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ECLAC

ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN

# FOCUS

Magazine of the Caribbean Development and Cooperation Committee (CDCC)

## STRATEGIES FOR POST COVID-19 RECOVERY IN THE CARIBBEAN



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## ABOUT ECLAC/CDCC

The Economic Commission for Latin America and the Caribbean (ECLAC) is one of five regional commissions of the United Nations Economic and Social Council (ECOSOC). It was established in 1948 to support Latin American governments in the economic and social development of that region. Subsequently, in 1966, the Commission (ECLA, at that time) established the subregional headquarters for the Caribbean in Port of Spain to serve all countries of the insular Caribbean, as well as Belize, Guyana and Suriname, making it the largest United Nations body in the subregion.

At its sixteenth session in 1975, the Commission agreed to create the Caribbean Development and Cooperation Committee (CDCC) as a permanent subsidiary body, which would function within the ECLA structure to promote development cooperation among Caribbean countries. Secretariat services to the CDCC would be provided by the subregional headquarters for the Caribbean. Nine years later, the Commission's widened role was officially acknowledged when the Economic Commission for Latin America (ECLA) modified its title to the Economic Commission for Latin America and the Caribbean (ECLAC).

### Key Areas of Activity

The ECLAC subregional headquarters for the Caribbean (ECLAC/CDCC secretariat) functions as a subregional think-tank and facilitates increased contact and cooperation among its membership. Complementing the ECLAC/CDCC work programme framework, are the broader directives issued by the United Nations General Assembly when in session, which constitute the Organisation's mandate. At present, the overarching articulation of this mandate is the Millennium Declaration, which outlines the Millennium Development Goals.

Towards meeting these objectives, the Secretariat conducts research; provides technical advice to governments, upon request; organizes intergovernmental and expert group meetings; helps to formulate and articulate a regional perspective within global forums; and introduces global concerns at the regional and subregional levels.

Areas of specialization include trade, statistics, social development, science and technology, and sustainable development, while actual operational activities extend to economic and development planning, demography, economic surveys, assessment of the socio-economic impacts of natural disasters, climate change, data collection and analysis, training, and assistance with the management of national economies.

The ECLAC subregional headquarters for the Caribbean also functions as the Secretariat for coordinating the implementation of the Programme of Action for the Sustainable Development of Small Island Developing States. The scope of ECLAC/CDCC activities is documented in the wide range of publications produced by the subregional headquarters in Port of Spain.

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## DIRECTOR'S DESK: STRATEGIES FOR POST COVID-19 RECOVERY IN THE CARIBBEAN

2020 was particularly challenging for many Caribbean economies as they struggled to deal with the twin challenges of the public health dimension of the COVID-19 pandemic as well as the ensuing economic fallout from the lockdown measures necessary to curb the spread of the virus.

Indeed, the Caribbean's Gross Domestic Product (GDP) contracted by 8.8% and its debt burden stood at 95% of GDP at the end of 2020. Fortuitously, during the first quarter of 2021, whilst access has not been entirely equitable across countries, vaccines became available to the global community. Unexpectedly, the proliferation of misinformation on various social media platforms has fueled vaccine hesitancy across the subregion. Nevertheless, continued mass public vaccination and the building up of herd immunity will likely be key to preventing countries from periodically re-entering prolonged national lockdowns, in order to curb sporadic upticks in the virus' transmission. Although the subregion is projected to return to positive growth in 2022, there remains an element of fragility to this nascent recovery.

This issue of the Focus magazine therefore presents several articles which critically examine crucial challenges facing Caribbean economies as they focus on achieving economic resilience in the face of this ongoing pandemic, and building forward better during the COVID-19 era and beyond.

As the Caribbean governments closed their borders to foreign visitors during the second quarter of 2020, the tourism sector was one of the most heavily impacted by the pandemic's restrictions. Many stakeholders would have experienced a complete loss of income for several months. While myriad uncertainties persist for the tourism industry, the glimmer of hope for the

return to near normalcy seems tied to vaccination campaigns, as only this cohort will be eligible for international travel in the foreseeable future.

International trade was also negatively impacted by the pandemic. There was a weakening of demand as the pandemic-induced restrictions weakened consumption. This added to the already existing supply-side challenges of small size, weak technological innovation and limited economies of scale that were already limiting the subregion's manufacturing trade performance. As such, given the region's limited fiscal space to effectively engage in the necessary structural transformation, it is becoming increasingly necessary for there to be a re-engineering of the rules-based global trading system to ensure that the issues of trade and finance, public debt, resilience and development are adequately taken into account.

Furthermore, the disruption to economic activity and attendant decline in revenue, led many governments to engage in further borrowing in order to mitigate the economic impact of the restrictions on their citizens. This in turn caused the rapid growth in the total public debt in many Caribbean economies. High debt continues to limit the fiscal space of economies of the Caribbean, jeopardize economic growth and compromise ability of governments to sustainably finance the provision of key public goods.

In the post-pandemic era, there is definitely a need to focus attention and

investment in strategic areas of potential comparative advantage, such as high-end food and agro-process products, and green industries. This drive can be complemented by the channeling of young entrepreneurs to these targeted sectors, effectively creating employment opportunities. This in turn can facilitate the improvement in the region's manufacturing trade.

Another avenue for Caribbean economies to build forward better lies in embracing available opportunities in the blue economy. This is logical given that the Caribbean comprises of several small islands surrounded by vast oceans. Thus, there is tremendous resource potential from the ocean resources that remains untapped. Areas such as cruise ship tourism, yachting, scuba diving, marine transportation, and fishing presents many opportunities for the local populations to earn sustainable livelihoods.

Many challenges remain ahead. But the subregion needs to work together, find innovative solutions, and collectively navigate a sustainable pathway forward that delivers welfare gains for Community in its entirety.

Yours in Focus

A stylized, handwritten signature in dark ink, appearing to read 'Diane Quarless'.

Diane Quarless





## USING CARIBBEAN TRADE TO SUPPORT RESILIENCE

Sheldon McLean\*

Given the small size and limited natural resources of Caribbean economies, trade liberalization, the orderly dismantling of barriers to trade, the negotiation of bilateral free trade agreements and the market access opportunities they furnish, are viewed as crucial antecedents to the successful sustainable development. However, despite having relatively open economies and a dedicated strategic focus on export expansion, both at the intensive and extensive margins (i.e. existing and new products as well as existing and new markets), Caribbean economies still account for a miniscule and contracting proportion of global trade (goods and services) and its trade performance has been in secular decline since the global financial crisis (2008).

**T**his article therefore seeks to examine the most crucial existential challenges which have constrained the subregion's trade performance and posit ideas for reshaping the global trading system, as well as the provision of development support to ensure that they cater to the peculiar development needs of the small vulnerable economies of the Caribbean.

It is noteworthy that all CARICOM Member States, with the exception of the Bahamas and Montserrat, are members of the WTO<sup>1</sup> and, despite trade liberalization failing thus far to deliver the expected broad-based development gains, remain committed to the principles of free trade, a rules-based multilateral trading system which supports the peculiar interests of small island developing states (SIDS), and promotes structural transformation. The Caribbean also advocates that any negotiations towards a trade-led resilience building multilateral trade architecture, should recognize the peculiar challenges faced by small vulnerable economies (SVE), many of which are disproportionately impacted by natural disasters and climate change.

Indeed, Caribbean countries are among the most vulnerable to climate change. Even among small island developing states, natural disasters are more costly and frequent in the Caribbean. The average annual damage and loss attributed to hurricanes in the Caribbean has been estimated at US\$835 million, and it is projected that this could rise

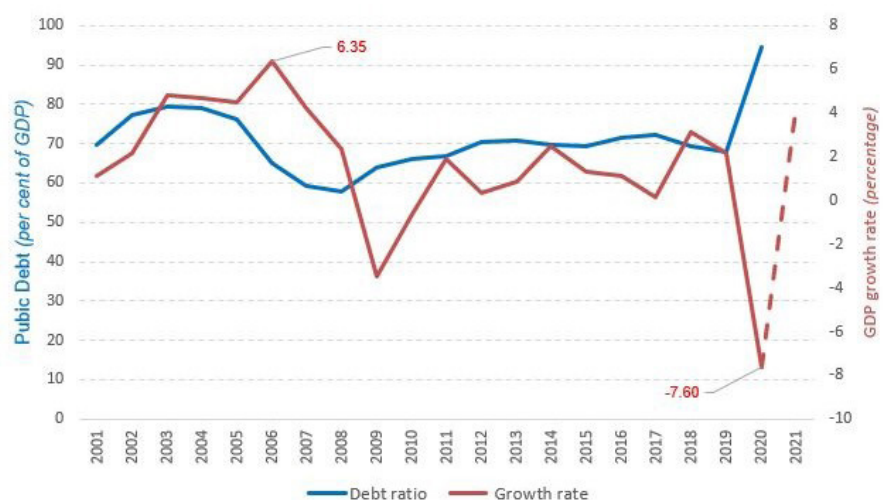
to US\$22 billion by 2050. It is this cost of natural disasters, compounded by vulnerability to the vagaries of global aggregate demand and commodity prices, that has largely driven the subregion's debt directory upwards and dampened economic growth.

The subregion already ranked among the most highly indebted in the world with public debt averaging just below 70 per cent of GDP in 2019, before the effects of COVID-19 pushed its debt burden to 94 per cent of GDP at the end of 2020. High debt servicing costs and an average fiscal deficit of 7.7 per cent of GDP in 2020, have combined to create acute liquidity challenges, narrowing fiscal space for financing resilience building post COVID-19. Considering that the Caribbean never managed to return to pre-global financial crisis (2008-2009)

growth levels, the pandemic further decelerated the subregion's growth to -7.6 per cent (see figure I) in 2020, with the services-based economies of the Eastern Caribbean Currency Union contracting by 17.4 per cent.

This low growth-high debt nexus alluded to above, in conjunction with the subregion's poor trade performance has bedeviled the Caribbean's efforts at sustained economic growth over the last decade. This cannot be ignored if the international community is genuinely interested in providing the requisite assistance to make trade liberalization a true vehicle for delivering economic development, and supporting economic resilience in the Caribbean. The next section will explore this notion.

Figure I - GDP growth rate and Public debt



Source: Economic Commission for Latin America and the Caribbean

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<sup>1</sup> The Bahamas is currently engaged in accession negotiations to become a WTO Member, which were scheduled to be concluded in 2019

## TRADE, S&D AND DEVELOPMENT SUPPORT: THE CARIBBEAN PERSPECTIVE

In the presence of expanding global trade, the Caribbean's share fell from 0.22 per cent in 2010 to 0.15 per cent in 2019, while intraregional trade within the Caribbean Community declined from 13.9 per cent of its total trade in 2010 to 9.9 per cent in 2019.

Except for trade under the CARIFORUM-EU Economic Partnership Agreement (EPA), utilization rates of all its bilateral trade agreements are under 4 per cent and the subregion's trade complementarity with its major trading partners has been on the decline. Further, the expected broad-based trade-induced welfare gains have not accrued to subregional economies and the subregion still has a considerable way to go in achieving key SDGs. Hence any post-COVID-19 reshaping of the landscape of the multilateral trading system towards making it more supportive of economic resilience, therefore, should be cognizant of the urgent need to afford SVEs more meaningful special and differential treatment (S&D) in light of their peculiar characteristics with respect to size, structure of their economies and their vulnerabilities.

Existing S&D and development support to SVEs have not paid sufficient attention to promoting structural transformation, developing productive capacity, and fostering private sector development; factors which facilitate trade. It is important that the architecture and rules of the global trading system be refashioned, to provide the support needed to redress these structural impediments and reduce supply-side constraint, if the playing field of multilateral trade is to be balanced in favour of disadvantaged small vulnerable economies. Only then will optimization of trade-related development gains that should accrue to these economies from trade liberalization be made possible.

In this respect, the impact of unbalanced global technological progress and

infrastructural development should not be underestimated. In addition, the existence of under-developed inputs, services and joint product markets in CARICOM Member States, often warrant greater intervention in order to reduce negative externalities between sectors. Further, as a consequence of the smallness of CARICOM economies, policy interventions in any one sector have cross-sectoral interactions and implications, thereby necessitating a more holistic approach to the provision of development finance. Aid for Trade and broader financing for development can be instrumental in creating or strengthening supply-side capacity, and building trade-related infrastructure needed for Member States to expand their trade and mitigate adjustment costs.

The prevailing multilateral system dominated by aggressive market-access-based liberalized trade, has failed to adequately foster the development of south-south trade complementarities. This has constrained the Caribbean's ability to make domestic production and innovation engines of growth and development. The Caribbean will need substantial development and financial assistance if it is to implement a harmonized production-investment-export-innovation framework, intended to move it from the periphery of the production frontier, towards the production of a critical mass of sophisticated export and import competitive products and services.

Limited fiscal space has constrained the capacity of Caribbean economies to finance the production of key public goods in the areas of interconnectivity, innovation, energy and transport, and tackle issues related to low labour productivity, and technology gaps. Facilitating increased investment in modernizing trade-related infrastructure as well as digitization, ICT for development, re-tooling of the private sector and the creation of financial and other instruments for supporting innovation is crucial. These are essential in promoting the structural transformation necessary to foster the regionalization of production and

upgrade the subregion's product-set including green industries. Moreover, if the international community is to honour the Paris Declaration on Aid Effectiveness, Aid for Trade and wider development support to the Caribbean Community, must reflect the priorities and real needs of the subregion including addressing the SDGs.

## CONCLUSION

In the context of post COVID-19 economic recovery and the embrace of strategy to meet the imperatives of Agenda 2030, financing for development and modalities for broadening access to such financing by small developing economies to build economic resilience, cannot be excluded from the discourse on the role of global commerce in ensuring that no one is left behind.

The impact of the pandemic on growth and debt trajectory and on the economic health of the Caribbean sub-region, demands urgent attention towards re-igniting growth by facilitating adaptation, resilience building and debt reduction. Central to this objective should be the delivery of an international mechanism for the restructuring of international sovereign debt; for crowding-in private creditors for investment in debt reduction or reprofiling initiatives targetted at the Caribbean subregion; addressing acute liquidity challenges; supporting innovative financing mechanisms such as ECLAC's proposed Caribbean Resilience Fund; and for redressing graduation and allocation criteria to allow increased access of middle income countries to concessional financing.

It is also imperative that the issues of trade and climate change, finance, public debt and development are made the fulcrum of the work programme of the WTO, if its role as an effective enabler of resilience and confidence building in the multilateral trading system is to be enhanced. Only from such a supportive foundation can opportunities to strengthen Caribbean regional integration and to further Caribbean integration in the global economy be meaningfully pursued.





# HARNESSING THE BLUE ECONOMY TOWARD BUILDING THE CARIBBEAN BACK BETTER POST-COVID-19

Nyasha Skerrette\*

"In every crisis, there is opportunity". No wiser words are more applicable in this time of considerable uncertainty when most of the world's economies are forced to implement substantive policy measures to mitigate the health, financial, and economic fallout imposed by the COVID-19 pandemic. At this juncture, Caribbean governments are preoccupied with managing the health, economic, financial, and corporate distress that has developed.

Undoubtedly, this must remain the top priority until the spread of the virus is contained. However, at some point in the near future, there will be a critical need to refocus efforts towards reviving the Caribbean's severely depressed economies. The types of social, fiscal and financial policy measures and initiatives implemented, will be critical to a sustainable revival and staying the course in the implementation of the Sustainable Development Goals (SDGs). Therefore, a critical question weighing on the minds of government leaders and policymakers must be "What are the major opportunities for Caribbean economies coming out of this crisis so that we can build back better.

One way that Caribbean governments can build back better is by tapping into the potential of the blue economy. The concept of the blue economy, conceived at the Rio +20 United Nations Conference on Sustainable Development, primarily refers to the protection of ocean resources by linking their sustainable use with economic growth and improved livelihoods.<sup>1</sup> With ocean territories 20.7 times larger than their land area<sup>2</sup> and Caribbean governments seeking initiatives to drive their post-COVID-19 recovery, the blue economy has the potential to create a new sustainable economy that promotes much needed economic growth in a socially equitable, environmentally friendly manner. Previous analysis has shown that for every US\$1 invested in the sustainable ocean economy, it will yield at least US\$5 in return.<sup>1</sup> Implementing an ocean-based strategy also allows governments to tackle high unemployment, food insecurity, poverty and vulnerability to climate change.

## OPPORTUNITIES FOR INVESTING IN THE BLUE ECONOMY

Investing in the Blue economy is not new to

the Caribbean. Caribbean economies have benefited from the marine environment through marine and coastal Tourism, for example, cruise ships, recreational yachting and scuba diving; Fisheries for commercial, subsistence and recreational purposes; and marine transportation and port services.

Other less common industries are offshore oil/gas; shipbuilding; marine construction; dredging; and marine business services. For a comprehensive list of the components of the blue economy and the growth prospects for each industry, see Table 1. However, there is still much untapped potential in the blue economy that can benefit Caribbean economies, many of which require a substantial capital investment given the need for technological upgrading of traditional sectors. Therefore, Caribbean

governments should develop the blue economy in a phased manner.

Short-term initiatives can involve upgrading existing ocean-based economic sectors utilizing new technologies to realize greater value and efficiency from the existing resource base. This would be beneficial to sectors such as Tourism, Ports and Shipping. It will be important to also provide support to growth areas with the assistance of development partners for sectors such as fishing, aquaculture, and coastal development. Such investments can yield results in the short- to medium-term. More long-term development opportunities extend to emerging industries such as mariculture; offshore wind energy; marine renewable energy, and marine biotechnology. For example, long term investments towards

Table 1: Components of the Blue Economy

Type of Activity	Ocean Service	Industry	Drivers of Growth
Harvest of Living Resources	Seafood	Fisheries	Food Security
		Aquaculture	Demand for Protein
	Marine biotechnology	Pharmaceuticals, chemicals	R&D for healthcare and industry
Extraction of non-living resources, generation of new resources	Minerals	Seabed mining	Demand for minerals
	Energy	Oil and gas	Demand for alternative energy sources
		Renewables	
	Fresh water	Desalination	Demand for fresh water
Commerce and trade in and around the oceans	Transport and trade	Shipping	Growth in seaborne trade; International regulations
		Port infrastructure and services	
	Tourism and recreation	Tourism	Growth of global tourism
		Coastal Development	Coastal urbanization
			Domestic regulations
Response to ocean health challenges	Ocean monitoring and surveillance	Technology and R&D	R&D in ocean technologies
	Carbon Sequestration	Blue Carbon	Growth in coastal and ocean protection and conservation
	Coastal protection	Habitat protection and restoration	
	Waste disposal	Assimilation of nutrients and waste	

Source: World Bank Group

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<sup>1</sup> As defined by International Institute of Sustainable Development in "Blue Economy Innovations by SIDS can advance climate action and survival",

<sup>2</sup> UNDP, Small Island Developing States do not have luxury time

a sustainable energy path in energy efficiency, renewable energy, and energy resilience can translate into as much as US\$16 billion in net economic benefits over the next 20 years.<sup>3</sup> The region can also benefit from positioning itself as a global blue economy resource for issues such as climate change solutions, sustainable fishing, waste management and renewable energy. This would require partnering with other agencies or the private sector to offer grants to support researchers and innovators working to develop blue economy approaches and technologies.

Critical to implementing these initiatives and fostering growth in the blue economy, is the development and implementation of an enabling environment beneficial to citizens, the environment, and the private investors. Partnerships with the wider Caribbean are important to promoting information sharing on the blue economy and adopting a more coordinated approach at the regional level that inspires greater innovation. CARICOM has been working towards optimizing the collective economic, social and environmental benefits of the blue economy and promoting the Caribbean involvement at the global level, and it is important that such work be advanced for the benefit of the member States. Overall, Caribbean economies can benefit from a systematic approach to the development of the blue economy, aligned with national priorities and a better understanding of the social context and resource base.

Successfully implementing the strategies outlined above can mean achieving several important economic development outcomes. Beyond increased value and efficiency in existing sectors, they can expect an increase in the number of businesses operating which leads to increases in the number of people employed in the blue economy. This is crucial to governments generating greater revenue and addressing the high unemployment levels and poverty across the subregion. The development of new economic sectors through investments from revenue generated from existing sectors, can produce medium to long-term revenue that supports much needed diversification of these small, open economies. Furthermore, research that promotes innovation and a deeper knowledge of the ocean space, will allow for improved management

and coordination of emerging economic sectors and more informed decision-making. Finally, the subregion will benefit from greater protection of the ocean space, as the impact of climate change continues to pose an unrelenting threat to the existence of the subregion.

## CHALLENGES TO PURSUING A BLUE ECONOMY STRATEGY

In pursuing a blue economy strategy, Caribbean economies face several challenges. Given the high debt, limited fiscal space and the sizeable investment needed to spur blue economic growth, financing a sustainable ocean economy is one of the top challenges.

More specifically, there is need for an enabling environment that can attract sustainable ocean finance. To combat this challenge, effective and stable regulatory and public policy that promote incentives for investors are crucial to the creation of such an environment. There is also a need for more high-quality investment worthy projects, that can match the available capital with the appropriate risk-return ratio.<sup>4</sup> To attract such large-scale investments, it may be necessary for governments to create incentives by minimizing the risk associated with ocean-based sustainable development projects and activities.

Caribbean SIDS are also challenged by the lack of access to the technologies necessary to advance the blue economy. This is where new initiatives are needed to accelerate technology transfer to and data access for Caribbean SIDS. The possibility of establishing an ocean economy is stymied by the degradation of the ocean space and the incessant impact of climate change. Ocean and marine coastal health have deteriorated through warming ocean temperatures, ocean acidification, the destruction of coral reefs, pollution, overfishing and damage to the marine coastal environment through coastal development. Climate change has also contributed to observed coastal erosion and land loss, and the destruction of ecosystems such as coral reefs with impacts on tourism. To address these challenges, the support of the international community is needed to value marine ecosystem services and establish a price for blue carbon, with the goal of establishing an internationally agreed ocean degradation agreement

similar to that achieved by REDD+<sup>5</sup> and delivering on critical climate financing.

## CONCLUSION

The development of a sustainable ocean economy has the potential to transform the lives of the Caribbean community. This is very much aligned with the several targets of the SDGs.

It, however, calls for Caribbean economies to overcome challenges to sustainably leverage ocean resources, while simultaneously fostering a supportive policy and regulatory environment to stimulate economic growth, and provide essential protection of ocean space and coastal environment. As articulated at the 2021 session of the High-Level Political Forum (HLPF) on the Sustainable Development Goals hosted by the United Nations, saving the ocean is more than an environmental responsibility but may be one of the most sustainable ways for Caribbean SIDS to save ourselves. This is made even more relevant given the ravaging effects of COVID-19 and the recovery need to build back better. ■

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<sup>3</sup> International Development Bank "Transforming the energy system in the Caribbean: technological disruption, and resilience"

<sup>4</sup> Fritsch D., Investors and the Blue Economy (Credit Suisse, 2020)

<sup>5</sup> REDD+ stands for countries' efforts to reduce emissions from deforestation and forest degradation, and foster conservation, sustainable management of forests, and enhancement of forest carbon stocks.





# RECOVERY OF THE CARIBBEAN TOURISM SECTOR: EVALUATING ECLAC'S INITIAL FORECASTS

Machel Pantin\*

In 2020 Caribbean governments implemented travel restrictions to limit the spread of COVID-19 to their countries. In April and May the number of visitors fell to zero or near-zero in several countries. Given the importance of tourism to most economies of the subregion, these measures were expected to have significant impact on the economic performance of the Caribbean.

In early-2020 ECLAC attempted to estimate the impact that COVID-19 would have on different sectors of Caribbean economies, including tourism (ECLAC 2020). The study estimated the impact as the difference between the pre-pandemic projected level of tourism activity and three estimated scenarios for the evolution of tourism arrivals in 2020. This article examines how the actual arrivals in 2020 compare to the estimated scenarios.

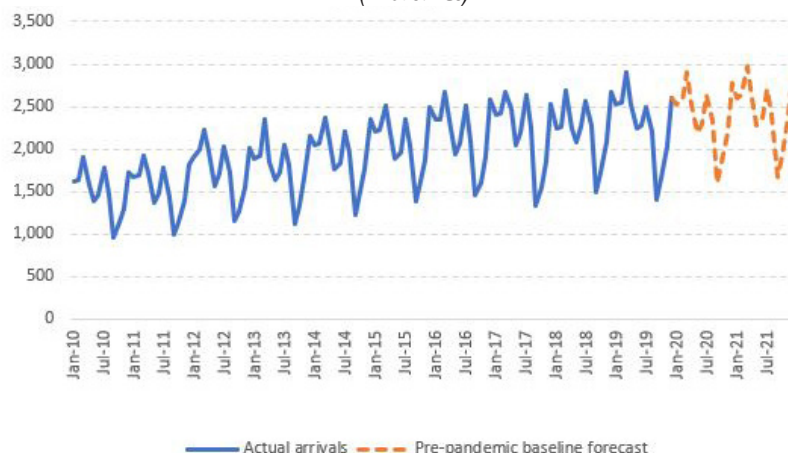
## METHOD AND FINDINGS

ECLAC's estimation method involved projecting the trend of tourism stay-over arrivals before the start of the pandemic. Using monthly arrivals data from January 2010 to December 2019, arrivals data was forecasted for 24 months from January 2020 for 24 Caribbean economies.<sup>1</sup>

Figure 1 illustrates the aggregate arrivals for the Caribbean, which had been trending upward. ECLAC estimated a sharp fall in arrivals in March and April and three scenarios for the sectors recovery: an optimistic scenario, a pessimistic scenario and a base scenario. These scenarios estimate monthly arrivals as a per cent of the pre-pandemic baseline forecast. They are outlined in Table 1.

With the actual arrival data that is now available, it can be seen that none of these scenarios were realized exactly as predicted, but this was to be expected given the uncertainty inherent in a novel disease pandemic. Nevertheless, ECLAC's base scenario compared favourably to

Figure 1: Actual and forecasted tourism arrivals in the Caribbean, Jan 2012 - Dec 2021  
(Thousands)



Source: Caribbean Tourism Organization and ECLAC

Table 1: Tourism decline scenarios

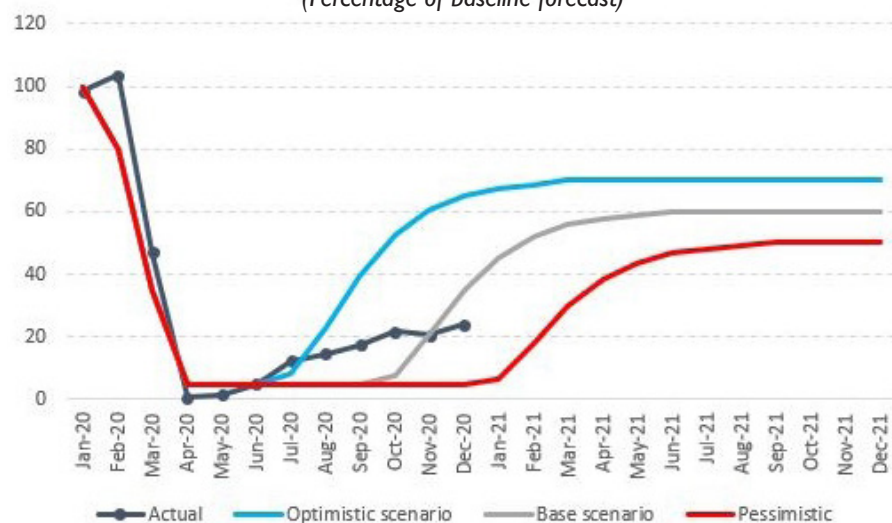
Recovery scenario	Assumptions	Change from 2019
Optimistic	Assumes the "lockdown" period of near zero arrivals continues until June 2020. Most countries get the pandemic under control and from July arrivals gradually return to the 70 per cent of the level forecasted at baseline over a period of nine months.	-58%
Base	Assumes the "lockdown" period of near zero arrivals continues until September 2020. Most countries get the pandemic under control and from October, arrivals gradually return to 60% of the level forecasted at baseline over a period of nine months.	-71%
Pessimistic	Assumes the "lockdown" measures are lifted in September, but countries have not gotten the pandemic under control. This opening would be followed by a second wave of infections, intensified by falling temperatures in the Northern Hemisphere. Travel restrictions are then re-implemented and last until December 2020. Beginning in January, arrivals gradually return to 50% of the level forecasted at baseline over a period of nine months.	-76%

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<sup>1</sup> The Caribbean includes the following ECLAC member and associate member countries: Anguilla, Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Bermuda, The British Virgin Islands, The Cayman Islands, Cuba, Dominica, The Dominican Republic, Grenada, Guadeloupe, Guyana, Haiti, Jamaica, Puerto Rico, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, and the US Virgin Islands.

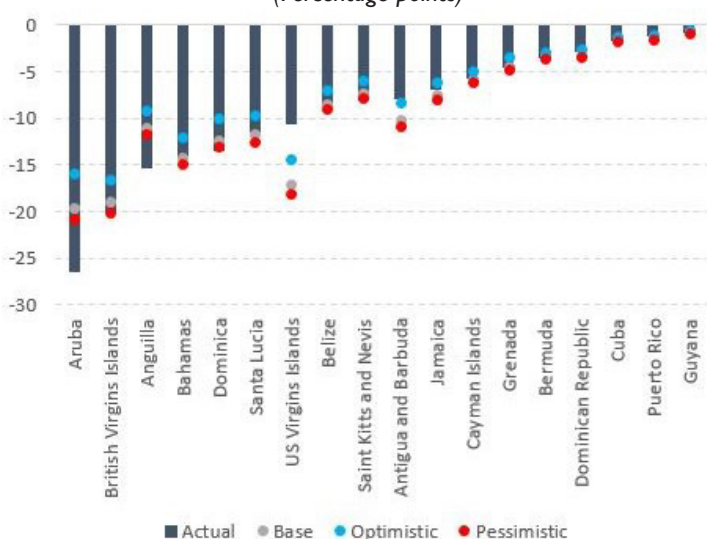


Figure 2: Tourism arrivals, Jan 2020-Dec 2021  
(Percentage of baseline forecast)



Source: ECLAC

Figure 3: Losses in tourism contribution to growth  
(Percentage points)



Source: ECLAC

Note: Due to limited 2020 arrival data, the following economies are not included: Barbados, Guadeloupe, Haiti, Suriname, Saint Vincent and the Grenadines, and Trinidad and Tobago

actual arrivals.

Figure 2 above plots the three recovery scenarios, as well as the average actual arrivals as a per cent of the pre-pandemic baseline forecast. It can be seen that the reduction in arrivals began later than estimated, as February had 3 per cent more arrivals than predicted by the baseline forecast. Arrivals fell in line with the estimates but dropped to 0.68 per cent of the baseline estimate in April, lower than the recovery scenario forecast minimum of 5 per cent. Arrivals crept up to 5 per cent by June and actually exceeded the optimistic scenario in July with 12.3 per cent of the baseline arrivals. However,

the rate of increase has not matched that of ECLAC's forecasts and actual arrivals fell below the base scenario by December 2020. With respect to the total arrivals for 2020, the change from 2019 was -67 per cent, which is a slightly better outcome than the base scenario estimate of -71 per cent.

The recovery has varied by individual economy. Some economies, such as Saint Kitts and Nevis and the British Virgin Islands never received more than 5 per cent of the pre-pandemic baseline arrivals in any month. Others, like the Bahamas, Martinique and Puerto Rico, saw arrivals increase and then fall again

due to outbreaks of COVID-19. The economies that saw arrivals rise above 30 per cent of the pre-pandemic baseline in any month were Aruba, Antigua and Barbuda, The Dominican Republic, Martinique, Puerto Rico, Sint Maarten and the US Virgin Islands (USVI). Of these economies, the one that was far and away the most successful was the USVI, which experienced arrivals up to 86 per cent of the pre-pandemic baseline in October and November.

ECLAC's 2020 study also estimated the economic impact using losses in contribution to GDP growth from the tourism sector: This was done for each scenario by subtracting the estimated contribution to growth from what the sector was projected to have contributed had it not been for the pandemic. The size of the impact is a function of how large a share tourism has in GDP. Those economies which are more diversified or less dependent on tourism had smaller impacts than the others. Figure 3 above depicts the direct losses in contribution to growth in 2020 for the three recovery scenarios as well as the actual arrivals. For the most part, the estimates based on actual arrivals are fairly close to the estimates calculated with the three recovery scenarios. Seven economies (Antigua and Barbuda, Cayman Islands, The Dominican Republic, Jamaica, Puerto Rico, Saint Lucia and the USVI) performed better (had smaller losses) than the base scenario, while just Antigua and Barbuda and the USVI performed better than the optimistic scenario.

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## RESTRUCTURING MANUFACTURING IN THE CARIBBEAN FOR STRENGTHENED POST- COVID-19 RECOVERY

Michael Hendrickson\*

The pandemic has disrupted economic activity and social life in the Caribbean. Economic growth and employment have been affected by declines in output and job losses in tourism, distribution, manufacturing and other sectors.

Given the slow rollout of vaccines, it is not expected that the region will start to recover in earnest before 2022. Nevertheless, the pandemic presents an opportunity for the Caribbean to explore short-term actions to revive growth and a medium to longer-term strategy to create a dynamic and sustainable economy. This combined short and longer-term strategy is essential for the region to achieve its prioritized SDGs.

**A** critical factor in the post-pandemic recovery and building future resilience to shocks, including pandemics is creation of a dynamically competitive economy, underpinned by new growth sectors. The pandemic provides the region with an opportunity to reimagine the role that manufacturing can play in facilitating a sustainable recovery. There has been much focus on recovery in mainstay tourism sector in many economies of the region. However, regional tourism will likely face a new normal of hyper-competition and reduced profit margins as destinations worldwide scramble to attract visitors. In addition, the gradual recovery across countries could be adversely affected by high international fuel prices and the disruption of global supply chains. This article makes a case for increased investment in niche manufacturing as one of the pillars of the post COVID-19 recovery. The case is based on the fact that there remain untapped opportunities in manufacturing, which can advance diversification. Moreover, the sector can strengthen linkages with tourism and agriculture and help to boost competitive exports and foreign exchange, and provide decent jobs in revitalized traditional and new green subsectors.

### CARIBBEAN MANUFACTURING CHALLENGES AND CONSTRAINTS

Caribbean manufacturing has underperformed both on the regional and

international market. Regional trade accounts for around 12 per cent of the region's total trade and manufacturing trade accounts for only a fraction of this share.

This stems in part from the profile of regional manufacturers. The 2014 PROTEqIN survey by the IDB with 1966 responses from businesses found that compared to other small economies, Caribbean firms were: mainly small enterprises (three quarters has less than 20 full-time employees), mainly domestic producers and older (more than 20 years old) (IDB, 2017). This typology for regional manufacturing influences their dynamism as smaller firms tend to have less funds for investment in innovation, and older firms tend to be less likely to innovate by investing in new products and processes that can help them penetrate frontier segments of global value chains. Indeed, according to the IDB (2014), Caribbean firms are less open to trade than their counterparts of the rest of small economies (ROSE), with only 11 per cent of firms exporting, 8 per cent importing and 2.3 per cent of two-way traders being open to trade. This implies that a full 82.5 per cent of Caribbean firms are locked in competition for their small domestic market, limiting their prospects for growth and the disciplining and innovative potential that trade could bring.

Given country size, economies of scale, level of technological development, shortage of highly skilled labour and

innovation capacity, most Caribbean firms cannot undertake large scale manufacturing competitively. However, a number of countries in the region have developed niche manufacturing in food and beverage, plastic products, niche machine parts and other areas. The bulk of this manufacturing has been geared towards the regional market, incentivized by the protection provided by the common external tariff (CET) of CARICOM. Trinidad and Tobago has been the main player in regional manufacturing, but other countries have captured export niches in selected products.

Growth in regional manufacturing trade is hampered by intraregional barriers to trade, including inadequate and irregular shipping, high transport costs and port charges, sanitary and phyto-sanitary barriers for some food products. Nevertheless, there are opportunities for increasing intra-regional trade in some manufactured products, including rice from Guyana, some other food products and building materials.

### POTENTIAL OPPORTUNITIES IN MANUFACTURING IN THE REGION AFTER THE PANDEMIC

Efforts to develop and revitalize the manufacturing after the pandemic should focus on short to medium-term and longer-term measures. In the short to medium-term policy makers would need to focus on making easier to do business such as fewer requirements

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for starting a business, boosting competition in the financial system to reduce the cost of credit and facilitating international trade by removing unnecessary restrictions.

Where feasible, SMEs in manufacturing firms should be supported by tax incentives, affordable credit and research grants and other incentives to encourage them to invest and scale up successful activities. Meanwhile, over the longer-term, the sector should explore developing competitive advantage in new niches that are at the frontier of future global demand. This should be anchored in an industrial policy that outlines specific support measures, timelines for support, performance benchmarks and transparent allocation of assistance to prevent their capture by interest groups that defeat the aim of boosting competitive manufacturing production and trade.

With respect to areas of near comparative advantage, there are opportunities for more investment in high-end food products for the domestic and international markets. The best opportunities in this segment, especially for export markets lie in indigenous foods that are in demand in specialized markets. Grace Kennedy's signature brands, including Grace Tropical Rhythms line of beverages and Grace Cock Soup, and the Angostura Bitters brand from Trinidad and Tobago have captured market share in international markets. With adequate investment in the technology, skills and marketing, there is an opportunity of the Caribbean to develop a niche cannabis industry, including medical marijuana, cosmetics, clothing and other products. This requires an effective legal and regulatory framework and policy incentives to attract businesses in the cannabis industry. There are opportunities for scaling-up production of high demand foods, including fine flavoured chocolate production in Trinidad and Tobago and Grenada, coconut water and other by-products in Guyana. Guyana has

launched the Guyana Coconut Industry Development Road Map to revitalize the industry along the full value chain, with target for it to contribute 6 per cent to GDP with 100,000 acres under cultivation by 2026 (Trotz, 2021). Nevertheless, the banking sector and other financial institutions will need to be persuaded of the good prospects in the subsector to provide the necessary funding.

To keep up with changing global demand, however, the region needs to supplement traditional resource-based manufacturing with new niches based on changing product demand and response to climate change. Segmented global value chains in manufacturing provide a window for Caribbean countries to specialize in high value added, customized electronic and machine parts. Competitive advantage in a few key segments can be developed by investment in skilled labour, technology and managerial and organizational competencies. This is not beyond the capability of the region. API Harowe company in Saint Kitts and Nevis for instance, has developed a niche in component parts that are used in the production of ventilators (Yahoo Finance, 2020).

In the medium to longer-term the Caribbean manufacturing in green activities, the circular and blue economy transition to increase investment and scale up established green energy output. Green energy can both provide a platform for growth in manufacturing by itself and also bolster energy supply and reduce prices- making it cheaper for other manufacturers to produce their output (United Nations, 2021). Established and startup manufacturers need to optimize the region's comparative advantage in solar, wind and geothermal energy production. Currently, on average, 74 per cent of Caribbean energy come from oil products (IDB, 2019). It is estimated that US\$9 billion in fuel costs can be saved in the Caribbean by transitioning all countries to 90 per cent clean energy by 2030 (United Nations, 2021). The

2030 target might be too ambitious, but even 2040 would be a good target for the region. This would require significant investment in large- and small-scale green energy production in the next ten years. This requires large scale funding that would have to come from the domestic and international financial institutions as governments are burdened with debt. Regional manufacturers should leverage the current relatively low global interest rate environment to borrow to invest in renewable energy, green transportation and the circular economy.

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## RECOVERY OF THE CARIBBEAN TOURISM SECTOR: EVALUATING ECLAC'S INITIAL FORECASTS (CONTINUED)

Given their relatively high levels of arrivals in the second half of 2020, the USVI outperformed the impact projections significantly. Following a brief ban on leisure travel in August, the islands experienced a major increase in airlift to the territory beginning over the Thanksgiving holiday in the US. In addition to a low number of COVID-19 cases, USVI's success may have had to do with the ease of access for US residents. As a US territory, travel insurance is not required for US residents, and neither are visas or even passports. Once travelers used the online USVI Travel Screening Portal to submit a negative COVID-19 test result, they were able to visit without entering quarantine. The simplicity of travel to the USVI may have made it an easy substitute for other Caribbean destinations during a year of great uncertainty.

### 2021 AND BEYOND

The data clearly show that the recovery for Caribbean states began earlier than predicted, but the rate has been slower than expected. At this rate, the subregion, on average, may achieve close to 50 per cent of baseline arrivals by the end of 2021.

There are a number of factors that may impact the rate of increase of arrivals, and the foremost being the continued spread of the disease. The recovery for the Caribbean depends on how quickly the pandemic is brought under control both in the destination and source markets. In January, Canada suspended flights to the Caribbean until 30 April to discourage vacation travel during a surge in COVID-19 cases. This measure should prove to particularly impactful as Canada is the subregion's second largest market for visitors, and the ban coincided with part of the Caribbean tourism high season.

There is some reason for a positive outlook for the rest of 2021. Although the Canada ban was voluntarily extended by some of the country's major airlines, it should be lifted eventually as their situation improves. In addition, Jamaica ended its ban on travelers from the United Kingdom due to a large reduction in COVID-19 incidence. As at 25 May the US has given at least one dose of a COVID-19 vaccine to 49 per cent of its population while Canada has given 53 per cent. While the majority of the Caribbean is lagging behind for now, vaccine coverage is expected to increase as the year goes on and greater supply becomes available. Increased coverage in the source markets will increase confidence and travel demand, while greater coverage in the tourism destination reduces the likelihood of outbreaks and further travel bans and economic activity restrictions.

Players in the Caribbean tourism industry are preparing for a comeback year, including the cruise industry. The US Centre for Disease Control has signaled to the cruise industry that passenger voyages could resume from mid-July once certain criteria are met. While expenditure per cruise passenger is much lower than those of stay-over visitors, this sector should provide a boon to several islands of the Caribbean. Festival tourism can also return in some places. While many Caribbean economies cancelled Carnival celebrations in 2021, in other places, such as the Cayman Islands, Carnival is still scheduled to take place.

While the world seems to be tentatively on its way to recovery, much uncertainty still remains. With limited scope for immediate diversification, Caribbean policy makers should strive to increase arrivals while managing the risk of increased spread of the

disease. With respect to the method used for forecasting the return of arrivals, changes may have to be made for future events. More conservative predictions of the rate of return may have to be considered, given the protracted rebound that the Caribbean is experiencing. ■

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## RESTRUCTURING MANUFACTURING IN THE CARIBBEAN FOR STRENGTHENED POST- COVID-19 RECOVERY (CONTINUED)

### RECOMMENDATIONS FOR RESTRUCTURING MANUFACTURING TO INCREASE ITS CONTRIBUTION TO THE POST-COVID-19 RECOVERY

Revitalizing manufacturing to enable the sector to realize its full potential and better contribute to the post-pandemic recovery, requires transformative actions by firms and policy makers over set timelines. In the short-term (next 1-3 years or so), firms should identify and scale up production of most highly demanded products.

High value-added niches, including fine-flavoured chocolate, local condiments and other local food products can be scaled up in the short to medium-term. This might require firms to switch expenditure from less competitive product lines and invest in improving the productivity of their operations in these high-demand products. Manufacturing firms would need to do their own market intelligence to find out any new product opportunities that might result from the pandemic.

In the medium to longer-term, manufacturing firms should invest in developing the skills of its workforce, especially through STEM, management and operational training, complemented by modern industrial hubs and one-stop shop Investment Promotion Agencies, to attract investment in high value added FDI in electronic component parts and pharmaceuticals.

The region has made a promising step in creating a Caribbean Manufacturers' Association, which was formed in 2020. The Association will focus on a unified, regional approach to advance the development of the sector by promoting more open regional trade, skills development and ease of movement of people. These priorities, however, need to be anchored in a regional industrial policy. This should be informed by the main constraints

that preventing productivity growth and competitiveness in the sector. In some cases credit subsidies and technical assistance would be required for some subsectors. For instance, youth entrepreneurs might need assistance in financing novel manufactured products. Public procurement and development bank credit could also be used to facilitate the development of green industries, including solar energy that could be sold to the national grid, and green light manufacturing. In addition, the incentive structure should be modernized to target FDI in activities that align with domestic priorities of upgrading and diversification in manufacturing. The recycling of plastic waste presents a ready opportunity for the region, which is one of the largest per capita producers of plastic waste in the world (Ewing-Chow, 2019). Haiti has attracted investment from Hewlett Packard (HP) to produce recycled plastics for use in its ink cartridges (Toto, 2019).

Alongside finance, technology and other inputs, the Caribbean would need to nurture young entrepreneurs who might be more prepared to venture into the new manufacturing sectors. This could also help to alleviate chronic youth unemployment in the region.

### CONCLUSION

**A sustainable post-pandemic recovery in the Caribbean would demand that the regional economy fire on all cylinders.**

The manufacturing sector, though small relative to tourism and mining is key to a resilient recovery. Revitalizing the sector could start in the short-term with investment in scaling up production to meet untapped demand in signature food brands, including fine-flavoured chocolate, rum and condiments for export. In the medium to longer-term, the region needs to leverage manufacturing as key contributor to the transition to a green and circular economy based on green

energy, greening other manufacturing and strengthening reuse, recycling and recovery in the manufacturing process. ■

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## RECENT AND UPCOMING MEETINGS

# 2021

### OCT

#### 26 - 28 October 2021

Fourth session of the Regional Conference on Social Development in Latin America and the Caribbean.

### NOV

#### 4 November 2021

Seminar on non-communicable diseases and their impact on sustainable development in the Caribbean.

#### 5 November 2021

Twentieth meeting of the Monitoring Committee of the Caribbean Development and Cooperation Committee.

#### 9 November 2021

COP 26 side event - Protagonist Latin American and Caribbean Parliaments: Announcement of the Parliamentary Observatory for Climate Change and Just Transition.

## List of Recent ECLAC Documents and Publications

Listed by Symbol Number; Date and Title

### **LC/TS.2020/188**

March 2021

Advancing gender equality in environmental migration and disaster displacement in the Caribbean

### **LC/TS.2021/1**

March 2021

Economic Survey of the Caribbean 2020: Facing the challenge of COVID-19

### **LC/CAR/2021/3**

May 2021

Selected online learning experiences in the Caribbean during COVID-19. Policy Brief







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