



Trade Integration Reforms

Supporting Private Sector Competitiveness
through Investment in *Hardware* and *Software*

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Outline

- Trade Integration: A Foundation for Growth and Private Sector Development
- Constraints to Trade Integration in the Caribbean
- Supporting Trade Integration through Hardware and Software Reforms
- The Way Forward

Trade Integration: A Foundation for Growth and Private Sector Development



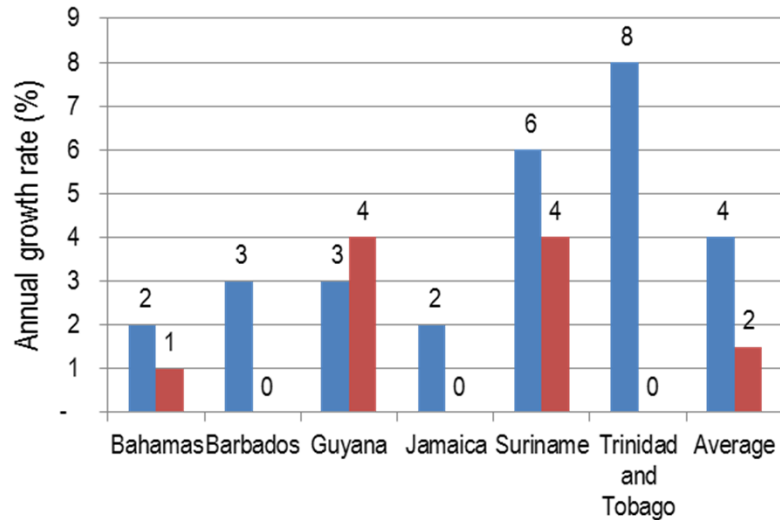
The global trade architecture is changing

- **Emerging markets**, including LAC, have become a **vibrant source of global demand**.
 - South-South trade is growing faster than global trade, but there is uncertainty in the global outlook.
- The **expansion of the Panama Canal** will radically change the regional trade geography.
- Structural transformation of **larger Spanish-speaking Caribbean islands** can create large markets for regional exporters.
- Proliferation of FTAs is likely to result in the **erosion of trade preferences** for Caribbean exports, with losses concentrated in important export goods such as sugar and bananas.
- Trade liberalization will magnify the relative costs of **transport (hardware) and regulations (software)**.

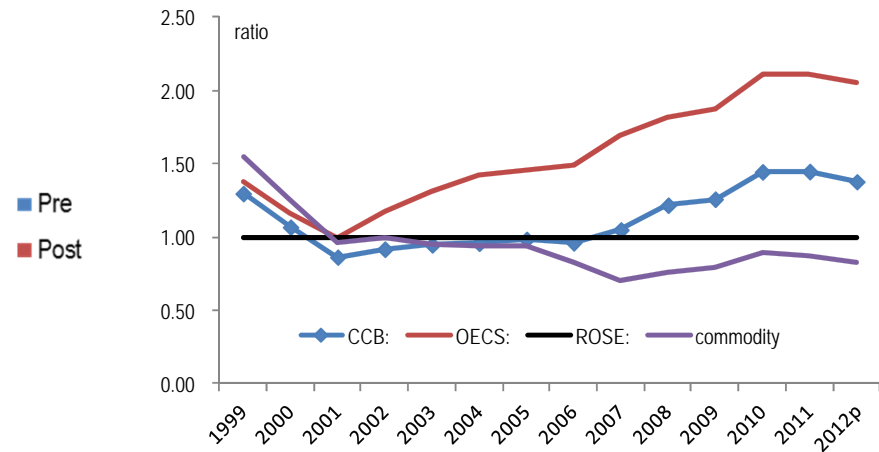


While Caribbean growth and private sector performance remains weak

Growth performance has been lower after the crisis...



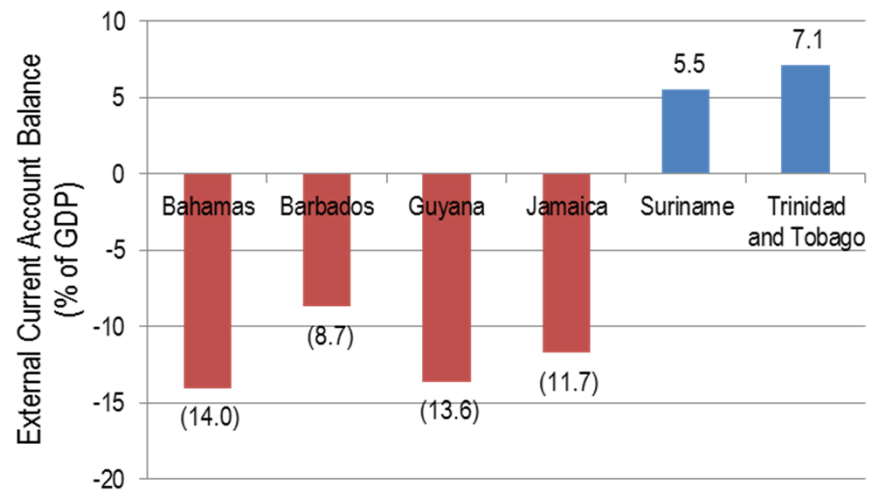
... and debt is rising



Aggregate productivity is falling...

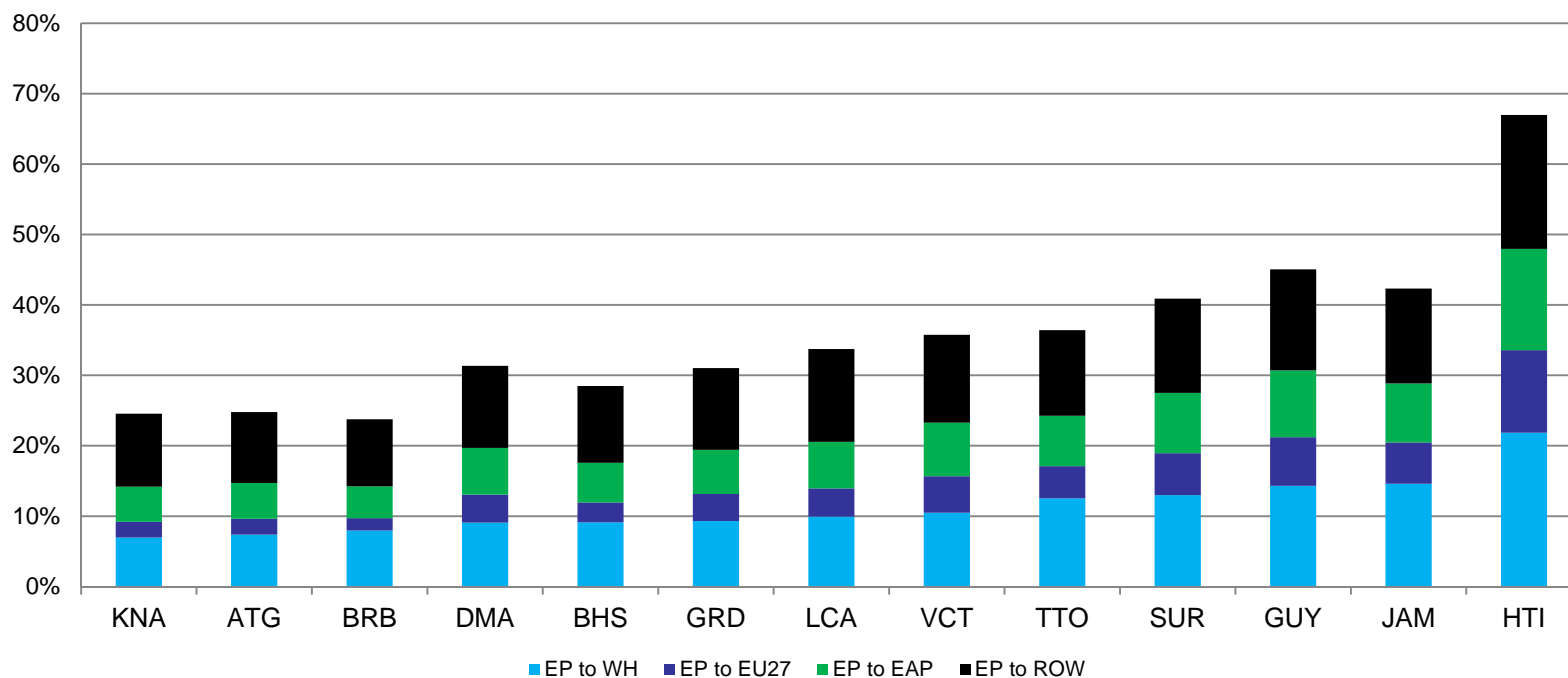


... and most countries have current account deficits



Greater participation in global and regional trade can help revert these trends

The Caribbean: Unrealized export potential
(Gravity model simulations)



- Trade integration can increase **GDP** and lower **debt-to-GDP** ratios.
- The Caribbean is operating **below its trade potential** (25% - 68%).
- Potential depends on **trade agreements and regulations (software)** and **infrastructure (hardware)**.

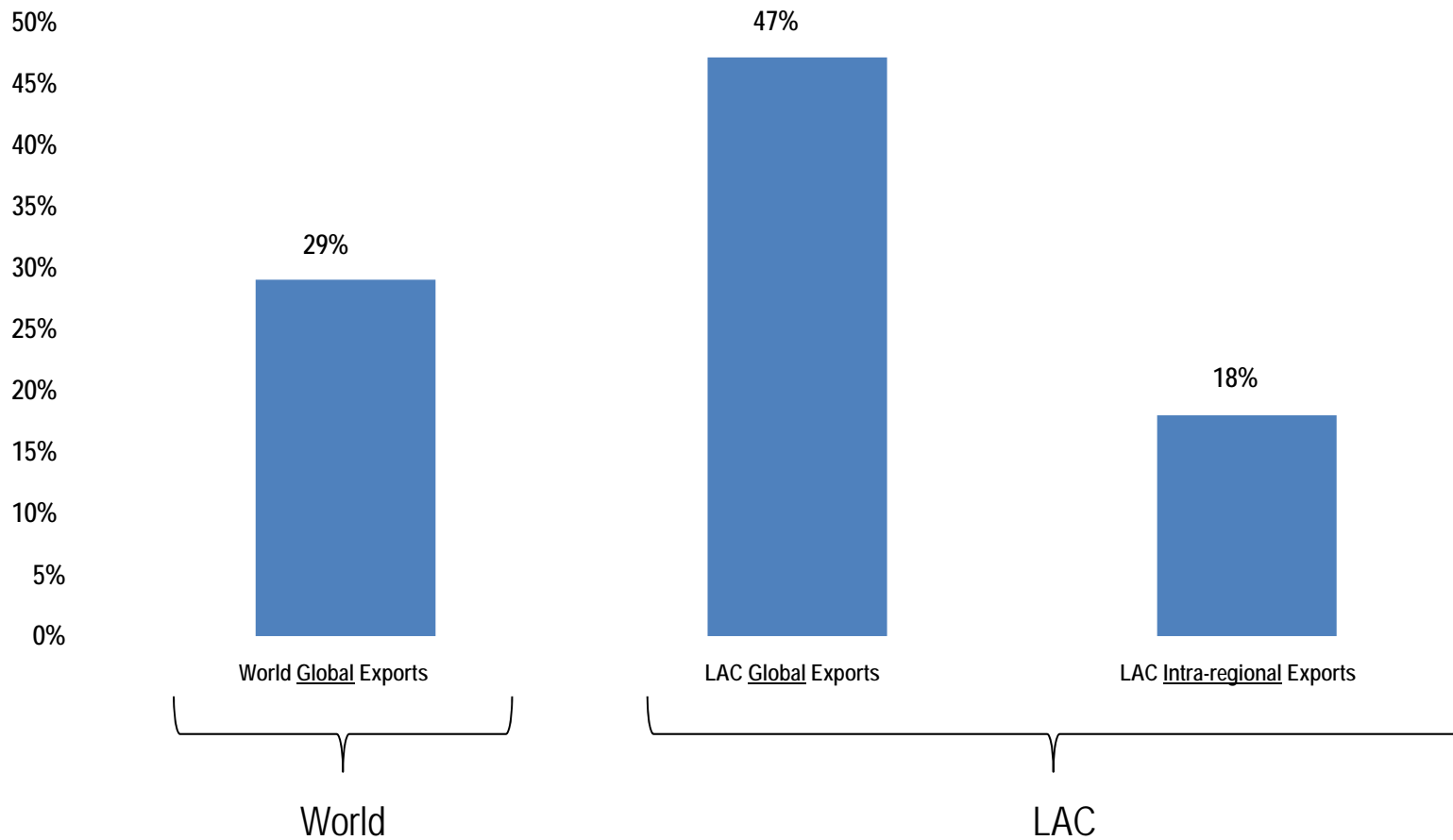


Constraints to Trade Integration in the Caribbean

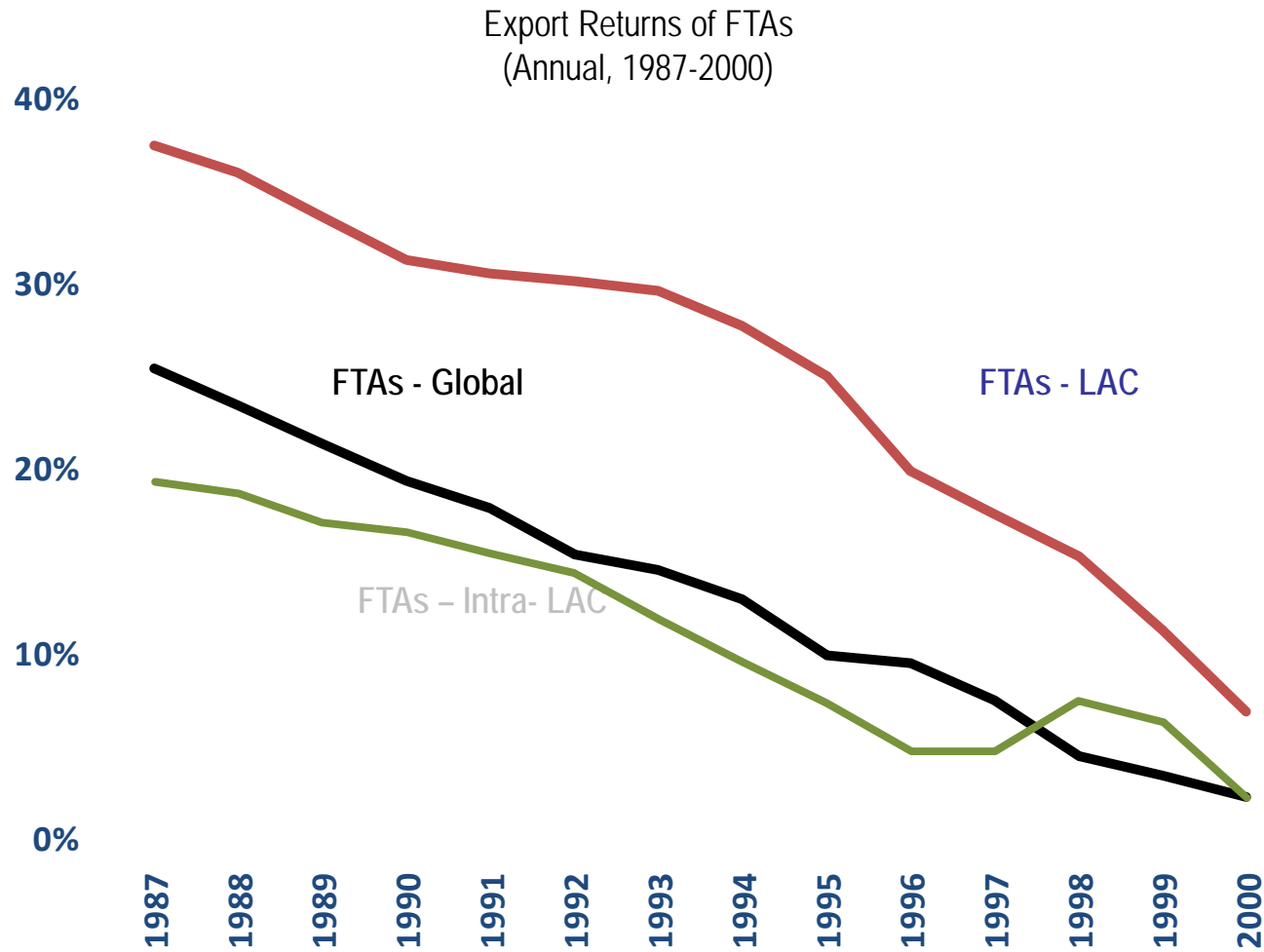


FTAs contribution to export growth has been high...

Export Returns of FTAs (Average 1988-2006)



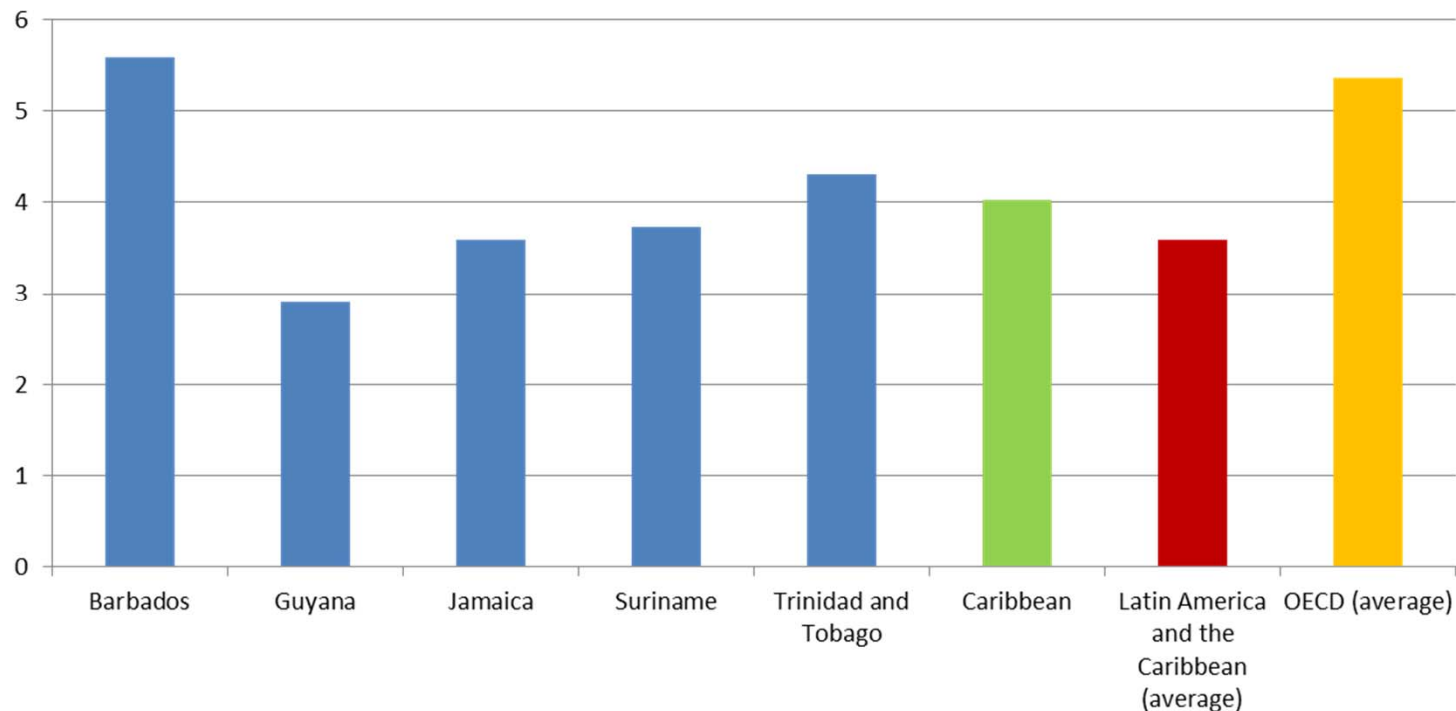
...but there are diminishing returns over time



Hardware: Gaps remain in infrastructure coverage and quality

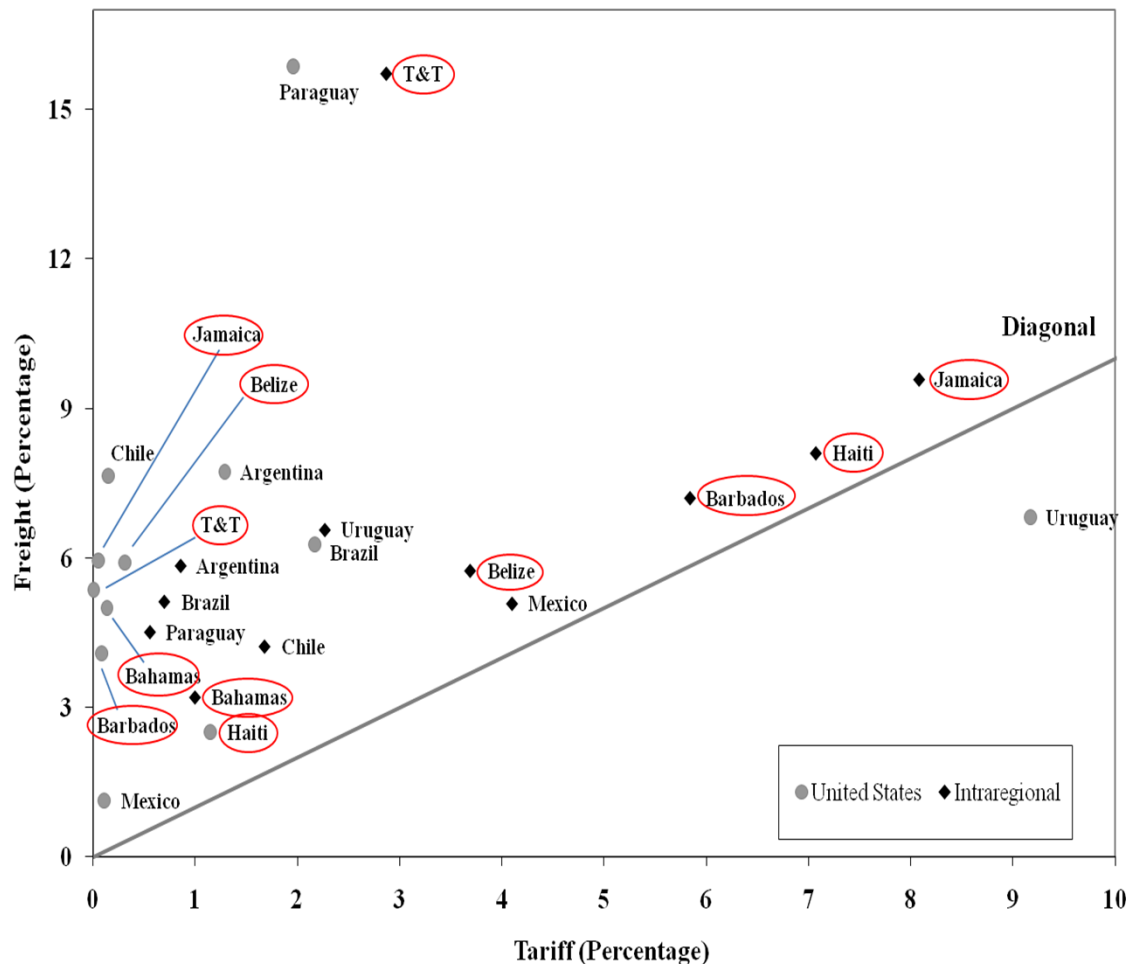
The **quality and coverage** of Caribbean infrastructure are ranked higher than the LAC average (with strong influence of Barbados), but remain much lower than the OECD average.

Pillars of Competitiveness: Infrastructure
(1-7, 7 highest)



Software: Logistics costs are a greater impediment than tariffs

Ad Valorem Freights and Tariffs
(Intraregional Exports and Exports to the US, 2006)



Intraregional refers to exports to Argentina, Brazil, Chile, Peru and Uruguay

- Intra-regional trade is only 13% (just over 20% if exports to Latin America are included).
- Logistics costs represent 20 percent of product costs (compared with the world average of 10 percent).

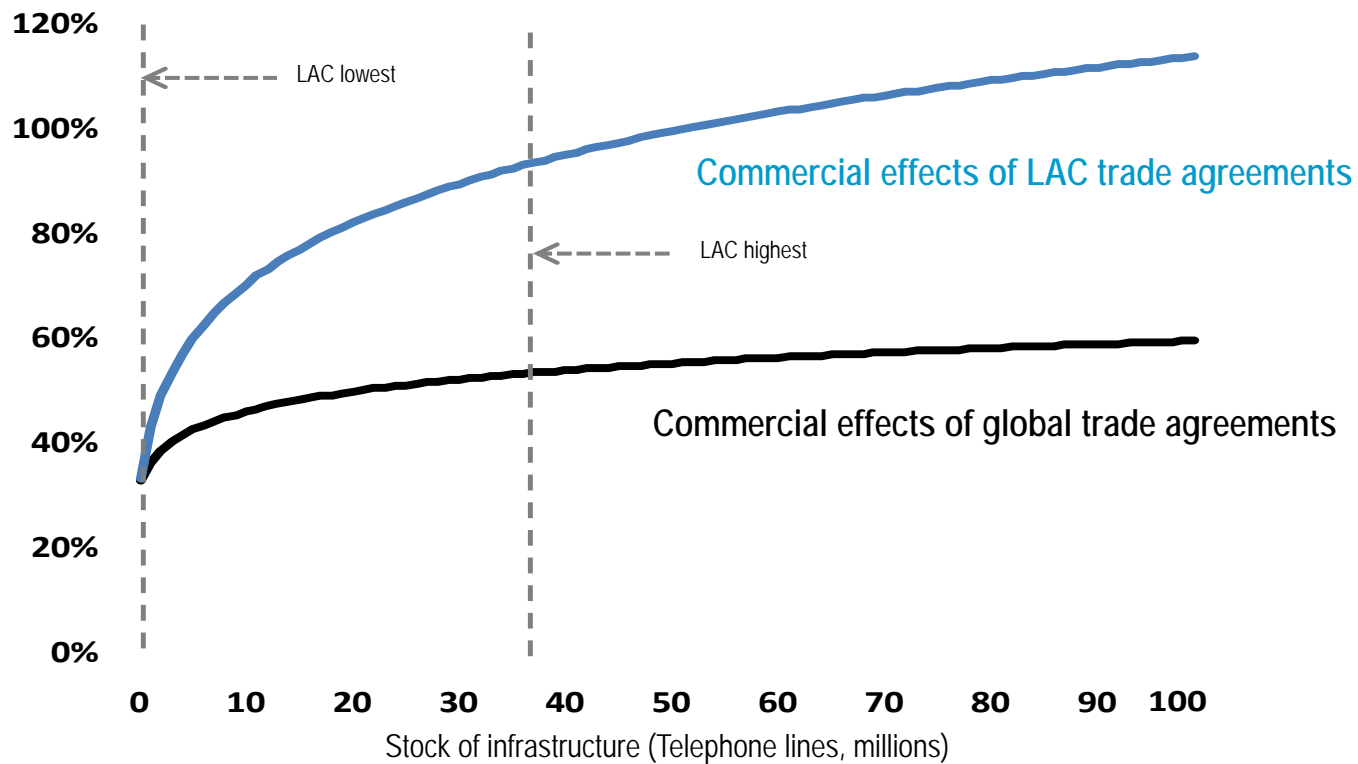


Supporting Trade Integration through Hardware and Software Reforms



Hardware and Software complementarities can yield higher returns

Increase in Returns from Trade Agreements when Complemented by Investment in Infrastructure (%)



Full trade integration within the Americas (software) and bridging the infrastructure gap (hardware) may increase intra-hemispheric trade by 77%

What is being done to mitigate these challenges?

- **Strategic planning: Support to regional action plans in the Caribbean**
 - CARICOM Aid for Trade Strategy
 - Regional Strategy on Freight Logistics, Maritime Transport and Trade Facilitation
 - Strategic Agenda on Integration

- **Operational interventions: Simultaneous support to *hardware* and *software***
 - First generation projects
 - Support to the negotiation of trade agreements
 - Second generation projects
 - *Hardware*: Building or rehabilitation of core infrastructure
 - *Software*: Support to trade facilitation reforms
 - Third generation projects
 - Focus on the Caribbean's comparative advantage in services beyond tourism (e.g. call centers, animation)



The Way Forward



Opportunities for collective action

- Step up the engagement in a **Strategic Agenda on Integration** and ensure the implementation of regional action plans at the national level.
- Build and rehabilitate hard infrastructure, to **reduce production & transport costs** and improve competitiveness (e.g. transportation, energy and ICT infrastructure).
- Implement soft infrastructure reforms, to **reduce to cost of doing business** (e.g. mutual recognition of standards, customs modernization, authorized economic operator, electronic single window).
- Support the expansion of the service sector beyond tourism, to **diversify exports** and reduce vulnerability to external shocks.





THANK YOU

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