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Trading Our Way to Recovery During COVID-19: Recommendations for CARICOM Countries

The Shridath Ramphal Centre for International Trade Law, Policy & Services

Prepared by Chelcee Brathwaite, Alicia Nicholls & Dr. Jan Yves Remy

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ABOUT THE SHRIDATH RAMPHAL CENTRE

The Shridath Ramphal Centre for International Trade Law, Policy and Services (SRC) is the Caribbean's premier trade policy training, research and outreach institution. Based at The University of the West Indies, Cave Hill Campus, Barbados (The UWI Cave Hill), we offer a range of services including:

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Our programmes include: a 12-month Master of Science in International Trade Policy Programme (MITP), a 3-month Post-Graduate Diploma in International Trade Policy Programme (PGITP), short courses and more.

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ACKNOWLEDGEMENTS

This SRC Policy Document is the latest in the SRC's COVID-19 initiatives and is the SRC's unique contribution to the Caribbean's response to the pandemic that has so shaken the world. Since the commencement of the COVID-19 outbreak, the SRC has been chronicling its trade impact on the Caribbean through an SRC database of COVID-19 policy measures, Quick Guides on COVID-19 Trade Implications, and various think pieces created for our local and regional audience. For access to these documents click [here](#), or visit the SRC's website at: www.shridathramphalcentre.com.

This Document is the product of dedicated and thorough research conducted by the SRC Research team, comprising Ms. Chelcee Brathwaite and Ms. Alicia Nicholls, under the supervision and direction of myself, Dr. Jan Yves Remy. We hope that this work will find an appreciative, but searching, audience in the corridors of trade policy and decision-making across the Caribbean region, in international organizations concerned with development, in the boardrooms of business and commerce, and in conversations and classrooms where CARICOM's trade response to COVID-19 is being debated and contemplated. This is a crucial point in time for our region and we can use it most effectively if we think strategically and creatively, believing in the collective wisdom and good will of our people and leaders.

We thank Mr. Neil Paul, Dr. Lystra Fletcher-Paul, Dr. Antonio Alleyne, Mr. Joel Richards, Ms. Michele Marius, Mr. Nick Ashton-Hart, Dr. Patrick Low and Professor Karl Sauvart for their technical expertise and peer review of draft Chapters. The SRC remains responsible for any errors and omissions.

Dr. Jan Yves Remy

Deputy Director

SRC

FOREWORD

As the world struggles to manage the COVID-19 pandemic, the recurring question is, will things ever go back to normal? And that is not an unreasonable concern as humans seem not to like change too much. Clearly, all indications are that things might very well not be the same after COVID-19. If we only take the time to look around at the developments, it will be clear that a new normal is emerging, that is not a “one size fits all”. Remote working and the use of technology to manage our affairs are the new normal. In all spheres of life, we see the use of technology through Apps to get our shopping done; in the medical context, to fill and administer prescriptions; and in learning institutions, through new approaches to teaching and grading. Things certainly have changed and here in the Caribbean it is no different.

For the longest while, we in the Caribbean seem to have been lagging behind the rest of the developed world; in a sense, swimming against the tide, holding on to the old, tested and tried, and resisting the lure of technology. The COVID-19 pandemic certainly has thrown us headlong into the technological stream, and it appears that so far, we are swimming well enough. COVID-19 has also forced the Caribbean to make changes to the ‘business as usual’ environment. To paraphrase a friend of mine, the exploitation of the virtual space, where we were lagging, is clearly being embraced and we are “byting” into the virtual pie.

COVID-19 has also exposed the region’s shortcomings and perhaps helps us to forge a path to economic recovery using trade policy. This Document explores five areas of enquiry and offers recommendations for recovery in those critical areas, viz., (i) Innovation and Industrial policy, (ii) Agricultural Development and Food Security, (iii) E-commerce, (iv) MSME Development and Export Activity, and (v) Investment Facilitation for Development.

This Document represents the thoughts and analysis of young Caribbean researchers who are using the opportunity of COVID-19 to recommend new ways of confronting these topics in a Caribbean context. They address core areas like food sovereignty, forcing us to ask ourselves why can we not eat what we produce, or produce what we eat? Similarly, in the area of foreign direct investment, we must ask ourselves whether we should re-embrace the same old approach or whether there is a different, more beneficial investment regime that we should adopt.

While the Document makes a number of thought-provoking recommendations, the context in which they are being made cannot be ignored. The Caribbean’s implementation deficit is probably the single biggest impediment to our successful maneuvering of the difficult road ahead. It is hoped that, having undertaken the difficult task of making myriad proposals, the authors will be rewarded by policymakers finding a way to actually make them work.

Neil CA Paul

Director

SRC

LIST OF ABBREVIATIONS

ABBREVIATION	MEANING
A4AI	Alliance for Affordable Internet
ACIL	Advisory Centre on International Investment Law
ACWL	Advisory Centre on WTO Law
AI	Artificial Intelligence
AMS	Aggregate Measurement of Support
BCSI	Barbados Coalition of Services Industries
BELTRAIDE	Belize Trade and Investment Development Service
BIT	Bilateral Investment Treaty
BSO	Business Support Organisation
CABA	Caribbean Agri-business Association
CAES	Caribbean Agro-Economic Society (CAES)
CAIPA	Caribbean Association of Investment Promotion Agencies
CAMI	Caribbean Agrometeorological Initiative
CARDI	Caribbean Agricultural Research and Development Institute
CARIBCAN	Caribbean-Canada Economic and Trade Arrangement
CARICHAM	Caribbean Chambers of Commerce
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum of the Organisation of African, Caribbean Pacific States
CARIFORUM-EU EPA	The CARIFORUM-European Union Economic Partnership Agreement
CARIFORUM-UK EPA	The CARIFORUM-United Kingdom Economic Partnership Agreement
CariSAM	Caribbean Society for Agricultural Meteorology
CARIWIN	Caribbean Water Initiative
CAP	Community Agricultural Policy
CDEMA	Caribbean Disaster Emergency Management Agency
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CBTPA	Caribbean Basin Trade Partnership Act
CCCE	Caribbean Chamber of Commerce in Europe
CCSCAP	CARICOM Cyber Security and Cybercrime Action Plan
CDB	Caribbean Development Bank
CET	Common External Tariff
CIMH	Caribbean Institute for Meteorology and Hydrology
CIRT	Cyber Incident Response Team
COTED	Council for Trade and Economic Development
COVID-19	Novel Coronavirus Disease 2019
CSME	CARICOM Single Market and Economy
CTA	Technical Centre for Agricultural and Rural Cooperation
CTU	Caribbean Telecommunications Union
EBA	Everything but Arms Initiative
ECLAC	Economic Commission for Latin America and the Caribbean
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union

ABBREVIATION	MEANING
EUROSTAT	European Statistics
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FIB	Food Import Bill
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIS	(Barbados) Government Information Service
GSP	Generalised System of Preferences
HELP Act	Haiti Economic Lift Program (HELP) Act
HIPCAR	Harmonization of ICT Policies and Legislation Across the Caribbean
HOPE Act	Haitian Hemispheric Opportunity through Partnership Encouragement Act
ICC	International Chamber of Commerce
ICT	Information and Communications Technologies
IDB	Inter-American Development Bank
IFC	International Finance Corporate
IIA	International Investment Agreement
IISD	International Institute for Sustainable Development
IMF	International Monetary Fund
IMPACS	CARICOM Implementation Agency for Crime and Security
IMO	International Maritime Organization
IP	Intellectual Property
IPA	Investment Promotion Agency
ISDS	Investor-State Dispute Settlement
IT	Information Technology
ITA	Information Technology Agreement
ITC	International Trade Centre
ITU	International Telecommunications Union
JAMPRO	Jamaica Promotions Corporation
JIS	Jamaica Information Service
LDC	Less Developed Countries
MDC	More Developed Countries
MFN	Most Favoured Nation
MOU	Memorandum of Understanding
MPS	Market Price Support
MSME	Micro, Small and Medium-sized Enterprise
NOAA	National Oceanic and Atmospheric Administration
NTBs	Non-tariff barriers
OACP	Organization of African, Caribbean and Pacific States
OECD	Organization for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
RTA	Regional Trade Agreement
RTC	Revised Treaty of Chaguaramas
SDG	Sustainable Development Goals
SME	Small and Medium-sized Enterprise
SPS	Sanitary and Phyto-sanitary measures

ABBREVIATION	MEANING
STEM	Science, Technology, Engineering and Mathematics
TFA	Trade Facilitation Agreement
TFCs	Taxes, fees and charges
TIP	Treaty with Investment Provisions
TPR	Trade Policy Review
UK	United Kingdom
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNDESA	United Nations Department of Economic and Social Affairs
US	United States of America
US-CARICOM TIFA	United States-Caribbean Community Trade and Investment Framework Agreement
USITC	United States International Trade Commission
UWI	The University of the West Indies
WEF	World Economic Forum
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

The COVID-19 pandemic presents an unprecedented challenge to Caribbean economies. While the region has thus far managed to contain its infection rate better than most other regions globally, the economic fallout – experienced and to come – is likely to demonstrate that we have fared less well. Travel restrictions and mandatory quarantining protocols have helped to limit the spread of the infection but have also struck at the heart of the tourism industry, the region's 'bread and butter' sector. Even commodities-based economies have not been spared, as the global prices of commodities, such as oil, have been severely impacted. As Caribbean countries shift gears towards re-opening their economies, what is clear is that it cannot be business as usual. Quick fixes alone will not be enough. Targeted structural reforms will be required to place our economies on a competitive, sustainable and inclusive growth path.

The CARICOM comprises small open economies dependent on trade. Prior to the pandemic, the region's economies have been underperforming – recording below average annual GDP growth rates, running continuous trade deficits, and acquiring unsustainable levels of public debt. With the economic fallout from COVID-19, the region's economic growth projections appear even more dismal. Apart from the unsustainable debt levels, the limited economic, trade and foreign direct investment diversification further complicate the region's recovery. However, trade remains a viable avenue for COVID-19 economic recovery. In the short run, trade recovery strategies can manage disruption and strengthen critical sectors. In the medium to long-term, trade policy can be used to sustainably build economic resilience and diversification.

This Document highlights the shortcomings of the region that have been exposed by COVID-19 and examines the role of trade policy in the region's COVID-19 economic recovery across five broad areas, namely: (i) Innovation and Industrial Policy, (ii) Agricultural Development and Food Security, (iii) E-commerce, (iv) MSME Development and Export Activity and (v) Investment Facilitation for Development. The SRC considers these to be core areas on which the future of the Caribbean's development should be hinged.

Innovation and industrial policy charts a country's economic development path. The region's traditional approaches towards industrial policy have failed to deliver on promised outcomes. This Document proposes recommendations for elements of a renewed and innovated industrial policy for CARICOM. It emphasizes the need for business and regulatory reform, developing innovative linkages, leveraging trade agreements for capacity building, new growth sectors and higher value-added opportunities, reforming the CET and encouraging greater private-public sector dialogue.

Agricultural development and food security are regional priorities. The region's agriculture sector is uncompetitive, suffering from below average labour and land profitability levels, sizeably lower crop yields, climate change-related challenges and other constraints. In 2018, the region amassed a FIB exceeding US\$ 5 billion, but with COVID-19 disrupting global supply chains, the region's dependence on external sources for our food security is threatened. This Document focuses on mobilizing the CAP outlined in the RTC to transform the agriculture sector to meet both regional and international demand. Some recommendations include developing competitive local and regional agricultural production capacities, improving regional transportation and trade facilitation, greater

coordination and implementation of regional agricultural policies and initiatives and leveraging existing trade agreements to secure market access and resolve disputes relating to SPS measures.

E-commerce offers the region a range of benefits, some of which COVID-19 has already exposed. However, absent an enabling environment, it is difficult for the e-commerce sector to take-off and thrive. The region has failed to substantially address its e-commerce related challenges including: the digital divide, the lack of digital payment solutions, inadequate regulatory and legislative frameworks, among other issues. E-commerce is integral to the region's post-COVID-19 economic recovery. To develop the region's e-commerce sector, this Document recommends ubiquitous and affordable connectivity to the Internet and telecommunications services, developing a digital society built on digital skills and entrepreneurship, operationalizing the e-commerce undertaking of the RTC, strengthening and harmonising the ICT legislative framework across the region, participating in relevant WTO agreements and negotiations and leveraging trade agreements for capacity building opportunities.

MSMEs are the backbone of regional economies, contributing significantly to economic activity, job creation and the provision of goods and services. MSMEs confront many challenges which make them more vulnerable than larger firms to both endogenous and exogenous shocks, and these challenges have only been exacerbated by the COVID-19 pandemic. This section of the Document examines the MSME sector in the region, the treatment of MSMEs in CARICOM's trade agreements and some of the policy responses taken by regional governments to assist MSMEs reeling from COVID-19's economic impact. Among the recommendations made are improving data collection on the MSME sector, formulating coherent national and regional policy frameworks for MSME development and export promotion, evaluating the effectiveness of current policies for MSME development and export promotion, improving access to finance for MSMEs and funding for BSOs, accelerating implementation of the CSME, engaging the diaspora as a development partner, participating in relevant WTO negotiations on MSMEs and expediting business climate reforms.

Investment facilitation for development efforts must be more strategic and targeted if the net FDI-importing economies of the Caribbean are to attract greater private capital inflows to their economies. While the region generally attracts high amounts of FDI relative to GDP, the sources and sectors in which FDI is attracted remain undiversified. Improving FDI attraction, however, is not an easy feat as FDI flows to the Caribbean are expected to contract this year by 50%. Moreover, the aim is not simply to attract any form of FDI, but FDI that is sustainable and responsible. As such, the region's investment treaty framework must be supportive of, and not inimical, to this goal. This Document recommends accelerating the CSME and the creation of a single investment space, stepping up business and investment climate reforms, engaging in a comprehensive review of CARICOM countries' investment treaties, taking proactive steps to protect CARICOM countries from ISDS claims post-COVID-19, and more strategic targeting of the diaspora as a potential source of FDI.

Overall, COVID-19's impact has been felt across multiple key sectors and has exposed several of the region's vulnerabilities. Moving forward the region will need to learn from its COVID-19 experience and the integral role that trade plays in both short and long-term economic recovery.

INTRODUCTION

The COVID-19 pandemic has proven not only to be a severe public health emergency but an economic shock to the global economy whose impact has already surpassed that of the Global Economic and Financial Crisis of 2008. Since the first outbreak in Wuhan, China in December 2019 and up to 6 October 2020, over 35 million confirmed cases and more than 1 million deaths have been reported worldwide. (WHO 2020). Across CARICOM, as of 6 October 2020, there have been 35,988 confirmed cases and 767 deaths (UWI 2020). Although CARICOM's case number and death toll remain significantly lower than in other regions, the economic fallout for the Caribbean is proving less forgiving.

CARICOM, for the most part, comprises import-dependent, small island developing states, with high levels of trade openness and unsustainable levels of debt (see Chapter 1). Most CARICOM economies are services-based, focusing mainly on tourism and financial services; others like Belize, Guyana, Suriname and Trinidad & Tobago are commodities-based depending on the oil & gas, mining and agriculture sectors. With COVID-19 disrupting world trade, halting international travel, reducing global oil prices, contracting FDI, and threatening global food security, the direct and indirect economic impacts on the Caribbean become painfully evident. Directly, the sudden stop in tourist arrivals, shutdowns and cancellation of summer festivals, have reduced economic activity and increased unemployment levels. Indirectly, the pandemic's impact on the region's major trading and investment partners (see Chapter 1) has produced spill over effects such as supply chain and price disruptions, reduced trading and contracted domestic and FDI activity.

The COVID-19 pandemic has, therefore, laid bare structural problems plaguing Caribbean economies and the need, not for quick fixes, but deep structural reforms to build competitive, inclusive and sustainable economies. Among these deep-seated issues are: first, our lack of economic and export partner diversity which increases our vulnerability to external shocks. Second, our high dependence on the importation of critically needed products, including food and medical supplies, which places our populations at greater risk to supply chain disruptions and export restrictions by major exporters of these products. Third, the concentrated nature of FDI flows to the region both by sector and source increases our vulnerability to sector and origin-related shocks, limiting the development benefits FDI can have in the region. Fourthly, our traditional ways of doing business which fails to fully leverage the opportunities created by the digital economy.

Thus far, we have seen the region's governments unrolling various economic stimulus packages typically comprising fiscal incentives, financial injections into severely impacted sectors, removal of customs duties on medical supplies, personal protective equipment and sanitization products, credit expansion by financial institutions, 'support and buy local' initiatives, and other macro-prudential measures.

While these remain necessary short-term solutions, it is also important to rethink how the region engages with the world and where priorities should be placed. Apart from rethinking our regional trade policies, an important element lies in our approaches to our trading relationships including those at the WTO, as well as those under regional and bilateral trade agreements to which we are party or might consider joining. The question in essence becomes how we can use the international agreements to improve our trade performance post COVID-19 and where we might need to re-engage or re-focus our efforts as we move forward.

The Document is organized as follows:

- Chapter 1 – CARICOM's Economic, Investment & Trade Profiles
- Chapter 2 – Innovation & Industrial Policy
- Chapter 3 – Agricultural Development & Food Security
- Chapter 4 – E-commerce
- Chapter 5 – MSME Development & Export Activity
- Chapter 6 – Investment Facilitation for Development

Each Chapter, starting from Chapter 2, is organised as follows. First, there is an overview of the state of each area pre-COVID-19, followed by an assessment of COVID-19's impact, along with a catalogue of some responses taken by Member States during the pandemic. Each Chapter then concludes with recommendations from the SRC.

References

UWI. 2020. "COVID-19 Surveillance For Caribbean Region". *Moodle.Caribdata.Org*.
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CHAPTER 1: CARICOM'S ECONOMIC, INVESTMENT & TRADE PROFILES¹

About CARICOM

On July 4, 1973 with the signing of the Treaty of Chaguaramas, CARICOM came into being. In 2002, the Treaty was revised – through the RTC – to allow for the establishment of a single market and a single economy, known as the CSME. This integration movement rests on four pillars, namely: (i) economic integration; (ii) foreign policy coordination; (iii) human and social development; and (iv) security. Today, the CARICOM comprises twenty countries: fifteen Member States and five Associate Members. This Document focuses on the 15 Member States: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago (CARICOM 2020).

CARICOM's Economic Profile

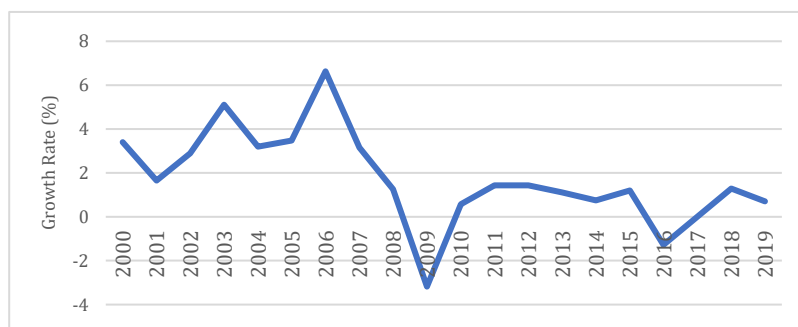
Figure 1 below provides a snapshot of some of CARICOM's major economic indicators in 2019. Over the years the Caribbean has underperformed relative to other small states, evident by its below average annual GDP growth rate which has been consistently weak since 2010 (see figure 2). UNCTAD (2020) estimated the region's annual GDP growth rate at 0.71% in 2019, well below the average growth rate of other small states which according to OECD (2019) averages 4.7%. The region's weak economic growth is a result of structural imbalances (stemming from ongoing current account deficits and unsustainable levels of public debt), along with the lack of competitiveness and productivity (OECD 2019). With the COVID-19 pandemic at play the region's economic growth projections are set to worsen, with ECLAC (2020a) expecting GDP growth to decline by 2.6% in 2020, with a downward bias.

Figure 1: Snapshot of CARICOM Economic Indicators in 2019

GDP (US\$ at constant 2015 prices in millions)	80,603
GDP per capita (US\$ at constant 2015 prices)	4,317
Current account balance (US\$ at current prices in millions)	-2,077
Current account balance (% of GDP)	-2.49

Source: UNCTAD Stat 2020

Figure 2: CARICOM Annual Average GDP Growth Rate²



Source: UNCTAD Stat 2020

¹ The data from UNCTAD Stat was collected on October 7, 2020 and may change as the database updates.

² Growth rates are based on GDP at constant 2015 US\$ and the 2019 data point is an estimate.

Services continue to be the main driver of economic activity in CARICOM (see figure 3). This is not surprising when considering that the majority of CARICOM Member States are services-based economies, heavily dependent on tourism and/or financial services. Member States such as Trinidad & Tobago, Guyana and Suriname are considered as the region's commodity-based economies due to the significant economic contributions of the mining sector (specifically the oil & gas and gold subsectors). In Member States like Belize, Guyana and Haiti, which produce more than 50% of their consumption (FAO 2015), the agriculture sector continues to hold strong economic importance.

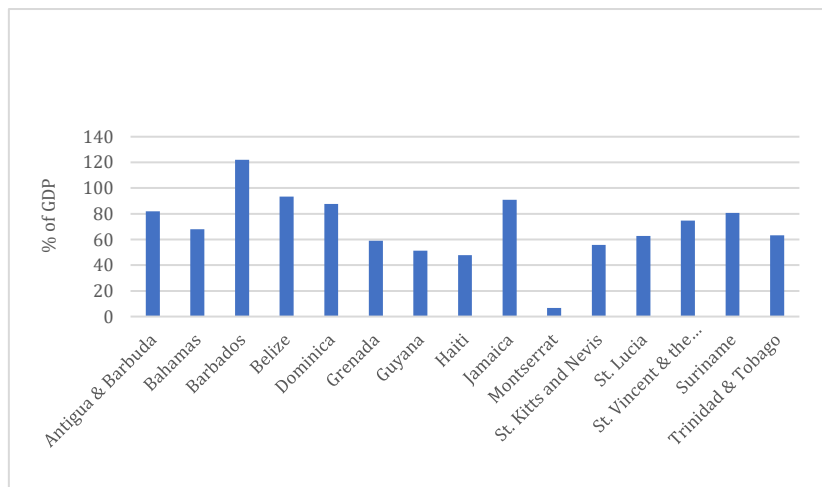
Figure 3: CARICOM's Value Added by Economic Activity as at 2018³

<i>Component</i>	<i>% of GDP</i>
<u>Agriculture, hunting, forestry, fishing</u>	<u>5.89</u>
<u>Industry</u>	<u>29.21</u>
Mining & utilities	9.39
Manufacturing	10.74
Construction	9.08
<u>Services</u>	<u>64.92</u>
Wholesale, retail trade, restaurants and hotels	22.61
Transport, storage and communications	8.92
Other activities	33.39
Total Value Added	<u>100.00</u>

Source: UNCTAD Stat 2020

"Caribbean economies have the highest debt ratios in the world, averaging 68.5% of GDP in 2019. Their debt is rooted in external shocks, compounded by the impact of natural disasters and inherent social and economic structural weaknesses" (ECLAC 2020b)⁴. Such unsustainable levels of debt (see figure 4) and the associated interest payments significantly limits the region's public expenditure, making borrowing an unsustainable solution for the region's post-COVID-19 economic recovery.

Figure 4: Central Government Debt (% Of GDP) in 2019



Source: Author's compilation using data from the Central Banks of Member States

³ During compilation 2018 was the most recent year for which data was available for GDP by type of expenditure. According to UNCTAD Stat shares of GDP by type of expenditure might not add-up to 100% due to statistical discrepancies.

⁴ This statement was made by Alicia Bárcena, ECLAC's Executive Secretary.

CARICOM Investment Profile

All CARICOM Member States have signed at least one treaty containing provisions meant to reciprocally protect, promote and liberalise the flow of investments between themselves and their treaty partner(s) with the aim of attracting investment. According to UNCTAD's International Investment Agreements Navigator (2020), CARICOM countries have signed a total of 83 BITs, of which 56 BITs are currently in force (see figure 5). Most of these BITs were signed in the 1980s and 1990s, although the most recent BIT signed was Guyana-Brazil (2018) but is not yet in force.

Figure 5: Number of BITs Signed by CARICOM Member States

<i>CARICOM Member State</i>	<i>Total BITs Signed</i>	<i>Total BITs in Force</i>
Antigua & Barbuda	3	2
The Bahamas	1	0
Barbados	11	9
Belize	8	5
Dominica	2	2
Grenada	2	2
Guyana	9	5
Jamaica	17	11
Haiti	8	3
Saint Kitts & Nevis	1	0
Saint Lucia	2	2
Saint Vincent & the Grenadines	2	2
Suriname	4	1
Trinidad & Tobago	13	12
TOTAL	83	56

Source: UNCTAD International Investment Agreements Navigator 2020

Additionally, five trade agreements signed by CARICOM may be classified as TIPs. These are:

1. CARIFORUM-UK EPA (2019)
2. CARIFORUM-EU EPA (2008)
3. CARICOM – Costa Rica FTA (2004)
4. CARICOM-Cuba Cooperation Agreement (2000)
5. CARICOM – Dominican Republic FTA (1998).

CARICOM is a net foreign direct investment (FDI) importer⁵ (see figure 6). During 2019, the region recorded US\$ 2,794 million in FDI inflows compared to US\$ 763 million in FDI outflows⁶ (UNCTAD Stat 2020). For the Caribbean, FDI inflows are the most important private capital flows, with some Member States receiving very high levels of FDI relative to their economic size (see figure 7). It is difficult to identify the origin of FDI through national accounts data,

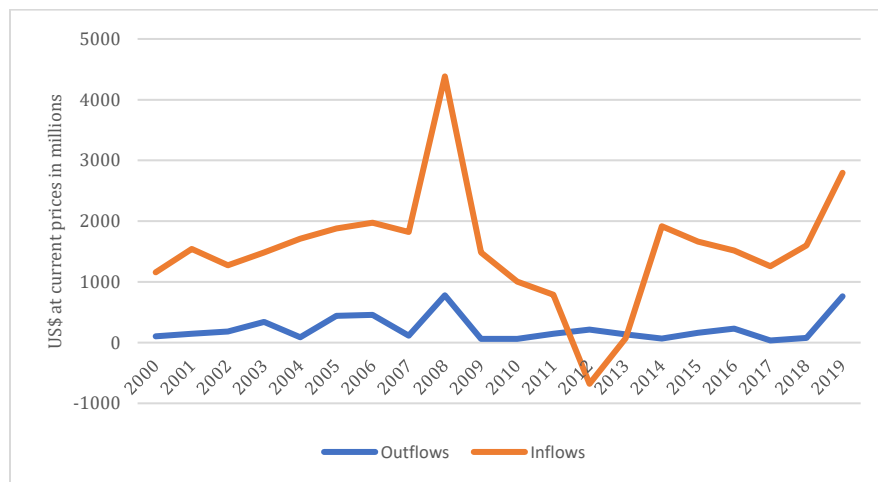
⁵ A country is considered a net FDI importer when FDI inflows exceed FDI outflows.

⁶ Haiti, Monserrat, St. Kitts and Nevis were not captured in this figure due to the unavailability of FDI outflow data for these countries.

but ECLAC (2019) found Europe, US and China⁷ to be the largest investors in the Latin America and Caribbean⁸ region during 2018. Based on the investment profiles of these countries, China's investments are focused on the extractive industries and agribusiness, power generation, utilities, and infrastructure, while the US and Europe appear more diversified "making investments in the same sectors as China but also supporting the development of other industries" (ECLAC 2019). Overall, during 2018 manufacturing captured the majority of FDI inflows to Latin America and the Caribbean (47%), followed by services (35%), natural resources (17%) and others (1%) (ECLAC 2019).

Beyond official data, ECLAC (2014) has identified major investments in the Caribbean from certain countries. For example, Canada has invested in the Caribbean's banking (Royal Bank of Canada and Canadian Imperial Bank of Commerce) and telecommunications sectors (Columbus Communications). Spain has invested in the energy sector through Repsol mainly in Trinidad and Tobago, and in the tourism industry especially in Jamaica through various Spanish hotel investors. Asian countries like Japan and Korea have also made investments to operate electricity services in Jamaica (Marubeni and Kepco) while China's investments have been predominantly in infrastructure construction across the region. In some Member States like St. Kitts and Nevis and St. Lucia inflows from other Caribbean countries have also been reported in past years (ECLAC 2014).

Figure 6: FDI Flows For CARICOM⁹

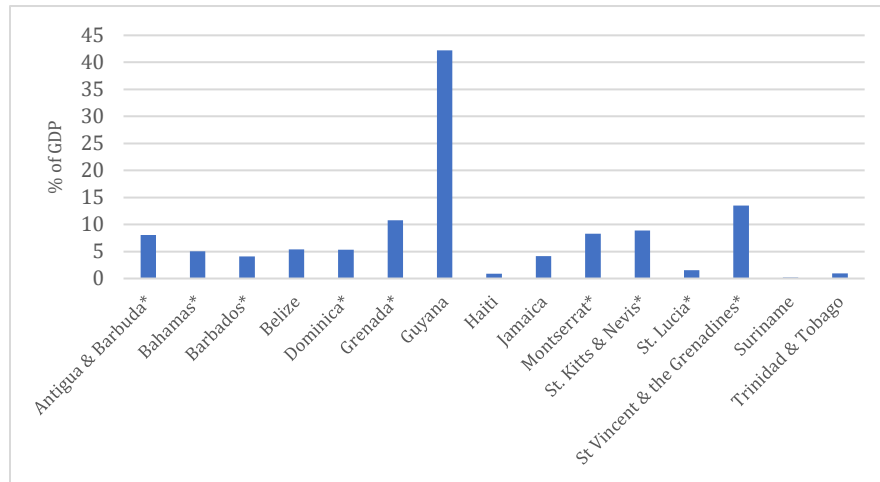


Source UNCTAD Stat 2020

⁷ This is increasing with the extension of China's Belt and Road Initiative to Latin America and the Caribbean.

⁸ Data for Latin America and the Caribbean is lumped together making it difficult to isolate Caribbean specific statistics.

⁹ Data for FDI outflows is not available on UNCTAD Stat for Antigua and Barbuda (2000-2013), Belize (2000-2002), Dominica (2000-2013), Grenada (2000-2013), Guyana (2003, 2005-2015), Haiti (2000-2019), Montserrat (all years), St. Kitts and Nevis (2000-2013, 2019), St. Lucia (2000-2013), St. Vincent and the Grenadines (2000-2013), Suriname (2000-2010, 2014-2019) and Trinidad and Tobago (2009-2010).

Figure 7: Foreign Direct Investment Inflows as % of GDP in 2019¹⁰

Source: UNCTAD Stat 2020

Apart from FDI flows, migrants' remittances are an important external financial resource for the region. When considering the growing diaspora and their role in aiding the region's development, it is important to recognize the role that remittances can play within the region's post-COVID-19 recovery, especially in the short term. In some Member States like Haiti and Jamaica, these remittances receipts account for as large as 32% and 15% of GDP respectively, as shown in figure 8.

Figure 8: CARICOM Personal Remittances Receipts in 2018¹¹

<u>CARICOM Member State</u>	<u>% of GDP</u>	<u>US\$ (millions, current prices)</u>
Antigua & Barbuda	2.16	35
Bahamas	n/a	n/a
Barbados	2.36	115
Belize	4.71	93
Dominica	9.65	46
Grenada	4.03	48
Guyana	7.78	286
Haiti	32.18	2,986
Jamaica	15.82	2,455
Montserrat	n/a	n/a
St. Kitts & Nevis	2.40	23
St. Lucia	1.78	32
St Vincent & the Grenadines	5.01	42
Suriname	0.01	1
Trinidad & Tobago	0.63	142

Source: UNCTAD Stat 2020

¹⁰ * indicates that financial centre in the Caribbean was not included in country-group totals.

¹¹ During compilation 2018 was the most recent year for which data was available for personal remittances receipts | n/a indicates that statistics are not available for the country.

CARICOM's Trade Profile

CARICOM's Formal Trading Arrangements

All CARICOM Member States, except for The Bahamas¹², are WTO Members. The RTC made provision for the establishment of a CSME, to which all CARICOM Member States have signed on, except the Bahamas. CARICOM has also established formal trading arrangements with other third parties, ranging from partial scope agreements and FTAs (see figure 9).

Figure 9: A List of CARICOM's Bilateral Trade Agreements

Agreement	Date Signed	Coverage
CARICOM- Venezuela Trade, Economic, and Technical Cooperation Agreement	1992	Goods
CARICOM-Colombia Trade, Economic and Technical Cooperation Agreement	1994	Goods
CARICOM- Dominican Republic FTA	1998	Goods, Services, Investment
CARICOM-Cuba Trade and Economic Cooperation Agreement	2000	Goods
CARICOM-Costa Rica FTA	2004	Goods, Services, Investment
CARIFORUM-EU EPA	2008	Goods, Services, Investment
CARIFORUM-UK EPA	2019	Goods, Services, Investment

Source: OAS SICE Database 2020

Apart from these agreements, the region also benefits from non-reciprocal trade arrangements and programmes that provide preferential access to developed countries, notably USA and Canada.

CARICOM-US TRADE ARRANGEMENTS

CARICOM countries are beneficiaries of unilateral preferences extended by the US for most originating goods under the CBI. Seventeen Caribbean independent States and dependent territories currently benefit from duty-free access for most of their goods to the US market under the CBI, launched in 1983 via the CBERA. The CBI benefits were subsequently expanded via the CBTPA in 2000 and later with the Trade Act of 2002. Haiti receives additional preferential access for its textile and apparel products under The HOPE Act, the HOPE II Act of 2008, and the HELP Act. The CBTPA is due for renewal by the US Congress this year but so far, a renewal bill has not yet been passed. Some CARICOM countries are also beneficiaries under the US Generalised System of Preferences. The region also has the US-CARICOM TIFA whose provisions are largely best endeavour in nature and do not include binding market access commitments. The US-CARICOM TIFA provides for a US-CARICOM Trade and Investment Council comprising representatives of both parties, and includes a mandate for monitoring trade and investment relations between the parties, identifying and facilitating opportunities for expanding trade and investment, inter alia. The Council has met several times. Finally, the area of Trade (under the theme of prosperity) is among the areas of strategic engagement between the US and the Caribbean under the US-Caribbean Multi-Year Strategy 2020, which was mandated under the US Caribbean Strategic Engagement Act (2016).

CARICOM-CANADA TRADE ARRANGEMENTS

From June 15, 1986, all CARICOM Member States except Suriname have been among the 18 countries and dependent territories which enjoy duty-free access to the Canadian market for most originating goods under

¹² The Bahamas is currently in the accession process.

the CARIBCAN, a trade and economic assistance programme. Like the CBI, CARIBCAN requires a waiver from the WTO because the programme discriminates among developing countries and therefore does not fall under the Enabling Clause exception to the GATT MFN clause. Although officially launched on July 1, 2007, negotiations between CARICOM and Canada aimed at concluding an FTA ended in a stalemate after seven rounds.

Outside of CARICOM, some Member States have also concluded individual bilateral trade agreements (see figure 10).

Figure 10: Bilateral Trade Agreements with Individual CARICOM Member States

<i>Bilateral Trade Agreements of Member States</i>	<i>Date of Signature</i>	<i>Date of Entry into Force</i>
<i>Belize-Guatemala Partial Scope Agreement</i>	26 Jun. 2006	4 Apr. 2010
<i>Brazil-Guyana-Saint Kitts & Nevis Economic Cooperation Agreement (AAP.A25TM N°38)</i>	27 Jun. 2001	31 May 2004
<i>Guyana-Venezuela Partial Scope Agreement (AAP.A25TM N° 22)</i>	27 Oct. 1990	28 Jun. 1991
<i>Guyana-Argentina Trade and Economic Cooperation Agreement</i>	24 Feb. 2006	Not yet in force
<i>Guyana-Kuwait Trade Agreement</i>	19 Jul. 2010	Not yet in force
<i>Guyana-China Trade Agreement</i>	17 Sept. 2001	17 Sept. 2001
<i>Guyana- Swiss Confederation- Agreement on the Promotion and Reciprocal Protection of Investment</i>	13 Dec. 2005	Not yet in force
<i>Brazil - Suriname Partial Scope Agreement (AAP.A25TM N ° 41)</i>	21 Apr. 2005	26 Jul. 2006
<i>Trinidad and Tobago- Venezuela Partial Scope Agreement (AAP.A25TM No. 20)</i>	4 Aug. 1989	Not yet in force
<i>Trinidad and Tobago-Panama Partial Scope Agreement</i>	3 Oct. 2013	Not yet in force

Source: OAS SICE Database 2020 and various Foreign Trade Ministries

Even with formal trading arrangements that grant favourable access to some of the largest economies, the Caribbean continues to underperform in trade, especially when compared to other developing countries. According to McLean and Khadan (2015), “CARICOM’s trade balance with most of the Western Hemispheric countries with which it has bilateral trade agreements has deteriorated during the past decade.” Consequently, “the region is failing to maintain its share of global markets both in goods and services” (OECD 2019).

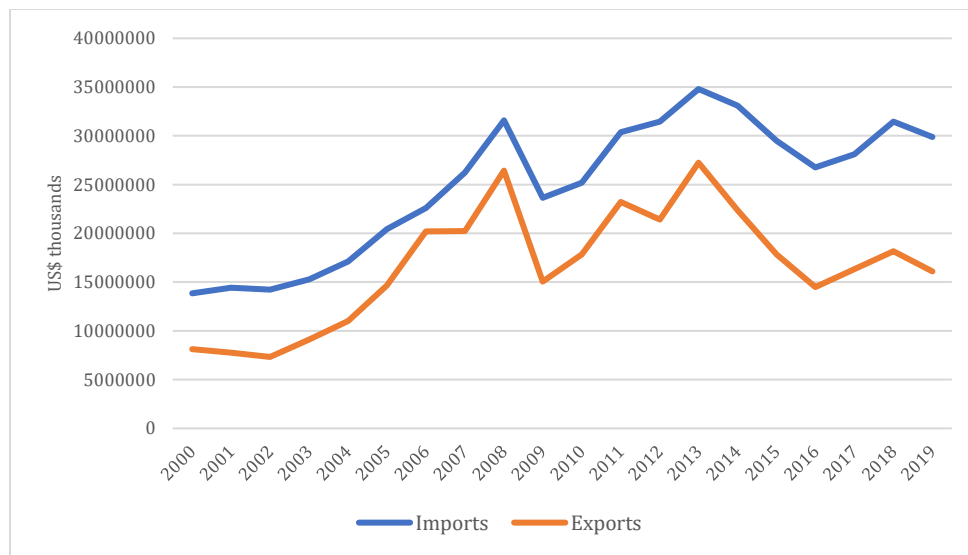
Merchandise Trade

During 2019 CARICOM imported more than US\$ 29 billion worth of goods, while only exporting around US\$ 16 billion in goods (UNCTAD Stat 2020). For several years, the region has had an ongoing deficit in merchandise trade¹³ (see figure 11). “Between 2005-2010 the Caribbean’s merchandise exports grew by only 0.61% compared to exports of least developed countries which grew by 13.07%; and after the crisis the Caribbean’s merchandise exports grew annually by 0.36% on average, which was lower than global exports which grew at 1.45% annually” (OECD 2019).

Intra-regional trade remains limited, in 2019 intra-regional merchandise exports accounted for 11.59% of the CARICOM’s total export merchandise trade, while intra-regional merchandise imports accounted for 8.28% of CARICOM’s total import merchandise trade (UNCTAD Stat 2020). Evidently, the region conducts most of its trade with the rest of the world as indicated in figures 12 and 13.

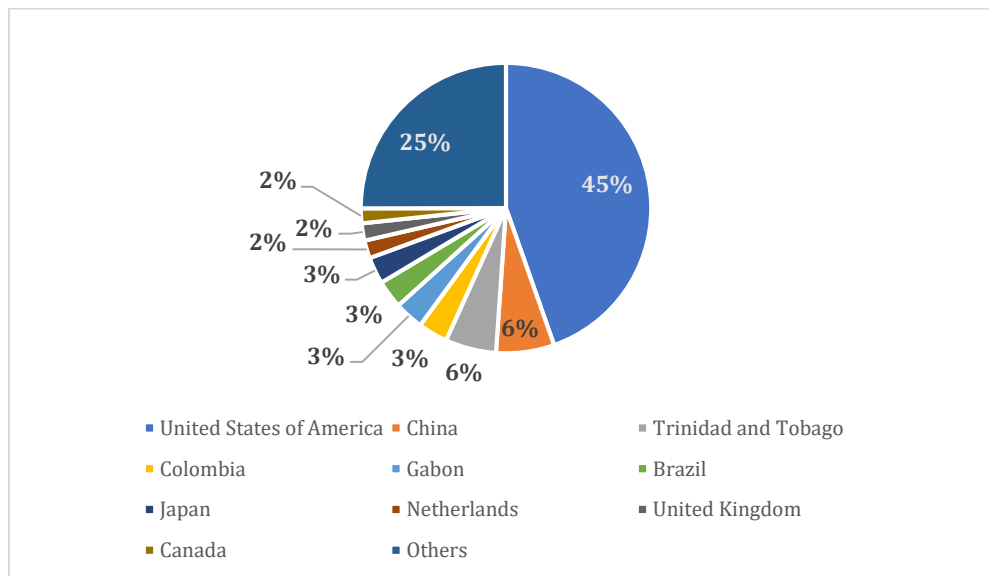
¹³ A country runs a trade deficit when its imports exceeds its exports.

Figure 11: CARICOM's Total Merchandise Trade

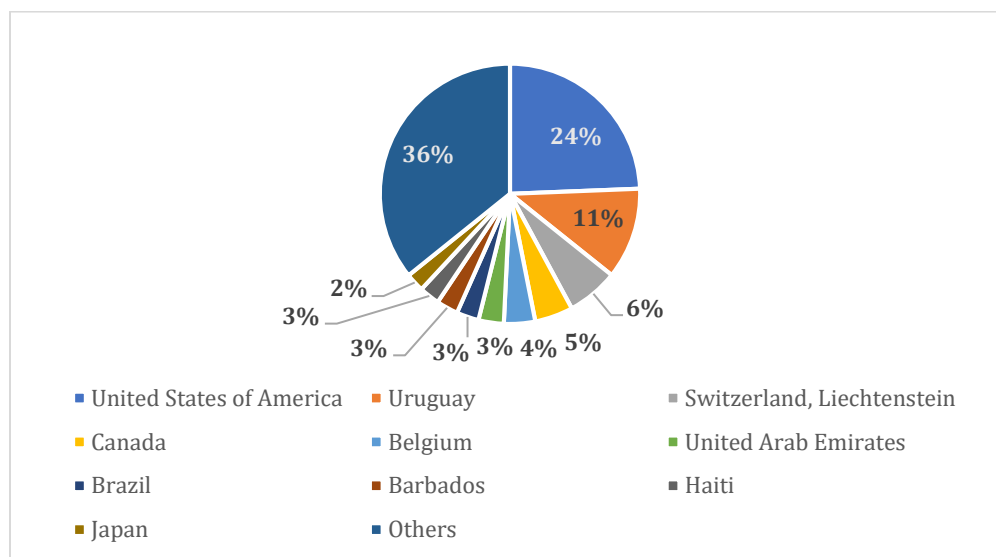


Source: UNCTAD Stat 2020

Figure 12: CARICOM's Top Merchandise Import Sources in 2019

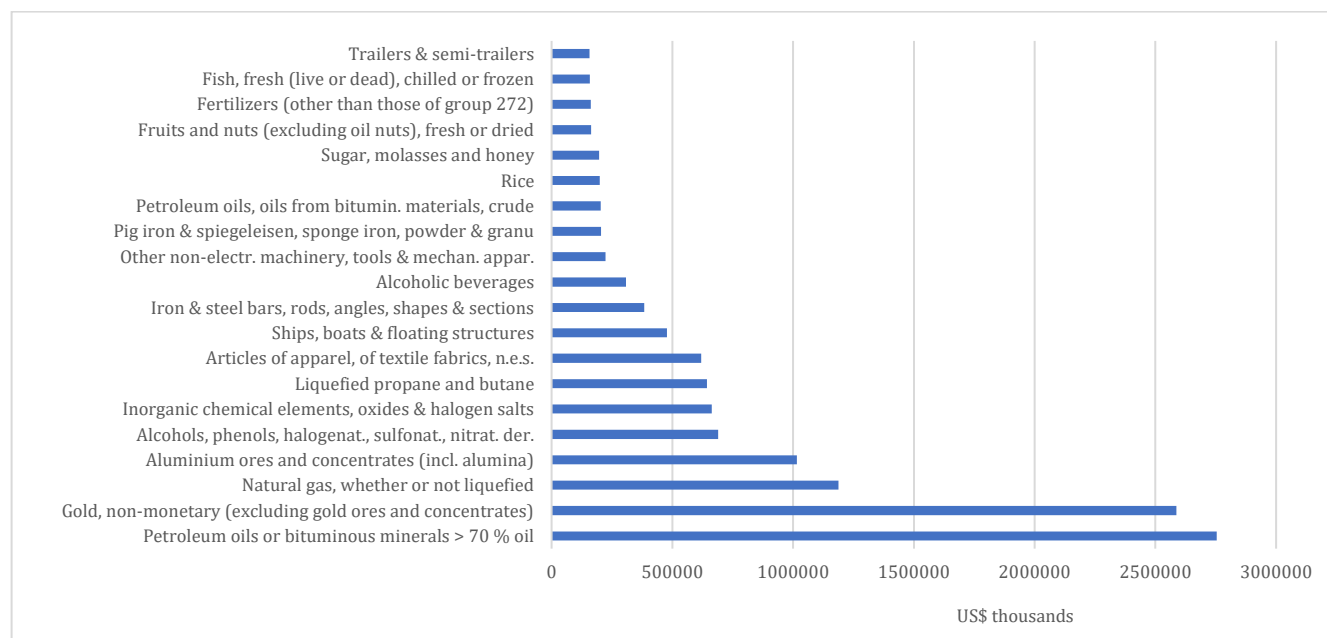


Source: UNCTAD Stat 2020

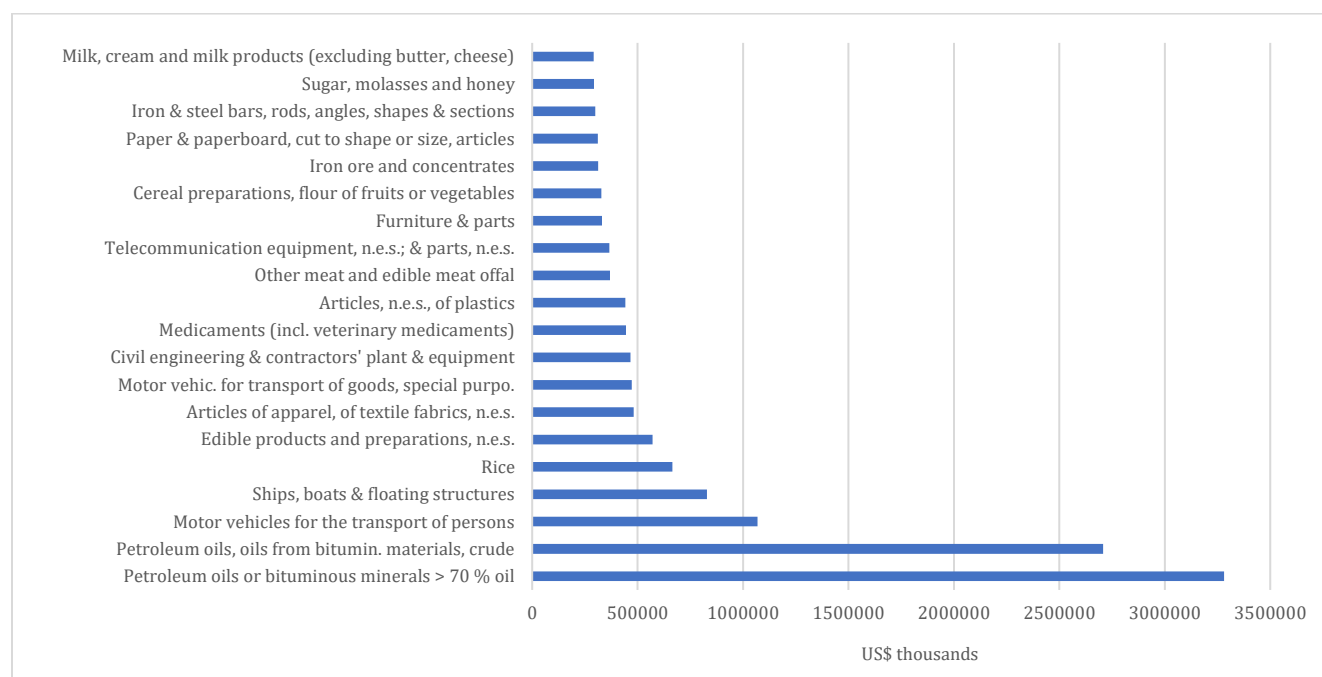
Figure 13: CARICOM's Top Merchandise Export Destinations in 2019

Source: UNCTAD Stat 2020

CARICOM's top 20 merchandise exports and imports are highlighted in figures 14 and 15 respectively, while figure 16 captures the product concentration and diversification indices for the region's merchandise trade.

Figure 14: CARICOM's Top 20 Merchandise Exports in 2019

Source: UNCTAD Stat 2020

Figure 15: CARICOM's Top 20 Merchandise Imports in 2019

Source: UNCTAD Stat 2020

Figure 16: Product Concentration & Diversification Indices in 2019¹⁴

<i>Merchandise Export Trade</i>	Number of Products	237
	Concentration Index	0.226
	Diversification Index	0.718
<i>Merchandise Import Trade</i>	Number of Products	249
	Concentration Index	0.112
	Diversification Index	0.389

Source: UNCTAD Stat 2020

Trade in Services

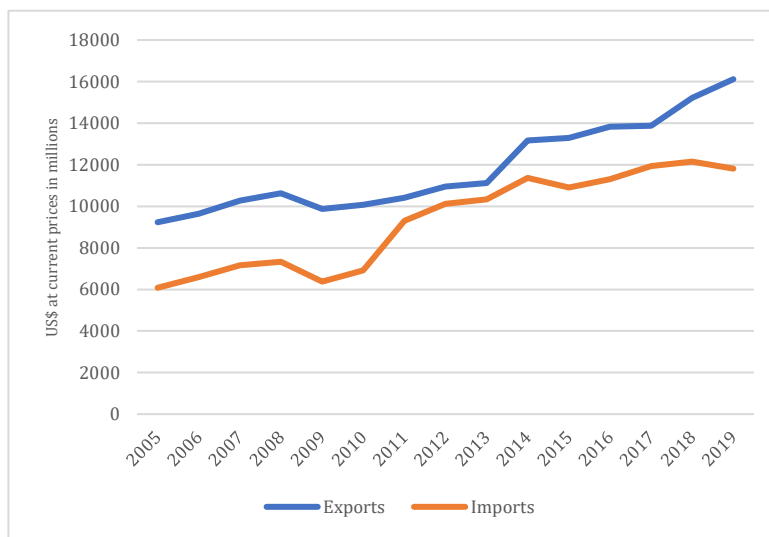
The majority of CARICOM Member States are services-based economies, therefore trade in services forms an integral part of the region's overall trade portfolio. CARICOM has managed to maintain a surplus in its trade in services (see figure 17), which over the years has been driven largely by travel. During 2019, CARICOM exported around US\$ 16 billion¹⁵ worth of services of which travel accounted for 81% (UNCTAD Stat 2020). During that same period, the region

¹⁴ For the concentration index a value closer to 1 indicates a country's exports or imports are highly concentrated on a few products; while values closer to 0 reflect exports or imports are more homogeneously distributed among a series of products. The diversification index takes values between 0 and 1; a value closer to 1 indicates greater divergence from the world pattern.

¹⁵ Note that this measure does not include Guyana's services exports which UNCTAD Stat 2020 does not appear to have services data for.

imported more than US\$ 11 billion¹⁶ worth of services (UNCTAD Stat 2020). Figures 18 and 19 provide a breakdown of the region's services exports and imports during 2019.

Figure 17: CARICOM's Total Trade in Services



Source: UNCTAD Stat 2020

Figure 18: Breakdown of Services Imports¹⁷

<u>Service Category</u>	<u>US\$ Current Prices in millions</u>	<u>% of total trade in services</u>
Goods-related services	101.1535906	0.86
Transport	3,751.13763	31.75
Travel	1,334.388133	11.30
Other services	6,627.073132	56.10
Charges for the use of intellectual property n.i.e.	166.8240236	1.41
Other business services	4271.152304	36.15
Personal, cultural, and recreational services	100.909556	0.85
Government goods and services n.i.e.	414.0196397	3.50
Total Import of Services	11,813.75249	100

Source: UNCTAD Stat 2020

¹⁶ Note that this measure does not include Guyana's services exports which UNCTAD Stat 2020 does not appear to have services data for.

¹⁷ There is limited data for trade in services, beyond what has been presented in figure 18 there is no further disaggregation using UNCTAD Stat. Note also that the % of trade in total services may slightly exceed 100% when totalled due to rounding.

Figure 19: Breakdown of Services Exports¹⁸

<u>Services Category</u>	<u>US\$ Current Prices in millions</u>	<u>% of total trade in services</u>
Maintenance and repair services n.i.e.	2.9774721	0.02
Transport	805.960293	5
Sea transport	414.1443555	2.57
Freight transport, Sea	11.80419571	0.07
Other transport, Sea (other than passenger and freight)	399.669122	2.48
Air transport	352.5490184	2.19
Passenger transport, Air	181.2672446	1.12
Freight transport, Air	0.964	0.01
Other transport, Air (other than passenger and freight)	170.4895885	1.06
Other modes of transport (other than sea and air)	30.5156334	0.19
Other modes of transport, Other (other than passenger and freight)	13.6502324	0.08
Postal and courier services	8.3695185	0.05
Travel	13,198.61993	81.89
Other services	2,131.07868	13.22
Construction	4.2705076	0.03
Insurance and pension services	172.8616265	1.07
Financial services	67.1086055	0.42
Charges for the use of intellectual property n.i.e.	26.5991397	0.17
Telecommunications, computer, and information services	275.4800797	1.71
Telecommunications services	162.2372318	1.01
Other business services	1,082.196098	6.71
Research and development (R&D)	11.8487769	0.07
Professional and management consulting services	126.0528575	0.78
Technical, trade-related, and other business services	944.3961257	5.86
Personal, cultural, and recreational services	119.4616442	0.74
Audiovisual and related services	0.055324	0.00
Other personal, cultural, and recreational services (other than audiovisual and related)	119.4063202	0.74
Government goods and services n.i.e.	387.9797661	2.41
Total Export of Services	16,116.74826	100

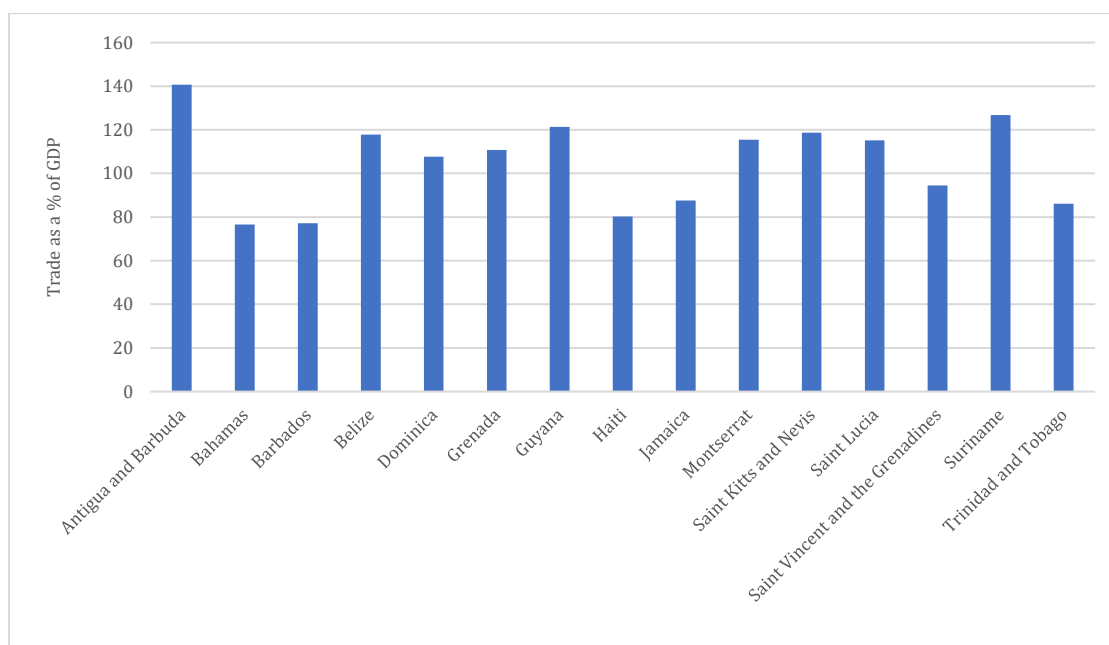
Source: UNCTAD Stat 2020

¹⁸ There is limited data for trade in services, beyond what has been presented in figure 18 there is no further disaggregation using UNCTAD Stat. Note also that the % of trade in total services may slightly exceed 100% when totalled due to rounding.

Trade Openness Portfolio

Due to their size and resource constraints, CARICOM countries remain heavily dependent on trade in both goods and services (see figure 20) to the extent that they can be considered small open economies.

Figure 20: CARICOM Member States' Trade Openness¹⁹



Source UNCTAD Stat 2020

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¹⁹ Total trade (imports + exports) of goods and services measured as a % of GDP.

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CHAPTER 2: INNOVATION & INDUSTRIAL POLICY

Pre-COVID-19 Caribbean Industrial Policy

Industrial policy can be defined as “an intervention that alters the allocation of resources towards new dynamic activities in any sector of the economy not just in industry” (Weiss 2013). In this Document, industrial policy is defined as government intervention designed to boost growth prospects of sectors, encourage production of innovative goods and services and promote sustainable development of the wider economy. Government interventions can be horizontal (occurring across all/multiple sectors) or vertical (applicable to select sectors), and may take the form of public inputs (physical and social infrastructure) and/or market-based incentives (subsidies, tax benefits, etc.) (Dadush 2016 and Wiess 2013). Industrial policy is an umbrella policy from which all other policies must emanate, which explains why it is the first substantive chapter in this Document.

Industrial policy has historically been rooted in state intervention and protectionist measures, and has proceeded from the basis that industrialization driven by manufacturing would create structural economic transformation capable of producing fast-growing, high-income economies (Weiss 2013 and Dadush 2016). In today’s globalised world industrial policy is taking a new form, one which is future-oriented, integrated with other policies, focused on long-term societal needs, and capable of not only correcting market failures in a static sense but also fostering innovation (Aiginger 2014, Rodrik 2008, Hausmann, Rodrick and Sabel 2008, Weiss 2013 and Aghion, Boulanger and Cohen 2011). Although the goal remains the same²⁰ the strategy must change, with terms like strategic industrial policy, and technology and innovation policy emerging as modern-day references for industrial policy.

Starting from the 1950s and onwards, the Caribbean’s industrial policy has been heavily influenced by Sir W. Arthur Lewis’ “industrialization by invitation” strategy, where, through a series of incentives, Caribbean economies, like much of the Third World, attracted FDI to develop certain industries and promote exports (Klak 1995 and Panadeiros and Benfield 2010). However, Klak (1995) criticised this development model as being negative for the Caribbean, with ECLAC (2001) noting that these policies have failed to meet their objectives in terms of import replacement, employment and economic growth. Other criticisms of that traditional industrial policy include that it was mono-focal (Nurse, Francis and Niles 2008). During the Caribbean’s agrarian-society period, economic growth was dependent on a few agricultural commodities (mono-crop economies). Similarly, manufacturing and services industries, through mono-focal industrial policies, also rely on and provide narrow economic base for growth, resulting in limited economic diversification and increased economic vulnerability.

Secondly, for too long the region has delinked industrial policy from its trade policy agenda, treating the two as separate, disconnected areas. According to Nurse, Francis and Niles (2008), “trade policy as a standalone is not sufficient to create the desired transformation given the region’s declining share in global-value added.” Capitalizing on new market access opportunities made possible by trade agreements requires the region to reconfigure and create economic activity in certain sectors to take advantage of these opportunities. An industrial policy must therefore be

²⁰ The goal being economic growth and sustainable development.

capable of targeting new growth sectors, positioning the economy to take hold of opportunities and addressing any negative implications from trade agreements. On the other hand, the extent to which industrial policy can be pursued is also impacted by trade policy. Internationally agreed trade disciplines are narrowing policy space, for instance subsidies contingent on export performance are prohibited under the WTO's Agreement on Subsidies and Countervailing Measures. This new environment described by some as “kicking away the ladder”²¹, limits the industrial policy options for latecomers (Singh 2016).

Thirdly, Klak (1995) notes that the industrial policies of the Caribbean are often reactive. Global issues such as climate change, globalisation, and ageing, among others are often considered as after thoughts in the policy formulation process, thereby limiting the effectiveness of industrial policies in propelling economic growth against such conditions. Furthermore, crucial areas for growth such as innovation, competition and education policies are not heavily incorporated (if at all) into the region's industrial policies. Instead, the region's sole focus on attracting FDI to develop industries has been at the expense of growth through indigenous innovation. In fact, research and development expenditure continues to be minimal or non-existent and “the culture of ‘production under licence’ still persists”, resulting in low levels of local value added and high levels of external control and ownership (Nurse, Francis and Niles 2008).

The RTC sets the mould in which to shape Caribbean industrial policy. Specifically, Chapter 4: Part 1 of the RTC, entitled, Community Industrial Policy, outlines objectives such as: “market-led, internationally competitive and sustainable production of goods and services, enhanced diversification, greater linkages among economic sectors, a viable MSME sector, sustained private and public collaboration, cross-border employment of technological capabilities in production, among others – all for the promotion of the region's economic and social development.”

The RTC's approach to industrial policy in Chapter 4 goes beyond manufacturing, with dedicated articles for MSME development (Article 53), the development of the services sector (Article 54), and sustainable tourism development (Article 55). The RTC outlines a more modern approach towards industrial policy, which to a certain degree, fits the Caribbean reality. For instance, considering that MSMEs account for 70-85% of enterprises in the region (CDB 2016) it is important that their development be integrated into any regional industrial policy. Additionally, with the majority of Member States being services-based economies that are heavily reliant on tourism (see Chapter 1), the development of sustainable tourism and the wider services sector naturally constitute central tenets of any Caribbean industrial policy. Diversification also underpins the proposed Community Industrial Policy, with Article 52:7(c) encouraging Member States to develop export markets in non-traditional sectors through sector-specific incentives and appropriate policy instruments. Chapter 4: Part 1 of the RTC provides a good starting point for modernizing regional industrial policy, but emphasis on the role that industrial policy must play in fostering indigenous innovation is still lacking and the disconnect between industrial policy and the region's trade agenda still persists. Apart from this, implementation of the proposed regional policy remains challenging. For one, despite being party to the RTC, very few Member States have comprehensive industrial policy documents (Downes 2004 and Industrial Policy Unit

²¹ This term describes the situation where currently developed and industrialised countries who previously used certain ‘protectionist’ measures and policies to grow their own industries are now preventing developing countries and latecomers from using these same options.

2009) and a unified approach towards industrial policy has never been achieved, although Article 52:1(a) of the RTC calls for the coordination of national industrial policies. Additionally, across Member States the approach has generally been rooted in import substitution models and/or based on incentive schemes, with limited private sector input in the design of these policies, despite the RTC's calls for private and public collaboration (Panadeiros and Benfield 2010 and Industrial Policy Unit 2009). Furthermore, instead of pursuing diversification opportunities in non-traditional sectors as encouraged by Article 52:7(c) of the RTC, it would appear that Member States have adopted a narrow focus.

Another important component of the region's industrial policy is the CET. The CET is the agreed tariff rate by Member States on imports from outside of CARICOM and is ultimately designed to develop and promote regional manufacturing and production capacities. By making imported goods²² more expensive, the CET encourages intra-regional sourcing of products as the first option, which creates a demand for local production and in turn aids in sector development and growth. Unfortunately, the CET has proved problematic for the achievement of the Community Industrial Policy, largely because of its non-commonalities and exemptions. For example, Lists A²³, C²⁴ and D²⁵ allow Member States, once satisfying the outlined conditions, to apply rates other than the agreed tariff rate, while Articles 83, 84 and 164 also provide conditions for the suspension and alteration of the CET. Although in some respects such deviations exist to overcome resource constraints and developmental asymmetries among the Community, a recent consultancy found that the CET, in its current design, has not boosted regional production, nor has it increased regional markets in a way to allow economies of scale that would translate to gains in the global market through increased productivity and enhanced competitiveness.

Even with the region's structural economic transformation away from an agrarian society, underlying challenges such as the lack of economic diversification, low absorptive and technological capacity, limited competitiveness and other factors, unless remedied by effective industrial policies will continue to hinder sustainable growth. Otherwise put, "understanding the constraints on and the potential of, Caribbean industrial policy" (Klak 1995) will be important if the region is to truly achieve above average and sustainable economic growth.

The Impact of COVID-19 on Caribbean Industrial Policy

COVID-19 is exposing the inefficiencies of the region's traditional approach towards industrial policy. Firstly, sole dependence on FDI as a means of industrial development, at the expense of local investment, will prove challenging post-COVID-19. This is in part because, as noted by UNCTAD (2020) global FDI is expected to shrink by 30-40%, a decline not seen since the 2008 financial crisis. Already, the region has been experiencing declining FDI inflows, with an 11.4% decline being recorded between 2017 and 2018 FDI levels (ECLAC 2019). Additionally, with its rather low

²² Especially those goods which can be produced locally and/or regionally.

²³ "List A - items on which suspension of the CET under Article 32 of the Common Market Annex has been granted for an indefinite period subject to review by Council, with the rates to be applied by Member States" (CARICOM Secretariat 2018).

²⁴ "List C - items in respect of which minimum rates have been agreed showing the actual rates to be applied by Individual Member States" (CARICOM Secretariat 2018).

²⁵ "List D Part I - Products of Tariff Headings ex 73.21, ex 84.18 and ex 85.16 for which Suspension of the CET under Article 83 of the Revised Treaty of Chaguaramas has been granted to Belize for an unspecified period and List D Part II - Products of Tariff Headings ex 30.03 and ex 30.04 (Medicaments) for which Suspension of the CET under Article 83 of the Revised Treaty has been granted to St. Kitts and Nevis, other OECS Member States and Belize" (CARICOM Secretariat 2018).

rankings²⁶ on the World Bank's Ease of Doing Business Index²⁷, the region may find it difficult to attract investments during this time. Therefore, with a dismal prognosis for global FDI flows in 2020 due to COVID-19, the region will have to find creative ways to attract FDI that is sustainable and responsible, including improving their investment attractiveness (see Chapter 6).

Secondly, the pandemic has paralyzed almost all of the region's productive sectors. For the commodities-based economies like Trinidad and Tobago, Suriname and Guyana, growth projections from oil exports now have to be revised due to the significant decline in global oil prices, stemming from reduced economic activity and travel. For example, Trinidad and Tobago, whose oil and energy sector accounts for 40% and 80% of GDP and exports respectively (CIA 2020), has already adjusted its oil prices from US\$ 60/barrel to US\$ 40/barrel within their budget (Javeed 2020 and Caribbean Council 2020). For the region's services-based economies, the tourism sector, the region's bread and butter, continues to bear the brunt of the COVID-19 impact. Travel restrictions, suspended airline operations and stalled cruise itineraries have brought the tourism sector to a standstill. Accounting for around 81% of total services exports in 2018 (UNCTAD Stat 2020), tourism remains one of the region's main foreign exchange earners and employment sources, contributing as much as 62% to GDP in countries like St. Kitts and Nevis (see figure 21). Additionally, while businesses across all sectors take prudential measures in order to survive, the region's MSMEs, which account for between 70-85% of enterprises, 60-70% of GDP and 50% of employment across the region (CDB 2016), continue to struggle as they remain the most impacted by the pandemic, due to their limited financial resources.

Figure 21: Tourism's Economic Contribution to CARICOM Member States in 2019

Country	GDP Contribution (%)	Employment Contribution (%)
Antigua & Barbuda	44.7	44.7
Bahamas	40.3	48.1
Barbados	36.2	36.4
Belize	44.7	38.9
Dominica	38	34.7
Grenada	55.8	51.6
Haiti	8.3	7.2
Jamaica	34.7	31.5
St. Kitts & Nevis	62.6	60.2
St. Lucia	43	43
St. Vincent & The Grenadines	46.2	42.7
Suriname	3.7	3.5
Trinidad & Tobago	7.8	9.9

Source: Dukharan 2020

At the same time, however, the pandemic's disruptive nature is not only signalling a call for the region to rethink industrial policy but also to reclaim it. For example, international trade disruptions in the food and medical supply sectors have challenged the region to explore its productive capacity in these areas. Already we are seeing a renewed interest in a regional approach towards agricultural development and food security (see Chapter 3). Even more

²⁶ On the Ease of Doing Business Index Jamaica was the best ranking member state (71/190) while Haiti was the worst ranking (179/190) (World Bank 2020a).

²⁷ This index measures the ease of doing business by assessing the requirements for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency, reforms in these areas should be prioritized. However, the World Bank Doing Business Index has been suspended and is currently under review due to data irregularities (World Bank 2020b).

interesting has been the innovative solutions towards the domestic production of medical equipment like ventilators by The UWI (UWI 2020), alcohol and hand sanitizers by regional rum distilleries (CARICOM 2020), and masks by a domestic industry developed overnight (The Government of The Bahamas 2020).

Vertical approaches towards industrial policy have limited the region's economic diversification. Caribbean countries continue along a mono sector development path at the expense of other productive activities. The incentive schemes comprising tax holidays and grants which continue to feature prominently in the region's industrial policy landscape as a means of attracting FDI are likely to prove of limited value in the current climate with the predicted global contraction of FDI by 30-40% (UNCTAD 2020). Moreover, if not approached regionally, this policy can create a race to the bottom, as Member States compete for limited FDI opportunities. Overreliance on imports also poses risks, as supply chain disruptions jeopardize the supply of essential goods, signalling the need for alternate suppliers and domestic production in certain areas.

Across Member States, the immediate responses to mitigating the pandemic's disruptive impact have been economic stimulus packages, typically comprising fiscal incentives, injections into severely impacted sectors, credit expansion, removal of customs duties, 'buy local' initiatives and other macro-prudential measures (SRC 2020). While these remain necessary short-term solutions, a long-term industrial policy response focused on fostering innovation²⁸ and encouraging a unified approach is still missing.

COVID-19 is presenting the opportunity for disruptive innovation to meet industrial policy. Rather than simply recreating a virtual existence of our traditional reality, the region must harness its innovative potential to repurpose and reinvent impacted sectors and to even create new ones.

SRC Policy Recommendations

Capitalizing on the opportunity to rethink and reclaim industrial policy, we propose recommendations for elements of a renewed and innovated industrial policy for CARICOM that utilizes the current framework provided under the RTC and that will serve as a means of promoting regional economic growth post COVID-19.

1. Promoting a conducive business environment through access to finance and regulatory reform

Creating a business-friendly environment is not only a pull factor for FDI but also creates conditions for local entrepreneurship and innovation to thrive. It is important for the region to not only create an environment which facilitates innovation but one which also legally protects the innovation process and subsequent output.

A vital component of this environment is to empower entrepreneurs with the tools and capital to be innovative. Many innovative business ideas remain stuck in the pipeline due to the lack of financial resources. Securing commercial bank loans are often difficult due to burdensome collateral requirements which start-ups are unlikely to possess

²⁸ In other words, an environment which enables the creation of modern and creative solutions to challenges that arise; an environment which encourages forward thinking and entrepreneurial activity capable of identifying and capitalising on new opportunities.

(World Bank 2017). Under the ‘Getting Credit’ component²⁹ of the Doing Business Index³⁰, several Member States are in the low rankings (see figure 22). Therefore, improving access to finance is a priority.

Figure 22: 2020 Doing Business Ranking and Score for Getting Credit

<i>Member State</i>	<i>Ranking (1/190)</i>	<i>Score (0-100)</i>
Antigua & Barbuda	165	25
The Bahamas	152	30
Barbados	152	30
Belize	173	20
Dominica	152	30
Grenada	152	30
Guyana	94	55
Haiti	144	35
Jamaica	15	85
St. Kitts and Nevis	165	25
St. Lucia	165	25
St. Vincent & the Grenadines	165	25
Suriname	181	10
Trinidad & Tobago	67	65

Source: World Bank 2020a

While regional institutions such as the Caribbean Development Bank (CDB) and other donor agencies have been pivotal in providing funding across sectors, innovative financing is still needed. Under Article 53:2(d) of the RTC reference is made to the idea of innovative financial instruments for MSME development. Angel investing³¹ has the potential to become an important capital source for innovative MSMEs in the Caribbean. In crafting financing options for their industrial policy positions, Governments should consider the role that organized angel investing can play in developing an innovative economy and create enabling conditions for such. Consideration should also be given to the role that the diaspora can play in providing finance through formalized angel investing schemes at local and regional levels. Recently, economic advisor Justin Ram made a call for “a proper functioning Junior Stock Exchange Market” as an innovative financing option (Madden 2020).

At the tail end, the regulatory environment should also protect the innovations through effective IP rights. Considering that IP rights allow people to earn recognition or financial benefit from what they create or invent (WIPO 2020), it is important that Caribbean countries’ legislative frameworks provide adequate protection of IP rights. Absent such, and even in cases of weak enforcement, fostering innovation will be difficult. Additionally, movements towards regional protection instruments, such as regional patent and copyright structures, will also be necessary if intra-regional innovation is to be encouraged. Under the RTC, Article 66 provides for the protection of IP rights, but a more comprehensive IP protection framework needs to be developed and implemented.

²⁹ This component is used in the Doing Business Index to measure access to finance.

³⁰ The World Bank Doing Business Index has been suspended and is currently under review due to data irregularities (World Bank 2020b).

³¹ Angel investing is where investors provide capital into start-ups using their own funds.

2. Developing innovative linkages across sectors and between the Government, academia & private sector

Industrial policy is an umbrella policy from which all other policies must emanate and therefore should not be developed in vacuum. Although improving linkages across sectors ought to always be an objective of any industrial policy, when rethinking the concept with the intention of fostering innovation it is equally important to consider linkages with new stakeholders as well, that is, between academic resources, public and private capital and the various sectors. According to Oxford Insights (2019) “Latin America and the Caribbean have not yet connected their academic resources with public and private capital to foster the innovation and networking needed to address social and economic issues.”

Firstly, Member States must clearly identify their developmental goals and develop an industrial policy which integrates all other relevant policy areas (education, competition, intellectual property, etc.) needed to achieve this goal. In 2007, the Caribbean Council for Science and Technology published a Caribbean Regional Policy Framework for Action with the aim of integrating and harmonising national policies in order to directly support the economic aims of the CSME. This framework addressed a range of priority policy areas and the relevant supporting institutions and mechanisms such as innovation and entrepreneurship, development finance, research and development, regulatory framework and intellectual property rights, standardisation and others (Caribbean Council for Science and Technology 2007). This resource can be used as a basis for forming a collaborative cross-sectoral approach towards holistic industrial policy making.

Secondly, if any developed industrial policy is to truly deliver on promises of fostering home-grown innovation, there needs to be greater collaboration between Government, academics and the private sector. Ideally, Government must create an enabling environment through incentives and regulations; the private sector should offer financing and managerial expertise, and academia must lead the research and intellectual drive. Such collaboration can be seen within the *bmobile-UWI Innovation Lab* powered by Huawei. This tripartite agreement aims “to propel academic research and facilitate testing and development of new and innovative tech-based products and services, towards commercialisation of unique intellectual property” (UWI 2019). Collaboration between Government, the private sector and academia also needs to be in areas pertinent to innovation and industrial growth. For instance, South Korea’s comparative advantage in consumer electronics was forged by government industrial policies (Olson 2020). Some areas to consider include biotechnology, AI, data analytics, among others.

3. Leveraging trade agreements for capacity building, new growth sectors and higher value-added opportunities

Having developed an industrial policy that is aligned with the region’s developmental and economic priorities, the next step is recognizing the role that our trade agreements play in achieving the outlined goals. Trade agreements can be leveraged for capacity building benefits, identifying new growth sectors and capitalising on higher value-added opportunities.

The region must maximize the utility of its trade agreements, not only in the context of increased trade but also in terms of capacity building and institutional strengthening, an often-ignored aspect of industrial policy. Article 7 of the CARIFORUM-EU EPA provides for both financial and non-financial development cooperation. With access to financing

mechanisms like the EDF and technical assistance in a variety of areas, Member States can strategically design their industrial policies in a way to benefit from the aid made available through these trade agreements. This should be approached strategically to ensure that the assistance provided is capable of improving the region's absorptive and technological capacity, especially if innovation is to be the cornerstone of the region's industrial policy. Furthermore, if the developed industries are to be globally competitive, the region must also build capacity in areas like compliance with international standards, qualify infrastructure, labelling, technical testing, among others. Additionally, Member States must familiarize themselves with any flexibilities under multilateral and regional trade agreements that may allow for increased policy space.

In order to develop and attract capabilities and industries in higher value-added areas, it is important that the region designs its industrial policy in such a way that it steers development towards new growth sectors with higher value-added opportunities. COVID-19 has already provided the disruption needed to warrant the exploration of new growth sectors. While economic analysis can be used to identify different growth sectors and value-added opportunities, existing trade agreements with market access in these areas provide a tangible avenue for capitalizing on such. Negotiating future trade agreements to include market access to growth sectors of interest will be important.

Factors such as cost, distance, availability of transportation, etc. which reduce the region's competitiveness will still need to be addressed if the opportunities from trade agreements are to be fully exploited. Technological solutions like robotics and 3D printing may prove useful for achieving economies of scale and overcoming some of these constraints. Therefore, the region must begin to position itself in these emergent technological areas.

4. Reforming the CARICOM CET

The CET reflects an intention to look inward first. However, based on findings from a recent consultancy, the CET's various non-commonalities and exemptions were found obstructive to industrial development. A process is currently on the way to reform the CET regime. When reforming the CET, the developmental asymmetries must still be considered if the goal is to achieve sustainable economic growth. Consideration should also be given to which sectors the region wants to develop in order for appropriate policy space to be built into the CET. If successful, the region should also move towards establishing a full customs union in CARICOM.

5. Encouraging Public-Private Dialogue

Public-private dialogue has become a main feature of modern industrial policy making (Hausmann and Rodrik 2003). Faced with various informational asymmetries, it is important that Governments work with the private sector not only to identify economic growth prospects but also to identify obstacles.

The private sector together with the Government play an important role in driving innovation. On one hand, the private sector's response to growing competition should be met with innovative solutions, while at the other end the Government must create the framework necessary to allow for an innovative private sector. Therefore, for innovation to be integrated into industrial policy frameworks from the onset, and for said policies to adequately reflect our priorities, inputs from both parties are warranted. However, this type of collaboration needs to be well coordinated, consistent and effectively monitored.

Additionally, involving the private sector in the policy design stage imposes a level of accountability on public officials to not only achieve desired outcomes but to maintain an adequate level of transparency. Private sector input, if consistent can also be used as a way of ensuring that industrial policy priorities are maintained and there is a sense of continuity even amidst changing Governmental administrations. Noteworthy are the recent efforts of greater private sector representation and participation in CARICOM, through the recently established CARICOM Private Sector Organisation (Morgan 2019).

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CHAPTER 3: AGRICULTURAL DEVELOPMENT & FOOD SECURITY

Pre-COVID-19 Caribbean Agriculture

Agriculture³² has historically been a major contributor to GDP in the Caribbean region and an important source of foreign exchange and employment. Before the dawn of the twenty first century, sugar and banana plantations dominated the region's agricultural scene, benefitting from colonial trade ties which allowed for preferential access to European markets. However, changes in agricultural trade rules, such as those embodied within the GATT, the EBA initiative³³, and the WTO, have eroded preferential access for the Caribbean's traditional agricultural exports. This, coupled with economic growth ambitions, triggered a structural economic and agricultural commodity transformation across the region (FAO and CDB 2019). Specifically, in most Caribbean countries, there has been a shift away from an agrarian society, towards growth and development through the industrialization by invitation model and then later a pursuit for higher-valued added opportunities from the development of services and knowledge-based economies (see Chapter 2). As a result, the region's agriculture sector has diminished in its economic importance, now accounting for only 7-17% of GDP and 10-25% of jobs³⁴ (FAO 2019 and FAO and CDB 2019). Within the agriculture sector itself there has also been a commodity transformation, where livestock and fisheries products, fruits, vegetables, legumes and oil crops have increased in importance, relative to traditional monocrops, as a result of changes in agricultural trade policies, export markets and nutritional preferences, among other factors (FAO and CDB 2019).

The declining importance of agriculture in most Caribbean economies as a source of revenue belies its strategic importance as a critical component of ensuring the region's food security. Food security is achieved "when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life" (FAO 1996). There exist two broad approaches³⁵ towards food security, namely self-sufficiency where domestic food supply is prioritized, and the other where international trade patterns determine food supply sources (Clapp 2015).

For the Caribbean, food security in the first sense (self-sufficiency) has not been achieved, as observed through the region's excessive dependence on food imports. As Deep Ford, Dell'Aquila and Conforti (2007) note, "trade and food security are tied together through a variety of linkages rooted in the importance of exports and imports to [Caribbean] economies." While agricultural export is an important source of foreign exchange and employment, the region's agricultural export trade has been rather stagnant (see figure 23 for trends and figure 24 for composition), as Member States struggle to compete in this newly liberalized environment (Pemberton 2005). At the same time, however, the region's food import bill (FIB) has steadily increased (see figure 23 for trends and figure 25 for composition), making external suppliers the dominant source of food supply in the majority of Member States³⁶ – where more than 80% of

³² In this Chapter, the agriculture sector comprises the following sub-sectors: crops, livestock, fisheries, forestry and hunting.

³³ "This initiative was introduced in 2001 under the EU's GSP and grants the WTO's least-developed country members duty-and quota-free access for almost all products except arms and ammunitions" (UN 2020).

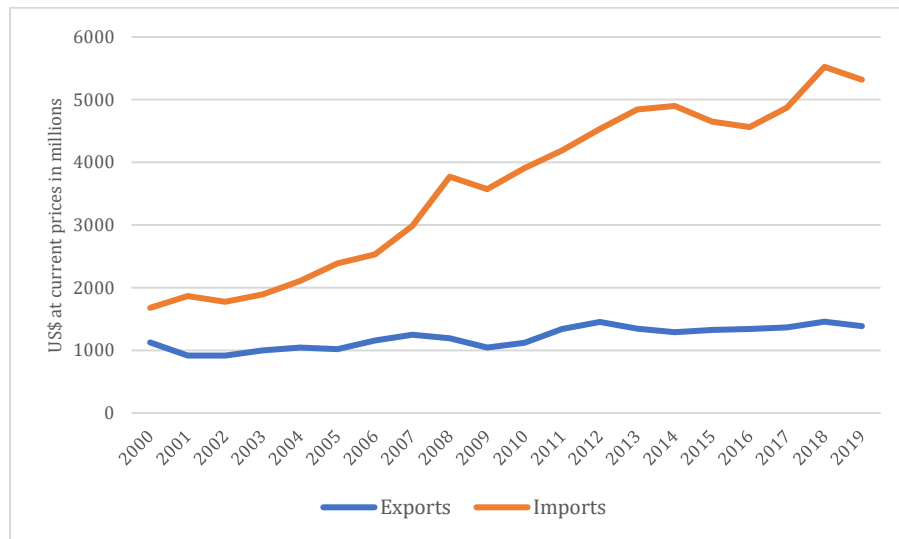
³⁴ Haiti being the exception where the agriculture sector accounts for almost 50% of employment (FAO 2019).

³⁵ These approaches are not mutually exclusive.

³⁶ Belize, Guyana, and Haiti are the only CARICOM Member States that produce more than 50% of their consumption (FAO 2015a).

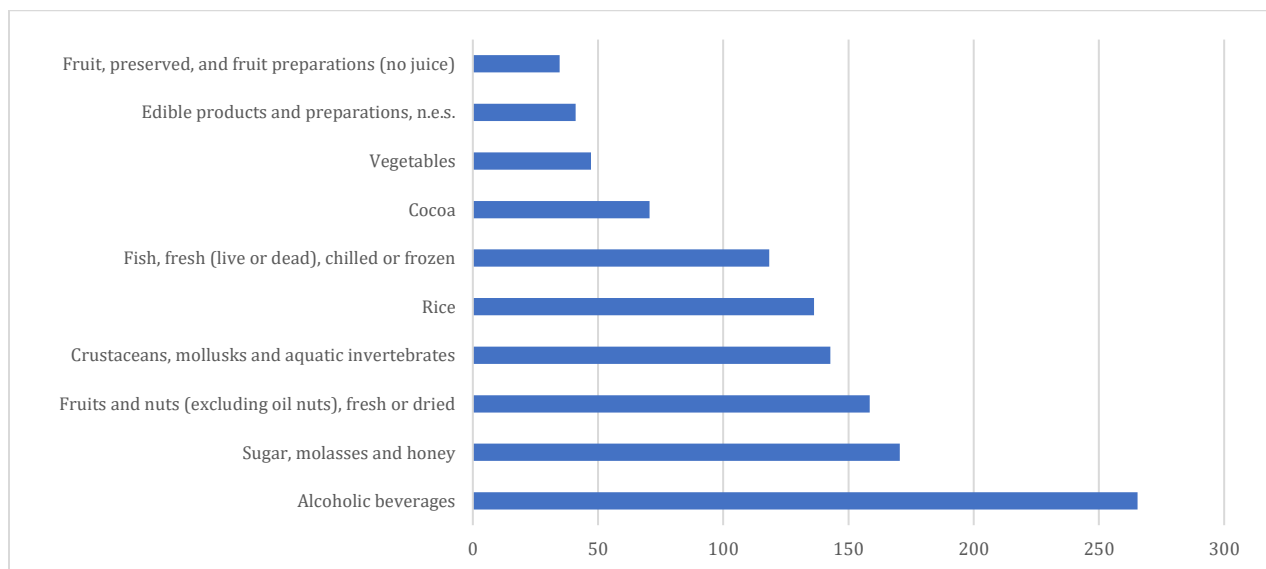
food is imported (FAO 2015a). This inordinate level of external dependence increases the region's potential vulnerability to food insecurity, especially during times of crisis which lead to global food shortages and price hikes. Additionally, the region's excessively high food import expenditure, which in 2019 was valued in excess of US\$ 5 billion (UNCTAD Stat 2020), continues to deplete foreign exchange supply, hindering the import of more growth-conducive factors of production such as technology and capital (Hope 1981). Furthermore, with imports now flooding domestic markets, local farmers continue to be pushed out by reducing demand for locally produced foods, creating a situation of increased economic losses and wastage for domestic farmers.

Figure 23: CARICOM Extra-Regional Agricultural and Food Trade³⁷

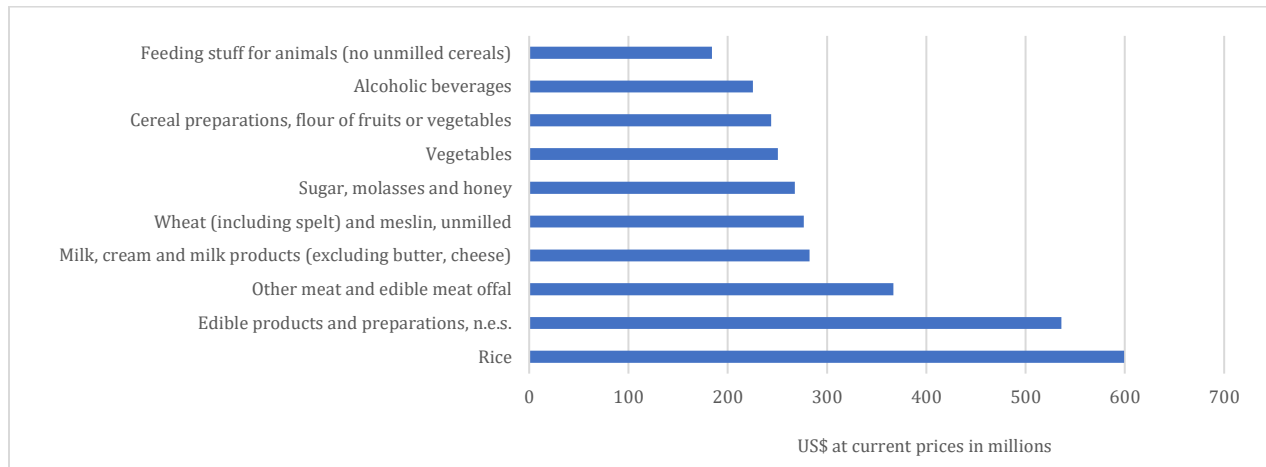


Source: UNCTAD Stat 2020

Figure 24: CARICOM Top 10 Extra-Regional Food and Agri-Exports in 2019



³⁷ Agricultural and food trade comprises the commodities in SITC sections 0 (food and live animals), 1 (beverages and tobacco), and 4 (animal and vegetable oils and fats) and SITC division 22 (oil seeds, oil nuts, and oil kernels).

Figure 25: CARICOM Top 10 Extra-Regional Food and Agri-Imports in 2019

Source: UNCTAD Stat 2020

Apart from the reduced economic importance and increased potential vulnerability to food insecurity, the region's agriculture sector still faces other challenges. Firstly, although structural transformation is inevitable, classical theories posit that agricultural employment declines should be met by increases in labour and land productivity brought on by the adoption of modern technologies and spill overs from other sectors. However, the region has experienced below average labour and land profitability levels, and production is constrained by sizeably lower crop yields (FAO and CDB 2019). Also concerning is the devastating impact of climate change, with research indicating that the agriculture sector absorbs 25% of total climate change-related damages and losses (FAO 2015b). In the Caribbean, the main manifestations of this have been agricultural losses from hurricanes and droughts. For example, in 2004 Hurricane Ivan completely decimated Grenada's banana industry, and destroyed 40% and 80% of the country's cocoa and nutmeg trees respectively, resulting in losses of over US\$ 37 million in the agriculture sector (FAO 2015c). In 2017, all of Dominica's crops were destroyed by Hurricane Maria (ACAPS 2018). With predictions for an above-normal 2020 Atlantic hurricane season and long-term drought situations by the end of November 2020, the region's agriculture sector finds itself in a precarious state (NOAA 2020 and CIMH 2020a).

To date, various regional and national efforts have been deployed to ultimately transform the region's agriculture sector, but as noted by Morgan (2020) "the problem is, like many aspects of the CSME, results from these initiatives are not significant." For example, the RTC outlines a CAP, which if made actionable could alleviate many of these identified challenges. Some of the CAP's goals include transforming the sector to be more internationally competitive, increasing production and diversification especially in value-added areas, securing an enlarged share of world markets, creating more lucrative employment opportunities, and improving food and nutrition security. However, no significant progress on a CAP has been made but there have been some initiatives geared towards its mobilization. For example, the Jagdeo Initiative³⁸, which sought to remove constraints to the development of regional agriculture and build upon past efforts to develop a CAP, provided a list of recommendations (Private Sector Commission 2007). Some of these included the establishment of a regional agricultural modernisation fund, the development of integrated

³⁸ In 2002 former President of the Republic of Guyana Bharrat Jagdeo recognized the utility of a CAP and created a proposal which in 2005 was formally dubbed The Jagdeo Initiative – Strengthening Agriculture for Sustainable Development. "It was endorsed by Members of the agri-business sector, the forum of Ministers of Agriculture and the 2005 Heads of Government Conference" (Private Sector Commission 2007).

regional risk mitigation (natural disasters) and relief (including agricultural insurance), the strengthening of joint marketing opportunities and facilitation of access to EXIM-type financing, and others (see Annex).

In addition, structural issues continue to hinder advancements towards regional agricultural development. For instance, a regionally harmonized SPS³⁹ regime is still not existent, although called for in both Article 57(1): k and Article 76(2): e of the RTC. Al-Hassan et al. (2020) in its report on strengthening Caribbean integration noted that, “the absence of an agreed protocol on SPS procedures and certification has impeded intra-regional trade in agricultural goods.” According to UNCTAD Stat (2020) only 10.39% of the region’s food imports was sourced intra-regionally during 2019. Additionally, despite efforts by the CARICOM’s CET framework to promote regional agricultural development by placing a number of locally grown agricultural products on the list of commodities ineligible for conditional duty exemptions, some of these products are classed as List A⁴⁰ (which allows for the suspension of the CET) and many others although attracting on average a maximum duty rate of 40%, have duties applied well below this rate (CARICOM Secretariat 2018). The result has been increasing extra-regional imports and little interest from the private sector to invest in regional production (Morgan 2020).

Several regional studies have already been conducted to address several of the previously identified challenges. Regarding the rising FIB, some notable studies include: “Reducing the CARICOM FIB and the Real Cost of Food: Policy and Investment Options” (Silvia, Best and Tefft 2011) and the recent proposal at the 31st Regular Meeting of the CARICOM Heads of Government in February 2020 focused on food security through regional product integration (Mounsey 2020a). Both studies identified import substitution opportunities and provided recommendations such as improved transportation links, private sector investment and innovation, a unified approach to food standards, and more (see Annex). Regarding the climate change-related challenges, there have been various cooperative projects. For example, the CAMI⁴¹ sought “to increase and sustain agricultural productivity at the farm level through improved dissemination and application of weather and climate information using an integrated and coordinated approach”; while the CARIWIN⁴² sought “to address the complex challenges of water management in the Caribbean and promote sustainable and equitable integrated water resources management in the region” (CIMH 2020b). Educational workshops focused on improving the policy framework for developing climate change resilient agriculture systems have also been conducted in the region, and there exists a partnership between the CARDI and the CTA⁴³ on climate change advocacy in the Caribbean (CARDI 2019).

³⁹ “Sanitary (human and animal health) and phytosanitary (plant health) measures apply to domestically produced food or local animal and plant diseases, as well as to products coming from other countries. These measures ensure that food is safe for consumers, and also prevent the spread of pests or diseases among animals and plants” (WTO 2020a).

⁴⁰ “A list of items on which suspension of the rates of duty in the Schedule of Rates under Article 83 of the RTC has been granted to Member States for an indefinite period subject to review by the COTED, with the rates to be applied by Member States” (CARICOM Secretariat 2018).

⁴¹ This 3-year initiative was launched in 2010 and funded by the European Union under the African Caribbean and Pacific Group of States (ACP) Science and Technology (S&T) Programme. It involved the Caribbean Institute for Meteorology and Hydrology (CIMH), the Caribbean Agricultural Research and Development Institute (CARDI), World Meteorological Organization (WMO), and National Meteorological and Hydrological Services of 10 Member States.

⁴² This 6-year project was launched in 2007, led by McGill University’s Brace Center for Water Resources Management, in collaboration with the Caribbean Institute for Meteorology & Hydrology (CIMH), and Caribbean partner Governments.

⁴³ The CTA is an EU funded joint institution operating under the Cotonou Agreement between the ACP Group of States (Africa, the Caribbean and the Pacific) and the EU Member States.

At national levels, Josling et al. (2020) found that although similar problems exist across agriculture sectors, Member States have been adopting diverse solutions and the degree to which agricultural support from these policies sought to improve the sector's productivity varies. In many cases, MPS⁴⁴ represents the largest portion of direct support to the region's agriculture sector, some Member States use input subsidies (Haiti's fertilizer subsidy) and very few use direct payments (Josling et al. 2020). Regarding the 'legality' of such support measures, under the RTC Chapter 5 Part 4 Article 118, Member States are allowed to grant subsidies once they satisfy the outlined conditions⁴⁵. At the multilateral level, domestic support is allowed but only as provided for in the domestic support boxes⁴⁶ (WTO 2020b). Within the WTO's Agreement on Agriculture, apart from the lower reduction rate for total aggregate measurement of support (AMS), developing countries are exempted from reduction commitments on rural development measures⁴⁷ and also benefit from a de minimis threshold which is excluded from the AMS calculation (UNCTAD 2003). Having complied with regional and international obligations, what remains concerning is the need for agricultural policies across the region to be geared towards improving the sector's productivity (Josling et al. 2020).

The Impact of COVID-19 on Regional Agriculture

The full impact of the COVID-19 pandemic on global food security remains to be seen. According to the International Food Policy Research Institute, global prices remain stable for staple crops; there have been no major disruptions in the production of staple foods; and there are sufficient global reserves of non-perishable grains to meet any demand surges (Vos, Martin and Laborde 2020). However, as COVID-19 continues to spread Vos, Martin and Laborde (2020) warn that poverty and food security could dramatically increase, with David Beasley, Executive Director of the World Food Programme, emphasizing that "130 million more people could be pushed into starvation by the end of 2020 due to COVID-19" (WFP 2020a). Indeed, if the pandemic worsens and major net food exporters begin to impose export restrictions, then the risk of global food-price hikes and shortages amplifies, placing the food security of net food importing countries like CARICOM Member States in jeopardy.

In the Caribbean, while Agricultural Ministers and leaders reassured Member States of adequate food supply levels (Nurse 2020), the sector has still been severely impacted. For one, travel restrictions and supply chain disruptions have created a glut of domestic perishable products, especially fisheries exports. For example, the Vincentian fishing industry unable to transport its products to Hong Kong – one of the island's main export destinations for fish and fish products – has already experienced a drastic reduction in its exports (Mounsey 2020b). Likewise, in Barbados the supply of tuna has been plentiful as temporary halts to business operations in and travel to North America have prevented local fisherfolk from supplying their usual export markets (CBC News Barbados 2020). Additionally, recognizing the linkages between the region's agricultural and tourism sectors, local food suppliers continue to battle

⁴⁴ These are artificially high market prices often supported through tariffs and other import restrictions (Josling et al. 2020).

⁴⁵ Article 118 notes that Member States can grant subsidies if they are used to encourage agricultural and rural development, promote investments in agriculture generally and to assist low-income or resource-poor producers, and provided that they have no or minimal production and trade distortion effect and do not constitute price support to producers of the product or products benefiting from the use of such schemes.

⁴⁶ The green box represents non-distorting subsidies that are not limited, the blue box represents a broad range of subsidies with minimal trade distortion effect that are also not limited and the amber box consists of trade distorting subsidies which have been limited to 5% of agricultural production in the case of developed countries and 10% for developing countries (WTO 2020b).

⁴⁷ These include investment subsidies which are available to agriculture and agricultural input subsidies available to low-income or resource-poor producers (UNCTAD 2003).

with excess stock as usual demand from hotels, restaurants, and cruise ships dry up. The result has been increasing economic losses and in some cases product wastage.

In responding to COVID-19's impact on the regional front, CARICOM's Agricultural Ministers met from as early as March 2020, to craft the region's COVID-19 food security position (CARICOM 2020a). Since then the CARICOM COVID-19 Food Security and Livelihoods Impact Survey prepared by the World Food Programme and Food and Agricultural Organization (FAO), has been launched in order to better assess the situation (CARICOM 2020b). Results from this survey⁴⁸ revealed that half of the respondents have experienced a change in income due to job loss or reduced revenue; and although most respondents are not having difficulty eating enough, some are eating less preferred foods. Additionally, individuals are changing how they shop, with most respondents purchasing larger quantities. It was also noted that the availability of food, hygiene items and medicines appear to be less than normal but very few respondents indicated that these items were unavailable (WFP 2020b).

Additionally, the CARICOM Secretariat in collaboration with the FAO Regional Office for Latin America and the Caribbean organized a webinar in May 2020, which focused on enabling agricultural investment in the Caribbean for effective response, post-COVID-19 recovery (CARICOM 2020c). More recently, CARDI developed a comprehensive plan to strengthen regional agri-food chains amidst the COVID-19 pandemic. Among the outlined initiatives of this plan include increasing regional food production; reducing reliance on imports and improving resilience; promoting healthy food consumption; providing training on modern agricultural practises, value added product development and good manufacturing processes; and deploying ICT enabled data collection and analytical tools (CARICOM 2020d). Since then, the CARICOM COVID-19 Response Agri-Food Plan, dubbed 25 in 5 based on its objective to reduce the region's FIB by 25% in the next 5 years, has been developed. The plan is underpinned by the CAP and is built on the following major pillars: Food and Nutrition Security; Sustainable Development of Natural Resources; A modern Agricultural Knowledge and Information System; Rural Modernization and Youth Programmes; and Production and Trade Value Chains Development (CARICOM 2020e). Certainly, one of the most valuable outcomes from this pandemic has been the renewed interest in agricultural development and food security from a regional perspective.

At the national level, Member States have been ramping up agricultural production by encouraging backyard gardening which not only gives citizens a form of economic empowerment but also represents tangible steps towards reducing extra-regional imports. Another trend has been the attempt by local Governments to cushion the blow to the agriculture sector by providing direct support to farmers through the supply of fertilisers, seedlings and other inputs. The St. Lucian Government has even gone a step further and announced its intention to increase its purchases from local farmers and fisherfolk who have been adversely affected by the pandemic (Government of St. Lucia 2020). Figure 26 below provides some examples of COVID-19 responses at the national level.

⁴⁸ These results are from the April 2020 regional summary report of the Caribbean COVID-19 Food Security and Livelihoods Impact Survey. Note that although "the survey provides a better overview of the impact, at this point in time the data is not representative and the use of a web-based questionnaire limits inputs from those without connectivity" (WFP 2020b).

Figure 26: National Covid-19 Responses in the Agriculture Sector

DOMINICA	COVID-19 National Food Security Mitigation and Response Plan - The Ministry has propagated 100,010 vegetable seedlings of its 300,000 quota to supply to 1,400 applicants as part of its food security initiative.
GRENADA	The Government announced its intention to increase farm labour support immediately in order to boost agricultural production within its economic stimulus plan.
GUYANA	REAP (Regional Emergency Agricultural Project) aimed at re-energizing small scale agriculture by providing small farmers with seeds, equipment, agricultural extension services, etc.
HAITI	Emphasis is being placed on fast growing crops in order to boost the agriculture sector.
ST. KITTS & NEVIS	An injection of \$10 million is being made to boost agricultural production.
ST. LUCIA	The Government is providing direct support to local farmers through the provision of fertilizers, seedlings and other inputs to help increase food production to supply local and regional markets. The Government will also increase its purchases from local farmers and fishermen that have been adversely affected.
MONSERRAT	Food security and production will be enhanced by direct investment through a total cash injection of \$641,000 which will cover seeds and planting materials; enhance sheltered production systems; increase chilled storage facilities; irrigation systems; land preparation; purchase of materials for pens or storage structures; etc.
ST. VINCENT & THE GRENADINES	A COVID-19 Food Security and Impact Mitigation Plan is to be launched. \$9 million in direct support will be offered in areas of farming, animal husbandry, and fishing; along with \$3 million worth of support to the arrowroot industry.

Source: SRC 2020

SRC Policy Recommendations

Capitalizing on the renewed interest that COVID-19 has sparked in regional agriculture, we propose an action-oriented approach towards the CAP outlined in the RTC. Five action areas are identified below which aim to improve the region's food security position, reduce its vulnerability, and transform the agriculture sector – all under the banner of a regional agricultural policy.

1. Developing local & regional production capacity

At the end of 2019, CARICOM amassed a FIB which exceeded US\$ 5 billion (UNCTAD 2020). Such level of expenditure not only erodes the foreign exchange bases of Member States, but also diverts funds away from more growth conducive factors of production. At the same, the COVID-19 pandemic serves as a reminder that the region's excessive dependence on food imports can jeopardize its state of food security. To reduce such vulnerability, it is important that at both national and regional levels agricultural production be ramped up. The following is recommended:

- (i) A greater level of public involvement in the agriculture sector is needed and both formal and informal channels can be used to achieve this. From a formal perspective, scholarships and educational programmes can be used to direct human resources into the agricultural field. The public mindset needs to be changed in order for agriculture to be viewed as a strategic economic sector. Informal approaches such as backyard gardening initiatives are also equally important. During the COVID-19 pandemic,

several Governments encouraged citizens to uptake backyard gardening. This initiative provides a sense of financial empowerment, increases agricultural output at the individual level and contributes to household food security.

- (ii) Greater levels of Government support for the agriculture sector will be important moving forward, especially during the COVID-19 pandemic as agricultural producers battle losses from reduced demand stemming primarily from the tourism industry. Some Governments, such as the Government of St. Lucia, have even committed towards increasing their purchases of local agricultural supplies to mitigate farm losses during the COVID-19 period. However, more needs to be done. In the long run consumers' taste needs to be reoriented towards local produce in order to reduce the demand for imports. Additionally, Governments must find creative ways to motivate private sector investment into the agriculture sector, so that existing production capacities can be expanded. Support also needs to be given to areas like agro-processing and the development of nutrient sensitive value chains.
- (iii) Once local and regional production capacities are developed and there is greater output, emphasis should be placed on first satisfying regional demand and then meeting international needs. The first can help to reduce the region's escalating FIB, and the latter can earn the region much needed foreign exchange.

2. Encouraging competitive production

The region's lack of competitiveness in the agriculture sector not only has implications for a reduced share of world markets but also encourages cheaper extra-regional imports. According to Pemberton (2005) competitiveness, especially in the agriculture sector, should not only be viewed in terms of price, but should also consider taste, food quality, food safety, and freshness. Across the sector productivity remains low for a variety of reasons. In the crops subsector, productivity is constrained by inadequate access to modern technologies, high labour costs, limited credit, inadequate pest and disease control, and a lack of skills and entrepreneurship among farmers (FAO 2019 and FAO and CDB 2019). While in the livestock subsector low availability of quality feed which is then also expensive, limited availability of pastures for grazing, low quality breeding stock and theft all contribute to this subsector's low productivity levels (FAO 2019 and FAO and CDB 2019). Overall, the productivity of the region's agriculture sector continues to be limited by the effects of climate change, while the inability of regional producers to comply with modern food safety and quality standards has resulted in the growing demand from retail, processing and tourism sectors being met by increasing volumes of imports. Therefore, the following is recommended in order to transform the sector into a more globally competitive one:

- (i) A greater integration of ICT and modern technologies into the agriculture sector is imperative. In order to overcome the current declines in agricultural labour, there is a need for investment in cost saving technologies. At basic levels, ICTs can be used to improve monitoring as well as to enhance security measures to prevent theft. At more advanced levels, consideration can be given to the use of AI systems for a variety of tasks. For example, there are AI-powered harvesting tools which are capable of harvesting several acres daily, a task which would otherwise require many workers. There are also AI-powered weed control systems which by using computer-aided spraying techniques can reduce herbicide

expenditure. There are even AI applications which identify soil nutrient deficiencies and plant diseases. The utility of modern technologies, in a seemingly 'traditional' sector, is endless.

- (ii) There is a need for regional investment in scientific research focused on climate resilient agriculture. Research in this area should aim to identify resilient crop species and varieties, along with agricultural best practises for irrigation and rainwater harvesting during drought periods and crop protection where possible during the hurricane season. Underpinning this research effort should be greater levels of collaboration between the region's agriculture sector and metrological institutions such as the Caribbean Regional Climate Centre. Investment in more efficient weather monitoring technologies could also prove useful. Consider for example, aWhere -an AI-powered system used to predict weather conditions and analyse crop sustainability.
- (iii) Recognizing the various topographies across Member States, efficient land use will be important and should guide specialization strategies. In other words, Member States should dedicate resources towards the cultivation of those crops best suited for their particular topography and climate. Specialization according to economic theory leads to greater output stemming from productivity gains. On this basis, if Member States could create an agricultural production plan based on individual specializations the region's agricultural output should increase. Such a coordinated effort will require a variety of supportive measures and a greater level of regional collaboration among agricultural stakeholders.
- (iv) There is a need to pursue more value-added opportunities. While farmers and fisher folk may be responsible for the cultivation and extraction of raw materials, the private sector must be innovative in their investments looking towards value added opportunities in agro-processing, cold storage, feed production, and other areas. Consider for example, moving beyond simply meat products from livestock towards high quality leather production from animal skins, or even linking the medical research sector with the blue economy to extract any medicinal value from seaweed and other fisheries products. Traditionally, linkages between the agricultural and tourism sectors were often encouraged but recognizing the volatility of the tourism sector further exploration into other sectoral linkages is equally important. There are also value-added opportunities in creating regional feed production and cold storage facilities, which would benefit from economies of scale and allow for cheaper feed products and cold storage options.
- (v) Niche markets need to be fully explored and capitalized upon. Consideration should be given to the preservation of products that are unique to the region such as breadfruit, root crops, flying fish, seamoss and grapefruit, among others. Sometimes, the Caribbean is the only producer of these products, making this a potentially lucrative export opportunity under which the Caribbean would have a competitive advantage, especially when supported by effective marketing/branding strategies and a growing diaspora.
- (vi) At the farm level, greater support beyond financing is needed for farmers. Long term-mentoring can be instrumental in increasing adoption rates of new techniques and practises. Agricultural extension

services⁴⁹ also need to be strengthened and modernised. Regular follow-ups, community workshops, ICT applications, e-commerce platforms, among others are all important support tools.

3. Greater coordination & implementation of regional policies and initiatives

Various agricultural policies, proposals and initiatives have been created by different agencies, creating not only a duplication of resources but also a disjointed approach. By nature, a regional agricultural policy demands a regional level of coordination. With the existing institutional framework under CARICOM, regional efforts ought to be better coordinated and mobilized. For this to occur CARICOM Member States, institutions and partner organizations must work together. Better coordination will also need to be supported by more effective implementation mechanisms. As noted by the current President of the Caribbean Development Bank⁵⁰, the region faces a severe implementation deficit with public sector investment programmes having implementation rates below 35% (Smith 2019). The following is recommended:

- (i) Several institutions are charged with agricultural development. For instance, at national levels most Member States have a Ministry of Agriculture and supporting agricultural associations; while at the regional level the CARDI, the CABA, the CAES and more exist. There is a need for greater collaboration and coordination among these institutions. Therefore, to formalize such it is proposed that on regional agricultural initiatives and policies, one of the organisations⁵¹ assume the lead in coordinating and monitoring policy implementation. While the overall strategy will be set by decisions made during Special Meetings of the COTED on Agriculture, there is a need for continuous implementation monitoring and regular meetings. Having a formal coordination and implementation mechanism will also help to anchor policy decisions and ensure that agricultural development remains a regional priority.
- (ii) Adopt the Specific, Measurable, Attainable, Realistic and Time-bound (SMART) criteria in all outlined regional plans towards a CAP. Poorly designed strategies which fail to account for current resource constraints can hinder effective progress and lead to poor investment choices. It is equally important to have accessible online monitoring and reporting mechanisms. Typically, even when plans are time-bound little information can be found on the progress and this lack of transparency limits public accountability. To avoid this, all regional agricultural initiatives should be published on a dedicated section of the CARICOM website and updated regularly. Progress reports are an integral part of both the coordination and implementation process and should therefore be taken more seriously.

⁴⁹ "An agricultural extension service offers technical advice on agriculture to farmers, and also supplies them with the necessary inputs and services to support their agricultural production. It provides information to farmers and passes to the farmers new ideas developed by agricultural research stations" (FAO 2020).

⁵⁰ Dr. Warren Smith is the current CDB President.

⁵¹ For this role consideration should be given to the UWI Faculty of Food and Agriculture, CARDI, or even the COTED.

4. Improving regional transportation & trade facilitation

Member States will continue to import agricultural commodities from extra-regional sources until intra-regional trade makes economic sense. For example, importing from the US is cheaper than importing from regional neighbours because of high regional transportation and logistics costs. While emphasis is made on increasing intra-regional agricultural trade as a means of reducing the FIB, the trade facilitation aspect of this process has been largely absent from regional agendas. Nicholson (2015) notes that at the macro-level, the World Bank estimated regional logistics costs to be between 16-26% of GDP and as much as 35% of product value, with delays from customs clearance further increasing transport costs by an additional 4-12%. In the Caribbean high regional transportation costs result from high TFCs, limited direct services and routes between Member States, high insurance premiums, regulatory barriers and excessive waiting times, among other factors (Ram, Reeves, James 2018 and Al-Hassan et al. 2020). Against the backdrop of Chapter 6 of the RTC which provides for a Community Transport Policy⁵², the following is recommended:

- (i) Although TFCs represent an important source of revenue, Member States stand to gain more from the spill over effects of increased intra-regional trade, such as economies of scale and job creation from increased production opportunities as intra-regional trade becomes more feasible. Therefore, Member States should consider reducing the existing TFCs on regional transport. It is worth noting that since COVID-19 some Member States have made public commitments to reduce travel taxes.
- (ii) An online regional data logistics observatory should be created. Access to data on particularly pricing and delivery times could create improved competitive conditions. Additionally, with regularly updated logistics databases more informed decisions can be made and the associated risks could be better calculated allowing for better insurance premiums.
- (iii) Regional trade facilitation standards and customs procedures need to be developed to allow for the successful creation of 'green corridors'⁵³. Having a unified approach to customs and trade facilitation not only significantly reduces compliance costs for farmers trading with multiple Member States; it also provides predictability, an important element when trading perishable goods - a typical characteristic of 'raw' agricultural commodities. A harmonized approach for expedited procedures of agricultural products is also important, insights can be drawn from the expedited clearance of essential medical supplies and equipment during the pandemic. With Member States currently in the process of implementing the WTOs TFA, now is the perfect time for adopting a harmonized regional approach. Additionally, with the thrust towards modernizing existing customs legislation, Member States should try to base new legislation as best as possible on the CARICOM Model Customs Regulations, this too would provide for a level of harmonization.
- (iv) A greater incorporation of cold chains is needed in the region's transportation and trade facilitation infrastructure. In simple terms, cold chains are temperature-controlled storage and transportation facilities necessary for the safe transport of perishable goods in order to minimize wastage. The region

⁵² Article 134 of the RTC outlines goals for the organization of efficient, reliable, affordable transport services throughout the Community, and the development and expansion of air and maritime transport capabilities in the Community, among others.

⁵³ Linkages for the continued movement of food products throughout the region and even outside of the region.

should consider channelling investments towards the development of appropriate cold chain logistics, infrastructure, and technical expertise. Previous recommendations to establish hubs in specific member states⁵⁴ for the consolidation of produce from neighbouring island for distribution both regionally and internationally should be further explored and actioned.

5. Leveraging existing trade agreements

CARICOM, specifically the CSME, is a regional trade bloc. However, during 2019 CARICOM imported more than US\$ 5 billion of food products, of which only 10.39% was sourced intra-regionally (UNCTAD Stat 2020). Promoting intra-regional trade of agricultural products has long been a regional priority but, with intra-regional NTBs being relatively high, (Al-Hassan et al. 2020) this remains elusive. Additionally, CARICOM also has trading agreements with other countries including Venezuela, Colombia, Dominican Republic, Cuba, Costa Rica, and two developed partners notably the EU and now the UK following BREXIT. Although these agreements contain varying degrees of market access provisions for agricultural products, it is important to note that market access does not guarantee market penetration. In fact, the region is currently under-utilising many of the market access opportunities provided within these agreements. Therefore, the following actions are proposed:

- (i) An online regional database of non-tariff barriers needs to be created. The availability of data on the NTBs across CARICOM is limited and sometimes non-existent (Al-Hassan et al. 2020). Absent this information exporting to neighbouring Member States can become more complicated than exporting to extra-regional destinations. Therefore, an online non-tariff database would not only benefit traders but also allow for analysis to determine whether some existing NTBs are too restrictive or even unnecessary.
- (ii) An agreed protocol on SPS procedures and certification is needed, especially since the absence of such has been found to significantly impede the intra-regional trade of agricultural goods (Al-Hassan et al. 2020). Although SPS measures are important for maintaining good practises and ensuring high quality health standards, they often represent a significant barrier in the trade of agricultural goods. While it is encouraged that agricultural producers improve quality standards and practises, there is also a need for the harmonization of SPS measures regionally. Embedded within Article 57(1): k and Article 76(2): e of the RTC is the call for harmonized and transparent approaches towards SPS. Furthermore, Article 53 (d) of the CARIFORUM-EU EPA even outlines assisting CARIFORUM states in establishing harmonised intra-regional SPS measures as one of its goals. Accessing this assistance from a developed trading partner may prove useful and would also allow for better information and exchange consultation between CARIFORUM and EU on SPS measures. Greater information could increase market penetration. At the regional level there needs to be some level of harmonization and at the extra-regional levels trade negotiators must ensure that legally binding clauses for information exchange and consultation can facilitate recognition of equivalence in the area of SPS.

⁵⁴ For example, Trinidad and Tobago could act as a hub for the southern region, while Jamaica acts as one for the northern region.

- (iii) Within individual Member States educational campaigns must be created for stakeholders in the agriculture sector explaining the benefits and opportunities in the CSME, as well as with other trading partners. For example, Chapter 5 of the CARIFORUM-EU EPA deals with Agriculture and Fisheries and outlines various useful cooperation and consultation provisions. Too often the opportunities are not tangibly demonstrated and become lost behind legislative text and complex trade jargon. Although countries sign trade deals, it is actually businesses that trade, therefore the utility of trade agreements will depend on the ability of the business sector to recognize, understand and access the benefits embodied within these agreements. In cases of MSMEs, the resources required to do so may not be readily available hence why educational programmes and workshops continue to be important tools for leveraging opportunities in existing trade agreements.

Annex

Figure 27: Summary of Recommendations from the Jagdeo Initiative

<i>Constraints</i>	<i>Necessary Interventions</i>
1. Limited Financing and Inadequate new investments.	Establishment of a Regional Agricultural Modernisation Fund.
2. Outdated and inefficient agriculture, health and food safety systems.	Establishment of a Caribbean Agricultural Health and Food Safety Agency.
3. Inadequate research and development.	Definition and implementation of a regional R&D policy and Action Plan.
4. Fragmented and unorganized private sector.	Strengthening of private sector organisations and collaboration.
5. Inefficient land and water distribution and management systems.	Establishment of a system of incentives for improved land and water use.
6. Deficient and uncoordinated risk management measure including praedial larceny.	Development of integrated regional risk mitigation (natural disasters) and relief (including agricultural insurance).
7. Inadequate transportation system, particularly for perishables.	Determination of freight needs, upgrading of ports and consolidation of services.
8. Weak and non-integrated information and intelligence systems.	Integration and modernisation of industry and national information systems and services.
9. Weak marketing systems, linkages and participation in growth markets.	Strengthening of joint marketing opportunities and facilitation of access to EXIM-type financing.
10. Lack of skilled human resources.	Upgrading and integration of curriculum and training at all levels.

Source: Private Sector Commission 2007

Figure 28: Study on Reducing the CARICOM FIB & The Real Cost of Food: Policy & Investment Options

Title of Study: Reducing the CARICOM Food Import Bill and the Real Cost of Food: Policy and Investment Options

Project Series: The FAO Project on Promoting CARICOM/CARIFORUM Food Security

Authors: Sacha Silva, Robert Best and James Tefft

Summary of main recommendations:

- (i) Competitive import replacement strategy based on targeted investments in areas such as feed production; sugar refining capacity; n processing (dry/smoked) facilities, strengthen product compliance, research and development, among other areas.
- (ii) Greater macroeconomic discipline and fiscal responsibility, “by investing in a concerted effort to improve public financial management at the national level; creating a risk mitigation and management system similar to those created in response to the region’s vulnerability to natural disasters; careful targeting, particularly in the case of any economy-wide price controls or subsidies, of any interventions funded from the public purse; and examining all categories of imported goods (not just food), given that foodstuffs account for less than 14% (by value) of total imports into the region.”
- (iii) Re-orient consumer tastes towards healthier food by “furthering consumer education on the benefits of a healthy, local diet; implementing stronger fiscal incentives to discourage sugary and fatty food intake; creating a strong link between import replacement and goals for recommended food intake; encouraging the hospitality sector to source from local producers, focusing on the establishment of joint institutions to mediate marketing and supply concerns.”
- (iv) Focus on managing risks surrounding the region’s FIB rather than only its reduction.

Source: Silva, Best and Tefft 2011

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CHAPTER 4: E-COMMERCE

Pre-COVID-19 E-commerce in the Caribbean

E-commerce involves buying and selling online but the full scope of activities covered by the term remains undetermined. In this Document, e-commerce is defined as “the sale or purchase of goods and services conducted over computer networks by methods specifically designed for the purpose of receiving or placing orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery do not have to be conducted online” (OECD 2011).

Typically, e-commerce transactions are classified according to geographic location and/or partner type, occurring either within a country (domestic e-commerce) or across borders (cross border/international e-commerce) and between any combination of namely Business (B), Government (G) or Consumer (C) (see figure 29). Domestic e-commerce drives the bulk of global e-commerce sales while Business to Business (B2B)⁵⁵, Business to Consumer (B2C)⁵⁶ and Consumer to Consumer (C2C)⁵⁷ are among the most popular combinations for e-commerce transactions (Baker 2017).

Figure 29: Combinations of Transaction Partners

	Government	Business	Consumer
<i>Government</i>	G2G	G2B	G2C
<i>Business</i>	B2G	B2B	B2C
<i>Consumer</i>	C2G	C2B	C2C

Source: Baker 2017

In 2018, the global e-commerce market was valued at US\$ 25.6 trillion, with 1.4 billion online shoppers (UNCTAD 2020a). The value of the e-commerce market in the Caribbean, like in many other developing regions, has not been officially measured. However, drawing from the observed trends in some developing regions, cross-border e-commerce tends to account for the bulk of e-commerce transactions in developing countries due to their underdeveloped state of domestic e-commerce (UNCTAD 2015).

Across CARICOM, e-commerce is still quite underdeveloped for a multiplicity of reasons. Firstly, the current state of the region’s digital infrastructure is not optimal. Digital infrastructure encompasses ICT networks, data infrastructure (data centres, telecommunications, etc.), digital devices, digital platforms, electricity infrastructure, and much more (UNCTAD 2019). During the late 1990s and early 2000s CARICOM Member States began liberalising the telecommunications sector, which led to the introduction of new regulatory frameworks that saw “both the

⁵⁵ B2B involves businesses selling goods and services to each other using online platforms or through other electronically facilitated means. In 2018 B2B e-commerce sales reached \$21 trillion, representing 83% of all e-commerce (UNCTAD 2020a).

⁵⁶ B2C involves businesses selling goods and services to consumers using online platforms or through other electronically facilitated means. In 2018 B2C e-commerce sales reaches \$4.4 trillion (UNCTAD 2020a).

⁵⁷ C2C involves electronically facilitated transactions between consumers usually through a third party such as Amazon or eBay, where there are online auctions.

establishment of Internet networks and the provision of Internet services being liberalised” (UNCTAD 2017). However, at present, the region’s fixed Internet broadband rates fall on the expensive end of the spectrum (Cable 2020). Across CARICOM, the average monthly price of a broadband Internet package appears most expensive in Haiti (US\$ 189/month) and cheapest in Suriname (US\$ 83/month) (Marius 2020a). Cable (2020) attributes these overall high costs to the limited uptake of fixed-line broadband in the region, resulting from the challenging geography that has led to “Caribbean nations favouring mobile broadband and 3G/LTE solutions as a means to get online.” Connectivity speeds for both mobile and fixed line connectivity are also problematic, with the region’s slow upload speeds – “usually a small fraction of the maximum download speed specified” – affecting the quality of Caribbean content creators, online meetings and webinars (Marius 2020b).

Regarding coverage, fixed-line broadband is often limited in rural areas while mobile broadband has almost reached 100% population coverage, albeit not 100% geographic coverage since gaps exist in areas like the mountainous regions of some Member States (Marius 2020b). While a digital divide exists within countries, it also exists across countries and is exacerbated by topography and natural disasters. For example, consider Dominica and Haiti, two Member States whose digital infrastructures were initially destroyed by natural disasters and to this date still lag behind the rest of their Caribbean neighbours. In 2013, CARICOM recorded its percentage of Internet users as 46.8%⁵⁸, with MDCs averaging an Internet user rate of 45%, while LDCs recorded on average an Internet user rate of 43%⁵⁹ during this same period (CARICOM Secretariat 2018). Since then estimates from the ITU indicate that for most Member States the Internet user rate is above 50% with only Belize (47.1%), Guyana (37.3%), Haiti (12.3%), Jamaica (48.8%) and Suriname (48.9%) having rates below 50% during 2018 (ITU 2018). Similarly, in most Member States the percentage of households with a computer is greater than 50% except for in Belize (36.7%), Guyana (33.5%), Haiti (10.8%), Jamaica (40.8%) and St. Lucia (45.7%) (ITU 2018).

CARICOM is also a net importer of ICT goods. In 2015, the region’s export of ICT products valued only US\$ 58 million⁶⁰ compared to US\$ 1,055 million⁶¹ worth of ICT product imports during that same year⁶² (UNCTAD Stat 2020a). Despite this, no CARICOM Member State has signed on to the WTO’s ITA which to date has been signed by 81 WTO members accounting for 97% of world trade in IT products (WTO 2020a). The ITA aims to eliminate duties on ICT goods in order to increase worldwide access to high-tech goods like semi-conductors, computers, mobile phones, etc. However, although not parties to the ITA some Member States like Barbados⁶³ have removed customs duties on ICT products such as computers as part of national ICT and education initiatives.

Apart from digital infrastructure, other components necessary for e-commerce are still lacking. For one, settling cross-border e-commerce transactions is still challenging. Absent Caribbean-based payments processor services capable of aggregating payments from websites to a payment gateway, the region remains dependent on foreign-owned third-party payment systems like PayPal and Stripe (Beecher, Bissessar and Julien 2018). From the survey conducted by

⁵⁸ This measure excludes Haiti.

⁵⁹ This measure excludes Haiti.

⁶⁰ Note that this value excludes Dominica, Grenada and Montserrat for which no data was available.

⁶¹ Note that this value excludes Dominica, Grenada and Montserrat for which no data was available.

⁶² The year 2015 was used since beyond this period data on the trade of ICT goods for several Member States was unavailable.

⁶³ Based on information from an officer at the Ministry of Foreign Affairs and Foreign Trade of the Government of Barbados.

Beecher, Bissessar and Julien (2018), more than half of the MSMEs interviewed found it difficult to readily access online payment systems in the Caribbean, instead opting for solutions like PayPal and Stripe that were cheaper⁶⁴ and easier to integrate as check out options on their websites. Securing online merchant accounts through local financial institutions has also been difficult for Caribbean MSMEs due to onerous and expensive requirements (Beecher, Bissessar and Julien 2018). These challenges favour the use of 'foreign-owned' solutions like PayPal and Stripe, but also highlight deficiencies in the region's banking framework. However, some advancements are being made. More locally developed digital payment services and mobile wallets are emerging - on national fronts in Barbados (mMoney), the Bahamas (*OMNI, SunCash, Cash n Go, the Sand Dollar*⁶⁵), Guyana (*GTT*), Jamaica (*MPay, MYCash* and *Quisk*), St. Kitts and Nevis (*CaribePay, JAD Cash*), Trinidad and Tobago (*WiPay*) (Beecher, Bissessar and Julien 2018); and - on the regional front with the Eastern Caribbean Central Bank Digital EC Currency Pilot launched in March 2019 now being rolled out (ECCB 2020).

A related issue is the region's legislative framework for regulating online transactions and the wider digital economy (SRC 2020). Although most Member States have some form of electronic transactions legislation, for instance Electronic Transaction Acts, the dated creation of these laws questions their adequacy. Legislation in important areas such as protection for online consumers, privacy and data protection and cybercrime, are also notably lacking across several Member States (see figure 30). On the regional front, there appears to be no regional legislation in many of these areas apart from consumer protection and IP protection. Chapter 8: Part 2 of the RTC covers consumer protection with potential coverage for online consumers if the obligations of the RTC are to be considered technology neutral, and a CARICOM Model Consumer Protection Bill which was approved by the Legal Affairs Committee in September 2016 also exists (CSME 2016). In the realm of IP, Article 66 of the RTC outlines provisions for the protection of IP rights across Member States. Again, the adequacy of these articles in regulating e-commerce remains questionable, not only due to their date of creation but also their narrow approach to these respective areas.

In the area of trade facilitation and customs procedures, more Member States are modernizing their Customs Bills in order to leverage new technology solutions and streamline border clearance procedures. The region's thrust towards improved customs procedures can also be attributed to the WTO's TFA, with Member States adopting a regional approach towards its implementation. Already Member States have been leveraging donor assistance to develop and implement electronic single windows. For example⁶⁶, Trinidad and Tobago's '*TTBizLink*' which was developed in 2010, is considered to be the first Single Electronic Window in the Caribbean and is now undergoing an expansion and enhancement phase financed by an IDB Loan (Ministry of Trade and Industry 2015). In Antigua and Barbuda, the IMO along with the Norwegian Ministry of Trade, Industries and Fisheries and Norwegian Coastal Administration established a Maritime Single Window that was formally handed over in 2019 (ABHCUK 2019 and IMO 2019). In 2019 the Bahamas launched '*Click2Clear*', formerly the Bahamas Electronic Single Window, which is now capable of expediting several customs procedures (The Bahamas Customs Department 2020). According to the Jamaica Customs

⁶⁴ Beecher, Bissessar and Julien (2018) provided insights into the costing structure. For PayPal, there is a fee per transaction of 2.9% (or 5.9% if setting up as a Caribbean based customer) + US\$0.30 compared to fees associated with commercial bank e-commerce service offerings such as First Citizens Bank in Trinidad and Tobago which had a merchant discount rate that averaged 3% + a monthly fee of US\$100 and a transaction fee of US\$0.50. Additionally, for MSMEs the cost of integrating the bank's payment gateway into their website is also burdensome ranging from US\$ 500 to US\$10,000 across Trinidad and Tobago, St. Lucia and the Bahamas (Beecher, Bissessar and Julien 2018).

⁶⁵ The Sand Dollar is completing its pilot phase and is to be formally launched in October.

⁶⁶ Note that this is not an exhaustive list and other Member States also have Electronic Single Window initiatives.

Agency, Jamaica is on track to roll out its Electronic Single Window system for trade in 2021 (Hyman 2019) and the Jamaica Trade Information Portal is already online (<https://jamaicatradeportal.gov.jm/>).

Figure 30: State of Relevant Legislative Framework Across CARICOM

	<i>Electronic Transactions</i>	<i>Consumer Protection</i>	<i>Privacy & Data Protection</i>	<i>Cybercrime</i>	<i>Intellectual Property Protection</i>
Antigua & Barbuda	Legislation	Legislation	Legislation	Legislation	Legislation
Bahamas	Legislation	Legislation	Legislation	Legislation	Legislation
Barbados	Legislation	Legislation	Legislation	Legislation	Legislation
Belize	Legislation	Legislation	No legislation	Legislation	Legislation
Dominica	Legislation	No legislation	Draft/Partial legislation	No legislation	Legislation
Grenada	Legislation	Draft/Partial legislation	No legislation	Legislation	Legislation
Guyana	Draft/Partial legislation	Legislation	No legislation	No legislation	Legislation
Haiti	Legislation	Draft/Partial legislation	No legislation	No legislation	Legislation
Jamaica	Legislation	Legislation	Legislation	Legislation	Legislation
St. Kitts & Nevis	Legislation	Draft/Partial legislation	Legislation	Legislation	Legislation
St. Lucia	Legislation	Legislation	Legislation	Legislation	Legislation
St. Vincent & the Grenadines	Legislation	Draft/Partial legislation	Legislation	Legislation	Legislation
Suriname	Draft/Partial legislation	Draft/Partial legislation	Legislation	No legislation	Legislation
Trinidad & Tobago	Legislation	Legislation	Legislation	Legislation	Legislation

Legislation
No legislation
Draft/Partial legislation

Source: Adapted from CDB 2019

The piecemeal approach towards e-commerce in the region is not surprising given that there is no defined CARICOM-wide e-commerce agenda although Article 239 (a) of the RTC urges Member States to elaborate a protocol relating to e-commerce. Beyond launching an e-commerce study, little has been done on the regional front to advance the e-commerce agenda. Instead, the observed approach appears to be largely disjointed with regional ICT policy initiatives being launched occasionally (SRC 2020). Among the most noteworthy and recent of these include the Vision and Roadmap for a CARICOM Single ICT Space approved in 2017, which seeks to build the region's digital economy by regionally harmonising ICT policy, legal and regulatory regimes; creating a robust national and regional broadband infrastructure; developing common frameworks for governments, ICT service providers and consumers; and ensuring effective, secure technology and management systems (CTU Secretariat 2017). Apart from the integrated work plan on the Single ICT Space, progress reports are not readily available. However, based on the proposed timelines in the integrated work programme, several objectives of the Single ICT Space should have already been completed (CARICOM 2017).

The region has also benefited from the HIPCAR Project⁶⁷ which provided a range of model policy guidelines and legislative texts in areas like e-commerce transactions, e-commerce evidence, access to public information, privacy and data protection, cybercrimes and cybersecurity, interception of communications, universal service and access framework, licensing in a convergent environment and interconnection including cost modelling (ITU 2020). Other relevant policies and initiatives with regional scope include the Broadband Infrastructure Inventory and Public Awareness in the Caribbean, the Caribbean Regional Communications Infrastructure Programme, the Regional ICT for Development Strategy and others (SRC 2020). On the national front, e-commerce appears to be primarily addressed under broad ICT policies and strategies, with only Trinidad and Tobago having a National E-commerce Strategy 2017-2021 and the Bahamas releasing a Policy Statement on E-Commerce and the Bahamian Digital Economy in 2003 (SRC 2020).

Only the CARIFORUM-EU EPA⁶⁸ has e-commerce provisions. Chapter 6 of the CARIFORUM-EU EPA recognizes the potential that e-commerce holds for trade expansion (Article 119:1); commits both parties to a permanent imposition of the moratorium on customs duties on electronic transactions (Article 119:3); provides for regulatory dialogue on e-commerce related issues⁶⁹ (Article 120:1); and cooperation primarily through the exchange of information (Article 120:2). However, when compared to other regional trade agreements with more robust standalone e-commerce chapters, the e-commerce provisions contained within the CARIFORUM-EU EPA are generally of a softer nature with best endeavour commitments (Wu 2017).

At the multilateral level, plurilateral negotiations on the trade related aspects of e-commerce have begun. No CARICOM Member State has yet signed on to these negotiations, despite the role they can play in developing and advancing the region's e-commerce agenda. Among the issues being discussed, which hold importance for CARICOM Member States include: digital trade facilitation and logistics (customs procedures, paperless trading, de minimis, etc.); e-authentication; electronic contracts; electronic transactions frameworks – all of which have direct link to the WTO's TFA; cross-border data transfers (open government data), data protection and privacy; access to the Internet; telecommunications; digital infrastructure (digital divide, digital skills); consumer and business trust; customs duties on electronic transmissions; non-discriminatory treatment of digital products; non-intellectual property liability for platforms; along with capacity building, technical assistance and special and differential treatment measures.

The Impact of COVID-19 on E-commerce in the Caribbean

COVID-19 is recreating a virtual reality, where board meetings, classrooms, church services, and businesses are all going online in response to social and physical distancing measures. This transition represents a win for the digital economy, and more specifically for the advancement of e-commerce in the region. Some predict that e-commerce, or

⁶⁷ This project was developed by the ITU in collaboration with the CARICOM Secretariat and the Caribbean Telecommunication Union, following requests for a unified approach towards ICT by Member States and ICT stakeholders.

⁶⁸ Following BREXIT, a CARIFORUM-UK EPA was signed which mirrors the CARIFORUM-EU EPA and therefore contains the same e-commerce provisions.

⁶⁹ Among such issues include “the recognition of certificates of electronic signatures issued to the public and the facilitation of cross-border certification services; the liability of intermediary service providers with respect to the transmission, or storage of information; the treatment of unsolicited electronic commercial communications; the protection of consumers in the ambit of electronic commerce; and any other issue relevant for the development of e-commerce.” – taken from Article 120:1 of the CARIFORUM-EU EPA.

more specifically an increase in Internet use, can lead to an increase in the number of products traded, with services being the most amenable to transformation due to the potential of e-commerce to convert previously non-tradeable services into tradeable ones (Terzi 2011 and Tan 2015).

While no official measures of the region's uptake in e-commerce during the pandemic appear publicly available, some notable trends are observable. For instance, more businesses including 'mom and pop' retailers are leveraging technological solutions, resorting to the use of social media platforms, websites and other online forums to both advertise and sell their products. For example, Eddies Supermarket, a MSME that has been established for several years in Barbados, launched its own e-commerce platform as a means of adapting to and economically surviving the COVID-19 pandemic (BCSI 2020).

Significant uptake in the provision of services via the Internet was also observed across the region, with academic classes at primary, secondary and tertiary levels, medical consultations, fitness sessions, legal consultancies and other professional business services now being fully offered online. In fact, the region's main tertiary and research institution, The UWI, has been forced to consider digital teaching methods and electronic assessments (UWI 2020) – a move which could potentially reposition the institution as a major provider of distance learning, another opportunity through which the region's trade in services can be expanded.

Noteworthy also has been the responses by the region's creative economy. Occurring at a time when major summer festivals and carnivals would otherwise have taken place across the region, the COVID-19 pandemic has forced policymakers in the creative industry to rethink their approach. Thus far, Barbados has opted to create a virtual 2020 Crop Over Experience but it is unclear whether any aspect of this initiative was monetized. During the lockdown period, the Beenie Man and Bounty Killer *Versuz*⁷⁰ battle on Instagram Live attracted more than 480,000 people (Rodgers 2020). After the battle both artistes earned their best streaming days of 2020 as nostalgic fans revisited old album releases (Billboard 2020). During the lockdown period Netflix subscriptions increased globally, with 16 million people creating accounts in the first three months of the year, almost double the new sign-up rates recorded towards the end of 2019 (BBC News 2020). The ability of Caribbean film makers to benefit from this surge would depend not only on their content being available on Netflix but also being consistently promoted to attract viewers.

However, absent data it is difficult to ascertain whether the increase in e-commerce adoption by businesses in the region during the pandemic has generated more domestic (Caribbean) e-commerce transactions, or if the uptick is attributable to increasing online purchases outside the region (international e-commerce). Some high-touch services (hair salons, spas, athletic training, etc.) have also shown that not all traditional business models can be adapted to operate digitally, making it difficult to monetise certain traditional businesses in the digital realm.

With pressure from the pandemic, some aspects of the Caribbean's e-commerce framework are developing. For example, more businesses are creating websites and e-commerce platforms, for safety precautions some firms are prioritising cashless payment systems, and more delivery and logistics operations are emerging in response to stay-

⁷⁰ Versuz is an international virtual music battle series held on Instagram Live by musicians Swizz Beatz and Timbaland.

at-home orders. However, many of the region's e-commerce related challenges have still not been substantially addressed. For example, in the area of cybersecurity, hackers and other mischievous parties are capitalizing on the global increase in online presence. Yet, some Member States are still without cybercrime legislation and the existing legislation of others is dated. Government portals across the region lack appropriate security measures, and the outmoded IT systems and outdated software used by these facilities increase the region's vulnerability to cyberattacks (Jessop 2015). Few Member States have a CIRT. Among them is Jamaica, which, in 2015, established a National Cyber Security Strategy and Cyber Incident Response Team (Government of Jamaica 2018), and Barbados, which in 2013 signed a CIRT agreement with ITU to establish a National Computer Incidents Response Team (ITU 2016). In 2016, CARICOM IMPACS developed the CARICOM CCSCAP which identifies building sustainable capacity, technical standards and infrastructure as a priority area for addressing regional cybersecurity (IMPACS 2016).

Another underlying challenge is the region's regulation of cross-border data flows. Many Member States are still without data protection and privacy legislation (see figure 27). If trust is to be developed in digital systems, consumers must be able to rely on protective legislation. As previously discussed, deficiencies in the region's banking sector have fuelled the use of foreign-owned payment platforms like PayPal and Stripe. These are just a few of the existing challenges. If unaddressed, such issues tremendously reduce consumer and business trust in the digital economy and increase risk, which in turn increases costs and reduces firm competitiveness.

Apart from private sector responses, the region's governments and partner agencies have also been involved in the push towards a digital transformation. According to Jennifer Britton, Deputy Programme Manager for the ICT4D Project at the CARICOM Secretariat, "this is the biggest opportunity for governments to emerge as innovators [...] honing and developing some of the new online services [...] while re-skilling staff" (Nurse 2020). In June 2020 – at the height of the pandemic - CARICOM's ICT Ministers met for a special COTED meeting which focused on crafting an effective policy response for CARICOM's digital transformation post-COVID-19 (CARICOM 2020). Since then, a short-term digital transformation plan aligned with the CARICOM Single ICT space and focused on e-commerce and e-payments, indigenous application development, government ecosystems, public sector data and other broad areas, has been drafted and is expected to be ready by the end of July (CARICOM 2020). To date, however, there have been no updates on its release. The CTU has also highlighted the unique opportunity that COVID-19 presents for digital transformation through regional collaboration, blaming the unfulfilled outcomes of the CARICOM Single ICT Space in part on inadequate human and financial resources, which stemmed from duplicated efforts in national agendas that lacked regional cooperation and collaboration (CTU 2020).

Thus far, governments across the region have begun to fast-track their digital transformation plans. For example, the World Bank recently approved financing to the tune of US\$ 94 million for the Regional Caribbean Digital Transformation Project⁷¹ of which Dominica (US\$ 28 million), Grenada (US\$ 8 million), St. Lucia (US\$ 20 million), St.

⁷¹ This is the first World Bank-financed project directly aimed at developing the digital economy in the Caribbean. According to the World Bank, the project "aims to increase Internet penetration and access to digital financial services and public services. It will support reforms and regional harmonization of the legal and regulatory environment to promote investment in digital infrastructure. It will support activities to make telecommunications and financial services more affordable, while addressing risks related to cybersecurity and data protection. The project will also support public sector modernisation and delivery of citizen-centric, digital public services. Support will be provided to individuals and businesses for skills and entrepreneurship development" (World Bank 2020).

Vincent and the Grenadines (US\$ 30 million) and the Organisation of Eastern Caribbean States (OECS) Commission (US\$ 8 million) are beneficiaries (World Bank 2020). According to Tahseen Sayed, World Bank Country Director for the Caribbean, “wider and more rapid adoption of digital technologies can support countries during the COVID-19 recovery phase and help build resilience, create jobs and boost future growth” (World Bank 2020).

At national levels, this push towards digital transformation can also be observed. For instance, in the Bahamas, the government has outlined a 50% reduction target for the country’s cash and cheque utilization and announced its intention to fully integrate the Sand Dollar and create more transparent regulations for digital transactions (McKenzie 2020). In Barbados there is now a new online process for the Police Certificate of Character (BGIS 2020). In Jamaica the Development Bank of Jamaica Voucher for Technical Assistance Programme is expanding to incorporate digital transformation aid for MSMEs (Jamaica Observer 2020a). In St. Kitts and Nevis, the government unrolled its Digital Transformation Strategy 2020-2022 focused on strengthening broadband infrastructure, cybersecurity and the digital legal framework, cybersecurity and the digital legal framework (SKNIS 2020). Intergovernmental agencies like the UNDP for Barbados and the Eastern Caribbean also rolled out a COVID-19 recovery programme, which focuses on digitizing MSME operations. For example, an online platform, ‘*Farmfinder*’, which allows local fisherfolk and farmers to market, sell and arrange delivery of their products at no additional costs has been developed as part of the UNDP’s COVID-19 recovery programme (UNDP 2020).

The overall result from the region’s sudden digital thrust has been an increasing traffic burden on residential networks. In the past few months, the adequacy and affordability of connectivity have become spotlight issues, with some even complaining about the deterioration in the quality of services and others being comforted by the fact that it could be worse (Marius 2020b). Partnerships between various Ministries of Education and Telecommunications providers have been formed in order to ensure affordable connectivity options for students. Examples of this can be seen in Jamaica where Flow and Digicel, in collaboration with the Ministry of Education, Youth and Information launched a suite of subsidised mobile plans and fixed offers as well as zero-rated data access to frequently used learning platforms and websites, in order to allow for continued learning during the pandemic (JIS 2020 and Jamaica Observer 2020b). Similar solutions for affordable student access, have also emerged in other Member States. Donations of ICT devices such as personal computers and tablets to students have also been facilitated across several Member States in attempts to bridge the existing digital divide and ensure that education remains inclusive.

SRC Policy Recommendations

Recognizing the importance of e-commerce and digital technologies in the region’s post-COVID-19 economic recovery, SRC proposes the following recommendations with due consideration for MSMEs as well (see also Chapter 5).

1. Provide ubiquitous and affordable connectivity to the internet & telecommunications services

Harnessing the full potential of e-commerce requires, at minimum, reliable access to the Internet and other telecommunications services. However, expensive rates, connectivity challenges, and inadequate access to

suitable devices, impact the degree to which Caribbean consumers can access Internet and telecommunications services.

Most Member States have liberalised their telecommunications sectors since the 2000s and are signatories to the WTO's Telecommunications Reference Paper⁷², but prices especially for fixed-line broadband Internet services are still relatively high. However, when examining the telecommunications sector across Member States, the market is often concentrated among a few players so that countries like Barbados rely on a duopoly structure. Therefore, fostering competition in this sector must still be prioritized. Some regulatory factors relevant to competition in the telecommunications sector that ought to be considered include: "the extent to which licence obligations are transparent or come with additional burdens such as administration, reporting and fees; whether there are excessive regulatory fees and taxation, which can increase operating costs and discourage innovation and further investment; whether operators are obliged to contribute to Universal Service Funds⁷³ and can access them to fund investment in cases of market failure; the adequacy of competition policy to protect new entrants against the abuse of market power by dominant players; the ability of the regulator to implement tariff regulation in developing regions or in the provision of services where there is ineffective competition"; among other factors (Mustafa Al Mahdi 2016). A4AI (2019) notes that ICT regulators can support market competition through fair market rules, evidence-based policies, and dynamic competition policy.

Moreover, in order to bridge existing digital divides, market-based incentives can be used to encourage private investments in cases where social returns exceed private returns (for example establishing telecommunications infrastructure in rural areas). Mobile data plans have also emerged as cheaper alternatives for Internet connectivity and the creation of tailored packages, as seen during COVID-19 (for example education data plans for students) should also be explored for disadvantaged groups. Another consideration is the expansion of zero-rating services (i.e. allowing individuals free access to certain applications and websites – as telecoms providers in the region are currently doing in the context of online learning). There is also a need to review the tax structure on Internet connectivity; in Barbados, for example, VAT is paid on both fixed-line broadband service and mobile data with the latter being significantly higher (22% compared to the standard VAT rate of 17.5%) (Barbados Revenue Authority 2020). Policies linked to poverty eradication also play a significant role in rendering these services more affordable. By financially empowering impoverished groups, such policies can be instrumental in bridging digital divides. Certainly, Internet access in today's world can be considered a necessity, to the extent that the provision of universal and affordable access to the Internet has been enshrined in the UN's SDGs under SDG 9.C, highlighting its developmental importance.

⁷² The WTO's Telecommunications Reference Paper is "a blueprint for sector reform that largely reflects best practice in telecoms regulation. The regulatory principles outlined in the Reference Paper are legally binding for those WTO governments which have committed to it by appending the document, in whole or in part, to their schedules of commitments." (WTO 2020b)

⁷³ "The underlying concept of Universal Service is to ensure that telecommunications services are accessible to the widest number of people (and communities) at affordable prices. However, increasingly over the last two decades, telecommunications administrations and national regulatory authorities (NRAs) have been turning to the concept of a specific universal service funding mechanism designed as an incentive to encourage operators to assist these administrations in achieving their universal service goals. This funding mechanism is referred to as a Universal Service Fund" (ITU 2013).

2. Develop a digital society built on digital skills & entrepreneurship

The foundations of a digital economy rests on the ability of citizens to integrate ICT into various aspects of life, and this requires a digitally skilled population. Based on the digital skills among the active population in Member States like Trinidad and Tobago (score:4.4/7 | rank:54/140), Jamaica (score:3.9/7 | rank:79/140) and Haiti (score:2.8/7 | rank:2.8/7)⁷⁴, significant improvements need to be made. In the 21st century digital literacy is as important as traditional literacy⁷⁵, and in order to reap the benefits of e-commerce, business owners must be able to navigate these technologies. A major challenge for some Caribbean MSMEs is the lack the expertise necessary for integrating e-commerce into their operations.

A life-long learning approach towards the development of digital skills needs to be integrated into the education system. At the same time, curricula at all levels (primary, secondary and tertiary) need to be revamped to fit the needs of the 21st century, recognising that at higher levels (secondary and tertiary) collaboration with the business community will be important for ascertaining the skills needed for the future of work, especially post COVID-19. Apart from developing a digitally literate population, the education system must also foster local innovation and entrepreneurship in this field. Commendable are initiatives like, the Girls in ICT day celebrated by The UWI, the Caribbean Girls Hackathon, and the tripartite agreement between the UWI St. Augustine Campus, Huawei and bmobile to build a world class innovation lab. Offering scholarships for the pursuit of STEM studies and research not only redirects academic efforts towards this field but can also encourage the development of indigenous digital creations. MOUs with global leading technological institutions should also be signed and leveraged. Following COVID-19's disruption, research on whether (and how) traditional business models can work in the digital space must also be prioritised. Apart from formal educational institutions, community centres can be used to equip older segments of the population with basic digital skills; and workshops can be created to aid MSMEs who are interested in developing an online presence but lack the knowhow and necessary finances.

It is also necessary for Member States to create platforms for innovation and entrepreneurship to thrive. For instance, where available the Government and public sector should utilize locally developed digital applications, software and platforms which meet acceptable standards. In doing this not only is a demand for local solutions created but public trust in local alternatives can be simultaneously developed. Regulatory sandboxes are also beneficial in encouraging such innovation – as seen in Barbados where the Central Bank and Financial Services Commission developed a regulatory sandbox that allows innovators of financial technologies to live test their products and service. Competitions are also instrumental tools for fostering an innovative appetite among the population – for example, local app developers may be motivated to design a hurricane ready app against the backdrop of a competition launched by CDEMA⁷⁶. However, local developers will need long-term support to transform their initial concept into marketable output. This framework is import for ensuring that fostered innovation creates wealth and adds value to the Caribbean.

⁷⁴ These rankings and scores were obtained from the World Economic Forum's 2018 Global Competitiveness Report which featured the three listed CARICOM Member States (World Economic Forum 2018).

⁷⁵ The ability to read, write and use basic numeracy.

⁷⁶ Note that this is just an example for illustrative purposes.

3. Operationalize the e-commerce undertaking (Article 239(a) of the RTC)

Although the RTC provides for Member States to elaborate a protocol relating to e-commerce, little has been done on this front. There is word that a study has been conducted but little is known regarding its completion and any associated results. Therefore, it is recommended that a regional e-readiness study be conducted in order to pinpoint sources of the regional digital divide and identify any missing gaps. Such information will be useful for channelling targeted investment and efficient resource allocation. A regional e-commerce policy focused on developing digital skills and fostering the creation of homegrown technological solutions in areas like digital payments, online applications, websites, etc. will also be important. This should not be developed in isolation from other existing policies and initiatives but should rather complement them – for example, how can the CARICOM Single ICT Space be mobilized to advance the region's e-commerce agenda? Recognizing these types of linkages can prevent duplication of scarce resources (both financial and human).

Consideration should also be given towards measuring the region's e-commerce sector, since absent data decision-making and policy formulation become increasingly difficult. Methodologies for capturing e-commerce data, which remains a global issue, are currently being developed by organisations such as the OECD and UNCTAD. The region can consider partnering with such organisations from now in order to develop a methodological framework capable of capturing relevant e-commerce statistics, or alternatively use these existing methodological frameworks as building blocks to create a suitable framework for the region.

4. Strengthening & harmonising the ICT legislative framework across the region

Thus far, the regulation of e-commerce and the digital economy has been done through a piece meal approach and at the national level. However, due to the dated nature of many of these ICT laws and the thrust towards creating a digital layer of the CSME, there is a need for such legislation to be updated and harmonized. Fortunately, the HIPCAR Project which provided a range of model policy guidelines and legislative texts in areas like e-commerce transactions, e-commerce evidence, access to public information, privacy and data protection, cybercrimes and cybersecurity, interception of communications, universal service and access framework, licensing in a convergent environment and interconnection including cost modelling (ITU 2020), can be used as a guide in this harmonization process.

Priority for updated legislation should be given to areas like: cybersecurity - recognising that both technical protection and legal sanctions are needed to effectively deter cybercrimes and attacks; data protection and privacy – considering data as the fuel of the digital economy how data is collected, stored and shared becomes equally important especially in the context of cross-border e-commerce; intellectual property rights – if innovation is to be fostered, then creative works need to be adequately protected; and consumer protection – this remains an important component for building trust absent physical interactions. Where possible such legislation should be enacted at the regional level. A regional approach would also prove useful especially in cases where Member States have no legislation and where legislation is dated.

5. Participating in relevant WTO agreements and negotiations

Although CARICOM Member States are net importers of ICT technologies, they have still not joined the WTO's ITA which eliminates duties on such products in order to ensure universal access. Joining the ITA will create binding commitments for the elimination of customs duties on IT products effectively making them cheaper, and while in some Member States under national education and ICT initiatives such duties are prohibited, signing onto this multilateral agreement can provide a basis for policy anchoring⁷⁷.

In addition, by formally joining the ongoing plurilateral negotiations on trade-related aspects of e-commerce, Member States can contribute to the shaping of rules in a way that benefits small island developing states. For example, discussion issues such as digital payment solutions, cross-border data transfers, cybersecurity and capacity building measures, among others, are all areas where CARICOM Member States can benefit from information sharing and develop proposals voicing their concerns. Indeed, there is value in 'having a seat at the table' and by refraining from participating in these negotiations the region will not have a formal say in how trade-related aspects of e-commerce should be regulated at the multilateral level.

6. Leveraging trade agreements

The CARIFORUM-EU EPA is the region's only trade agreement with an e-commerce chapter, but it is still not robust. Going forward the region should seek to address trade-related aspects of e-commerce in future trade agreements, with deliberate inclusion of capacity building and technical assistance measures in the context of trade agreements with developed countries partners. These measures should also seek to develop where possible the region's productive capacity of ICT goods.

Recognizing the linkage between e-commerce and other aspects like trade facilitation, the region should also consider prioritizing certain commitments made under the WTO's TFA that could help with e-commerce. Some of these may include: Article 1.2 (Information available through the Internet), Article 7.2 (Electronic Payment) and Article 10.4 (Single Window), among others. For most Member States these provisions have been listed as Category C commitments meaning that they require some form of technical assistance/capacity building for their implementation. Therefore, channelling investments in these areas would be necessary. Other provisions under the TFA such as establishing de minimis thresholds (Article 7:8 Expedited Shipments) must also be considered, especially with the influx of low value shipments resulting from the increase uptake in e-commerce. Additionally, against the COVID-19 backdrop, measures related to expedited shipments would also be instrumental in preventing bottlenecks.

⁷⁷ In other words, such commitments will remain legal binding regardless of changes in Government administration.

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CHAPTER 5: PROMOTION OF MSME DEVELOPMENT & EXPORT ACTIVITY

Pre-COVID-19 Caribbean MSME Export Activity

As outlined in Chapter 1 of this Document, Caribbean countries are primarily import-dependent economies that are reliant on a narrow range of export sectors and trading partners, which increases their vulnerability to external and internal shocks. The region's overdependence on tourism, for example, accounting for 50 to 90% of GDP and employment depending on the country, has exacerbated COVID-19's economic impact in the region (IMF 2020). Encouraging greater export activity by domestic firms, especially those in new, high-value added, growth sectors, will therefore be critical to assisting Caribbean countries in their economic rebuilding and transformation post-COVID-19 by stimulating economic activity and job creation.

Prior to the COVID-19 outbreak, MSMEs, both regionally and internationally, faced challenges which constrained their competitiveness and made them more vulnerable to shocks than larger firms. In this piece, the terms MSME and SME will be used interchangeably. Unsurprisingly, both regionally and internationally, MSMEs have been especially hard hit by the COVID-19 pandemic. For instance, the ITC's COVID-19 Business Impact Survey which surveyed 4,467 companies in 132 countries found that “nearly two-thirds of micro and small firms reported that the crisis strongly affected their business operations, compared with about 40% of large companies”, while one fifth of the SMEs surveyed indicated they are at risk of shutting down permanently within three months (ITC 2020). However, not all firms have been impacted equally by the COVID-19 pandemic, and some have been more successful than others so far at navigating this uncertain environment. In March 2016, CARICOM published a final draft of its “Regional MSME Policy” recommending the adoption of a CARICOM-wide definition of the MSME sector (CARICOM 2016).

Globally, there is no accepted definition of an ‘MSME’; the indicators used in definitional criteria differ both nationally and internationally and may even sometimes vary within a single country.⁷⁸ The International Finance Corporation (IFC), a Member of the World Bank Group, defines MSMEs based on three indicators: number of employees, annual sales, and total assets (IFC 2013). For example, IFC defines a ‘Microenterprise’ as having less than 10 employees, a ‘Small Enterprise’ as having between 10-50 employees and a ‘Medium-Size Enterprise’ as having between 50-300 employees (IFC 2013). In its Commission Recommendation of 6 May 2003, the EU Commission defines ‘SME’ as “having less than 250 persons employed. They should also have an annual turnover of up to EUR 50 million, or a balance sheet total of no more than EUR 43 million” (EUROSTAT 2020).

In a similar vein, there is no CARICOM-wide definition of the term ‘MSME’, even though there have been efforts in the past to standardize them. (Coke-Hamilton 2013). Some CARICOM countries distinguish between a micro and a small enterprise, while others subsume microenterprises under their SME umbrella definition; yet others refer to micro and small enterprises as MSEs (CDB 2016). The Caribbean Development Bank (CDB) notes that the three (3)

⁷⁸ Common indicators include number of employees, annual sales, registered capital, total assets, total credit facilities and qualitative indicators (CDB 2016, 27).

measurements most consistently used in selecting MSME beneficiaries in the Caribbean region are assets, employment and turnover (CDB 2016).

CARICOM countries not only differ on the definitional criteria they use, but also the nomenclature employed for describing the sector. While Jamaica does not have a dedicated MSME or ‘small business’ Act, a micro enterprise is defined nationally as an enterprise with less than 5 employees and an annual sales or revenue of less than J\$15 million; a small enterprise has >J\$15 million- <J\$75 million and 6-20 employees and a medium enterprise of J\$75 million to J\$425 million and 21-50 employees (Ministry of Industry, Commerce, Agriculture and Fisheries, 2020). In Trinidad & Tobago, the Central Statistical Office defines a ‘small enterprise’ as “having 6-25 employees, an asset base of TT\$250,000 – <1.5 Million (excluding real estate) and sales of TT\$250,000 to <\$5 Million”. A ‘medium enterprise’ has a staff of 26-50 employees, an asset base of TT\$1.5 Million – <\$5 Million (excluding real estate) and sales of TT\$5 Million to <\$10 Million (Bar Business TT 2020). In contrast, Barbados generally prefers the term ‘small business’.⁷⁹

In reality, no matter how defined domestically, even the largest CARICOM firms may be considered SMEs in an international context. However, the lack of a commonly agreed definition of ‘MSME’ makes the comparability of data, where available, on the MSME sector across CARICOM Member States difficult, which in turn complicates the measuring, monitoring and making evidence-based policy interventions at a regional level for the development of the sector.

The Caribbean MSME Sector

Regardless of how defined, MSMEs are the backbone of the Caribbean economies. Internationally, MSMEs represent 95% of all companies worldwide and 60% of employment (WTO 2020a). As the CDB (2016) notes, “apart from inferences that can be made from national business registration office data, there is limited access to actual MSME data, besides the data generated via special surveys or selective one-off studies” (CDB 2016) and “overall, enterprise data is not classified in national statistics in terms of business size. Information is usually available on a sector basis” (CDB 2016).

Despite difficulties in precise measurement and regardless of the definition used, the contribution of MSMEs to the Caribbean economy is irrefutable. The CDB estimates that the MSME sector “accounts for the majority of private enterprises in the Caribbean and contributes more than 50% to Gross Domestic Product and employment” (CDB 2016). McClean & Charles (2020) note that “collectively, [SMEs] generate about 40 per cent of the Caribbean subregion’s Gross Domestic Product (GDP)” and “constitute over 95 per cent of companies in the Caribbean subregion” (McClean & Charles 2020).

Another factor which makes determination of the size and economic impact of the MSME sector difficult is that many regional MSMEs operate in the informal sector. Peters (2017) found that as a percentage of GDP, the informal sector in the Caribbean to be “20–30 percent in The Bahamas, 30–40 percent in Barbados, 29–33 percent in Guyana, 35–44 percent in Jamaica, 35–45 percent in Suriname, and 26–33 percent in Trinidad and Tobago” of GDP (Peters 2017).

⁷⁹ Guyana, for example, also uses the term ‘small business’ and has a Small Business Act 2004.

Generally speaking, the sectoral distribution of MSMEs is concentrated, although the make-up differs from country to country. For example, a 2016 report by the Barbados Small Business Centre Development Network found that wholesale and retail trade accounts for 26% of the sectoral distribution of MSMEs in Barbados, followed by professional services which accounted for 24% in Barbados (Barbados Small Business Centre Development Network 2016).

Even before the COVID-19 crisis, governments both globally and regionally have increasingly acknowledged the benefits that promoting MSME exporting activity can have on economic growth, diversification, employment and foreign exchange generation and innovation (WTO 2016). MSMEs have also received increased policy attention internationally in recognition of the vital role they can play in achieving the SDGs through their job and income creation and by extension, the potential to stimulate economic growth, reduce poverty and improve livelihoods (UNDESA 2020).

Regional governments and development organisations have been formally engaged in small business development since 1983 (CDB 2016). However, the CDB (2016) found that despite various government pronouncements on the importance of developing and modernising the MSME sector, at that time “only Belize, Jamaica and Trinidad and Tobago had Cabinet approved MSME policies in place” (CDB 2016). Nonetheless, it further found that “in each of the 8 bank member countries, the government and various international donor agencies have provided some resources for MSME development, with contrasting and varying levels of enthusiasm and support from the established private sector in the countries under review” (CDB 2016).

MSMEs face many barriers to scaling up and exporting, such as access to finance, logistic impediments, bureaucratic and other administrative impediments, and market and business information asymmetries (CDB 2016). Women-owned MSMEs also face significant challenges, particularly in accessing finance. According to Ganuza, Kipnis et. al (2014), “the credit gap for formal women-owned SMEs across all regions is roughly \$2872 billion, which is 30 percent of the total credit gap for SMEs”. They further found that “Latin America and the Caribbean has the largest credit gap, followed by East Asia and the Pacific and Europe and Central Asia” (Ganuza, Kipnis et. al 2014).

As such, many governments, including those in the Caribbean, have crafted export promotion policies and strategies to mitigate some of the barriers MSMEs face when seeking to export. These policies and strategies include provision of export readiness training, provision of market research assistance, subsidized participation in trade exhibitions and shows, and special export guarantee and insurance schemes to ease access to trade finance. These programmes are usually operated by dedicated export development agencies whose mandate includes providing export assistance to domestic firms. However, the extent to which these policies have actually boosted exports is unclear. With regard to women-owned SMEs, regional export promotion agency Caribbean Export’s Women Powered through Export (We-Xport) programme aimed to support Caribbean women in business to start exporting or increase the exports of their goods and services (Caribbean Export 2020a).

Treatment of 'MSMEs' in CARICOM's Trade Agreements

The RTC has the most extensive bespoke provisions on MSMEs of CARICOM's trade agreements and the term 'micro and small economic enterprise' is used in the Treaty. The term 'economic enterprise' is defined in the Treaty at Article 32 paragraph 5(b) as including "any type of organisation for the production of or trade in goods or the provision of services (other than a non-profit organisation) owned or controlled by any person or entity mentioned in subparagraph (a) of this paragraph". Article 53(3) provides that "for the purposes of this Article, micro and small economic enterprises shall be economic enterprises within the meaning of Article 32 that satisfy such other criteria as may be determined by the competent authorities". As such, there is no commonly agreed definition of MSME in the region's legal architecture, which is reflective of Member States' differing definitions of MSME or small business domestically.

Article 53 of the Treaty is dedicated to Micro and Small Enterprise Development. Firstly, Article 53(1), mandates the Community to "adopt appropriate policy measures to encourage the development of competitive micro and small economic enterprises in the Member States". Secondly, at Article 53(2), it mandates the competent CARICOM body "to encourage policy initiatives and the establishment of effective programmes to foster a facilitative legal, economic, and administrative framework in the Member States to enhance micro and small economic enterprise development". Article 53(2) goes on to list a number of policy measures to be adopted, such as developing the capacities of national and regional support agencies for micro and small economic enterprises; promoting access to training and education; access to technical assistance and financial institution, innovation and trade and technology information networks.

Additionally, the establishment of a viable micro and small economic enterprise sector is one of the objectives of the Common Industrial Policy under Article 51(2)(d) of the RTC and Article 53. Under Article 52(1) of the Treaty, the Community is also charged, as part of the Common Industrial Policy, to promote "the development of required institutional, legal, technical, financial, administrative and other support for the establishment or development of micro and small economic enterprises throughout the Community". Despite these provisions, it is unclear whether they have had any impact on MSME development in the region, and more targeted interventions may be required.

The CARIFORUM-EU EPA, provisionally applied since 2008, contains some bespoke provisions on MSMEs. These are largely "best endeavour" in nature and form part of the development cooperation provisions in the agreement. For example, Article 8(1)(iii) lists among the development cooperation priorities "the provision of support measures aimed at promoting private sector and enterprise development, in particular small economic operators, and enhancing the international competitiveness of CARIFORUM firms and diversification of the CARIFORUM economies". Similarly, under Article 113, the parties shall endeavour "to facilitate the participation of small- and medium sized enterprises in the tourism services sector". The CARIFORUM-UK EPA, signed in 2019, rolls over these provisions to the UK-CARIFORUM's post-Brexit trading relationship.⁸⁰ EU treaty practice has subsequently evolved and thus later EU agreements, such as the EU-Japan Agreement, contain an entire SME chapter.

⁸⁰ See for example Article 43.1 of CARIFORUM-EU EPA.

Although not MSME-specific, the CARICOM-Cuba Trade and Economic Cooperation Agreement includes some interesting provisions potentially beneficial to MSMEs, such as parties' agreement to facilitate business (Article 13) and to taking steps to ensuring access to trade financing by their exporters and importers (Article 14). Again, however, while the inclusion of these provisions is commendable, these are largely best endeavours provisions, and absent any monitoring, it is unclear to what extent they have had any measurable impact on facilitating trade between Cuba and CARICOM countries.

The Impact of COVID-19 on MSME Export Activity

Export promotion strategies are even more critical in the COVID-19 context. First, the WTO's latest WTO Goods Trade Barometer has confirmed the disruptive impact of the pandemic on global merchandise trade flows (WTO 2020b). Secondly, according to the OECD, SMEs have been disproportionately impacted by the COVID-19 induced economic slowdown (OECD 2020). There are several ways the COVID-19 pandemic affects the economy, especially SMEs, on both the supply and demand sides (OECD 2020). While the full extent of the pandemic's impact on MSMEs has not yet been quantified, anecdotal evidence suggests cancelled orders, disrupted supply chains and business closures are some of the ways SMEs have been negatively impacted (OECD 2020).

Several factors account for why MSMEs are among the most impacted from COVID-19. They are over-represented in the economic sectors disproportionately affected by COVID-19 demand and supply shocks, and have less resilience and flexibility in dealing with the costs of these shocks (WTO 2020a). According to the OECD, those sectors most affected by the pandemic include "transport manufacturing, construction, wholesale and retail trade, air transport, accommodation and food services, real estate, professional services, and other personal services (e.g. hairdressing)" (OECD 2020). MSMEs also typically have relatively low cash reserves and therefore a small cushion to weather economic shocks (WTO 2020a).

A survey of 83 firms in the services sector conducted by the BCSI from May to June 2020 found that "employers showed a preference for layoffs as opposed to pay cut [sic] during the pandemic" (BCSI 2020). A reported 83% of all which responded confirmed a decline in revenue due to the COVID-19 pandemic, with an average decline in revenue of 62% (BCSI 2020). However, this shows that not all businesses saw revenue declines, at least as of the date of the survey. In addition to layoffs, businesses also implemented work from home policies, online consultations, and developed online payment processes (BCSI 2020). The BCSI stated that this confirmed that Barbadian enterprises have already made the investment in technologies, but these investments are being underutilised in the business (BCSI 2020).

Indeed, COVID-19's impact on regional MSMEs has not been totally a gloomy picture. By virtue of their size, MSMEs tend to be more nimble than larger firms in their operations and could shift production more quickly. For example, some regional MSMEs demonstrated agility approaches as those rum distilleries which shifted to making surgical and rubbing alcohol to meet availability shortages (WIRSPA 2020). Some designers and seamstresses have shifted production to the making of cloth masks (Barbados Today 2020). Additionally, COVID-19 has led to the growth of businesses specialising in providing delivery services and forced businesses to adopt the use of online platforms for

orders and/or delivery. For example, one long-established and popular fast food operator in Barbados has introduced an island-wide delivery service after resisting doing so for years (Loop News Barbados 2020).

Policy Responses by Caribbean Governments

Despite budgetary constraints, Caribbean governments have passed COVID-19 relief and stimulus packages aimed at mitigating the economic impact of COVID-19. Some of these measures include fiscal measures such as tax deferments and reductions; trade measures such as temporary waivers of import duties on certain medical equipment and specific support measures for small businesses and self-employed persons. Although the majority of these measures are not necessarily trade-specific, they aim to help MSMEs keep afloat, including those which are currently exporting or may export in the future.

The most popular direct relief measures for MSMEs have been in the form of special direct cash relief or concessionary loans. For example, under the second phase of its COVID-19 Economic Relief Programme, the Government of Belize has, inter alia, introduced the MSME Support Program to provide direct cash relief to MSMEs which have suffered revenue losses due to COVID-19. It has allocated a soft loan component of BLZ \$5 million to approved SMEs to assist with working capital in preparation for reopening and accelerating production (San Pedro Sun 2020). To qualify, the MSMEs must have been in operation for at least one year prior to March 2020 and impacted by COVID-19 in the following industries: (i) Tourism and Leisure, (ii) Agriculture and Agro-processing, (iii) Fisheries and Aquaculture, (iv) Light Manufacturing, (v) Creative Industry, (vi) Offshore Outsourcing, and (vii) Commercial Free Zones (wage subsidy for employee retention only) (San Pedro Sun 2020).

A more medium-term loan option is provided by Trinidad & Tobago, through First Citizens Bank. The SME Stimulus Loan for eligible SMEs is to be repaid within 5 years, with interest to be paid by the Government. The loan amount is between TT\$75,000 and TT\$325,000 depending on the SME's annual revenues and can be used to finance salaries, operational expenses and purchase of inventory/raw materials. There is a two-year moratorium on principal repayments and the interest is paid not by the borrower but by the Government of Trinidad & Tobago. To be eligible, it must be, inter alia, a registered business, able to show audited financial statements, cash flow projections and bank statements for specified time periods (SME Loan TT 2020).

While many of these government interventions have been aimed at businesses in general or MSMEs in particular, some policy measures have also been sector-specific, such as for the cultural/creative industries. Jamaica, for instance, has offered a stimulus package for individuals and businesses in the cultural/creative sector (Jamaica Gleaner 2020). According to the 200 responses to a survey conducted by the Jamaica Ministry of Culture, Gender, Entertainment and Sport, losses to the sector due to COVID-19 have been J\$200 million (Jamaica Gleaner 2020). Once registered with the Ministry, businesses can access the measures under the relief package. The Ministry also assists individuals in accessing skills certificates so they can work across the CSME and has been hosting virtual townhall meetings to stay connected with stakeholders (Jamaica Gleaner 2020).

A significant issue is that many businesses are in the informal sector and are therefore not eligible for many of the direct assistance packages available. Current eligibility criteria include the requirement for formal registration; the

ability to produce bank statements and audited financial statements for a defined period of time; having been in operation for a certain period and the requirement to retain a certain percentage of staff complement. Many MSMEs, due to cash flow issues, are lax with compliance e.g.: registration, payment of national insurance etc. and may not meet many of the criteria stipulated for assistance. As such, compliance training and sensitisation about the benefits of business registration and accounting record keeping are therefore important.

Most Caribbean countries have put in place relief measures for MSMEs to assist them with cash flow shortages and to retain their payroll, but Jamaica has perhaps been the most pointed in its emphasis on improving their export assistance. Jamaica has clearly identified export promotion as a pivotal plank of their economic recovery plan. Throughout the crisis, Jamaica's export development agency and IPA, JAMPRO, has maintained its very public outreach programme, hosted webinars, participated in virtual trade shows, and assisted Jamaican SMEs in finding alternative export markets, while the Government of Jamaica has initiated an Economic Diplomacy Programme which seeks to increase export and investment opportunities for that country (Jamaica Observer 2020).

Caribbean Export, in collaboration with the EU Delegation in Barbados, has started rolling out several initiatives focusing on MSME development in response to the current COVID-19 pandemic (CARICOM 2020). From the outset, the agency initiated a survey of MSMEs across the region to ascertain the impact of COVID-19 on their operations, although it does not appear the results have been made public. Additionally, the agency's Direct Support Grants Programme was developed with funding provided by the EU under the 11th EDF Regional Private Sector Development Programme and is open to CARIFORUM-based MSMEs. It aims to provide them with direct support in light of the COVID-19 pandemic and allows them a non-reimbursable grant of up to E15,000 for the implementation of approved projects (Caribbean Export 2020b). The agency has also delivered technical support to regional MSMEs via webinars and training programmes online (CARICOM 2020), including its 'Talking Exports' webinar series.

Figure 31 below shows a non-exhaustive list of some of the COVID-19 related measures implemented by Caribbean governments which either directly or indirectly benefit MSMEs.

Figure 31: COVID-19 measures implemented by Caribbean Countries which impact MSMEs

POLICY MEASURE	EXAMPLE(S)
Short To Medium Term Financing	<p>The Bahamas' Business Continuity Loan Program provides loans to MSMEs for settling ongoing operating costs. The loan value ranges from B\$5,000 to B\$300,000 with a payment grace period of four (4) months.</p> <p>Barbados has launched a one-time self-employed business interruption benefit for those self-employed persons whose businesses were interrupted by the COVID-19 pandemic.</p> <p>Jamaica has instituted the COVID-19 Allocation of Resources for Employees (CARE) Programme – a temporary cash transfer programme to individuals and businesses to cushion the economic impact of the COVID-19 pandemic.</p> <p>The Guyana Small Business Bureau, a semi-autonomous agency under the Ministry of Business is offering grants for registered small businesses affected by the COVID-19 pandemic to sustain business operations and retain employees.</p> <p>Trinidad & Tobago, through First Citizens Bank, has introduced an SME Stimulus Loan to be repaid within 5 years, with interest to be paid by the Government. The loan amount is between TT\$75,000 and TT\$325,000 depending on the business' annual revenue.</p>
Business Continuity Programmes	The Bahamas' Access Accelerator, a quasi-Government agency, has established a \$20 million business continuity programme and MSME COVID-19 relief loan.
Temporary Loan Moratoria	In Barbados, commercial banks and credit unions have agreed to provide a six-month moratorium for SMEs in good standing affected by COVID-19.
Employment-Related Measures	In Barbados, employers who are retaining more than two-thirds of their staff complement will be able to defer the employer's contributions to the National Insurance Scheme for the next three months in the first instance.
Tax Reductions	Jamaica has reduced its General Consumption Tax from 16.5% to 15%.
Import Duty Waivers On PPE and Other Medical Equipment	Jamaica waived the Customs Duty on the importation of masks, gloves, hand sanitizers and liquid hand soap for a 90-day period.
Guidance On Meeting Economic Substance Requirements	The regulatory authorities of several Caribbean countries, such as The Bahamas, Barbados, Bermuda, the British Virgin Islands and Cayman Islands, have joined the list of jurisdictions globally which have released guidance to their tax resident companies undertaking relevant activities on meeting their substance requirements in this 'new normal' (Nicholls 2020).
Technical Assistance And Training	<p>The Guyana Small Business Bureau is also offering Training and Development Support to establish and market businesses through online platforms, diversify businesses, and forge supply partnerships.</p> <p>Jamaica's JAMPRO has continued its export promotion programmes, including assisting businesses with finding alternative markets. It has also hosted webinars.</p> <p>Barbados' Trust Loan Fund has been hosting workshops on COVID-19 for businesses.</p>

Source: Author's compilation using multiple sources

SRC Policy Recommendations

There is a need to transition beyond this short-term, temporary support to longer term programmes aimed at creating a facilitative environment for MSME development and internationalisation to ensure transformative development in this 'new normal' phase. Below are some recommendations policymakers could consider:

1. Improve data collection on the MSME sector

Except for business registration and tax data, data collection on the MSME sector in Caribbean countries generally remains poor and ad hoc, which makes estimation of the sector, its engagement in export activity and the gauging the impact of government policies and efforts aimed at supporting MSMEs challenging. Differences in the definition of the MSME sector among Caribbean governments makes data comparability difficult. A common definition of SME would therefore be useful and a good place to start.

Regional statistical departments and agencies charged with MSME development should maintain up-to-date data on the number of MSMEs and disaggregated by size; data on the performance of export assistance and other programmes aimed at assisting MSMEs; and disaggregated export data by business sector, whether the firm is woman-led and the firm's size. More disaggregated data will allow for more targeted and efficient policy-making and monitoring for the sector.

As informality makes obtaining data difficult, governments should consider incentives to encourage those businesses in the informal sector to formalise their operations by, for example, simplifying registration procedures, reducing registration costs and waiting times for receiving registration certificates and allowing for registration online. Moreover, there should be greater and more frequent data sharing between government and private sector associations to help promote evidence-based policy making for the sector.

2. Formulate coherent national and regional policy frameworks for fostering MSME development

Caribbean countries vary in the extent to which they have developed institutions and frameworks for fostering MSME development. Although Caribbean Export has done a commendable job in the programmes and technical assistance it provides for increasing MSMEs' export activity, there is need for a regional MSME Policy. As noted previously, a common definition for 'MSMEs' will facilitate the measuring and monitoring of the MSME sector across CARICOM, allowing for greater evidence-based policy making at the regional level.

3. Evaluate the effectiveness of existing MSME development and export promotion programmes

Most Caribbean governments operated MSME development and export promotion programmes prior to COVID-19. However, it is unclear to what extent these programmes are being utilised or achieving their broad goal of promoting MSME development and boosting export activity. Except for the annual reports of export promotion and other associated agencies, there is limited data on the performance of these programmes in most CARICOM Member States. It is recommended, therefore, that Caribbean governments conduct a comprehensive evaluation of their existing MSME development and export promotion programmes and other enabling policies impacting MSMEs' capacity to

trade, including the extent to which they are being utilised and whether they are having the desired outcomes. Monitoring and evaluation should be built into the design of such programmes.

4. Improve MSME access to finance, including trade finance

Access to finance, including trade finance, is one of the biggest challenges facing MSMEs internationally and in the region. Expanding the range of financial products available to MSMEs and creating an enabling environment for access to credit are important to easing MSMEs' access to finance. An institutionalisation or expansion of export credit guarantee programmes is one recommendation. Reforms of collateral lending, mutual guarantee schemes and the use of reverse factoring are others (McClean & Charles 2020). Even where financing is available, it is frustrated by limited promotion of the availability of these programmes and complicated application procedures and strict requirements. The financial sector, in particular the banking sector and credit unions, must be on board with providing creative solutions for increasing access to financing for MSMEs, especially women-owned MSMEs which have a harder time attracting financing. This Document's section on e-commerce looks at alternative payment systems for greater inclusiveness.

Additionally, the ability to access many of these government programmes is limited to those businesses which are formally registered and able to produce financial documents for a certain period of time. There is, therefore, need for greater sensitisation and technical assistance for businesses on how to formalise their business and the importance of keeping accurate financial records.

5. Improve funding to BSOs assisting SMEs

A number of BSOs are tasked with assisting SMEs. Funding and staffing are in some cases an issue as they are required to do a lot with only a limited budget or staff complement. Understandably, Caribbean governments have budgetary constraints that might be exacerbated due to the high debt to GDP ratios as noted in the introductory section. However, in light of the potential benefits of job creation, growth and exchange generation which portend for the region for increasing MSMEs' export activity, ensuring these organisations are adequately funded and staffed is justifiable expenditure and will be indispensable to allowing them to carry out their mandates effectively.

6. Accelerate implementation of the CSME

Accelerating progress towards the free movement of goods and services, and in particular labour and capital, would greatly facilitate the business environment for the region's MSMEs to grow and thrive. Despite commitments undertaken under the RTC, administrative barriers remain an impediment to businesses seeking to expand across the region. The 'Single Jurisdiction' initiative which would allow companies anywhere to register and operate throughout the CSME without having to undergo a separate process in each Member State would go a long way in promoting regional MSMEs' development. Additionally, allowing for the joint filing of intellectual property (such as trademark and patent) applications, would greatly stimulate greater intra-Caribbean business activity and trade.

7. Engage the diaspora as a business development partner

The diaspora is without doubt one of the Caribbean's richest but most underutilised resources. As McClean & Charles (2020) note "it is also important to explore mechanisms for tapping into the Caribbean diaspora to secure trade financing for SMEs to fill the financing gap not satisfied by commercial banks" (McClean & Charles 2020). They further recommend several avenues available for mobilizing investment capital from the Caribbean diaspora that can be explored e.g. the issuing of diaspora bonds, offering stock exchange facilities for SMEs open to the diaspora, and joint ventures between diaspora investors and SMEs (McClean & Charles 2020).

The diaspora can be a valuable source of not only investment capital, but know-how, expertise and networks. Many persons in the diaspora are established professionals and/or own businesses and have gone on to form chambers of commerce, such as the American-Caribbean Chamber of Commerce and the newly formed CCCE. CARICHAM and local chambers of commerce in individual Caribbean countries should strengthen collaborative links with these diaspora-based chambers to explore not just business opportunities, but leveraging the knowhow, expertise, market information and networks of the diaspora and providing opportunities for training and mentoring of local entrepreneurs by successful diaspora-based Caribbean businessmen and women. The diaspora could also be an important source of venture capital for local start-ups.

On the flip side, however, such overtures to the diaspora will be nullified if governments fail to create an enabling environment by improving the ease of doing business and creating attractive investment instruments. The diaspora will not be motivated to invest in their homelands simply because of their national ties. Governments, which have not yet done so, should commission diaspora mapping exercises to get to know their diasporas, their locations and skill sets to allow for evidence-based formulation of diaspora engagement strategies. Local export promotion agencies should also see the diaspora as a partner for business development through joint training and networking opportunities. An incentives programme could also be put in place to encourage greater investment by the diaspora in the local stock exchanges.

8. Conduct a comprehensive study on firms' rate of utilisation of CARICOM's trade agreements

Despite the market access openings created by the trade agreements CARICOM has negotiated, the region has struggled to translate these market access openings into market penetration and export expansion. In perhaps one of the most comprehensive publicly available studies on CARICOM's trade performance under its existing RTAs, McClean and Khadan (2015) found that "the utilization rates of all of the subregion's existing bilateral FTAs have contracted or remained fairly steady over the period 2007-2012".

The poor utilisation by regional firms of the market access openings under these agreements has also been documented elsewhere. The five-year review of the implementation of the CARIFORUM-EU EPA of 2014 found that "the conversion of market access offered by the EPA into meaningful market presence remains a major challenge for the CARIFORUM private sector" (EU 2014). The report noted "the limited productive capacity and supply side constraints affecting the private sector, as well as the need for trade and investment promotion" (EU 2014). Even under unilateral preferential market access arrangements, such as the CBI, the utilisation by regional firms has been

poor and concentrated. The latest USITC report to Congress on the operation of the CBERA (2019) revealed that the value of US imports under CBERA declined between 2012 and 2016. Although this rebounded to growth in both 2017 and 2018, the increase was driven in the main by two products: methanol from Trinidad and Tobago and apparel from Haiti.

It is, therefore, recommended that the CARICOM Secretariat should commission an empirical study which, similar to that conducted by McClean and Khadan (2015), examines the trends in utilisation of all of CARICOM's trade agreements, with the aim of also determining the major reasons for the region's continued poor export performance. The findings of this study should be made public and used to inform not just policy planning for MSME development and export promotion, but also how trade agreements could be made more facilitative.

9. Consider including facilitative provisions for MSMEs in CARICOM trade agreements

As noted previously, limited provisions on MSMEs are found in some CARICOM trade agreements, with the RTC being the most 'comprehensive' in its inclusion of these provisions. According to Monteiro (2016), trade agreements can benefit SMEs "by reducing or eliminating tariff and non-tariff barriers, simplifying customs procedures, promoting electronic commerce, and enhancing transparency of trade-related domestic regulations" (Monteiro 2016). An increasing number of regional trade agreements contain MSMEs-related provisions but they "differ considerably not only in terms of location in the RTA, but also in terms of language, scope and commitments" (Monteiro 2016). Provisions on SMEs are included in almost 80 per cent of all the RTAs that entered into force between 2011-2015 (Monteiro 2016). Australia's FTAs, for example Chapter 23 of the Peru-Australia FTA, now incorporate a dedicated SME chapter.

Therefore, given the largely "best endeavour" nature of these MSME provisions, CARICOM countries could consider including SME monitoring mechanisms in their trade agreements, such as making an SME impact assessment part of a built-in review mechanism of the Agreement. Other potentially useful provisions are those which go beyond the mere encouragement of information sharing and exchange of best practices between the MSMEs of the treaty partners, and encourage the formalisation of relationships between business representative bodies of the treaty partners. Nonetheless, these provisions are no substitute for building capacity at the regulatory, institutional and firm-level to enhance the capacity of SMEs to take advantage of market access openings.

10. Consider joining the WTO's MSME Joint initiative

In December 2017, some 80 WTO Members at the Ministerial Conference in Buenos Aires, Argentina signed on to a Draft Ministerial Decision on Establishing a Work Programme for MSMEs in the WTO, arguing that "there is a broad and growing consensus that MSMEs require more attention from the multilateral trading system, particularly by the WTO". Eight CARICOM Member States were among those which have signed on so far.⁸¹ In the Statement, WTO Members further recognized that MSMEs' economic importance is not commensurate with their share in international

⁸¹ These are Antigua and Barbuda, Belize, Dominica, Grenada, St. Kitts & Nevis, St. Lucia and St. Vincent and the Grenadines. Guyana also subsequently signed on.

trade and the importance of promoting MSMEs' participation in international trade. As such, the decision was taken to create an Informal Working Group on MSMEs at the WTO and a Work Programme has been subsequently agreed.

The Joint Ministerial Statement outlined several issues for the Working Group to discuss including improved access by SMEs to information, promoting a more predictable regulatory environment for SMEs, reduction of trade costs, promotion of better access to trade finance and consideration of how technical assistance and capacity building initiatives could take account of the trade needs and challenges of MSMEs (WTO 2017). With the aim of addressing obstacles to MSMEs' participation in international trade, the Working Group's proposals include the development of an online platform with tools for MSMEs and policymakers; the operationalisation of the Global Trade Helpdesk, submission of MSME-related information as part of the TPR exercise and voluntarily submitting information on their government measures to support MSMEs for transparency purposes (WTO 2020b).

Given the importance of MSMEs to Caribbean economies, our governments should seriously consider the merits of joining this initiative. Naturally, the potential utility of this initiative will depend on ultimately whether or not a binding agreement or best endeavour cooperative framework is the end goal. However, joining the initiative would give CARICOM countries the opportunity to participate in rule-making on how to craft trade best practices which could help facilitate MSME export activity, to exchange information and 'lock-in' some of the reforms started by our governments. In other words, it would allow Caribbean countries to be 'rule-makers' as opposed to 'rule-takers' in this area. Caribbean governments would also have a chance to define MSMEs, allowing for the uniqueness of our MSMEs to be considered in any definition of MSME and access for special and differential treatment under any eventual WTO agreement on MSMEs.

11. Foster an enabling ICT culture to encourage e-commerce activity

ICTs are affording MSMEs greater access to global markets. Savrul et al (2014) found that "SMEs carry out electronic commerce to invent new ways of creating value-added, new services and new business models, to develop e-commerce strategies geared to expanding their business, often internationally, and increasing their effectiveness and enter into electronic partnerships with large firms which are their customers or suppliers or with industry-wide associations." (Savrul et al 2014). However, they also found that "despite its benefits, there are a number of technical and non-technical limitations associated with internet-based electronic commerce" (Savrul et al 2014), including the unsuitability of their good or service to e-marketing and issues relating to logistics and e-payments. Governments can assist by providing "educational assistance, facilitation of technological infrastructure and legal framework, a climate that will foster the commercial application developers to provide product features that support a broader range of e-commerce technologies to a broader range of business enterprises will contribute to accomplishment of SMEs" (Savrul et al 2014).

Given the growing importance of e-commerce as a tool for promoting firm internationalisation, Caribbean countries should consider joining the WTO's plurilateral negotiations on the trade-related aspects of commerce. This is one of the recommendations under the E-commerce section found in Chapter 4 and is discussed further there.

12. Prioritise Economic Diplomacy as part of foreign missions' mandate

Caribbean countries' diplomatic missions must increase their economic diplomacy efforts. Given their limitations in marketing for themselves missions, can step in and play a bigger role in markets where there is potential or actual business interest by providing market research information for domestic firms seeking to access the market in which the mission is based. Increasing opportunities for developing business ties between the sending State and the host State could also be done by facilitating networking mingles, forging ties with the local chambers of commerce, providing market information, and keeping a directory of local businesses in the host country which businesses in the home country could access for information on potential business partners. A good example is the Canadian Trade Commissioner service which provides these services as part of Canada's missions in foreign countries (Canada Trade Commissioner Service 2020). Fiscal constraints may make it difficult for individual CARICOM Member States to maintain such an elaborate trade commissioner service. As such, there is the option of establishing a Joint CARICOM Trade Commissioner service or limiting the assignment of trade attaches to diplomatic missions in key markets.

13. Accelerate Business Facilitation Reforms

Despite some reforms, particularly by the Government of Jamaica, Caribbean countries still have far to go in improving their ease of doing business. Caribbean Governments could significantly improve the ease of doing business by improving online access to information, increasing the ability of customers to submit applications for government services online, allowing online procedures for procurement applications, expanding the availability of online payment options, and allowing for fast tracking of approvals of certain permits. Leveraging e-commerce solutions will also assist MSMEs (see Chapter 4).

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CHAPTER 6: INVESTMENT FACILITATION FOR DEVELOPMENT

FDI is an important source of external development financing for countries. With global FDI flows forecasted by UNCTAD to contract by 40% in 2020 due to the COVID-19 pandemic, Caribbean countries must step up the measures they use to attract FDI, as well as consider whether the current investment treaty framework supports the goal of attracting sustainable investment. The academic literature tends to bifurcate countries' policy measures to attract FDI into two main categories: investment promotion and investment facilitation. UNCTAD describes the latter as “the set of policies and actions aimed at making it easier for investors to establish or expand their investments as well as to conduct their day-to-day business in host countries” (UNCTAD 2017). Whereas, the term ‘investment promotion’ broadly speaks to the promotion activities undertaken by governments through, for instance, their IPAs to promote their economy as an attractive investment destination (UNCTAD 2018). However, the distinction is not always clear as IPAs often do both. As such, for convenience, this paper subsumes all measures to attract investment under the ‘investment facilitation’ umbrella.

Pre-COVID-19 Caribbean Investment Facilitation

As outlined in Chapter 1 of this Document, Caribbean countries are net FDI-importing countries and attract high numbers of FDI per capita compared to other small island States (ECLAC 2014). They generally have a very open orientation to FDI attraction. A major reason for this is that most Caribbean countries subscribed to a model of development proposed by St. Lucian-born Nobel Prize-winning economist, Sir W. Arthur Lewis, called ‘Industrialisation by Invitation’. This model, which was fleshed out in his magnum opus ‘Industrialisation of the British West Indies’, was based on the development model he observed in the US Commonwealth of Puerto Rico in which foreign investors were attracted to the island by means of various incentives to assist in the industrialization of that territory (Lewis 1950).

Inter alia, Lewis (1950) recommended the creation of an industrial development corporation (or development agency) to fulfil three principal functions, namely, to prospect the market and decide what types of industry to encourage, to advise the government on the types of assistance to offer and to interest manufacturers in coming into the area (Lewis 1950). Today, most Caribbean countries have dedicated IPAs and there is an umbrella IPA, CAIPA, whose secretariat is Caribbean Export.

Across CARICOM Member States, the remit of agencies differ. For instance, there are some whose mandate is dedicated solely to investment promotion, but in others, such as in Belize and Jamaica, they act as both export agencies and IPAs. Other have dedicated sectoral emphases like that Barbados Tourism Investment Inc. is for tourism investment promotion specifically. In the case of St. Kitts & Nevis, there are two IPAs; one for St. Kitts and the other for Nevis. However, the focus for the region's IPAs are generally on promoting inward investment.

Some of the region's IPAs have established branches in the UK and US. The Caribbean diaspora remains one of the region's largest and most under-tapped sources for foreign investment. Research by the World Bank has found that relative to other global Diaspora groups, “the Caribbean Diaspora is large, educated, and professional and, more

importantly, highly engaged, with a profound sense of loyalty as well as a sense of obligation to give back” (World Bank 2016, 37). While foreign investors are generally motivated by profit and not necessarily the host country’s development imperatives, diaspora investors, generally, have both a profit motive and a patriotic desire to assist in the development of the homeland. In recent years, some regional IPAs have started targeting the diaspora as a source of FDI, but diaspora FDI remains low so far. All of the region’s IPAs have a web presence.

Figure 32 below lists the region’s IPAs:

Figure 32: IPAs in CARICOM Countries

CARICOM Country	IPA	Website
Antigua & Barbuda	Antigua & Barbuda Investment Authority	www.investantiguabarbuda.org
Bahamas, The	Bahamas Investment Authority	www.bahamas.gov.bs/bia
Barbados	Invest Barbados Barbados Tourism Investment Inc	www.investbarbados.org www.bahadostourisminvestment.com
Belize	Belize Trade and Investment Development Service (BELTRAIDE)	www.belizeinvest.org.bz
Dominica	Invest Dominica Authority	www.investdominica.com
Grenada	Grenada Investment Development Corporation	www.grenadaidc.com
Guyana	Guyana Office for Investment	www.goinvest.gov.gy
Haiti	Centre de Facilitation des Investissements en Haiti	https://cfihaiti.com/index.php/fr/
Jamaica	Jamaica Promotions Corporation (JAMPRO)	www.dobusinessjamaica.com
St. Kitts & Nevis	St. Kitts Investment Promotion Agency (SKIPA) Nevis Investment Promotion Agency	www.investstkitts.kn www.nevisipa.org
St. Lucia	Invest St. Lucia	www.investstlucia.com
St. Vincent & the Grenadines	Invest SVG	www.investsvg.com
Suriname	Investment and Development Corporation Suriname NV	http://gov.sr/themas/ondernemen-en-investeren/investment-and-development-corporation-suriname-idcs/
Trinidad & Tobago	Invest TT	www.investtt.co.tt

Source: Author’s compilation using multiple sources

Investment Promotion activities provided by CARICOM countries’ IPAs can be divided into three main phases or categories:

- Pre-establishment Facilitation services – services provided to potential investors looking to invest
- During establishment Facilitation services - services provided to investors during the establishment process
- Post-establishment Facilitation Services (after-care) – services provided to investors after establishment

Caribbean countries have focused heavily on the use of fiscal incentives to attract foreign investors. These include relief from income tax (personal and corporate), dividend taxation, relief from duties on imported materials and from property taxes (ECLAC 2014). Other incentives include the establishment of export processing zones and/or the provision of subsidized rental spaces for carrying out business activities. However, the effectiveness of the incentives

approach is questionable. ECLAC 2014 noted that “what one can see in the region, is that tax competition is leading to a race-to-the-bottom, in which tax advantages offered by one jurisdiction are matched by other ones, in order to continue to be equally competitive”. ECLAC 2014 further explained that while in some countries these incentives are sector-specific, such as tourism, manufacturing or agriculture, very few Caribbean countries have strict qualifying regulations for accessing these incentives. Reform of the fiscal incentives regimes is needed, and some Caribbean countries, like Barbados, have repealed their Fiscal Incentives legislation due to the incompatibility with their WTO obligation and are in the process of working on a new WTO-compatible incentives structure (Remy and Nicholls 2018). Van Parys and Sebastian (2010) found that “accounting for other factors driving tourism FDI in this region, tourism investment in Antigua and Barbuda after 2003 increased significantly more than investment in the other six ECCU countries due to the tourism tax incentives reform”.

Another approach taken by regional governments, to varying degrees, has been to undertake reforms to improve the ease of doing business by cutting red tape, improving the use of online transactions, and easier access to information. For example, Barbados, Antigua and Barbuda, Curacao, Jamaica, St. Lucia and St. Vincent and the Grenadines have implemented iGuides, while St. Kitts as well as Turks and Caicos are in the process of developing their own (UNCTAD 2020). These iGuides are designed by UNCTAD and the ICC. According to the UNCTAD website, these iGuides are developed jointly with governments at their request and provide investors online with up-to-date information on business costs, opportunities and conditions in developing countries.

As discussed in the MSME section of this Document, Jamaica, as part of the reforms under its International Monetary Fund (IMF) programme, has been a leader in business reforms benefiting both local and foreign investors. It is now the highest ranked English-speaking Caribbean country on the World Bank’s Doing Business Index for several years now and has been ranked #6 in the world in the ‘starting a business’ indicator in the 2020 index. Jamaica is among the first Caribbean countries to have a Single Window for Trade (www.jswift.gov.jm), which allows traders to submit transactional information through a single access point. The Jamaica Trade Informational Portal (www.jamaicatradeportal.gov.jm) provides all persons, including interested investors, with up-to-date trade data from Jamaica. The Government of Jamaica has also announced it is working on a National Investment Portal (JIS 2017).

However, despite reforms made by some Caribbean governments, regional economies have far to go in improving their competitiveness as attractive investment destinations vis-à-vis other economies globally. Caribbean countries’ performances on the World Bank’s Doing Business Index and the World Economic Forum (WEF) Global Competitiveness Index are good gauges of how the region compares with other economies globally, as many of the indicators used by these indices reflect factors investors consider when making their decision on where to invest. Unfortunately, no Caribbean country ranks within the top 50 countries on either of these indices.⁸²

⁸² The World Bank Doing Business Index has been suspended and is currently under review for the last five years due to data irregularities (World Bank 2020).

Investment Promotion and Facilitation Provisions in CARICOM RTAs

Investment is covered to some extent in the RTC. The promotion of cross-border investment is a clear goal of the RTC as reflected in the Treaty's preamble which expresses Members' desire to establish and maintain "a sound and stable macro-economic environment that is conducive to investment, including cross-border investments, and the competitive production of goods and services in the Community".

More concretely, Article 68 of the RTC provides for the creation of a Community Investment Policy which "shall include sound national macro-economic policies, a harmonised system of investment incentives, stable industrial relations, appropriate financial institutions and arrangements, supportive legal and social infrastructure and modernisation of the role of public authorities". Article 69(1) requires Member States to harmonise national incentives to investments in the industrial, agricultural and services sectors. So far, there is only a harmonisation instrument for industrial incentives: Agreement for the Establishment of a Regime for CARICOM Enterprises.

The 'right of establishment' under the Chapter 3 of the RTC, inter alia, permits a company established in one Member State the right to establish in another. As yet, however, there is no CARICOM-wide single company registry, although this is currently being worked on, according to CARICOM's website (CARICOM 2020). The CARICOM Secretariat has drafted a CARICOM Investment Code, which pursuant to the mandate of Article 68 of the RTC, seeks to establish a Common Policy for Investment in CARICOM and will also create a single CARICOM investment space. The draft of May 2012 contains provisions on investment liberalization, protection, as well as investment facilitation and promotion and incorporates many of the best practice development-friendly provisions in current IIAs, which are largely absent from the region's BITs. The Secretariat has also drafted a CARICOM Template for Investment Chapters in External Trade Agreements to assist Member States in their negotiations of BITs. It should be noted that Member States still negotiate BITs individually with other countries and not as part of CARICOM.

Turning to the region's extra-regional IIAs, the majority of CARICOM's BITs are older generation BITs with very rudimentary provisions on investment promotion. A standard provision is found in the Barbados-UK BIT (1993), Barbados' oldest BIT, in which each Party is required to "encourage and create favourable conditions for nationals or companies of the other Contracting Party to invest capital in its territory, and, subject to its right to exercise powers conferred by its laws, shall admit such capital".

While the Barbados-UK BIT does not contain specific investment promotion activities, some other BITs of that vintage include specific reference to such activities. An example is the China-Jamaica BIT (1994). Under Article 11 (1) of that Agreement, the representatives of the two Contracting Parties are mandated to hold meetings from time to time for the purposes of reviewing the implementation of this Agreement; exchanging legal information on laws and investment opportunities; consulting on problems arising out of investments; considering proposals on promotion of investments; and examining other issues in connection with investments.

However, the most extensive are in the Cooperation and Investment Facilitation Agreement between Brazil and Guyana and Brazil and Suriname which have similar provisions. Both were signed in 2018 but are not yet in force. The Brazil-Guyana BIT provides at Article 23 that the Parties shall promote cooperation between their IPAs in order to

facilitate investment in the territory of the other Party. Under Article 19, each Party shall designate and notify each other an Agency or Authority to act as a National Focal Point, or Ombudsperson, whose main responsibility shall be to support investors from the other Party in its territory and also be charged with the administration and monitoring the implementation of this Agreement.

The Brazil-Guyana BIT provides for a built-in agenda. Article 26 mandates the Joint Committee to develop and discuss an Agenda for Further Cooperation and Facilitation on relevant topics for the promotion and enhancement of bilateral investment. The issues to be initially discussed by the Parties shall be agreed upon in the first meeting of the Joint Committee. Article 20 (1) requires the Parties to exchange information, whenever possible and relevant to reciprocal investments, concerning business opportunities, procedures, and requirements for investment, particularly through the Joint Committee and its National Focal Points. Article 20(2) provides that “for this purpose, a Party shall provide through the relevant agencies, when requested, in a timely fashion and with respect for the applicable level of protection, information related, in particular, to an illustrative non-exhaustive list of issues”.

The CARIFORUM-EU and CARIFORUM-UK EPAs are CARICOM’s only FTAs with developed country partners thus far. In the CARIFORUM-EU EPA, and rolled over into the CARIFORUM-UK EPA, there are few investment promotion provisions, likely because of the EU’s limited competence at the time to negotiate a full investment chapter.⁸³ Under Article 121(2)(f) of the CARIFORUM-EU EPA, the Parties commit to “establishing mechanisms for promoting investment and joint ventures between service suppliers of the EC Party and of the Signatory CARIFORUM States, and enhancing the capacities of IPAs in Signatory CARIFORUM States”.

The Impact of COVID-19 on Investment Promotion & Facilitation

COVID-19 is expected to lead to greater declines in FDI inflows globally and to the region (UNCTAD 2020b). According to UNCTAD’s World Investment Report 2020, global foreign direct investment (FDI) flows are forecast to decrease by up to 40% in 2020, from their 2019 value of \$1.54 trillion. This would bring FDI below \$1 trillion for the first time since 2005 (UNCTAD 2020b). In addition, FDI is projected to decrease by a further 5% to 10% in 2021 and to initiate a recovery only in 2022 (UNCTAD 2020b). UNCTAD (2020b) summed up the pandemic’s effect well as “a supply, demand and policy shock for FDI.”

Additionally, IPAs, both in the region and globally, have had to adapt to providing typical services, such as investment promotion, facilitation and aftercare in a COVID-19 context where social distancing is required. In noting the ‘agility and reactivity’ shown by IPAs globally to the crisis, UNCTAD found that IPAs have strengthened their online presence and about 77% have provided COVID-19 related information and services online, developed virtual platforms and tools (UNCTAD 2020c). However, this response has been asymmetric as 44% of IPAs in developing countries provided little or no information on the pandemic to investors on their websites (UNCTAD 2020c).

⁸³ At the time of the EPA’s negotiation, the EU only had competence to negotiate market access (commercial presence), hence the lack of any investment protection provisions. See Nicholls (2011).

Turning regionally, the responses by regional IPAs have included continuing to serve clients remotely and keeping existing and potential investors updated on the COVID-19 situation through, inter alia, updates on their websites. Belize's BELTRAIDE, has continued to remotely serve clients and placed a notice on its website to that effect (BELTRAIDE 2020). Barbados' main IPA, Invest Barbados, has continued to provide updates to foreign investors on its website and prominently displays the Government of Barbados' GIS COVID-19 Updates Portal and the number of the Government's COVID-19 Hot Line. It has also continued to feature news on its website relating to Barbados' business environment, such as the newly introduced Barbados Welcome Stamp.

Invest Barbados has also sponsored a webinar with Captive Review on 'Adjusting to the New Normal on the Captive Insurance Industry'.⁸⁴ During this webinar, Invest Barbados updated attendees on what the agency has done to adjust to the pandemic, including concrete efforts to keep both existing and potential investors abreast with COVID-19 developments in Barbados. The Government of Barbados has also been making business facilitation reforms by accelerating digitalisation of certain government services and speeding up wait times for certain approvals and certificates, such as the Police Certificate of Character and the introduction of online applications and mail delivery for the Barbados Driver's license.

Invest St. Lucia has also placed a link prominently on its home page to the Government of St. Lucia's COVID-19 update portal, and continues to list projects and opportunities to potential investors on its website. The current list includes projects in the business process outsourcing, manufacturing, eco-tourism and real estate sectors (Invest St Lucia 2020).

Some regional IPAs have also been proactive in seeking new opportunities to help their economies rebound post-COVID-19. The best example is JAMPRO, Jamaica's investment and export promotion agency, which has been very active in the media through press releases and interviews to advise of its work and to show that Jamaica remains open for business. It has identified several investment and export opportunities that can be pursued for national growth and development, after the pandemic. The following sectors were identified: manufacturing, agriculture and agribusiness, logistics services, e-commerce, the global services sector and other IT-enabled services, healthcare and biotechnology, and renewable energy (Do Business Jamaica 2020).

SRC Policy Recommendations

1. Step up reforms to business and investment climate

UNCTAD advises that for investment promotion to have the intended developmental impact, "it should flow from a clear government vision with corresponding laws and regulations, be informed by sound economic analysis and good planning, be coordinated with the many investment-related institutions, and be executed by an IPA implementing best practices" (UNCTAD 2018). As pointed out earlier, FDI to the region remains largely undiversified in terms of the

⁸⁴ The recording may be viewed here: <https://register.gotowebinar.com/recording/2046547789354979341>.

source and the sectors in which it is attracted. Moreover, despite making some reforms, CARICOM Member States still face competitiveness challenges, which also impact their ability to attract FDI and therefore their ability to diversify both the source and sector in which FDI is attracted. Certainly, the region does have natural advantages it has used as part of its marketing toolkit. For example, according to ECLAC 2014, “in surveys, investors suggest that the Caribbean location (close to the United States), natural resources (including ‘natural beauty’ used in tourism) and its English speaking labour force are all strong points for the region” (CAIPA 2013 quoted in ECLAC 2014).

However, when making their decision about where to invest, investors also look at whether the jurisdiction has a well-functioning and speedy court system, macroeconomic stability and low crime. These are areas on which many Caribbean countries still have work to do. This entails, for example, speeding up reforms to address the backlogs in the court systems, tackling crime, improving the ease of doing business by shortening timeframes for approvals. There is also the need for policy anchoring to ensure that reform policies and initiatives are continued even when governments change. These reforms should increase the region’s investment attractiveness and thus aid in its diversification efforts.

2. Accelerating CSME and creation of a single investment space

Caribbean countries should accelerate their efforts to create a single investment space to mitigate the constraints of small geographic and population size. This would also prevent the race to the bottom mentality where Caribbean countries compete with each other and offer all types of incentives that at the end of the day make the FDI unsustainable.

Members’ agreement and ratification of the currently draft CARICOM Investment Code, which aims to transform the CSME Member States into a single investment space, would boost the sub-region’s attractiveness to market-seeking FDI and also in theory strengthen the region’s bargaining power vis-à-vis investors and in IIA negotiations with third States.

Concomitantly, Caribbean countries also need to reduce the still high administrative barriers which make doing business across the region less seamless than it could be, such as the lack of a single registry for company incorporation or intellectual property registration.

3. Greater targeting of non-traditional FDI source markets

If the region is to reduce its dependence on FDI from only a few sources and in limited sectors, there needs to be greater targeting of non-traditional FDI source markets. Regional IPAs have to some extent started to diversify their marketing efforts to include non-traditional markets for FDI, such as China and Latin America. For example, Barbados has for some time been expanding its outreach to the Latin American market, and in even more recent times, the African market, through, inter alia, targeted marketing efforts and negotiating double taxation agreements with countries on those continents to stimulate greater investment for its international business and financial services sector. In the throne speech of September 2020, the Government of Barbados announced that it will be opening four new diplomatic missions (in Ghana, Kenya, Morocco and the United Arab Emirates) (GIS 2020). This clearly shows the

important role the country sees economic diplomacy playing in stimulating trade and investment with these new markets.

4. Greater targeting of the diaspora as a source of FDI

Linked to point number three, Caribbean governments' IPAs should more actively target the Caribbean diaspora as a source of FDI, which would require greater market research on the diaspora communities to ascertain the kinds of sectors and investment instruments of interest to them. According to the website of the Antigua & Barbuda Investment Authority, for example, it currently has a Diaspora Investment Partnership Programme (ABIA 2020). Additionally, Barbados' 'We Gathering' initiative, a year-long home coming to encourage Barbadians in the diaspora to visit the island, also sought to encourage diaspora investment.

Diaspora investment is not automatic, however. Macroeconomic and social instability, weak legal framework and poor enforcement, difficulties of vetting potential partners and conducting due diligence were among the concerns identified as barriers to diaspora investment in a 2016 World Bank Study on the potential economic role of the Caribbean diaspora. These issues would need to be addressed if Caribbean governments wish to attract greater investment by the diaspora.

5. Engage in a comprehensive review of CARICOM countries' existing IIAs to determine whether they are 'fit for purpose' for attracting sustainable FDI

The vast majority of CARICOM countries' IIAs are older generation BITs which lack the development-friendly language and best practices of newer vintage IIAs. The provisions in the majority of CARICOM Member States' existing BITs are heavily unequal and weighted towards protection of investors and their investments, with little or no express language giving States the right to regulate in the public interest or provisions on investor behaviour. The end result is that Caribbean countries face significant potential legal exposure to claims brought by investors under these treaties, particularly in cases where the government has taken legitimate action to regulate in the public interest.

The region, or at the very least individual CARICOM Member States, should engage in a comprehensive review of their existing BITs and determine whether they remain 'fit for purpose'. Similar exercises have been conducted by India and South Africa, as examples, both of which cancelled their existing BITs and now negotiate future BITs based on a more development-friendly model BIT.

Moreover, the CARICOM Template for Investment Chapters in External Agreements, which includes many of the best practice language for attracting sustainable investment, is a good model that can be used for the negotiation of future BITs or renegotiation of existing BITs.

6. Consider the inclusion of greater investment facilitation language in investment treaties

CARICOM countries should, therefore, consider the inclusion of language in all future IIAs which provides for greater investment facilitation efforts, such as the establishment of contact points and information sharing and the encouragement of formal links between the IPAs of the treaty partners.

7. CARICOM governments should proactively protect themselves from ISDS claims arising from COVID-19 measures and support calls for a multilateral solution to the threat of investor claims post COVID

Although most Caribbean countries' experience thus far with investor claims have been contract-based and not treaty-based, the threat for treaty-based claims looms larger now in the midst of the on-going pandemic. This is because Caribbean governments, like those governments around the world, have had to take measures to contain and mitigate the spread of the virus, and may face claims from foreign investors who feel aggrieved by these measures and seek legal protection under these BITs. The IISD has advocated for a multilateral approach to prevent a slew of investor claims post-COVID-19 (IISD 2020).

Caribbean countries have had some experience with claims brought by foreign investors. Although the majority of these claims have been contract-based, there have been some treaty-based claims. Defending investor claims is costly and the award amounts, if on the losing end, can be in the millions or billions of dollars, a cost which cash-strapped Caribbean governments, whose economies were severely impacted by months of shutdowns and border closures, can ill-afford to pay. There is also the potential for reputational damage for those countries involved in investor disputes, which could affect their investment attractiveness.

Mitigating factors can be taken by our governments, such as deciding with their partners to issue a joint interpretive note for some of the most used and abused provisions, or alternatively, they could mutually agree to exclude claims arising from their COVID-19 measures from ISDS. Our governments should at the minimum, however, support calls for a multilateral solution to prevent what many anticipate could be a slew of investor claims arising from governments' COVID-19 measures.

8. Consideration of joining the Investment Facilitation for Development negotiations at the WTO

The WTO's Investment Facilitation for Development negotiations commenced September 25, 2020. Without doubt, investment facilitation for development is an area of strong development interest to the region. The stakeholder consultations and needs assessment survey presently being undertaken by the CARICOM Secretariat in advance of the negotiations should be applauded. The results should help to ultimately inform Member States' decisions on whether joining the negotiations would add value to the region's investment facilitation efforts. It is worth considering whether the negotiations would complement national and regional efforts. However, there are some possible benefits in that they would give CARICOM countries to opportunity to have a 'seat at the table' in an area of significant economic importance to them and similar to the TFA, it could both to speed up reforms and lock-in existing reforms.

9. Consider participating formally in the UNCITRAL Working Group III on ISDS Reform

At its 50th Session in July 2017, the Commission, UNCITRAL's governing body, mandated a deliberation process on the reform of ISDS to take place under Working Group III. Three phases were delineated: (1) identify and consider concerns regarding ISDS, (2) consider whether reform is desirable and, if so, (3) develop any relevant solutions to be recommended to the Commission. Several countries and non-State actors have actively participated in these meetings. However, despite the importance of investment to our development, CARICOM governments have largely taken a backseat on investment rule-making reforms. Seeing that the region has already had negative experiences with ISDS, it is in Caribbean governments' interest to participate in these discussions which have already moved on to the third phase.

10. Consider supporting the establishment of an Advisory Centre on International Investment Law

As investment law disputes are not only costly but require legal expertise in investment law, CARICOM countries should consider supporting the proposed establishment of an ACIL. Many of the proponents for such a centre (Joubin-Bret 2015; Sauvant 2019) refer to the ACWL, which provides support for developing countries in WTO disputes, as a precedent. Sauvant 2019 argues that the investment law equivalent of such a centre "would fill an important lacuna in the international investment regime" and "could have, as its core purpose and competency, to assist under-resourced beneficiary governments in obtaining adequate legal defense in international investment disputes" (Sauvant 2019). The ACIL proposal is on the agenda of the UNCITRAL Working Group III. The UNCITRAL Secretariat Note on the proposal asked the Working Group to consider the following possible services by an advisory centre: assistance in organizing the defence; support during dispute settlement proceedings; advisory services; alternative dispute resolution services; as well as capacity-building and sharing of best practices (UNCITRAL 2019). Such a centre could be of great benefit to our small island developing States which often lack the financial and human resources needed to defend themselves against investor claims, especially if there is a surge in COVID-19 related claims.

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