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)**.

Source: IMF World Economic Outlook – April 2013.
While Caribbean growth and private sector performance remains weak...

Growth performance has been lower after the crisis...

- Debt is rising

Aggregate productivity is falling...

... and most countries have current account deficits

Sources: World Economic Outlook; Ruprah (2013); staff calculations, based on US Census Bureau, WEO, WDI and Penn World Tables
Greater participation in global and regional trade can help revert these trends

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).

Source: Giordano (2012)
Constraints to Trade Integration in the Caribbean
FTAs contribution to export growth has been high...

Export Returns of FTAs (Average 1988-2006)

- World Global Exports: 29%
- LAC Global Exports: 47%
- LAC Intra-regional Exports: 18%

Source: Giordano (2012)  Note: Global exports include intra- and extra-regional exports
...but there are diminishing returns over time

Export Returns of FTAs
(Annual, 1987-2000)

Source: Giordano (2012)
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.

Software: Logistics costs are a greater impediment than tariffs

- 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%

Source: Giordano (2012)
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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