

The Study of CARICOM CSME Trade Liberalization Agreement for Economic Growth

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ABSTRACT

The objective of this research is to conduct an empirical analysis of the relationship between Economic Growth and Regional trading in the CARICOM region. In this research Economic growth is measured by annual Gross Domestic Product (GDP) and annual Gross National Income (GNI) which is employed as the dependent variable. The economic index variables also applied in this study are the unemployment rate, import, export, total regional trade value, population, and classification. The study's findings indicated a positive relationship between Total Regional Trade value and GDP in the Caribbean region. The study also indicated a positive relationship between Regional Trade Flow and GNI. Additionally, there was a positive relationship between imports and the unemployment rate. However, exports had no impact on the unemployment rate. Also, a country's categorization had no impact on total trade value. Throughout the investigation, the implications of the discoveries are thoroughly discussed.

Keywords: CARICOM, CSME, Trade, Economic Growth.

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I. INTRODUCTION

The main objective of CARICOM is to integrate, coordinate and enhance the collective economic and social developments of the Caribbean region. The members include Jamaica, Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Montserrat, St. Kitts and Nevis, Saint Lucia, St. Vincent, and the Grenadines, Suriname, Trinidad and Tobago. The Caribbean Single Market Economy (CSME) was established in 2001 under the treaty of Chaguaramas. The treaty consists of 27 primary goals which include improving the standard of living and work; full employment of labor and other factors of production; accelerating, coordinating, and sustaining economic development and convergence; expanding trade and economic relations with third States; enhancing levels of international competitiveness; providing organization for increasing production and productivity; achieving greater measures of economic leverage and effectiveness of Member States in dealing with third States, groups of States and entities of any description and coordination of Member States' foreign and foreign economic policies; and enhancing functional co-operation including more efficient operation of shared services and activities for the benefit of its peoples. The agreement has a harmonized schedule of duties that is applied to goods produced out of the region.

Out of the 15 member countries, 6 of these countries can be divided into a sub-regional group called the Organization of Eastern Caribbean States (OECS) which includes: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines. These countries have a shared single currency called the Eastern Caribbean Dollars.

The other member countries operate with different currencies, so for the purpose of this research an estimate in USD (United States Dollar) currency will be used. Two other sub-regional categorizations are the More Developed Countries (MDCs) which includes: The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; and the Less Developed Countries (LDCs) which includes the rest of the full member states (Belize, Haiti, and the OECS countries). The agreement suggests that the LDCs have preferential treatment within the region. The LDCs have duty-free access to the sensitive industries identified by each LDCs country. The MDCs that produce the same product will not receive the same treatment under the same rules of origin or tariff treatment for such goods.

All 15 countries in the CARICOM region had a negative growth rate between 2015 to 2020, except for Guyana. The COVID-19 pandemic might have played a factor in this negative GDP rate between 2019 to 2020 since borders were closed and most countries issued a shutdown of their economies. Tourism is one of the region's biggest contributors to GDP with 11.8%. The dependency on the tourism industry varies between the different member states. The tourism industry accounts for 1 in 6 jobs (Alleyne *et al.*, 2021).

Research on trade liberalization has been neglected despite theoretical evidence of its impact (Gnangnon, 2018). Hence why this research sees the importance of conducting this research based on the Caribbean region. Intra-CARICOM trade has a low percentage of total CARICOM trade, especially in exports based on previous data. Thus, the first objective of this study is to investigate the flow of trade between CARICOM countries.

One of the purposes of the CARICOM CSME agreement is to promote economic integration and cooperation among its members and additional third parties. The members agree upon a shared and impartial approach to coordinate both regional and foreign policy. These CARICOM countries can gain great impacts if members focus not only on international trade but also on regional trading. In order CSME objectives to be achieved all members should take advantage of the free trade agreement. Hopefully, positive regional trade in CARICOM can lead to a positive impact on members. Therefore, the second objective of this study is to investigate the extent of even, that a positive regional trade value influences GDP.

The short-term effect of trade liberalization can negatively affect economic growth but the medium to long term has a positive effect on economic growth (Gnangnon, 2018). Literature suggests that an economy can grow faster if the economy could become more open (Modeste, 2016). The CARICOM CSME agreement sets out to improve the economies of the Caribbean region. Free trade agreements are assumed and set out to improve the movement of goods within different regions. It is then assumed that if goods are moved freely with little cost, then countries exporting should gain a positive economic impact. Therefore, the third motivation is whether the agreement leads to economic growth for the CARICOM region.

Research like this can lead to insightful information about the countries in this region. Having this available to the public and encourage investors within the region or/and foreign investors to look at these countries with potential. Therefore, the fourth motivation is to provide a tool for outsiders to understand and encourage investment in the CARICOM region.

The last motivation of this study is to provide additional literature on the relationship between CARICOM countries, trade liberalization, and Economic Growth. The Caribbean can benefit from more literature to understand how their region operates. This study can help to educate foreign and even regional countries about the CARICOM agreement. This region has a lot of potential to economically grow more. Hopefully, this research can be utilized in the promotion and advocacy for the development of efficient trade policies regionally.

II. LITERATURE REVIEW

A. Economic Growth

Coccia (2018) used a simple model for assessing the economic systems' relationship with economic growth. The S-Shaped patterns of economic growth, are used to measure a linear model and show how one economy expands in contrast to another. The researcher examined the country of Italy and used the annualized GDP per capita variable in Euros. The research data was taken from 1980-2003 and observed the Italian economic system of 20 regions and 3 Marco regions. The research was divided into three regions: the north, central, and south of Italy. The reason for investigating these Marco regions of Italy is because they have more similar preferences and institutions to each other than most countries (Coccia, 2018). Coccia suggests that

Economic growth can be determined by GDP per capita using the S-shaped pattern.

Were (2015) explains that the discussion over economic growth and the relationship between trade integration is not new. Were (2015) examines additional cross-country evidence on the impact of trade on economic growth. The study categorized countries according to their level of economic development with LDCs as a separate sub-category. The study suggests that the findings in the LDCs were particularly evident in African countries that make up most of the group. The empirical evidence supports the importance of an increase in trade on economic growth. The results reveal that trade has a positive and considerable impact on economic growth for all the trade indicators evaluated.

B. Trade Liberalization

Gnangnon (2017), investigates the importance of domestic trade liberalization on government revenue. He examines the relationship between multilateral trade policy liberalization and government revenue. The research analyzes a panel of 169 countries which 37 were LDCs between the years 1995 to 2013. The findings implied that the global trade policy liberalization has a positive influence on government revenue over the medium to long term, especially for LDCs. He concludes that the level of impact is influenced by the country's level of development and by the level of domestic trade policy liberalization. Therefore, Gnangnon (2017) suggest that poor countries should be given more attention because they might not have a positive impact on the multilateral trade policy.

Trade Agreements

Shedden (2005) compares the developmental trade-offs between multilateral and regional-bilateral integration strategies in the international economy. The researcher compares the regulations that dictate policy in the World Trade Organization (WTO) with regional-bilateral agreements between the US and developing nations in the areas of trade, investment, and intellectual property. The integration methods listed in the study have similar trade-offs to developing countries gaining expanded market access and gaining specialization opportunities in return for less room to utilize industrial policy instruments to build new production capacities. In the case of regional-bilateral agreements, the researcher suggested that the trade-offs are magnified. So, the governments gain more market access in exchange for sizeable benefits on inward investment management and intellectual policy. The researcher examined trade, investment and intellectual property based on the World Trade Organization (WTO) regulations with the regional bilateral agreements between the US and developing countries. This approach in integration has similar trade-offs with the previous idea. Developing countries can obtain market access and specialization opportunities to gain a less leeway to use industrial policy instruments to generate new production capacity.

C. CARICOM CSME Agreement

The CARICOM Secretariat's CSME Unit was implemented to assist Member States in meeting the obligations of the Revised Treaty of Chaguaramas. The Treaty of Chaguaramas set objectives to remove existing

trade obstacles and establish a Single Market space that covered services, capital, technology, and skilled professional free movement. The CSME wants to enable mechanisms to remove trade and professional barriers. These provisions make it easier for people to start enterprises, provide regional services, move money freely, and coordinate economic policies. Numerous Caribbean economies under the auspices of international lending institutions pursued structural adjustment programs that included economic, financial, and trade liberalizations that considerably beyond their Treaty of Chaguaramas promises. Consumer Affairs, Competition Policy, Social Security, Contingent Rights, Immigration Arrangements for Free Movement of Persons, Administrative Arrangements for Commercial Establishment, Government Procurement, and Trade and Competitiveness in CARICOM are all important parts of CSME.

III. RESEARCH RESULTS

Table I demonstrates group statistics. The variables used are GDP, Unemployment, GNI, Export, Import, total trade value and population. Two groups are listed in the table below. The first group is the More Develop Countries which includes The Bahamas (BHS), Barbados (BRB), Guyana (GUY), Jamaica (JAM), Suriname (SUR), and Trinidad and Tobago (TTO). The second group is the Less Develop Countries (LDC) with includes Antigua and Barbuda (ATG), Belize (BLZ), Dominica (DMA), Grenada (GRD), Haiti (HTI), St. Kitts and Nevis (KNA), St. Lucia (LCA) and St. Vincent and the Grenadines (VCT). The sample group for MDCs was 30 and the sample group for LDC was 40. This is viewed between five years (2015 to 2019).

TABLE I: INDEPENDENT T-TEST

		Levene's test for equality of variance		Sig. (2-tailed)
		F	Sig	
Regional Trade Value	Equal Variances assumed	28.802	0.000	0.372
	Equal Variances not assumed			0.443
Imports	Equal Variances assumed	39.712	0.000	0.000*
	Equal Variances not assumed			0.001*
Exports	Equal Variances assumed	32.118	0.000	0.000*
	Equal Variances not assumed			0.000*
Unemployment	Equal Variances assumed	7.001	0.010	0.000*
	Equal Variances not assumed			0.000*

Note: * represents the significance at the 0.05 level.
Source: from this research.

Hypothesis one examines if a country's group categorization has an impact on total regional trade value. The researcher used two groups to test if the categorization of the country influences the countries' total regional trade value. The researcher wanted to examine if the country's categorization leads to a surplus or a deficit. The general assumption is that the less developed countries would result in the total regional trade value being a deficit, and the more developed countries would result in the total regional trade

value being a surplus. The results demonstrate that there is no statistical significance with these variables. The assumption can be made that the country's group categorization does not influence the total regional trade value. Table I shows that total regional trade is not statistically significant. There is no statistical significance with country's group categorization and total regional trade, so we reject this hypothesis.

Hypothesis two examines if a country's group categorization has an impact on imports. Despite the total regional trade value having no statistical significance with a country's group categorization, imports alone had a statistical significance with given variable. According to the test results, the categorization of a country has a statistical significance with imports. The assumption can be made that depending on the country's categorization will determine the import value recorded. Hypothesis two tested the impact if a country's group categorization (MDCs, LDCs) has any impact on imports. From Table I, the results demonstrate that there is a statistical significance between the country's group categorization and imports. Since there is a statistical significance with country's group categorization and imports, we accept this hypothesis.

Hypothesis three examines if a country's group categorization has an impact on exports. Despite the total regional trade having no statistical significance with a country's group categorization, exports alone also had a statistical significance with the given variable. According to the test results, the categorization of a country has a statistical significance with exports. The assumption can be made that depending on the country's categorization will determine the export value recorded. Table I results demonstrate that there is a statistical significance between the country's group categorization and exports. Since there is a statistical significance in country's group categorization and exports, we accept this hypothesis.

Hypothesis four examines if a country's group categorization has an impact unemployment rate. Hypothesis four tested the impact of a country's group categorization (MDCs, LDCs) has any impact on the unemployment rate. Table I shows that there is a statistical significance between the country's group categorization and unemployment rate. Since there is a statistical significance in country's group categorization and unemployment rate, we accept this hypothesis.

TABLE II: PEARSON CORRELATION

		Pearson Correlation	Sig. (2-tailed)
Population	Total Regional Trade	-0.002	0.989
Imports	Unemployment	-0.477	0.000*
Exports	Unemployment	-0.040	0.743
Unemployment	GDP	-0.488	0.000*
Unemployment	GNI	-0.444	0.000*
Total Regional Trade Value	GDP	-0.542	0.000*
Total Regional Trade Value	GNI	-0.544	0.000*

Note: * represents the significance at the 0.05 level.
Source: from this research.

Hypothesis five examines if an increase in population has a negative effect on total regional trade. The general assumption would suggest that based on the population of a

country, the demand will increase or decrease. An increase in population can lead to a high import amount which will equal a deficit figure in total regional trade value. Based on the results there is no statistical significance in that assumption. The data results demonstrated that the population has no real statistical significance to a country's total regional trade value. Regardless of the population rate in each country, it will not influence if the country records a deficit or surplus. In Table II, the P-value between population and total regional trade is 0.989 and the Pearson correlation is -0.002. This result demonstrates that there is a low correlation between population and total regional trade value. There is also no statistical significance between population and total regional trade, so we reject this hypothesis.

Hypothesis six examines if positive imports can lead to a decrease in the unemployment rate. A low unemployment rate can mean that people within the country that want to work are working. Imports can lead to job loss with the assumption that products produced in another country are being brought into the market and increasing competition with local products. Based on the results of the correlation test, it suggests the opposite. The results reported an inverse relationship between both variables which means that an increased value in imports leads to a decreased value in the unemployment rate. In Table II, the P-value between imports and the unemployment rate is 0.000 which is less than 0.05. The Pearson correlation figure is reported as -0.447. This result demonstrates that there is an inverse effect between these two variables. There is a statistical significance and a strong correlation between imports and unemployment, we support this hypothesis.

Hypothesis seven examines if a positive export can lead to a decrease in the unemployment rate. An increase in exports can create more jobs with the assumption that products are being produced in the country which leads to increased demand for employees. The test resulted in the opposite assumption. According to the results, there is no correlation between these two variables. This suggests a country's export market does not impact the unemployment rate in this study. There can be an assumption that export companies are employing other foreign employees instead of locals. The Caribbean region is known for its migration culture. In Table II, the P-value between exports and the unemployment rate is 0.743 which is more than 0.05. The Pearson correlation figure is reported as -0.040. This result demonstrates that there is no correlation between both variables. There is also no statistical significance between exports and unemployment, so we reject this hypothesis.

Hypothesis eight examines if the unemployment rate influences GDP. The researcher also tested if the unemployment rate has a positive effect on GDP to validate if the unemployment rate is an essential part of the study. The results demonstrated that the unemployment rate and GDP do have a relationship. The correlation test reported an inverse relationship between both variables which suggests that a decreased unemployment rate does have a positive effect on GDP. The lower the unemployment rate is, the higher the GDP value will be. In Table III, the P-value for total regional trade value, population, and unemployment is 0.000 which is less than 0.05. The unemployment rate recorded a P-value of 0.004. This result demonstrates that there is a relationship

between GDP and these variables. Table II demonstrates a P value of 0.000 between GDP and unemployment. It also recorded a correlation figure of -0.448, which explains that these variables have an inverse effect on each other. There is a statistical significance and a strong correlation between the unemployment rate and GDP, we support this hypothesis.

Hypothesis nine examines if a decrease in the unemployment rate has a positive effect on GNI. In Table III, the P-value for total regional trade value, population, and unemployment is 0.000 which is less than 0.05. The unemployment rate recorded a P-value of 0.004. This result demonstrates that there is a relationship between GNI and these variables including the unemployment rate. Table II demonstrates a P value of 0.000 between GNI and the unemployment rate. It also recorded a correlation figure of -0.444, which explains that these variables have an inverse effect on each other. There is a statistical significance and a strong correlation between the unemployment rate and GNI, we support this hypothesis.

Hypothesis ten examines if a Total Regional Trade value influences GDP. Both the multiple regression and correlation tests showed that there was a statistical significance between these two variables. The correlation variable showed an inverse relationship between total regional trade value and GDP. Total regional trade value is demonstrated by either a negative figure which represents a deficit or a positive figure which represents a surplus in total trade flow. So, it can be assumed that the lower the deficit figure is the higher the GDP will be for such a given country since the deficit figure is more evident in the data used. It can be assumed that a low deficit figure of a given country leads to a positive effect on the GDP value. In Table III, the P-value for total regional trade value, population, and unemployment is 0.000 which is less than 0.05. Total Regional Trade Value recorded a P-value of 0.000. This result demonstrates that there is a relationship between GDP and these variables including total regional trade flow. Table II demonstrates a P value of 0.000 between GDP and total regional trade value. It also recorded a correlation figure of -0.542, which explains that these variables have an inverse effect on each other. There is a statistical significance and a strong correlation between total regional trade value and GDP, we support this hypothesis.

Hypothesis eleven examines if a Regional Trade Flow has an influence on GNI. Like GDP, both the multiple regression and correlation tests showed that there was a statistical significance between the total regional trade flow and GNI. The correlation variable also showed an inverse relationship between total regional trade value and GNI. As mentioned in the previous paragraph, regional trade value is demonstrated by either a negative figure which represents a deficit or a positive figure which represents a surplus in total trade flow. So, it can be assumed that the lower the deficit figure is, the higher the GNI will be for such a given country since the deficit figure is more evident in the data used. It can also be assumed that the low deficit figure of a given country can lead to a positive effect on the GNI value. Table III demonstrates a P value of 0.000 between GNI and total regional trade value. It also recorded a correlation figure of -0.544, which explains that these variables have an inverse effect on each other. In Table III, the P-value for total regional trade value, population, and unemployment are 0.000 which is less than

0.05. Total regional trade value recorded a P-value of 0.004. This result demonstrates that there is a relationship between GNI and these variables including total regional trade value. There is a statistical significance and a strong correlation between total regional trade value and GNI.

TABLE III: MULTIPLE REGRESSION

Model	GDP		GNI	
	t	Sig.	t	Sig.
1				
(constant)				
Total Regional	8.902	0.000	8.745	0.000
Trade	-5.323	0.000	-5.346	0.000
2				
(constant)				
Total Regional	7.386	0.000	7.243	0.000
Trade	-6.583	0.000	-6.696	0.000
Population	6.109	0.000	6.325	0.000
3				
(constant)				
Total Regional	6.064	0.000	5.957	0.000
Trade	-5.034	0.000	-5.147	0.000
Population	6.434	0.000	6.656	0.000
Unemployment	-3.028	0.004	-3.001	0.004

Predictors: (Constant), Total Regional Trade, Population, Unemployment

Dependent: GNI, GDP

Source: from this research.

IV. CONCLUSION

Out of the eleven tests undertaken, eight of them were supported and three were rejected. The first rejected test surrounded the assumption that a country's group categorization has an impact on total regional trade value. This suggests that even if a country is categorized as a More Develop Country it does not necessarily mean that the total trade value will result in a surplus. It has a relatively same standing as a Less Develop Country. Both groups can easily result in a deficit figure regardless of their categorization. There is no real significance between the years tested (2015–2019) and any of the other variables. Some countries in the Caribbean have a relatively larger population value than other countries in the region. The assumption is the bigger the market, the higher the demand. Based on the results this assumption was not supported which led to the second rejected test. The population has no impact on regional trade value. Jamaica has a population of 2.9 million (2019) and it reported a surplus (2019); but so, did Saint Kitts and Nevis, and their population were reported at 52 thousand individuals in 2019. The assumption that exports lead to a decrease in unemployment has no statistical evidence to support the claim. The assumption was not supported which led to the third test being rejected.

GDP and GNI reported a statistical significance with both regional trade value and unemployment rate. This paper used GDP and GNI as an indicator of economic growth. The purpose of this paper was to evaluate these fourteen (14) countries' economic indicators to examine if trade liberation is effective. All these fourteen (14) countries are a part of CARCIOM – an organization that promotes regional integration both economically and socially. The research identified some key evaluations for the CARICOM region. First, a country's group categorization does have an impact on both imports and exports individually but not together under total regional trade value. The assumption can be made

that the categorization of a country does influence the import or export value but does not have an effect if the total value results in a surplus or a deficit. Second, imports lead to a decrease in the unemployment rate. The general assumption would suggest that when a country imports a product it would lead to an increase in the unemployment rate because the products are produced in another country. The results reported differently, it suggested that positive import value leads to a negative unemployment rate. The correlation test demonstrated that these two variables have an inverse relationship which suggests that if one variable decreases the other increases and vice versa.

Thirdly, regional trade value has an impact on both GDP and GNI. The assumption is that this treaty allowed these countries to trade freely within the region and it can result in positive economic growth. The test reported a statistical significance between total regional trade value, GDP, and GNI. To answer if trade liberalization effect economic growth is still quite difficult. Based on the results of this study, it evaluated the fourteen countries and suggest that total trade value does result in economic growth. The correlation test also suggests that import individually impacts GDP and GNI. The assumption that can be made is that if regional trade is more enforced and encouraged it can lead to higher economic growth. If the CARICOM countries improve the movement of products within the region it can lead to a positive total regional trade value. Countries within the CARIOM region can also investigate their comparative advantage and enforce it to have fewer deficit figures in the region.

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