accessing new markets, and promoting new exports.

Fourth, more investment in the Blue Economy is needed. Coastal and marine resources have to be protected both from a tourism and food security perspective, but also because the very sustainability of the region depends on them. There have been a myriad of programs focused on wastewater management which are commendable, but it's also time to explore reducing high sea transport costs, giving fishermen in the region better access to refrigeration and ice in order to help expand their income through fisheries trade, and harnessing resources from marine biotechnology to renewables, in diversifying the Caribbean's exports. The time has never been more urgent and the needs have never been greater.

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