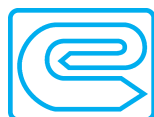


# EXIM BANK: RESEARCH BRIEF

## CARIBBEAN COMMUNITY (CARICOM): A STUDY OF INDIA'S TRADE AND INVESTMENT POTENTIAL



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### INTRODUCTION

The Caribbean Community is one of the major trading blocks in the Latin America and Caribbean region, comprising of 15 Caribbean countries viz., Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago. CARICOM also has five associate members; Anguilla, Bermuda, British Virgin Islands, Cayman Islands, and Turks and Caicos Islands. The CARICOM was established by the Treaty of Chaguaramas, Trinidad and Tobago, which came into effect on August 1, 1973.

### EMERGENCE OF CARICOM

The CARICOM was established by the Treaty of Chaguaramas, Trinidad and Tobago, which came into effect on August 1, 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. The Bahamas, Haiti and Suriname joined the CARICOM subsequently. 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 treaty came into effect in January 2006. The CSME is a mechanism, which allows the free movement of labour, capital, goods and services within CARICOM. The Community considers this to be the flagship of its strategy to overcome the challenges faced by small economies as they seek to find their place in a fast-paced global context.

### ECONOMIC PROFILE OF THE CARICOM COUNTRIES

The CARICOM region is gradually recovering from the global recession, with signs of improved real GDP growth in most member countries, aided by recovery in tourist arrivals. In Antigua and Barbuda, real GDP growth is estimated to rebound to 5.7% in 2010 after a contraction of 1.7% in 2009, while Belize is expected to register pick-up in growth during 2010 and 2011. Real GDP growth in Suriname is projected at a higher 4.0% in 2010 as compared to 2.5% growth in 2009, while in Trinidad and Tobago, real GDP growth is estimated to post a turn around with a 1.2% growth in 2010, in contrast to a decline of 3.5% in 2009. In Haiti, reflecting the ongoing reconstruction activities in the aftermath of the January 2010 earthquake, real GDP growth is projected to post a sharp 9.8% growth in 2011.

As regards inflation, all the CARICOM members have registered moderation in inflation rate during 2009, as compared to

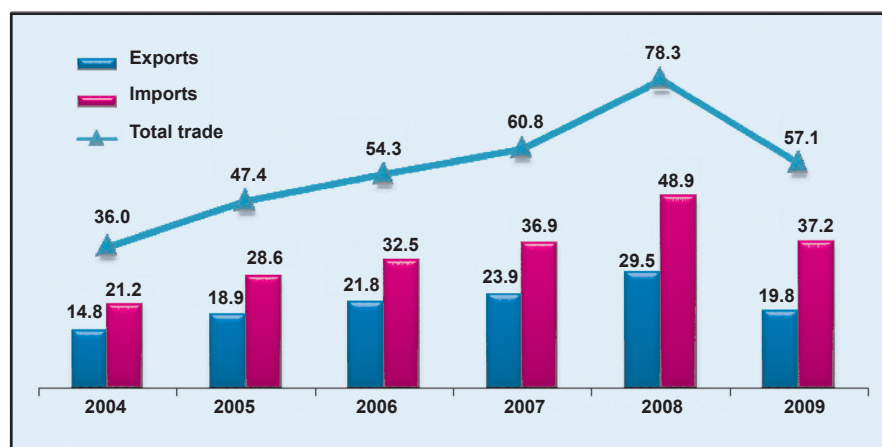
that during 2008, with the trend expected to continue in 2010 and 2011. In Haiti, inflation rate has reduced sharply from 14.4% in 2008 to 3.4% in 2009, while in Jamaica, inflation rate declined significantly from 22.0% in 2008 to 9.6% in 2009. Inflation rates have also witnessed significant decline during 2009, from over double digit rates during 2008 in St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

In Caribbean countries with highly developed tourism industries, tourism services exports often account for a large percentage of GDP. The World Travel and Tourism Council (WTTC) estimates the tourism sector's overall contribution to GDP in CARICOM countries in 2010 to average 12.3 percent, varying from a low of 7 percent in Haiti to over 78 percent in Antigua and Barbuda.

### FOREIGN TRADE IN CARICOM REGION

Total trade of CARICOM has witnessed a healthy growth in recent years. Rise in both exports and imports of CARICOM

Chart 1: Global Trade of CARICOM Region (US\$ billion)



Source: IMF, Direction of Trade Statistics 2010

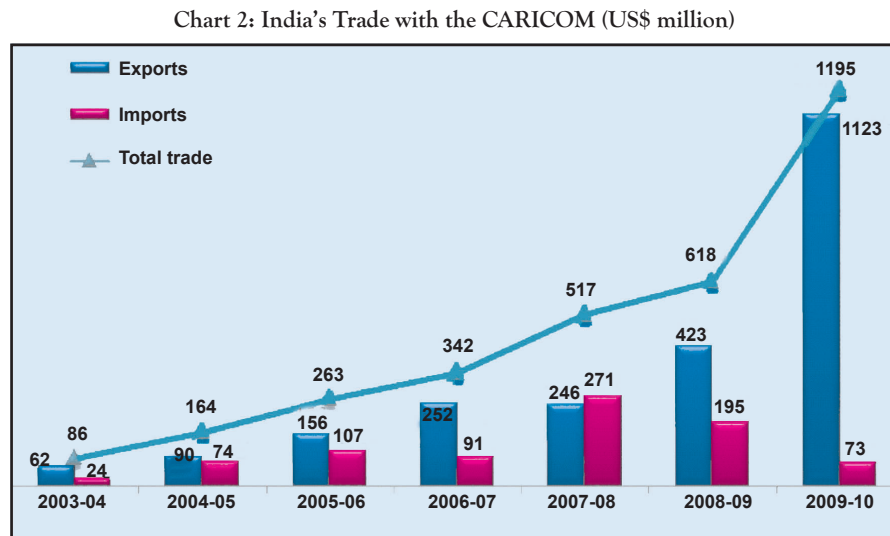
countries have underlined the increase in total trade of the region. During the last six years CARICOM's total trade has steadily risen from US\$ 35.96 billion in 2004 to US\$ 78.34 billion in 2008, before decreasing to US\$ 57.07 billion in 2009, due the impact of the global economic crisis, which has affected most countries in the region. The total exports of CARICOM steadily increased from US\$ 14.8 billion in 2004 to US\$ 29.5 billion in 2008, before declining to US\$ 19.8 billion in 2009, owing to the fall in international demand, due to the global economic crisis (Chart 1). Among the CARICOM countries, Trinidad and Tobago is the largest exporter, accounting for as much as 61 percent of total CARICOM exports during 2009, followed by The Bahamas, Jamaica, Suriname, Guyana and Haiti.

CARICOM imports have also registered a similar rising trend. Total imports of CARICOM countries have increased from US\$ 21.2 billion in 2004 to US\$ 48.9 billion in 2008 before decreasing to US\$ 37.2 billion in 2009. The Bahamas is the largest importer among the CARICOM countries, with a share of 31 percent of total CARICOM imports during 2009, followed by Trinidad and Tobago, Jamaica, St. Lucia, Haiti, Barbados, Antigua and Barbuda, and Suriname. Reflecting the rise in imports, CARICOM countries' trade deficit has increased from US\$ 6.4 billion in 2004 to US\$ 19.4 billion in 2008, and decreased to US\$ 17.4 billion in 2009 due to a fall in imports. US is the main export destination as well as the main import source of most of the counties in CARICOM region.

The main items of export from CARICOM region include mineral fuels, inorganic chemicals, iron and steel, organic chemicals, ores, slag and ash, plastics and plastic products, marine products, machinery, pearls and precious stones, sugars, edible fruits and nuts and articles of apparel. The major import items to CARICOM include cereals, motor vehicles, machinery, electrical and electronic equipment, articles of iron and steel, mineral fuel, and pharmaceutical products.

#### INTRA-CARICOM TRADE

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\$ 1.7 billion in 2004 and further to US\$ 3.1 billion in 2007. During 2008, intra-CARICOM exports increased further to reach US\$ 3.8 billion,



Source: Directorate General of Commercial Intelligence and Statistics (DGCIS), Ministry of Commerce & Industry (MOCI), Government of India (GOI)

reflecting greater integration among the countries within the trade bloc. Despite the rising trend in intra-CARICOM exports, the share of intra-CARICOM exports in total global exports by the CARICOM member countries has registered a fluctuating trend. After reaching a peak of 14.4 percent in 2000, the share of intra-CARICOM exports in total CARICOM exports has declined to 12.0 percent in 2003, before rising to 13.1 percent in 2007. However, this share has again decreased marginally to 12.9 percent in 2008.

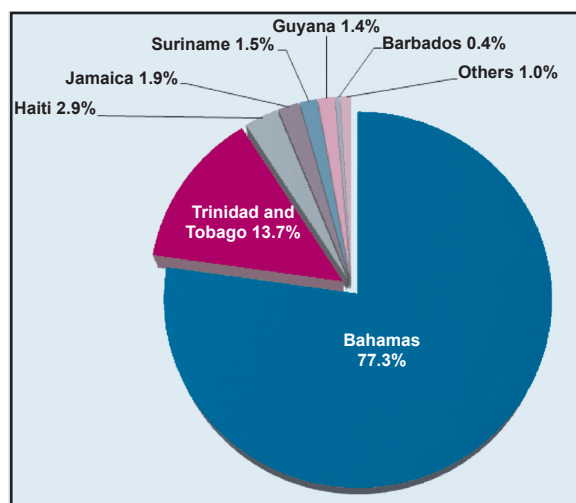
#### FOREIGN DIRECT INVESTMENTS IN CARICOM

The foreign direct investment (FDI) inflows in CARICOM countries witnessed a continued increase in recent year before witnessing a decline in 2009. The total FDI inflows in the region rose to US\$ 6.87 billion in 2008 from US\$ 2.86 billion in 2004, registering a rise of 140 percent during the period. In 2009, the total FDI inflows, however, declined to US\$ 3.85 billion, registering a decline of 44 percent due to the global financial crisis. Among the CARICOM countries, Jamaica has accounted for the largest share (27.6 percent) of FDI inflows to the region in 2009, followed by Trinidad and Tobago (18.4 percent), The Bahamas (17 percent) and Barbados (87.5 percent).

#### INDIA'S BILATERAL TRADE AND INVESTMENT RELATIONS WITH THE CARICOM

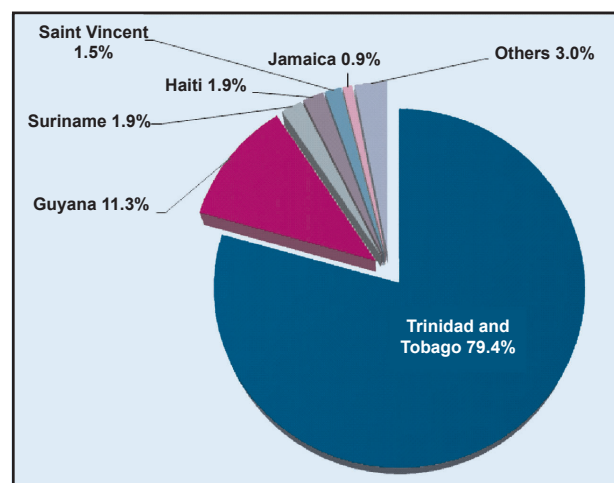
India's bilateral trade with CARICOM countries has witnessed a healthy growth in recent years. During the last seven years India's total trade with the CARICOM countries has risen fourteen-folds, from US\$ 85.5 mn in 2003-04 to US\$ 1195 mn in 2009-10. Rise in both India's exports to and imports from CARICOM countries have underlined the increase in India's overall trade with the region. India's exports to the CARICOM countries have risen from US\$ 61.5 mn in 2003-04 to US\$ 1122.6 mn in 2009-10, registering a compound annual

Chart 3: India's Exports to Select CARICOM Countries (% share 2009-10)



Source: DGCIS, MOCI

**Chart 4: India's Imports to Select CARICOM Countries  
(% share 2009-10)**



Source: DGCIS, MOCI

growth rate of 51.3 percent during the period. India's imports from the CARICOM region have also witnessed a rise from US\$ 24.0 mn in 2003-04 to US\$ 271.0 mn in 2007-08, but has declined to US\$ 194.9 mn in 2008-09, further falling to US\$ 72.5 mn in 2009-10, underlined by the sharp decline in imports from Trinidad and Tobago, St. Vincent and the Grenadines, and Jamaica during the period due to a decrease in demand on account of the global financial crisis (Chart 2). India has maintained surplus trade balance with the CARICOM region which stood at US\$ 1.1 billion in 2009-10.

Among the CARICOM countries, The Bahamas is the leading market for India's exports, accounting for 77 percent of India's total exports to the region during 2009-10. Other major export destinations of India in the region are Trinidad and Tobago, Haiti, Jamaica, Suriname Guyana, and Barbados (Chart 3).

As regards imports from the CARICOM, Trinidad and Tobago is the leading import source, accounting for 79 percent of India's total imports from the region during 2009-10. 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 Trinidad and Tobago. India's major import sources in the CARICOM region, besides Trinidad and Tobago, are Guyana, Suriname, Haiti, Saint Vincent, and Jamaica (Chart 4).

Pharmaceutical products, primary and semi-finished iron and steel, machinery and

instruments, manufactures of metals, plastic and linoleum products, readymade garments cotton incl. accessories, processed items, rubber manufactured products, cosmetics/toiletries, manmade yarn fabrics madeups, and manufactures of metals 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 the major items in India's import basket from CARICOM.

#### POTENTIAL FOR ENHANCING INDIA-CARICOM BILATERAL TRADE RELATIONS

Based on India's export capability and demand existing in the CARICOM region, the potential items for India's exports to CARICOM region could broadly include petroleum products, motor vehicles, electrical machinery, gems and jewellery, iron and steel, food products, machinery and instruments, transport equipments, pharmaceutical products, electronic goods and plastic and linoleum products. Major items with potential for exports to The Bahamas 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 instruments, transport equipments, pharmaceutical products, iron and steel 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 instruments, transport equipment, food items and petroleum products, while major items with potential for exports to Barbados could include machinery and instruments, electrical equipments, motor vehicles, pharmaceutical products, and iron and steel.

#### INDIA'S INVESTMENT POTENTIAL IN SELECT CARICOM COUNTRIES

All the countries in the CARICOM region have an open and investor friendly investment policy. Governments of CARICOM countries also provide various incentives for investment in different sectors and regions of the economy. In line with the policies of Governments in the CARICOM region, potential sectors that hold opportunities for investment in the region would broadly include tourism, agro-processing, information and communication technology, mining sector, energy sector, shipping, finance industry, insurance and manufacturing.

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

#### INDIA-CARICOM RELATIONS: SOME RECENT INITIATIVES

During the 24th Meeting of the Heads of Government of CARICOM, held in Montego Bay, Jamaica from 2nd to 5th July, 2003, the CARICOM leaders recognized the importance of strengthening relations between the Region and India taking into account the shared culture between India and a number of CARICOM states. They welcomed the invitation extended by Government of India to the then Chairman of the Community Council to visit India as part of the process of strengthening relations and exploring opportunities for developing closer trade and economic ties between CARICOM and India.

A CARICOM/ India Joint Commission was established to determine the exact scope and nature of the projects and identify



areas of bilateral cooperation. The areas identified for mutual cooperation broadly included healthcare, development of disaster mitigation and response programmes, early warning systems, culture and tourism, sharing of technical expertise, scholarships under the International Technical and Economic Cooperation (ITEC) programme and cooperation in ICT.

Moreover, besides the Focus LAC Programme of the Government of India, in order to boost India-CARICOM trade, investment, economic and cultural relations, several initiatives were taken such as organizing India-CARICOM Economic Forum, India-Caribbean Conclave, bilateral high level business delegation visits, establishment of bilateral Chambers of Commerce and Industry between India and CARICOM countries, organizing business seminars and conferences highlighting trade and investment potential in CARICOM countries, setting up of Business Facilitation Centres, and organizing international trade expositions.

#### 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. Under its financing programme, Exim Bank extends Lines of Credit (LOCs), on its own, as also on behalf and at the behest of Government of India, to overseas governments, parastatal organisations, financial institutions, commercial banks and regional development banks to support export of eligible goods and services on deferred payment terms. Exim Bank also extends overseas buyers' credit directly to foreign entities for import of eligible Indian goods and related services or for financing eligible turnkey projects. In the CARICOM region, Exim Bank has extended a number of LOC's, which include LOCs to the Republic Bank Ltd., Trinidad and Tobago; to the Government of Suriname for setting up electric transmission lines and procurement of trucks and bulldozers, water supply project; purchase of equipments, supply of crash fire tenders, purchase of helicopters from India; to the Government of Guyana, for the construction of cricket stadium in Georgetown, and supply of traffic signalling system; and to the Government of Jamaica,

for import of water pumps from India.

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, a number of project export contracts have been secured by Indian project exporters. These contracts include 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 Memorandum of Understanding with Caribbean Association of Industry and Commerce, Trinidad and Tobago, with a view to fostering conducive environment for enhancing trade and investment relations.

#### STRATEGIES AND RECOMMENDATIONS TO ENHANCE COMMERCIAL RELATIONS WITH THE CARICOM REGION

Strategies and recommendations to enhance India's commercial presence and relations with the CARICOM region would include the following: Indian companies could develop a business hub in one of the CARICOM countries, with a view to enhance India-based businesses in CARICOM region. The development of such a hub would encourage and lend support to prospective companies to develop commercial relations in the CARICOM region as well as Americas. Caribbean countries being one of the major tourism destinations of the world, Indian companies could focus on developing world-class hotels and resorts with more Indian touch. Indian hotel groups could also try to acquire and renovate some hotels in the region. Along with the acquisition of hotels in the CARICOM region, renovation of hotels could be by way of investment in setting up Indian style Ayurveda / Wellness centers in such hotels to cater to the rising demand for such facilities in the CARICOM region. Indian banks and financial institutions could explore the opportunities of opening branches/representative offices in the region, and developing correspondent banking relations with select banks in the region would serve to facilitate and promote commercial relations. High-income markets of Americas offer excellent scope for export of high-fashion garments as well as Ayurvedic and natural products from India. Since the CARICOM

countries are rich in marine resources, Indian companies can explore possibilities for mutual cooperation in technology transfer and resource processing for marine resource development. An interactive portal, hyper-linked with major industry/trade associations and chambers in the CARICOM region could be developed to provide reliable information and advisory services on potential export markets/sectors as well as investment opportunities, sector studies, market surveys, events information on government packages and incentives, and compendium of major importers in the CARICOM region. Multilateral funding agencies such as the World Bank are active in funding development projects in the CARICOM region. Focus on these funded projects and increased participation by Indian project and services exporters in such projects would serve to enhance Indian commercial presence in the region. Building closer co-operation and linkages with investment promotion agencies and Chambers of Commerce in CARICOM region would serve to enhance access to information about investment opportunities in the region. Dissemination of relevant information about the opportunities and potential existing in fostering commercial relationship is another important strategy to boost bilateral trade and investment relations with CARICOM countries. This is possible by way of reciprocal visits by trade and industry delegations/economic missions to increase awareness in the region about India's economic reforms, strengths of Indian industry and export capabilities.

*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*

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