

EXIM BANK: RESEARCH BRIEF

CARICOM: A Gateway to the Americas



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Introduction

Caribbean Community (CARICOM) is one of the major trade blocs in the Latin America and the Caribbean (LAC) region. CARICOM was established in 1973 amongst Caribbean countries, viz., Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. Countries, namely, The Bahamas, Haiti and Suriname joined the CARICOM subsequently. Since the objective of CARICOM is to form a common market, most intra-regional trade has been liberalised.

Because of their small size of the economies and lack a diversified range of domestic resources, CARICOM economies are highly dependent on trade. They rely heavily on imports to support local production and satisfy consumer demand, and given the absence of a sizeable domestic market, they also rely heavily on export revenues to sustain economic growth.

The objectives of the present study are:

- a) To examine the historical background and institutional structure of CARICOM,
- b) To explore the macroeconomy, trade and investment, and recent developments in the CARICOM region,
- c) To analyse India's trade and investment relations with CARICOM region,
- d) To examine the potential of CARICOM as an investment hub and gateway to the Americas, and

- e) To recommend broad strategy and relevant policy suggestions to enhance India's trade and investment relations with CARICOM region.

Emergence of CARICOM

The establishment of the Caribbean Community (CARICOM) was the result of a 15-year effort for regional integration, which started with the establishment of the British West Indies Federation in 1958. However, the Federation came to an end in 1962 but its demise, in many ways, could be regarded as the real beginning of what is now the Caribbean Community. The Caribbean Community (CARICOM) was established by the Treaty of Chaguaramas, which came into effect on August 1, 1973. In 2001, Heads of Government signed the Revised Treaty of Chaguaramas establishing the Caribbean Community including the CARICOM Single Market and Economy (CSME), thus clearing the way for the transformation of the Common Market aspect of CARICOM. The CSME is a mechanism, which will allow the free movement of labour, capital, goods and services within CARICOM.

Economic Profile of the Region

In 2008, GDP growth of the CARICOM region slowed down to 3.2 percent as compared to 3.8 percent in the previous year, mainly affected by downside risk of a larger than anticipated slowdown in the United States' economy. Suriname is the country with highest growth in the region (6.5 percent), followed by Trinidad and Tobago (5.0 percent), St. Vincent and the Grenadines (5.0 percent), Guyana (4.6 percent), and Belize (4.0 percent). As

regards per capita GDP, The Bahamas is the country with highest per capita GDP in the region, followed by Trinidad and Tobago, Barbados, Antigua and Barbuda, and St. Kitts and Nevis. The main contributions to economic growth across the region during the first half of 2008 came from tourism and construction activity, although growth in business services and in agricultural output was important in a few countries.

Foreign Trade and Intra-CARICOM Trade

The total CARICOM exports increased from US\$ 10.9 billion in 2002 to US\$ 23.8 billion in 2006 and further to US\$ 25.6 billion in 2007. Among the CARICOM countries, Trinidad and Tobago is the largest exporter, accounting for as much as 62 percent of total CARICOM exports during 2007, followed by The Bahamas, Jamaica, Suriname, Guyana and Haiti. CARICOM imports also registered a similar rising trend. Total imports of CARICOM countries have increased from US\$ 16.6 billion in 2002 to US\$ 33.2 billion in 2007. The Bahamas is the largest importer among all the CARICOM countries, with a share of 32 percent of total CARICOM imports, followed by Trinidad and Tobago, Jamaica, Antigua and Barbuda, Haiti and Barbados.

The intra-CARICOM exports have witnessed a consistent rise over the period. From US\$ 1.1 billion in 2000, intra-CARICOM exports have risen to US\$ 2.1 billion in 2005, and further to US\$ 2.4 billion in 2006. During 2007, intra-CARICOM exports increased further to reach US\$ 3.8 billion. The share of intra-CARICOM exports in total global exports by the CARICOM member countries has also increased from 11.1 percent in 2006 to 15.7 percent in 2007.

Foreign Direct Investments in CARICOM

Foreign direct investment (FDI) inflows in CARICOM countries witnessed a continued increase in recent years. The total FDI inflows in the region rose to US\$ 4.7 billion in 2007 from US\$ 2.3 billion in 2003. Among the CARICOM countries, The Bahamas accounted for the largest share (23.9 percent) of FDI inflows to the region in 2007, followed by Trinidad and Tobago (21.9 percent), Jamaica (16.5 percent), and Antigua and Barbuda (8.3 percent).

CARICOM and the Americas

CARICOM has a number of trade and investment agreements with the Americas and also with Europe. The trade programs known collectively as the Caribbean Basin Initiative (CBI) remains a vital element in the United States' economic relations with its neighbors in Central America and the Caribbean. The Caribbean has a long history of trade and cultural ties with Canada. Trade and economic co-operation between most CARICOM States and Canada are currently covered under a number of instruments, including CARIBCAN, a non-reciprocal preferential agreement granted by Canada for goods and the 1979 CARICOM-Canada Trade and Economic Co-operation Agreement. The Cariforum-European Community Economic Partnership Agreement (Cariforum-EC EPA) was initialled in Barbados on December 16, 2007 by the Principal Negotiators representing the two regions.

India's Trade and Investment Relations with CARICOM

India's bilateral trade with CARICOM countries has witnessed a healthy growth in recent years. During the last five years, India's total trade with the CARICOM countries have risen nearly five fold, from US\$ 85.5 mn in 2003-04 to US\$ 426.6 mn in 2007-08. The year 2007-08 witnessed a decline in exports to US\$ 155.5 mn from US\$ 251.5 mn in 2006-07, due primarily to fall in exports to Trinidad and Tobago, and The Bahamas. However, during 2008-09 (April-February), India's exports to CARICOM region increased by 183.3 percent to US\$ 355.3 mn as compared to

Table: India's Trade with CARICOM Countries, 2003-04 to 2008-09

	(US\$ mn)					
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09*
Exports	61.5	90.2	156.4	251.5	155.5	355.3
Percent change	3.5	46.7	73.4	60.9	-38.2	183.3**
Imports	24.0	73.9	107.0	90.5	271.0	148.5
Percent change	170.3	207.7	44.9	-15.4	199.3	-19.1**
Trade Balance	37.5	16.3	49.3	161.0	-115.5	206.8
Total Trade	85.5	164.0	263.4	342.1	426.6	503.8

Note: *-April-February; **- Percent change over same period in the previous year.

Source: Ministry of Commerce and Industry, Government of India.

US\$ 125.4 mn during the same period in the pervious year, primarily as a result of higher exports of petroleum products to Trinidad and Tobago. India's imports from the CARICOM region have also witnessed a rise from US\$ 24 mn in 2003-04 to US\$ 271 mn in 2007-08, underlined by the sharp increase in imports from Trinidad and Tobago, St. Vincent and the Grenadines, and Jamaica during the period. During 2008-09 (April-February), India's imports from CARICOM decreased by 19.1 percent to US\$ 148.5 mn as compared to US\$ 183.5 mn during the same period in the previous year, mainly due to decrease in imports of petroleum crude from Trinidad and Tobago (Table).

Among the CARICOM countries, Trinidad and Tobago is the leading market for India's exports, accounting for 29 percent of India's total exports to the region during 2007-08. Other major export destinations of India in the region are Haiti, Jamaica, Bahamas, Guyana, Suriname and Belize. As regards imports from the CARICOM, Trinidad and Tobago is again the leading import source, accounting for 64 percent of India's total imports from the region during 2007-08. Due to the dominant share of Trinidad and Tobago, India's trade with CARICOM region has been in line with the trend in trade with that country. India's other major import sources in the CARICOM region are St. Vincent and the Grenadines, Jamaica, Guyana, Belize and St. Lucia.

Pharmaceutical products, primary and semi-finished iron and steel, machinery and instruments, manufactures of metals, plastic and linoleum products, readymade garments cotton incl. accessories, rubber manufactured products, and manmade yarn fabrics madeups, are the major items in the

export basket of India to CARICOM. Petroleum crude, gold, metaliferrous ores and metal scrap, non-ferrous metals, spices, organic chemicals, electronic goods and transport equipment are major items in India's import basket from CARICOM.

During April 2000 to March 2009, CARICOM's total investment in India amounted to US\$ 55.7 mn. St. Kitts and Nevis is the largest source for investment from the CARICOM region, with a share of 33.1 percent in the total FDI from the region. The Bahamas, St. Vincent and Jamaica are the other major investors in India from the CARICOM region. During April 1996 to December 2007, India's total outward investment approved in joint ventures (JVs) and wholly owned subsidiaries (WOSs) in CARICOM region amounted to US\$ 4 mn. Trinidad and Tobago is the largest destination of India's investments in the region, with a share of 67.5 percent in total. Many Indian companies are present in CARICOM region in various sectors, which include finance, iron and steel, metal, and food processing.

India's Trade Potential in Select CARICOM Countries

Based on India's export capability and The Bahamas' import demand, potential items of export could include petroleum products, motor vehicles, electrical machinery, gems and jewellery, iron and steel, and food products. Major items with potential for exports to Trinidad and Tobago could include petroleum products, machinery and transport equipments, pharmaceutical products, and electronic goods. Machinery and instruments, plastic and linoleum products, pharmaceutical products, transport equipments, and petroleum

products are the major commodities with export potential to Jamaica. India's potential items of export to Haiti could include pharmaceutical products, machinery and transport equipment, food items and petroleum products.

India's Investment Potential in Select CARICOM Countries

In Jamaica, potential sectors of investment would include tourism, agro-processing, information and communication technology (ICT), and mining sector. The potential sectors of investment in Trinidad and Tobago would include energy sector, fish processing, film industry, information and communication technology (ICT), and food and beverages. Finance industry, manufacturing, shipping and tourism industry are the major sectors with investment potential in The Bahamas. In Suriname, important sectors with potential for investments would include food processing, mining sector and petrochemicals.

Exim Bank in the CARICOM Region

Export-Import Bank of India (Exim Bank) operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment relations with countries in the CARICOM region.

Lines of Credit

In the CARICOM region, Exim Bank has extended eight Lines of Credit (LOCs), which include: US\$ 8 mn to the Republic Bank Ltd., Trinidad and Tobago; four LOCs totalling US\$ 41.29 mn to the Government of Suriname; two LOCs totalling US\$ 21.1 mn to the Government of Guyana; and US\$ 7.5 mn to the Government of Jamaica.

Project Exports

Exim Bank extends both funded and non-funded facilities to Indian project exporters for overseas industrial turnkey projects, civil construction contracts, supplies as well as technical and consultancy services contracts. In the CARICOM region, Indian companies have secured a number of projects in various sectors including infrastructure development project in Barbados; procurement advisory and construction project in Guyana; and construction project in Suriname.

Further, in the CARICOM region, Exim

Bank has signed a Memoranda of Understanding (MOU) with Caribbean Association of Industry and Commerce, Trinidad and Tobago, with a view to fostering conducive environment for enhancing trade and investment relations.

Other Initiatives

In order to promote active exchange of trade and investment related information, Exim Bank helps bring out a quarterly, bilingual (English and Spanish) publication- "Indo-LAC Business" for the benefit of Indian and LAC (Latin America and the Caribbean) businessmen and investors.

Strategies and Recommendations to Enhance Bilateral Commercial Relations

Strategies and recommendations to enhance India's commercial presence and relations with the CARICOM region could include the following:

Business-Hub in CARICOM Region

Development of a business-hub in CARICOM region would encourage prospective companies in developing commercial relations in the CARICOM region as well as Americas. CARICOM region enjoys free market access to the US, Canada, Latin America and European markets through a number of trade treaties and agreements. The common point among these agreements is that CARICOM countries' products enjoy duty-free access to these markets. By trading or investing in these countries, the Indian exporters/investors could also gain access to the vast and lucrative American markets.

There is a positive change in the mindset of Latin American business who have started realizing the importance of India as an emerging economic power. As part of new policy of diversification of economic and commercial relations, Latin American governments and businessmen are increasing their efforts to forge partnership with India. Further, in order to cut the cost of production, the manufacturers have started importing more inputs for their industries from countries such as India. It should be noted that about 50 percent of India's exports to Latin America are basically inputs into industries such as chemicals, bulk drugs, fabrics, yarns, equipments and machinery and spare parts. Further, Indian pharmaceutical companies are also increasing their presence in many Latin

American countries. As a result, setting up of an Indian business hub in CARICOM region would be beneficial for the Indian corporates to explore not only regional markets but also the vast American markets.

Co-operation in Hotel and Tourism Industry

Caribbean countries are major tourist destinations of the world. India being an emerging player in hospitality industry, can explore the vast opportunities available in the CARICOM countries. Indian corporates in hospitality industry are expanding their base in overseas locations. Since CARICOM countries provide tremendous opportunities in tourism industry, Indian companies could focus on developing world-class hotels and resorts with Indian touch. Indian hotel groups could also try to acquire and renovate hotels in the region. Major tourist destinations in the CARICOM region are The Bahamas, Jamaica and Barbados.

Investment by Way of Indian Style Ayurveda / Wellness Centres

There is an increasing demand for Indian style Ayurveda and Wellness centres in Americas. At the same time, tourists from Americas are also increasingly visiting such centres in India for Ayurveda treatments. Indian companies could find CARICOM countries a prospective region for investments in tourism, as Caribbean countries are the major tourist destination for visitors from the US, Canada and Latin America. Along with acquisition of hotels in the CARICOM region, renovation of hotels could be by way of investment in setting up Indian style Ayurveda / Wellness centres in such hotels to cater to the rising demand for such facilities in the CARICOM region. Further, imparting training to local practitioners would facilitate acceptability of such treatments / centres.

Co-operation in the Banking / Financial Sector

CARICOM region, one of the most mature offshore financial centres, owes its development to a number of enduring features. The financial centres of CARICOM have consistently attracted well-established, internationally recognised financial institutions and substantial investors. The centres offer benefits, which include; convenient location, just 50 miles from the mainland United States, coupled with an inviting climate; commitment to zero taxation, offering freedom from taxes on

income, capital gains, profits, gifts, inheritance and estates, as well as no withholding taxes on dividends, interest or royalties, and no payroll taxes; and strict enforcement of the complete confidentiality of banker-customer relations, through both common law and statute. Thus, Indian banks could make use of the opportunities available in CARICOM region to expand their operation in offshore banking overseas. In view of the potential for enhancing bilateral trade and investment relations with Americas, Indian banks could open branches/representative offices in the region, and develop correspondent relations with select banks in the region to facilitate and promote commercial relations. Through correspondent banking relations, Indian banks and financial institutions could also access to information on banking rules and activities including 'Know Your Customer' and 'Anti Money Laundering Measures' in the CARICOM region.

Promotional Events for Textiles and Ayurvedic Products

High-income markets of Americas offer scope for export of high-fashion garments from India. There is a growing interest in Ayurvedic and natural products of India. Seminars-cum-exhibitions could be organised focusing on specific markets in the region.

Interactive Portal

An interactive portal could be developed, hyper-linked with major industry/trade associations and chambers in the CARICOM region, for identification of project profiles, partner search, match making, etc. The portal could provide information and advisory services on potential export markets/sectors as well as investment opportunities, sector studies, market surveys, events information on government policy and incentives, and compendium of major importers in the CARICOM region.

Multilateral Funded Projects (MFPs)

Multilateral funding agencies such as World Bank and Inter American Development

Bank are active in funding development projects in the CARICOM region. These funded projects are mainly in areas such as energy and mining, health and social services, finance, industry and trade. Focus on these funded projects and increased participation by Indian project and services exporters in such funded projects would serve to enhance Indian commercial presence in the region.

Close Linkages with Investment Promotion Agencies

To enhance investment relations, focus could be given on building closer institutional linkages with key investment promotion agencies in the CARICOM region such as: Bahamas Investment Authority (BIA); Barbados Investment and Development Corporation (BIDC); Dominica National Development Corporation (DNDC); Jamaica Trade and Invest (JTI); St. Lucia National Development Corporation (NDC); St. Vincent and the Grenadines - National Investment Promotions Incorporated (NIP); Trinidad and Tobago Tourism and Industrial Development Company (TTIDC); and Caribbean Association of Investment Promotion Agencies (CAIPA). Such linkages would serve as important sources of detailed information about existing potential areas for investment, investment regulations and incentives, as also prospective investment partners.

Wider Dissemination of Information

An important element of the strategy to boost bilateral trade and investment relations would be to effectively disseminate relevant information about the opportunities and potential existing in fostering commercial relations. Reciprocal visits by trade and industry delegations / economic missions would serve to increase awareness in the region about India's economic reforms, strengths of Indian industry and export capabilities. These trade/economic missions could focus on specialised and industry specific fairs and exhibitions; organizing buyer-sellers meets; joint venture facilitation; organising specialised 'Made in India' exhibitions showcasing Indian expertise; and preparation of product catalogues in electronic form.

Marine Resource Development

CARICOM countries are rich in marine resources. The region provides opportunities for development and exploration of marine resources. Indian companies can explore possibilities for mutual cooperation in technology transfer and resource processing.

Other Measures

Other measures to enhance commercial relations with the CARICOM region could include understanding local culture, business practices and habits to facilitate business interactions. Proficiency in Spanish and bilingual publications (English and Spanish) would also enhance effectiveness of information dissemination and business endeavours in the region.

Keeping in mind the above discussed strategies, India could also consider putting in place a Preferential Trade Agreement (PTA) with the CARICOM region. The region has in place a number of trade and investment agreements with different regions of the world including North America, Latin America and the European Union.

The contents of the publication are based on information available with Export-Import Bank of India and on primary and desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupee are referred in crore and lakhs:

1 crore : 10 million

1 lakh : 100 thousand

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