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Integration in the Caribbean

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Notes
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Executive Summary

Trade and economic integration improve welfare and productivity through several channels. Trade increases market size to export and import, promotes gains from specialization and economies of scale, and foster innovation and the spillover of knowledge from foreign to domestic firms. International trade literature has shown that the countries that benefit the most from trade are small countries like CARICOM members.

In this policy note, we present several indicators of the evolution of trade indicators and trade costs for CARICOM members. We analyze the level of tariffs, the performance regarding trade facilitation, the participation in global value chains, and energy integration.

As expected, trade figures for CARICOM are high compared to Latin American countries, but there is still room to reduce tariffs with South American partners, improve trade facilitation and deepen energy integration and participation in regional and global value chains.

Introduction

Trade and economic integration improve welfare and productivity through several channels. Trade increases market size to export and import, promotes gains from specialization and economies of scale, and fosters innovation and the spillover of knowledge from foreign to domestic firms. Moreover, regional integration plays a crucial role in this process. First, a large part of the participation in global value chains is regional. Second, proximity is a key driver of trade once tariffs and other non-tariff measures decrease. Most Latin American countries participate in regional trade agreements like the Mercosur, the Andean Community, or the Pacific Alliance. The Caribbean countries are not the exception; they are integrated into the Caribbean Community (CARICOM).

This document analyzes several dimensions of economic integration in the Caribbean, focusing on CARICOM countries. We start with a brief description of CARICOM. Then we explore the evolution of tariffs, trade, participation in value chains, and energy integration projects.

CARICOM: a brief history

The *Caribbean Community and Common Market (CARICOM)* was established in 1973 and is one of the longest-surviving integration agreements among developing countries. CARICOM rests on four main pillars: economic integration; foreign policy coordination; human and social development; and national security. It is comprised of twenty nations, including fifteen full-time members (Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Monsterrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago) and five associate members (Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, and Turks and Caicos)[1]. Together they add to about 19 million inhabitants and annual economic activity of about USD 145 billion (2.8% of the population and 2.7% of the GDP of Latin America and the Caribbean region). Trade has always been at the center of CARICOM. Its main objective is to promote economic integration and cooperation among its members—to ensure that the benefits of integration are equitably shared—and to coordinate foreign policy. CARICOM has negotiated and signed bilateral trade agreements with Venezuela, Colombia, Dominican Republic, Cuba, and Costa Rica to integrate into the global economy.

Since 2001, the Community has been functioning within the framework of the *Revised Treaty of Chaguaramas,* including the Establishment of the *CARICOM Single Market and Economy (CSME)* to allow for the eventual establishment of a single market and a single economy. The pillars of the Single Economy model are (i) the macroeconomic frameworks; (ii) sectoral development; and (iii) institutional arrangements. The CSME plans to allow for freedom in the trade of goods; movements of capital, labor, and technology among member states; and macroeconomic harmonization. This is an ambitious effort that is currently far from full realization. The macroeconomic harmonization goal is not properly defined in the agreement and therefore is unlikely to

[1] Member States are allowed to attend, participate and vote in all meeting of the organs and institutions of CARICOM while Associate Members are only allowed to attend the meetings of the Conference of Heads of Government. Only Member States can be part of the Council of Foreign and Community Relations. Both Member and Associate States are bound to accept CARICOM´s travel document.

come true in the medium term. Much work remains ahead of CARICOM to implement the Single Economy plan. In particular, high intra-CARICOM transportation costs remain a very significant barrier to freedom in movement of people and goods.

The CARICOM Single Market and Economy remains the main vehicle for the Community to build its economic resilience and provide a platform to integrate further into the global economy. Currently twelve CARICOM countries participate in the CARICOM Single Market (CSM) arrangements: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. However, only four countries (Barbados, Belize, Guyana and Grenada) have ratified the protocol. The double taxation agreement has been ratified by ten countries. However, the Multilateral Air Services Agreement remains to be signed and the agreement of free mobility of people within CARICOM countries remain to be fulfilled.

Trade in the Caribbean

The international trade literature has taught us that small countries are the ones that benefit the most from trade. For this reason, it is unsurprising that trade indicators in the Caribbean follow a different pattern than in the rest of Latin America. Table 1 presents the Trade/GDP ratios for the CARICOM countries and the average for Latin America for 1980-1984 and 2015-2019. As can be seen, these ratios are much higher than the average for Latin America. However, trade/GDP ratios shrank by 10% for the average CARICOM country, while they have increased by almost 10% in Latin America. Overall, even though the average for the Caricom countries falls, the figures are still much higher than the average for Latin America and the tendency is mostly driven by a drop in imports (from 60% to 51%).

Table 1: Evolution of exports, imports, and trade between 1980-2019

Country	1980-1984			2015-2019		
	Exports	Imports	Total Trade	Exports	Imports	Total trade
Antigua and Barbuda	n.a.	n.a.	n.a.	71	67	137
Bahamas	67	60	127	38	38	76
Belize	44	59	102	55	60	115
Barbados	57	58	116	42	41	83
Dominica	28	60	88	41	66	107
Grenada	32	59	91	51	54	106
Guyana*	59	74	133	34	55	89
Haiti	n.a.	n.a.	n.a.	11	33	44
Jamaica	46	52	98	35	49	83
Saint Kitts and Nevis**	n.a.	n.a.	n.a.	53	56	110
Saint Lucia***	n.a.	n.a.	n.a.	55	48	103
Suriname	n.a.	n.a.	n.a.	47	51	98
Trinidad and Tobago	48	51	99	41	43	85

Saint Vincent and the Grenadines***	45	68	113	38	55	93
Average CARICOM	47	60	107	44	51	95
Average LATAM	25	27	52	29	33	62

Source: World Development Indicators and WITTS, World Bank and OMC-UNCTAD

*Data from 2015 to 2019

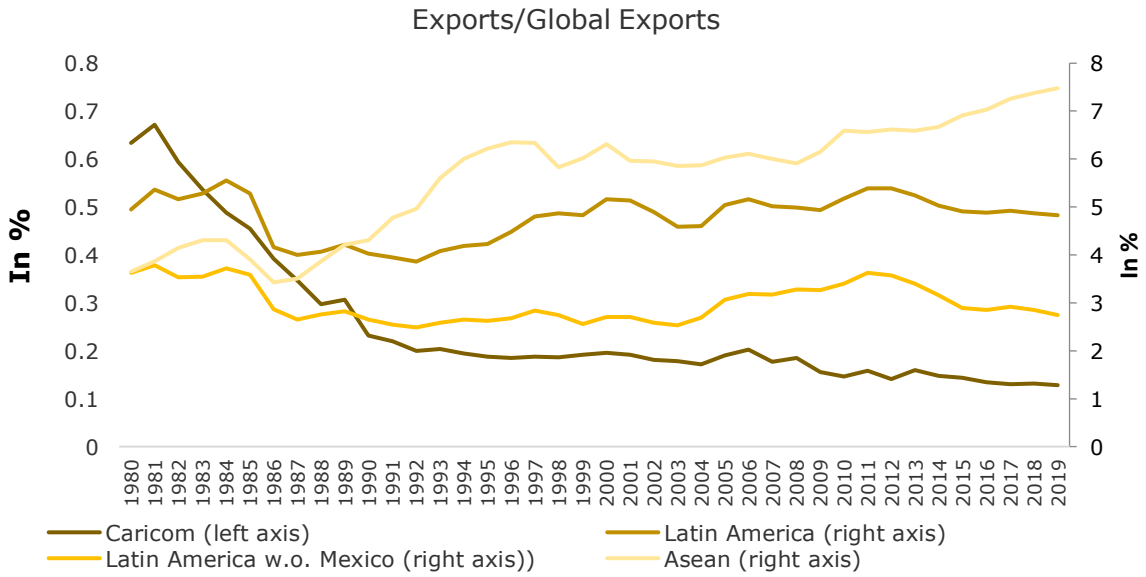
**Data from 2015 to 2017

***Data from 2015 to 2018

In this regard, there are some points to highlight. First, for several economies, we still need data for the period 1980-1984, which prevents us from comparing the evolution of this indicator for these countries. Of the countries for which we have data, six of them (Bahamas, Barbados, Guyana, Jamaica, Trinidad and Tobago, Saint Vincent and the Grenadines) have shown a decrease in the size of exports, imports, and trade. In contrast, three (Belize, Dominica, and Grenada) have shown increases.

Another sign of the relative stagnation of the Caribbean economies' integration is that while their exports represented 0.6% of global exports in 1980, by 2019, they represented 0.1%. This can be seen in figure 1. That figure also shows that Latin America did not increase its participation in global trade. Moreover, excluding Mexico, the participation declined by almost one percentage point, from 3.6% to 2.7%. In the same period, other developing regions significantly increased their participation in global trade. That is the case of ASEAN, that increased its participation in global trade from 3.5% to 7.5%.

Figure 1: Participation in global exports

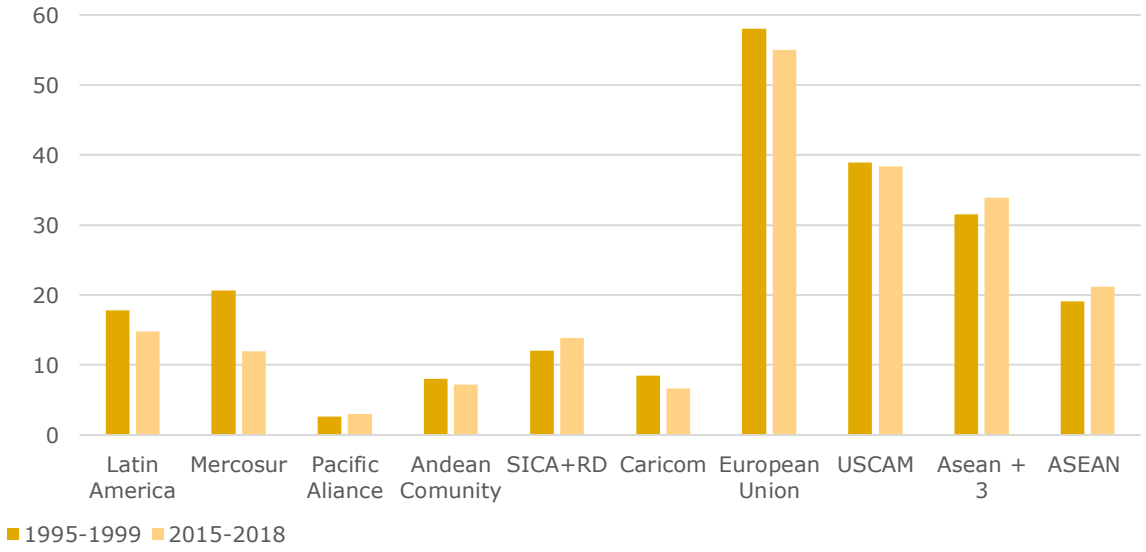


Source: Authors using World Bank (2020). World Development Indicators (WDI)

The trend towards a lower share of global exports could be partially explained by lower growth. According to the World Bank (WDI database), in the 1980-2021 period the average GDP growth in the Caribbean region lagged significantly the average world GDP growth rate (1.80% annual vs. 2.94% annual), this resulted in a reduction of 36.7% in the Caribbean share of global GDP (to some extent the result of demographic trends: the Caribbean share of global population declined 24.0% during the period as a result of lower vegetative growth and out-migration) and the specialization in industries that have grown less than the global GDP (becoming less relevant), as is the case of oil and gas and agricultural products. The reduction in oil and gas exports coming from Trinidad & Tobago alone can explain a full one fifth of the loss in export share of the Caribbean.

Regarding regional integration, CARICOM countries also show a low level of integration over the different periods analyzed (see figure 2), with values around 8% of total trade from 1995-1999 and decreasing to 6.6% in 2015-2018. This is not very surprising given that most CARICOM countries are small economies, where a large part of the trade is with larger economies, like the US or Europe and China, to a lesser extent. To some extent, Caribbean countries continue to trade intensively with the economies they were associated with during the colonial period. The Anglo-speaking Caribbean deals with the UK twice as much as the rest of the world and Surinam's trade with the Netherlands is twelve times higher than other Caribbean countries.

Figure 2: Intraregional trade



Source: Authors using data from BACI (CEPII, 2020), BaTIS (OECD and WTO, 2020), WTO and UNCTAD (2020).

Trade in services

For most Latin American economies trade is fundamentally in goods, either from the primary sector or from the industry. Participation in services is on average 20%[2]. However, for CARICOM Economies, services constitute the main trading sector. Table 2 shows that trade in services in CARICOM economies is much higher, with seven countries where participation is at or above 50%. The outliers are Guyana, Suriname and Trinidad and Tobago, with a lower participation closer to that of Latin American economies, which is explained by the high participation of energy exports.

The last column of Table 2 shows the participation of travel trade in service trade. Travel trade captures to a large extent tourism, and as it can be seen tourism trade is very important for most of these islands. Countries like Barbados, Jamaica or St. Lucia largely depend on their tourism sector trade.

Table 2: Trade in Services in CARICOM, 2019

	Participation of Services in Trade	Participation of Travel Trade in Services Trade
Antigua and Barbuda	69,7%	22,7%
Bahamas	63,0%	27,4%
Belize	39,3%	11,6%
Barbados	51,5%*	58,9%
Dominica	48,9%	40,7%
Grenada	64,6%	67,4%
Guyana	22,8%	20,9%
Haiti	17,0%	35,1%
Jamaica	46,4%	56,5%
St. Kitts and Nevis	67,3%	31,5%
St. Lucia	69,6%	65,7%
St. Vincent and the Grenadines	52,5%	36,3%
Suriname	20,1%	21,4%
Trinidad and Tobago	16,8%	49,2%

Source: Authors using BaTIS (OMC & OCDE, 2020)

*Data for 2017

[2] There are some exceptions like Panamá where services account for 57% of total trade, Uruguay where it accounts for almost 40%, Costa Rica where it accounts for 45%.

Intra Caribbean Tourism

Intra-regional tourism flows represented around 6.7% of total tourism in the CARICOM region in 2019. However, since the COVID-19 pandemic intra-regional flows have recovered much slower than international flows. By the end of 2022 international visitors reached close to 75% of the level attained in 2019, while intra-regional flows were stuck around 30% of pre-pandemic levels.

This difference in the recovery paths is potentially related to the significant reduction in flights within the region. After LIAT (A SOE, with Antigua and Barbuda, Barbados, Dominica, and St. Vincent and the Grenadines as shareholders, was the most important regional airline) closed business in 2020 after years of losses, intra-regional flight frequencies were cut in 90%.

Intra-CARICOM air travel has been traditionally expensive due to limited scale and high travel taxes. This has been a drag on the development of intra-regional tourism and limits freedom of movement within CARICOM as mandated under the Single Market and Economy framework. A Multilateral Air Service Agreement has been drafted since 1996 but has never been fully enacted.

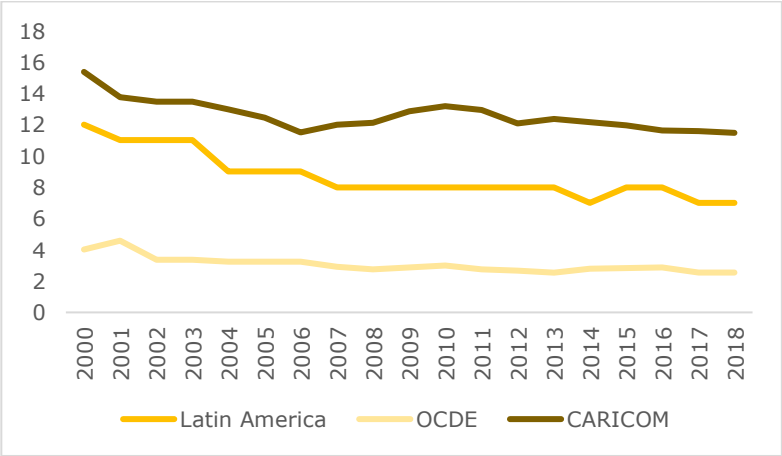
Intra-regional tourism represents an important opportunity for the region as it tends to be less seasonal than the international flows and with more diverse interests (cultural, business, education among others). Also, a reduction in transportation costs could stimulate travel from regional energy-based economies (T&T and increasingly Guyana and Surinam) to tourism destinations within the region. Better intra-regional transportation could also stimulate multi-destination travel from international visitors.

Applied tariffs

Studying the evolution of tariffs is vital to understand trade integration dynamics. Throughout the process of globalization that started during the second half of the century and intensified since the 1990s, tariffs have vastly decreased around the world. They tend to zero, particularly among intraregional partners. Figure 3 shows the evolution of the average applied tariffs for OECD countries, Latin America, and CARICOM. Tariff reduction since the 2000s was significant across all regions presented, declining from 4% to 2% in OECD countries, from 11% to 7% for Latin America, and from 15.4% to 11.5% in CARICOM. Despite the significant tariff decline in Latin America and Caricom, the levels remain high compared to developed OECD countries. As shown in table 3, trade agreements largely contributed to reducing intra-regional tariffs. However, both Latin American and CARICOM countries still impose high tariffs to extra-regional partners. Part of the explanation of the high tariffs to extra-regional partners is the low number of trade agreements that the Caricom has signed. CARICOM has signed bilateral trade agreements with Venezuela (1992), Colombia (1994), Dominican Republic (1998), Costa Rica(2004), and a trade and economic cooperation agreement with Cuba (December 2000). In addition, there is an Economic Partnership Agreement (EPA) with the European Union and the UK. Finally, there are non-reciprocal agreements between CARICOM countries and Canada and also between some CARICOM countries (the ones the belong to the Organization of Eastern Caribbean States –OECS-) and the US. As it can be appreciated, most of the Latin American countries do not have trade agreements with Caricom, as well as there are no trade agreements with Asian countries. The high

levels of extra regional tariffs is also a sign that there is still work to do at the non-preferential level. CARICOM countries impose very high tariffs even to Latin American countries, a natural trade partner given its geographical proximity and potential complementarities[3].

Figure 3: Applied tariff by region



Fuente: Own elaboration using World Bank Data (2020).

Despite a significant difference between preferential and non-preferential tariffs, CARICOM trades little within the block. This might be because the participating economies are relatively small, and there are few complementarities in the goods and services sectors. Except for energy-based economies (Trinidad & Tobago, Surinam, and more recently Guyana), the exports of goods are often concentrated around tropical agricultural products and associated agroindustry (sugar, rum, tropical fruits). In contrast, the service economy is organized around tourism and financial services with little space for diversification across countries. Given this setting, the high non-preferential tariffs become particularly relevant.

[3] Potential complementarities include the import of gas from Venezuela to be processed in T&T LNG trains that currently face a 40% idle capacity, as well as imports of fresh food and construction inputs from Central America and northern South America. Also exports in tourism and financial services from the Caribbean to Latin America could be potentially expanded.

Table 3: Bilateral applied tariffs by region

Importing Region	Exporting Region							
	Mercosur	Pacific Alliance	Andean Community	SICA+RD	CARICOM	European Union	USMCA	Asean + 3
Mercosur	0,04	1,55	0,55	7,59	7,77	7,78	6,75	7,77
Pacific Alliance	1,23	0,34	0,62	2,31	5,03	1,09	0,55	4,50
Andean Community	0,69	1,04	0,26	6,15	6,70	4,29	4,30	7,09
SICA+RD	5,37	2,79	4,58	0,65	4,54	3,82	2,05	5,34
CARICOM	12,24	12,10	12,10	11,49	2,57	6,91	12,25	12,26
European Union	3,57	0,60	0,37	0,45	0,02	0,00	1,75	2,30
USMCA	2,15	0,42	0,98	1,01	2,68	1,42	0,24	2,95
Asean + 3	6,87	5,86	6,28	6,83	6,91	6,17	6,46	1,98

Source: Authors based on Teti data (2020).

When looking at tariff by country (see table A.1 in the appendix), it can be seen that in general tariff among CARICOM countries are significantly higher than the Latin American average. So, despite efforts to join preferential trade agreements and reduce tariffs, there is still ample scope for improvement.

Trade facilitation

Trade costs include tariffs and other costs like transport and border costs. Among the initiatives to reduce these costs, we find trade facilitation measures. Trade facilitation entails automatizing, simplifying, standardizing, and digitalizing all the procedures and taxes required for trade operations. Different from preferential tariffs, trade facilitation measures are more like a decrease in most favored nations (MFN) tariffs or unilateral openness measures because, in general, they do not differentiate between partners[4]. Among the most relevant trade facilitation measures are the Single Windows for Foreign Trade (SW) or the Authorized economic operators (AEO).

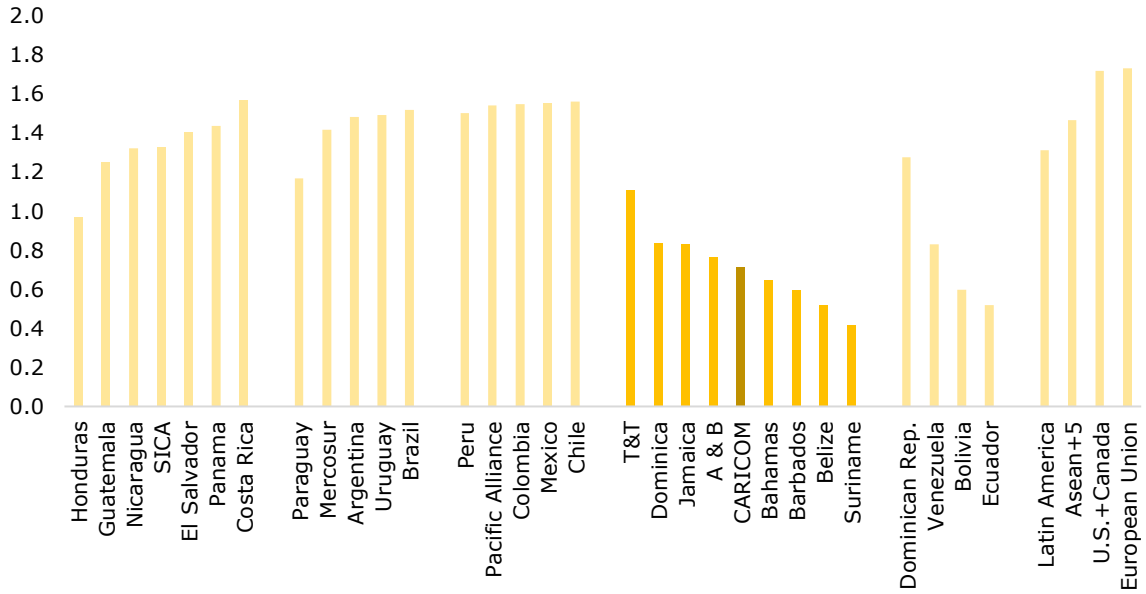
It is not easy to draft a comprehensive trade facilitation indicator that adequately measures trade costs and procedures needed to perform a foreign trade operation. However, different institutions like the World Bank or the OECD have made efforts to approximate these costs and the performance of countries in terms of trade facilitation.

In particular, the OECD has developed a trade facilitation indicator which is composed of eleven dimensions related to the concept. The dimensions included in the indicator are: Information availability, involvement of the trade community, advance rulings, appeal procedures, fees and charges, documents, automation, procedures, internal border agency co-operation, external border agency co-operation and governance and impartiality.

[4] There are some trade facilitation measures that could benefit from current agreements and help to further reduce the trade costs, like the interoperability of single windows or the mutual recognition of AEO.

Figure 4 shows the average index by country, and Table 5 presents CARICOM countries' results for which there is data in each dimension. This indicator shows that the CARICOM countries still have much space to improve their trade facilitation, with considerable heterogeneity within them. In terms of the indicator average, Trinidad and Tobago is the country with the best performance while other countries like Suriname, Belize, or Barbados still have much space for improvement. Regarding the different dimensions, most countries have a lot of space to improve in terms of advance ruling, automation, and internal and external border co-operation.

Figure 4: Trade facilitation Index by country and regions



Source: Authors based on Trade Facilitation Indicators data (OECD, 2019).

Table 4: Trade Facilitation indicator by dimension and country-CARICOM

Country	Information availability	Involvement of the trade community	Advance rulings	Appeal procedures	Fees and charges	Documents	Automation	Procedures	Internal border agency co-operation	External border agency co-operation	Governance and impartiality	Average
Antigua and Barbuda	0,70	1,00	0,00	0,75	1,17	1,13	0,56	1,14	–	–	0,44	0,77
Bahamas	0,75	0,83	0,00	1,71	1,17	1,00	0,33	0,65	0,30	0,00	0,38	0,65
Barbados	0,79	1,00	0,57	0,57	1,17	0,63	0,56	1,05	0,11	0,00	0,13	0,60
Belize	0,63	0,67	0,00	0,50	1,00	0,88	0,33	0,59	0,36	0,36	0,38	0,52
Dominica	0,90	1,60	0,29	1,63	1,33	1,00	0,33	0,95	0,55	0,18	0,44	0,84
Jamaica	0,90	1,50	0,29	1,44	0,33	0,88	0,67	0,96	0,82	0,46	0,89	0,83
Suriname	0,20	0,83	0,00	0,75	0,50	0,88	0,33	0,64	0,30	0,00	0,13	0,41
Trinidad and Tobago	1,20	1,50	1,43	1,44	1,42	1,33	0,89	0,96	0,64	0,46	0,89	1,11
CARICOM	0,76	1,12	0,32	1,10	1,01	0,97	0,50	0,87	0,44	0,21	0,46	0,70

Source: Authors based on Trade Facilitation Indicators data (OECD, 2019).

In order to improve trade facilitation, several steps can be taken. First, initiatives like single windows for foreign trade or the development and recognition of authorized economic operators (AEO) can help to reduce borders costs. These efforts tend to reduce

transaction costs relying on digital tools and facilitating the revision of documents, fees and procedures to perform a trade operation. Second, a better strategy of presenting and sharing information to trade operations as well as a better insertion and synchronization with the international trade community can bring large gains in terms of reducing trade costs. It is important for firms to have a centralized site that they can refer to if they need information to perform an import and export operation, with all the requirements and step to do it. Many times, this service is provided by the Single Windows, but firms are not aware of it. Apart from having all the information readily accessible, it is important that the different trade promotion agencies, and trade offices are constantly in touch seeking to have updated information about requirements, but also trying to evolve to more homogenous requirements between countries such that the cost of complying with them does not increases with the incorporation of new trading partners.

Participation in global value chains

With the reductions in trade costs due to lower tariffs, significant reductions in transport costs, and innovation and improvement in communication technologies, firms started to split their production process worldwide to become more competitive. A clear example of this fragmentation process was the re-localization of many American and European firms in Southeast Asia, where the low labor costs significantly reduced their production costs. Moreover, fragmentation of production allowed countries to specialize in tasks within a production process where they were more competitive and also promoted the trade of intermediate goods.

Given its growing importance, the economic literature started to pay closer attention to analyzing global value chains.

A Global Value Chain (GVC) follows the value added by each country in the production of a good. For example, to produce bread, you first need wheat, then you need to process the wheat to get flour, and then you need flour to make bread[5]. Each of these products, wheat, flour, and bread, can be produced in one country, but some inputs may come from other countries. For example, imagine that Argentina exports wheat to Brazil, which makes the flour, and exports it to Uruguay, which produces bread. Part of its production is exported to other countries. All these production steps constitute a value chain. The possibility of splitting the production process is very relevant for small countries, which usually lack the domestic market size or production capacities to develop the whole production chain but can specialize in a specific step of the chain.

There are different ways of measuring participation in value chains. One way is to compute how much of the value exported is added in other countries, that is, the use of foreign-added value in exports. This is *backward participation*. Alternatively, one can compute how much foreign countries use domestic inputs in their exports. This is called *forward participation*.

Another disaggregation that generally the data allows is distinguishing between countries involved in the GVC. If all countries involved in the value chain belong to the

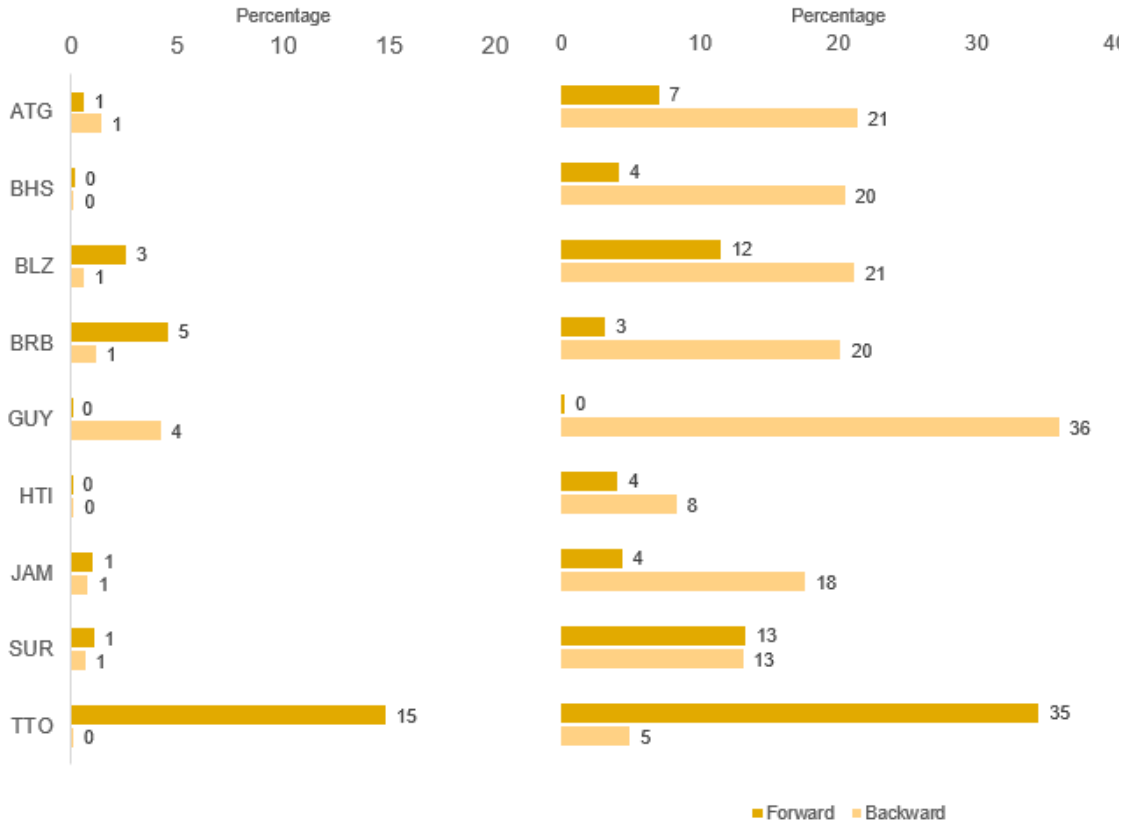
[5] For simplicity of exposition, we are assuming that to produce bread you only need flour as input.

region. In contrast, if all the countries are outside the region, we will call it Extra-regional Value Chain (EVC). Finally, if countries involved are from and outside the region, it is a Mixed Value Chain (MVC)[6].

Figure 5 shows the participation in regional and extra-regional value chains of the CARICOM countries. As is the case for most Latin American countries, the participation in RVC could be higher except for those exporting minerals or energy, as in Trinidad and Tobago. Trinidad and Tobago shows high forward participation in regional value chains. The rest of the countries have very low forward or backward participation.

However, the participation in extra-regional value chains, in particular the backward participation, is considerable, with levels similar to those of the European Union or the ASEAN countries and higher than those shown by Latin American countries in general. In most countries, this participation is around or above 20%. Trinidad and Tobago, Suriname, and Belize show high levels of forward participation in this type of chain, mainly as suppliers of oil byproducts.

Figure 5: Participation Backward and Forward in Regional and Extraregional value chains



Source: Authors, based on data from Full Eora (https://www.worldmrio.com/eora/)

[6] In the data processed mixed value chains were very small, so the graphs and tables are going to exclude them.

Energy

The primary purpose of pursuing energy integration is the advantages of interconnecting countries' power grids in geographic proximity and the multiple benefits this can bring. Securing affordable energy sources and avoiding price and supply volatility are significant advantages of pooling geographical energy demand. According to CAF´s Report on Economic Development (RED, 2021): Pathways to integration, benefits from energy integration include economies of scale in production leading to reduced costs and improved supply security, the mitigation of the impact of unforeseen events, improvements in quality of service and environmental protection. This benefits consumers and firms. Integration processes can range from the interconnection of electrical power systems to broad-scale integration. Bilateral or multilateral agreements are usually required depending on the countries involved in the network.

The Caribbean, in spite of having significant potential for renewable energy is highly dependent on fossil fuels, with an oil import bill that accounts for close to 13% of GDP. Due to its geography, small population and characteristics of small island states, its energy systems require flexible power plants and sufficient back-up capacity. Therefore, in recent years oil and diesel has made up more than 90 percent of the total needed to sate its primary energy consumption. This state of affairs negatively impact on economic and environmental sustainability. Energy integration could foster the development of new energy sources that could become feasible with scale.

Since 2013 CARICOM has delineated an energy policy to attain a fundamental transformation of the energy sectors of the Member States of the Community. The policy focuses on the provision of secure and sustainable supplies of energy to minimize energy waste and ensure access to modern, clean, and reliable energy supplies at affordable and stable prices, and to foster the growth of internationally competitive regional industries towards achieving sustainable development. The policy contemplates securing sustainable and secure energy supply, diversification, and affordability with emphasis on renewable and clean energy, an increase of intra-community trade in general, and electricity in particular, among other objectives.

More recently CARICOM has supported Member States efforts to create an enabling environment for sustainable energy providing them with technical assistance to create and maintain sustainable energy policies and regulations. Since 2020, technical assistance has been provided to develop, modernize or implement energy policies, legislation, regulations, programs and initiatives in Antigua and Barbuda, the Commonwealth of Dominica, St Kitts and Nevis, St Lucia, Guyana and Suriname.

A relevant antecedent to CARICOM´s Energy Policy is Venezuela´s PETROCARIBE initiative. Under the PETROCARIBE agreement, Venezuela committed to supplying up to 185 thb/day under concessional payment conditions that depended on the evolution of global energy prices. PETROCARIBE was created in 2005, and nine out of fifteen CARICOM member countries joined the initiative. However, with the significant reduction in oil prices after 2014 and the collapse of Venezuela´s oil production after 2017, PETROCARIBE became less relevant regarding energy supply to the region.

CARICOM has devised two other important energy integration projects. However, they have yet to be carried out into the implementation phase: (i) The Eastern Caribbean gas pipeline, and (ii) The electric grid interconnection.

The first one, promoted by Trinidad & Tobago, contemplates the construction of an 800km gas pipeline connecting gas resources in Trinidad & Tobago to most of the East Caribbean islands. However, this initiative is unlikely to materialize unless new gas projects of significant magnitude are developed in Trinidad & Tobago, given the ample spare capacity in the country's liquefaction trains.

The interconnected electric grid contemplates electricity generation from clean sources (hydroelectrical from Guyana and geothermal from some islands, including St Lucia and Dominica) and transmission through an interconnected grid through the Eastern Caribbean. This project faces difficulties associated with high investment costs, the need for a unified regulatory framework, and the lack of comprehensive agreement on energy pricing. As mentioned by CAF´s Report on Economic Development (RED, 2021): Pathways to integration, those are essential issues preventing further energy integration in the whole Latin American and the Caribbean region. The report singles out the lack of normative harmonization and mechanisms of controversy resolution as responsible for the suboptimal level of energy integration in the region.

In spite of the very significant potential benefits from energy integration, there are serious challenges to the initiative. Regulation and pricing harmonization is a first needed step towards the integration of energy markets in the Caribbean. A mechanism to allocate the new integrated infrastructure development costs will also need to be designed before building the infrastructure. Finally, given the limited fiscal space, the region needs to find alternative financing mechanisms to develop the required infrastructure.

The global energy transition drive could become an opportunity to foster the coordination required to bring about the consolidation of a single Caribbean energy market.

Concluding Remarks

In this policy note, we briefly overview the current integration situation in the Caribbean countries. Most countries show a very high level of trade, which is something expected given that these are small countries. However, some components of trade costs are still very high. Therefore, there is ample scope to reduce costs, particularly regarding tariffs and trade facilitation.

Participation in value chains is low within the region but high in extra-regional value chains. Participation in GVC is mainly through backward linkages, that is, as users of foreign inputs, except for energy producers like Trinidad and Tobago, Suriname, or Guyana.

Regarding energy integration, as in South America, success has been limited. Some projects are under analysis, but high costs and other regulatory and normative requirements may hamper their implementation.

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Appendix

Appendix 1.1 Tariffs by country, 2018

CARICOM countries do not present much heterogeneity in their tariff levels. Most of them have tariffs between 10 and 13 percent. Haiti is the CARICOM country with the lowest tariff level, 6.3% while the Bahamas is the country with the highest level, more than 23%. The table shows that the tariffs in CARICOM are significantly higher than the average tariff for Latin America or for OECD, which is a signal that there is still large room for reducing tariffs in CARICOM.

	Applied tariff in 2018
Antigua and Barbuda	12,2
The Bahamas	23,7
Barbados	12,6
Belize	10,9
Dominica	10,4
Grenada	10,8
Guyana	9,9
Haiti	6,3
Jamaica	10,3
St. Kitts and Nevis	13,6
St. Lucia	8,7
St. Vincent and the Grenadines	9,2
Suriname	10,7
Trinidad and Tobago	11,4
Latin America	5,9
OECD	2,5