

Expanding African-Caribbean Trade



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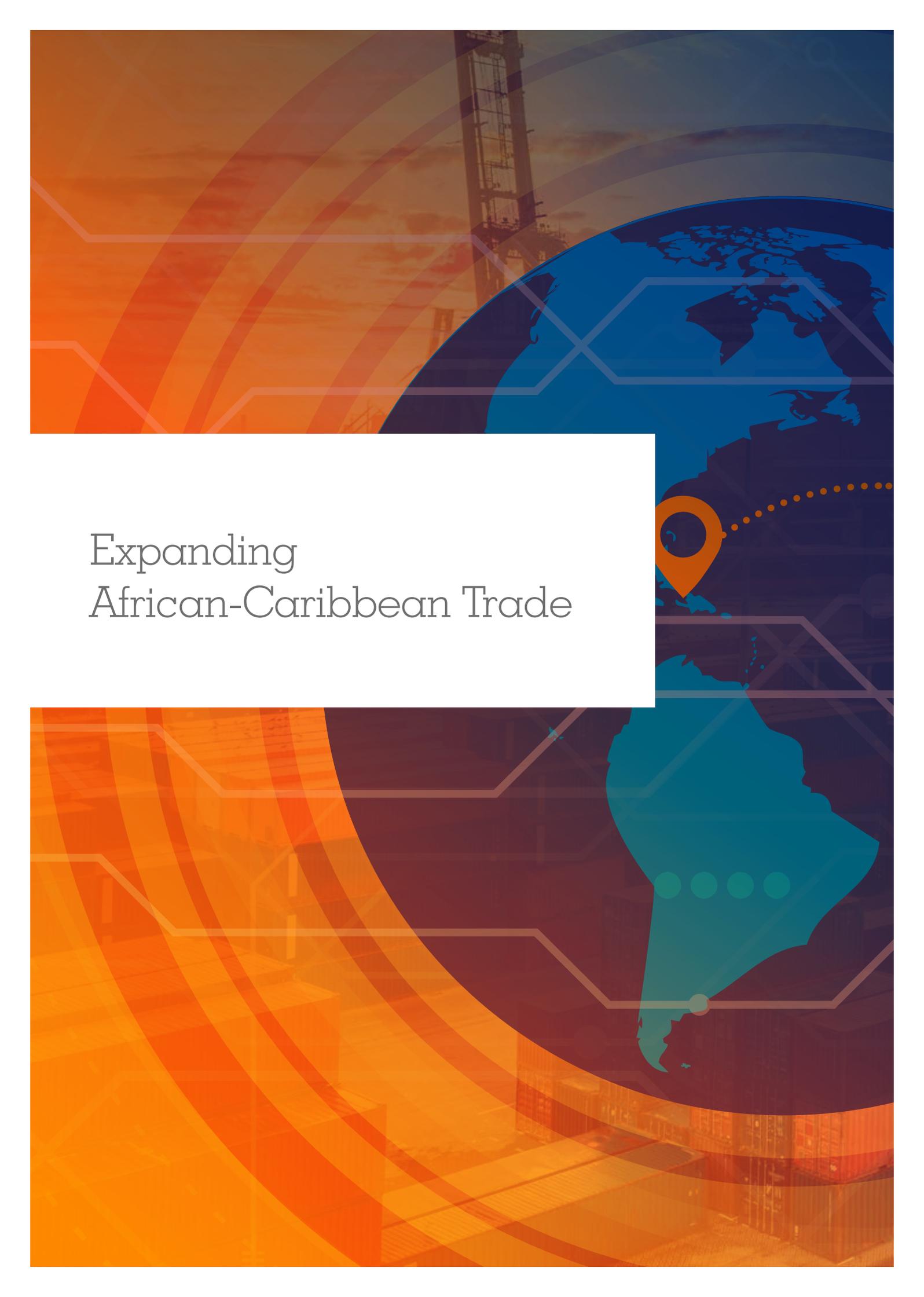
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Expanding
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About the paper

Africa and the Caribbean have more than \$1 billion in export potential across a range of goods and services sectors. By tackling trade barriers and channelling investments into sectors with growth potential, such as agrifoods and fertilizers, Africa could increase its merchandise exports to the Caribbean by 54% by 2026. The Caribbean, in turn, could boost its goods exports to Africa by 29% – and its services exports even more.

Exploiting their export potential would allow the two regions to strengthen and diversify their trade ties in times when new partnerships are needed to address the economic consequences of global crises.

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Foreword



South-South trade can be transformative. It can begin to reverse centuries of trade in unprofitable, unprocessed commodities destined for former colonial-era markets. It can expand exports into innovative areas of comparative advantage, such as creative industries and tourism. It can broaden trading opportunities from a handful of well-placed insiders to a wider universe of small businesses, women-led firms and young entrepreneurs.

This study shows the transformative potential between Africa and the Caribbean – two regions with their own unique regional integration processes; areas of comparative advantage; and opportunities and challenges to make trade work for poverty reduction and prosperity.

There is more than \$1 billion in two-way trade potential between these regions, covering both goods and services, according to the study. New opportunities exist for trade expansion across products and markets, as well as possibilities to mitigate risks to access essential medicine and food.

Currently, the regions ship less than 1% of their exports to each other. Within five years, they could shift that export dynamic significantly, with more than 25% of exports flowing in each direction between the regions. Diversification matters, too. Africa and the Caribbean could move from exporting in a few concentrated areas (chemicals and minerals) by encouraging trade from small businesses, especially those led by young entrepreneurs and women.

Strong, diversified trade between the regions is possible, in other words. To become a reality, the regions must address tariff, transport and regulatory requirements. They can use trade intelligence to spot new opportunities, and train businesses to take advantage of them. The International Trade Centre stands ready to support the stronger integration of African-Caribbean trade through its range of trade development programmes that link small businesses to export markets.

Finally, it is important to note that this study comes at an important moment. Afreximbank, Export Barbados and Invest Barbados are organizing the first major forum on trade and investment between the regions in September 2022, following a meeting last year between CARICOM and African heads of state. Afreximbank commissioned our report to provide insight into new avenues for trade and investment for this forum.

At a time when new partnerships are needed to tackle the economic consequences of global crises, we hope this study will help businesses and policymakers make the most of emerging trade that boosts growth and resilience in both regions.

A handwritten signature in black ink, appearing to read 'P. Coke-Hamilton'.

Pamela Coke-Hamilton
Executive Director
International Trade Centre

Acknowledgements

The International Trade Centre's (ITC) Trade Data, Tools and Analysis team drafted this paper with contributions from Cecilia Heuser, Sylvain Périllat, Divya Prabhakar, Julia Seiermann and Julia Spies. Julia Spies coordinated the economic analysis and writing for the report. The team worked under the supervision of Mondher Mimouni (ITC).

The final chapter, focused on recommendations to build trade capacity, draws from previous analysis of ITC South-South trade projects by Govind Venuprasad (ITC) and Amrita Saha (Institute of Development Studies), as well as the inter-regional economic analysis conducted for this report.

Peer review of the report was conducted by Temwa Gondwe (Afreximbank), Lily Sommer, Aissatou Diallo, Matias Urrutigoity, Sacha Silva and Natalie Domeisen.

Natalie Domeisen (ITC) managed the editorial content and together with Anne Griffin (ITC) managed the production process. Jennifer Freedman edited the report, Serge Adeagbo (ITC) provided graphic and printing support, and Design Plus provided graphic and layout services.

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
CARICOM	Caribbean Community
GDP	gross domestic product
ITC	International Trade Centre



Executive summary

Trade between Africa¹ and the Caribbean² is limited and concentrated in just a few sectors, notably minerals and chemicals. However, the recent cascade of crises with global economic consequences – such as the COVID-19 pandemic and the war in Ukraine – has spurred political will to diversify trading partners and revitalized efforts to build resilience and strengthen trade ties between the two historically linked regions.

This study estimates the export potential of trade between Africa and the Caribbean at \$1.1 billion. Services exports to Africa hold the most opportunity for Caribbean countries, while Africa has 2.3 times more potential to export goods rather than services to the Caribbean.

Africa could boost its annual goods exports to the Caribbean by \$171 million by 2026 – a 54% increase over 2020 export levels – if it addresses trade barriers and channels investments into merchandise sectors with growth potential. The Caribbean, in turn, could lift exports of goods to Africa by \$80 million, or 29%.³

The study is – to the best of our knowledge – the first to present opportunities for trade growth at the detailed product and market level, and to explore options to diversify the concentrated bilateral trade portfolio between Africa and the Caribbean.

The key findings of the study are:

African-Caribbean trade in goods is negligible and concentrated

Not even 0.1% of African exports were destined for Caribbean nations in 2020, while the continent bought less than 1% of Caribbean exports. Trade between the two regions is less diversified than their exports to any other region of the world.

Almost 70% of Africa's exports to the Caribbean are primary minerals (\$692 million). More than 40% of Caribbean exports to Africa are chemicals (\$203 million). Northern and Southern African countries have closer trade links with the Caribbean than countries in other African regions. Trinidad and Tobago and the Bahamas together account for nearly 70% of the Caribbean's exports to Africa.

Market access costs hinder trade integration

The absence of a free trade agreement between African and Caribbean countries means tariffs in some sectors average 28%. This translates into important tariff disadvantages for exporters from the two regions compared with competitors from other countries. In general, trade is more robust in sectors with lower tariffs.

Anecdotal reports indicate that traders struggle to comply with regulatory requirements in the partner markets because of delays, fees, stringent testing requirements or cumbersome credit checks. Transport costs are a serious barrier in both Africa and the Caribbean, which have some of the lowest indicators globally for transport infrastructure, logistics quality and customs efficiency. These bottlenecks weigh on current trade as well as trade potential, especially for trade in goods.

¹ For the purpose of this study, Africa includes all 55 countries on the African continent.

² For the purpose of this study, the Caribbean includes 25 countries: Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bonaire, Sint Eustatius and Saba, British Virgin Islands, Cayman Islands, Cuba, Curaçao, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sint Maarten (Dutch part), Suriname, Trinidad and Tobago, and Turks and Caicos Islands.

³ Given the challenges prevalent in the recording and interpretation of data on bilateral trade in vessels and aircraft, goods belonging to those categories were included in the description of trade patterns, but excluded from the analysis of trade potential.

Agricultural goods, fertilizers and health products have export growth potential

Africa has yet to realize more than four-fifths of its merchandise export potential to the Caribbean, equivalent to \$171 million. The only region where Africa realizes a lower share of its export opportunities is Southeast Asia.

The Caribbean's unrealized export potential in Africa is smaller, at \$80 million, but still represents 30% of the total export potential.

Both regions could unlock about half of the untapped potential by tackling trade barriers such as informational or regulatory bottlenecks and challenges involving transport and logistics. Full implementation of the African Continental Free Trade Area (AfCFTA) agreement would go a long way to resolving these obstacles in Africa. Unlocking the remainder, which is linked to economic growth, population growth and expected tariff changes, requires investment.

Strengthening international agrifood value chains is one of the best ways to address growing concerns about food security, both directly by improving access to essential food and indirectly, by generating additional income from trade in processed, value-added products.

Africa's agribusiness sector holds \$53 million in export growth potential to the Caribbean, most of it in fish, and other processed food products. One of the most promising sectors for African exports to the Caribbean is motor vehicles, identified as a priority value chain by the AfCFTA Secretariat. This industry has untapped potential of \$20 million, which could grow further also with the help of Caribbean input providers.

The Caribbean, in turn, has \$12 million of potential to tap into across healthcare and pharma products. Opportunities also exist in agribusiness, notably in alcoholic beverages, sugar cane and certain types of fish.

The study also found that an additional \$11 million could be realized in bilateral fertilizer trade, which is critical to food security.

Handful of countries hold most unrealized export potential, but opportunities are widespread

Three of the five largest African economies – South Africa, Egypt and Morocco – account for 79% of the continent's unrealized export potential to the Caribbean. Similarly, the Dominican Republic, Jamaica and Trinidad and Tobago together hold 76% of the Caribbean's unrealized export potential to Africa.

Still, 27 African countries have an export growth potential of \$100,000 or more across products ranging from sardines to cars. The study also found that 15 Caribbean countries could increase goods exports to Africa – in aluminium oxide and rum, for example – on a similar scale.

Services exports offer huge opportunities, especially for the Caribbean

The Caribbean has the potential to export services worth a half-billion dollars to Africa – double the value of possible goods exports. Despite the sharp decline in tourism arrivals due to the pandemic, the travel sector remains a major source of Caribbean export earnings. Tourism accounts for almost half of the region's export potential in services to Africa (\$257 million), followed by transport, which adds another \$127 million in export potential. While many Caribbean countries have no visa requirements for African tourists, flight connections between the two regions are still very limited.

Africa has the potential to export \$91 million worth of services to the Caribbean, led by transport services (\$40.4 million). Travel, transport and other business services represent around 90% of the total bilateral potential of both regions. These are among the priority services sectors on which African countries are negotiating commitments as part of the AfCFTA.

The manufacturing sector increasingly buys, produces and sells services. Transport, along with business and professional services, add higher value to goods. They are important drivers of the 'servicification' of value chains and can enable interregional trade in goods. Access to quality transport and logistics services helps boost the competitiveness of firms, forthcoming International Trade Centre survey data show.

Expanding African-Caribbean Trade



African-Caribbean trade flows are currently

less than 1%

of their total trade in each direction.



New partnerships are needed to tackle the economic consequences of global crises.



The International Trade Centre estimates over

\$1 billion

of two-way trade potential between these regions over the next five years.



Africa's trade potential by 2026 is estimated at **54%** over 2020 levels, while the Caribbean's is **29%**



The Caribbean has the most export potential in travel, transport and business services.



They also have potential to supply Africa with more health-related products.



Africa holds more than **one third** of its trade potential to the Caribbean in agribusiness and fertilizers.



Its automotive sector also holds **great trade** potential.



The key to unlocking this South-South trade?

Address trade barriers

channel investments into growth sectors and work with small businesses.





Chapter 1

A newly emerging partnership

CHAPTER 1 AN EMERGING PARTNERSHIP

African-Caribbean trade ties have remained largely unexplored for many years, despite a shared history and culture. The two regions already participate and cooperate in various multilateral forums, such as the Commonwealth of Nations, the Organisation of Africa, Caribbean and Pacific States, the United Nations and the World Trade Organization.⁴ Long focused on solidifying relationships with the larger players in global trade, Africa and the Caribbean have not yet tapped into opportunities to develop bilateral trade.

There are no trade agreements between countries of the two regions and trade between Africa and the Caribbean is insignificant. In 2020, less than 1% of Caribbean exports were destined to Africa and only 0.08% of African exports went to the Caribbean. The limited bilateral exports are heavily concentrated and dominated by natural resources – mainly gas and petroleum – chemicals, vessels and some types of motor vehicles.⁵

The situation is gradually changing thanks to increased efforts to enhance cooperation backed by a political will to capitalize on each other's economic potential, covering both trade and investment. Heads of state and government of the Caribbean and Africa have expressed their commitment to strengthening collaboration to foster trade and investment (Caribbean Community [CARICOM], 2021).

At a joint meeting in 2021, the two sides agreed to celebrate 7 September as Africa-CARICOM⁶ Day, with an annual summit on this date (CARICOM, 2021). More recently, the African Development Bank (AfDB) and the Caribbean Development Bank signed a memorandum of understanding in June 2022, creating a formal platform for the two institutions to join forces and promote bilateral trade (AfDB, 2022).

African-Caribbean economic collaboration has become even more critical as countries in both regions seek to deepen their economic recovery following the COVID-19 pandemic and the food security crisis accelerated by climate change and the war in Ukraine. New, non-traditional partnerships are gaining momentum.

The changing dynamics of global supply chains also present more opportunities for bilateral economic engagement, directing some of this potential shift in goods trade to the two regions (Brown, A., 2021). Tourism-dependent Caribbean economies, hard-hit by the pandemic, are trying to step up diversification efforts by tapping into new markets.

In fact, the tourism sector is increasingly recognized as an integral pillar of bilateral cooperation. This is reflected in ongoing discussions between governments and political efforts to improve air and sea connectivity between countries in the two regions (Nicholls, A., 2021; Nicholls, A., 2022).

⁴ Haiti is the only Caribbean country that is a part of the Organisation Internationale de la Francophonie alongside African countries, making this another international forum where the two regions are jointly represented.

⁵ As will be explained in detail later, recording and interpreting data on bilateral trade of vessels (and aircraft) poses several challenges in terms of identifying actual trade flows, their origin and whether the items traded are used or new. These factors were taken into account in the chapters that follow.

⁶ CARICOM is a grouping of 20 countries: 15 member states and five associate members.

Chapter 2

Current trade landscape

Trade trends: Minor and volatile bilateral exports

Trade patterns: Strong focus on a few markets and sectors

Focus on services: COVID-19 hit hard on travel exports

Competitiveness: Market access barriers, transport costs limit trade

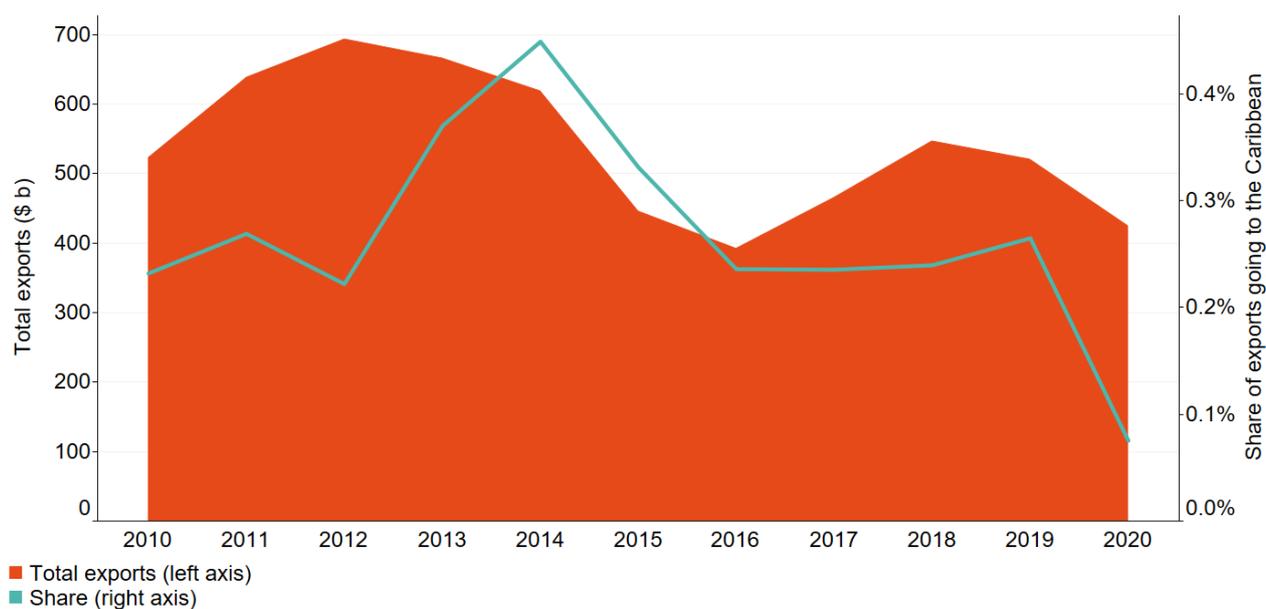
CHAPTER 2 CURRENT TRADE LANDSCAPE

Trade trends: Minor and volatile bilateral exports

Similar to world trade, Africa's merchandise exports collapsed in 2015.⁷ By 2020, exports of African goods still remained below the levels of the beginning of the decade – partially also due to the pandemic.

Only a small and recently declining share of these exports went to the Caribbean. While bilateral exports peaked at \$2.8 billion in 2014, corresponding to 0.4% of total African exports, they fell to \$319.7 million – less than 0.1% – in 2020. This is comparable to the Caribbean's share in world imports.

Figure 1: African exports to the Caribbean peaked in 2014

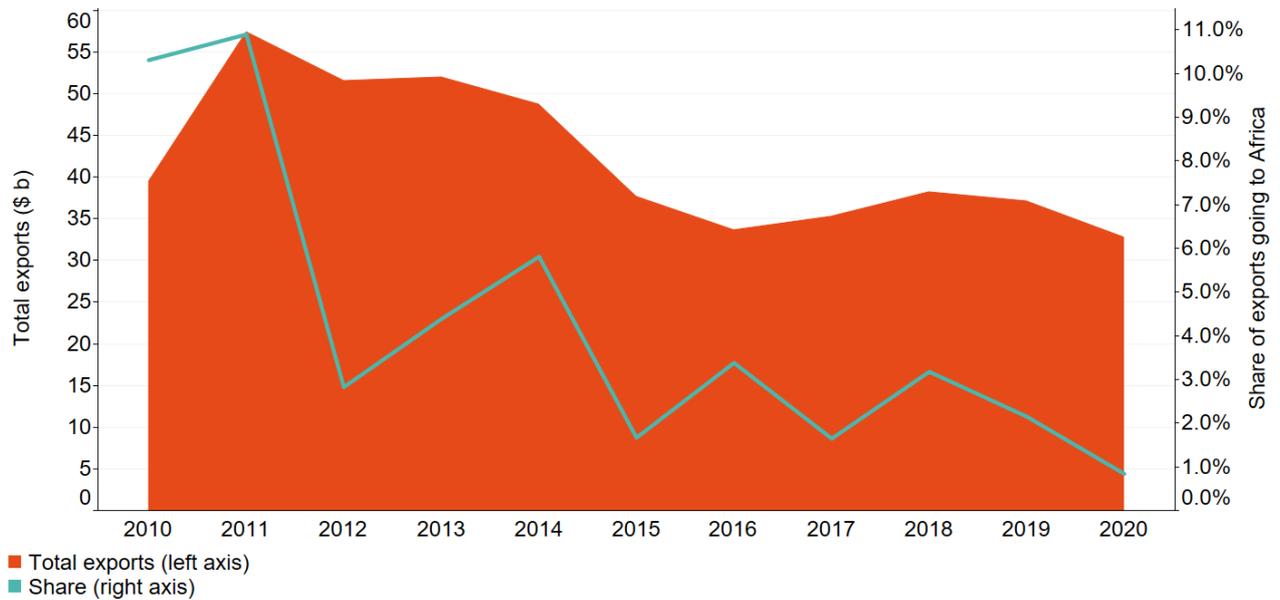


Source: International Trade Centre (ITC) Trade Map (2022)

The Caribbean's merchandise exports have been declining for more than a decade. In 2020, the export value was just 57% of its peak in 2011. The importance of the African market for Caribbean exports fell disproportionately over this period. While Africa accounted for nearly 11% of Caribbean exports in 2010 and 2011, this share slipped to less than 3% in the middle of the decade and then dropped to just 0.8% in 2020. This is well below Africa's share in world imports (2.5%), implying that the Caribbean is less integrated with Africa than with other world regions.

⁷ A 'substantial part of the drop in international trade was due to nominal factors, principally the fall in the price of commodities and the overall appreciation of the US dollar', according to the United Nations Conference on Trade and Development (2016).

Figure 2: Caribbean exports to Africa have declined dramatically

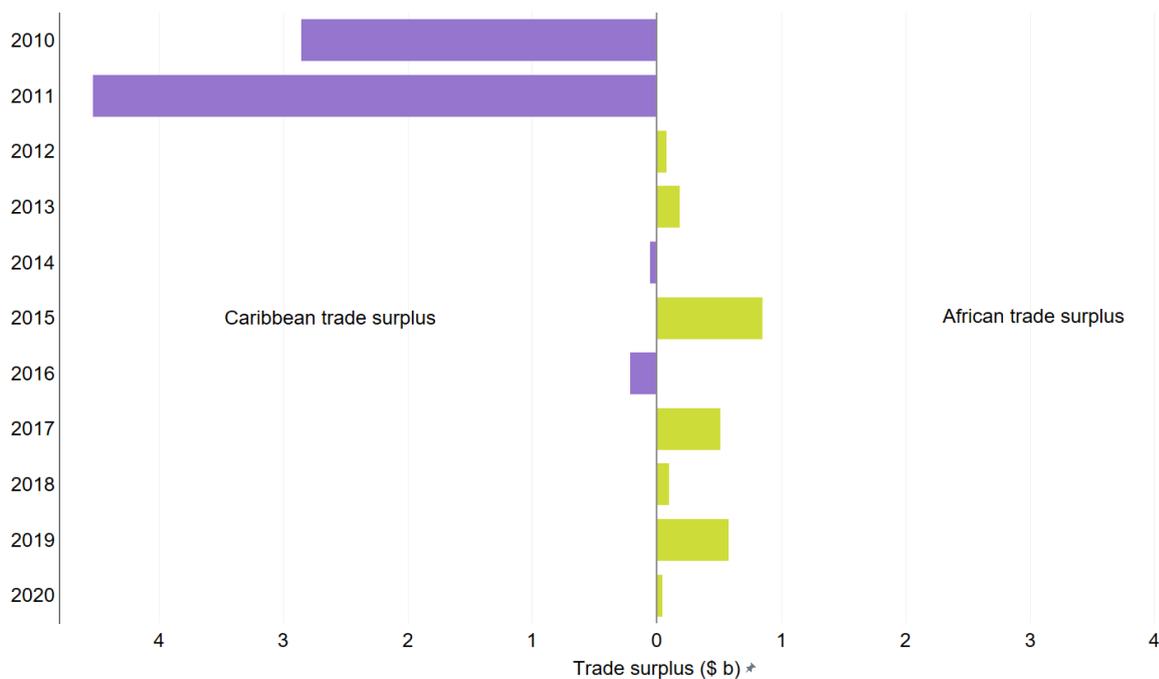


Source: ITC Trade Map (2022)

Africa’s gross domestic product (GDP) is more than 10 times that of the Caribbean. Yet the Caribbean had a substantial surplus for trade in goods towards Africa in 2010 and 2011, when the continent was one of its most important trade partners.

The Caribbean’s openness to trade – with a trade-to-GDP ratio of 100% in 2011 – has been a driver of this surplus. This ratio has narrowed to 55% since then as GDP has increased and export levels have declined. Africa’s trade openness remained relatively stable at 40% over the same period, so the continent has enjoyed small trade surpluses towards the Caribbean in recent years.

Figure 3: Caribbean had a large trade surplus with Africa in 2010–2011



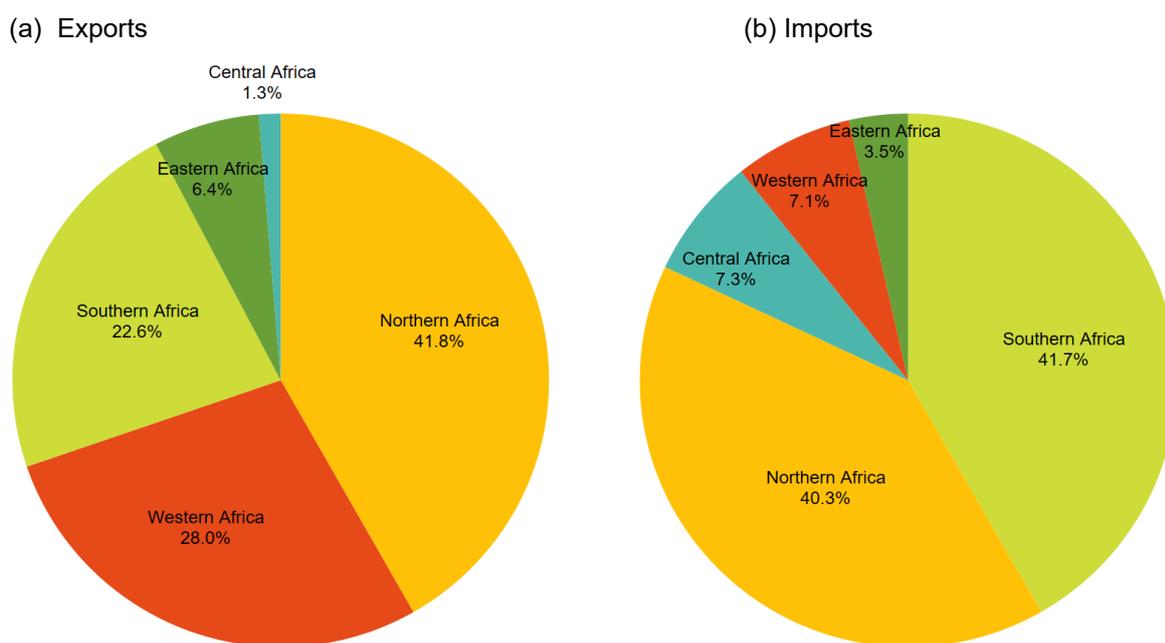
Source: ITC Trade Map (2022)

Trade patterns: Strong focus on a few markets and sectors

Diversification is often recognized as a key element of sustainable and stable export-driven growth as it can help to overcome export volume and price volatilities and stabilize export revenues.

Northern Africa accounts for more than 40% of African exports to the Caribbean (\$412.5 million), followed by Western Africa (28%, \$276.3 million) and Southern Africa (22.6%, \$222.7 million). On the import side, Southern and Northern Africa with a combined import value of over \$400 million, together account for more than 80% of African imports from the Caribbean. For the continent overall, but also for the different sub-regions, the Caribbean is a minor trade partner with a negligible share in total exports and imports.

Figure 4: Northern Africa is the leading African exporter to the Caribbean



Source: ITC Trade Map (2022)

Trinidad and Tobago is the most important Caribbean exporter to Africa, accounting for 40%, or \$195.5 million, of Caribbean exports to the continent. It is followed by the Bahamas, which accounts for 30% or \$145 million of the inter-regional exports. The majority of imports from Africa into the Caribbean are destined to Cuba (37%, \$368.6 million), the Dominican Republic (23%, \$223.4 million) and the Bahamas (13%, \$124.1 million).

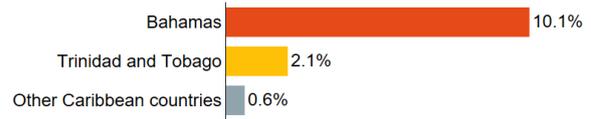
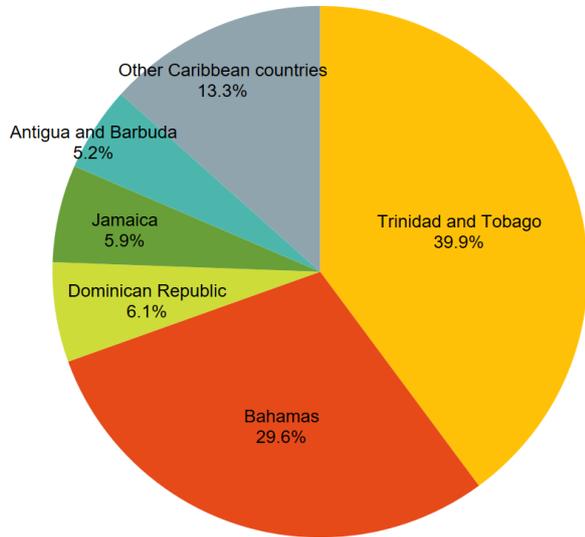
Although Trinidad and Tobago dominates Caribbean exports to Africa in absolute terms, the continent only accounts for 2.1% of the country's total exports. The African market, by contrast, is the destination of more than 10% of the Bahamas' exports. Africa is the source of nearly 5% of all imports of the British Virgin Islands and Cuba.

Figure 5: Trinidad and Tobago is top Caribbean exporter to Africa

(a) Exports

Share of each country in Caribbean exports to Africa

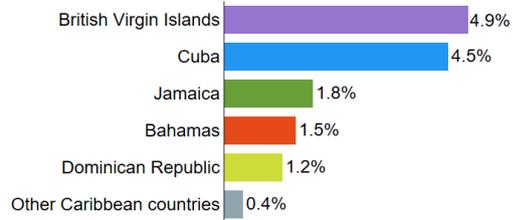
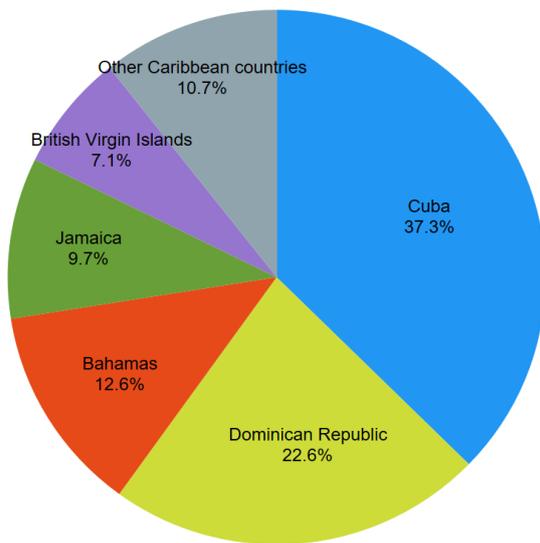
Share of Africa in each country's exports



(b) Imports

Share of each country in Caribbean imports from Africa

Share of Africa in each country's imports



Source: ITC Trade Map (2022)

Primary minerals dominate Africa's global exports (42%), followed by minerals, metals and products thereof (22%) and vegetal products and machinery and electronic equipment (5% each). Not surprisingly, primary minerals also account for the bulk of African exports to the Caribbean (almost 70%, or \$691 million). Crude petroleum oils and other preparations from petroleum or bituminous minerals make up most of these exports.

Other top African exports to the Caribbean diverge from the continent's main exports to the rest of the world. For instance, vehicles are the second most important African export to the Caribbean, accounting for 18% of shipments (\$179 million). Vessels, such as lifeboats, motorboats and sailboats, make up for four-fifths of these exports, which include sales of luxury boats and yachts from South Africa to sailing and cruising destinations such as the Cayman Islands and British Virgin Islands (Booyesen, J., 2018).⁸

Box 1: Data challenges on trade in vessels and aircraft

Ships and aircraft do not need to pass through customs physically to be considered an export or an import. Instead, change of ownership criteria are applied. Additionally, most vessel and aircraft trade involves items used in one country and then exported to another. Like other used goods, the country of origin is meant to remain unchanged. International trade data do not distinguish between used and new goods.

These factors, combined with the various rules for registration of vessels and aircraft under different flags, means that trade information is often contradictory. This is the case for some of the vessel and aircraft trade between Africa and the Caribbean. In particular, African countries report more flows coming from and going to the Caribbean under this category than Caribbean countries do.

In light of these challenges, this study takes into consideration the information on trade in vessels and aircraft as reported by African and Caribbean countries, but it excludes these goods from the analysis of export potential, where the aim is to identify opportunities for export growth.

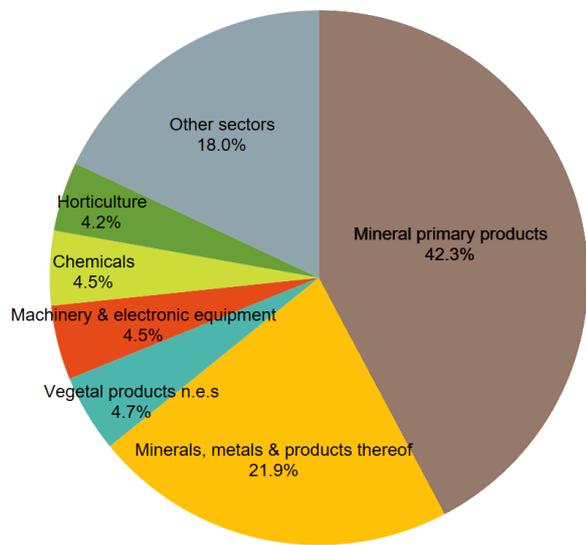
The challenges of accurately identifying and recording international trade of vessels and aircraft are well documented in the manual of International Merchandise Trade Statistics (United Nations, Statistical Division, 2010).

Three sectors – chemicals; wood, paper, rubber and plastics; and minerals, metals and products thereof – account for nearly 6% of Africa's exports to the Caribbean. Chemical exports comprise mainly natural uranium and compounds, urea and anhydrous ammonia while the main export product in the wood, paper, rubber and plastics sector is sawn and rough wood. Unwrought gold and cement clinkers are the top export in the minerals, metals and products thereof sector.

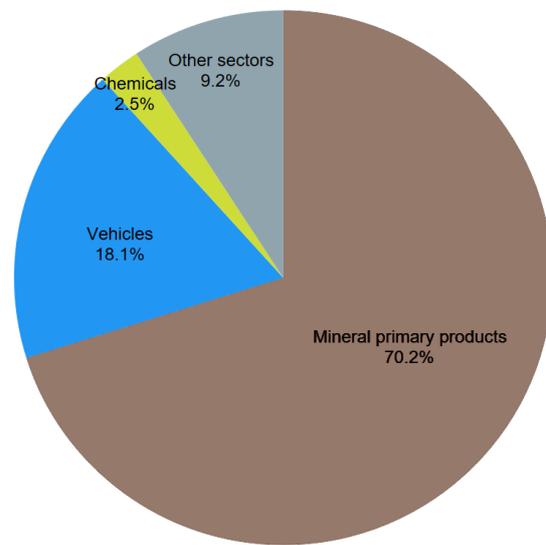
⁸ When interpreting these patterns, bear in mind the challenges in recording and interpreting data on trade in vessels (see Box 1). While exports of new vessels produced in Africa are known, it is not possible to distinguish them from the trade of used vessels, or to determine with certainty whether the operation and its destination country were accurately registered.

Figure 6: Mineral primary products dominate African exports

(a) To the world



(b) To the Caribbean



Note: The acronym n.e.s. stands for not elsewhere specified.

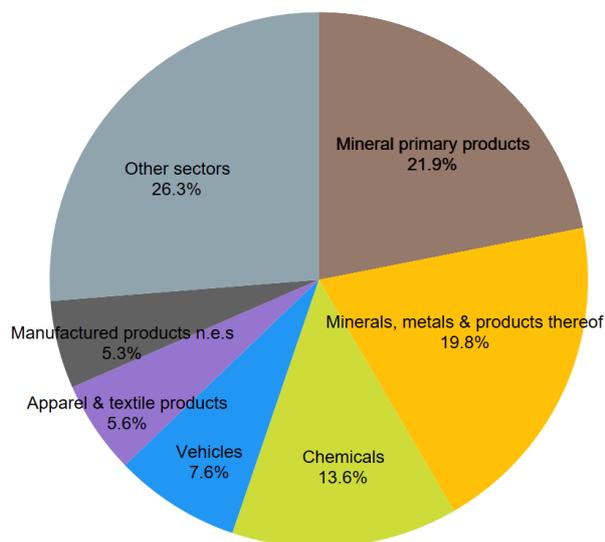
Source: ITC Trade Map (2022)

The Caribbean’s leading global export is also mineral primary products, followed by minerals, metals and products thereof. Caribbean exports in these sectors are valued at \$7.2 billion and \$6.5 billion, respectively, and each accounts for about 20% of its global exports. These sectors are also important for the region’s exports to Africa, with a share of 18% and 9%, respectively.

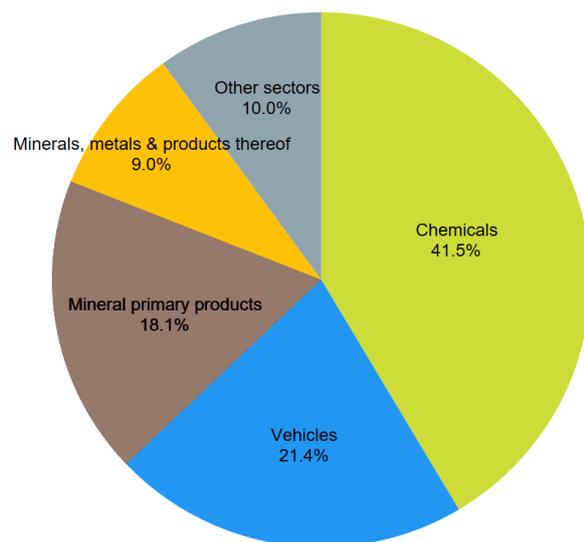
The chemical sector, however, is the Caribbean’s top export sector to Africa. More than 40% of Caribbean exports to Africa are chemical products. Out of the sector’s total \$202.6 million exports to Africa, \$161 million are exports of anhydrous ammonia. This is followed by vehicles (mostly vessels), with a share of 21% (\$104.8 million). Once again, caution should be exercised when interpreting data on trade in vessels.

Figure 7: Chemicals are the biggest Caribbean export to Africa

(a) To the world



(b) To Africa



Source: ITC Trade Map (2022)

While African-Caribbean trade is heavily concentrated in the mineral primary products, vehicles and chemical sectors, a closer examination of the product level highlights interesting differences.

For instance, natural uranium, urea and beauty products lead African chemical exports to the Caribbean. Aluminium oxides and other organic chemicals are the main chemical products exported from the Caribbean to Africa. While anhydrous ammonia is present in the bilateral export baskets of both regions, the Caribbean exports far more to Africa than Africa exports to the Caribbean (\$160.9 million vs. \$4.1 million).

There is also back-and-forth trade in similar petroleum-based products, which can be partly explained by intraregional export–import disparities in the Caribbean and shortages of refining capacity in some African countries. Two of the continent’s largest producers of crude petroleum, Angola and Nigeria, still depend heavily on imports of refined petroleum, a small portion of which is met by the Caribbean.

The Caribbean has made little effort to substitute petroleum from extra-regional sources with imports from Trinidad and Tobago (Espinasa, R., 2008). As a result, the region continues to rely on suppliers such as the United States, Venezuela and Colombia, as well as Africa, though to a much lesser extent.

Most African-Caribbean trade involves just a handful of products. To assess levels of concentration more systematically, we calculate the number of equivalent goods. This measure expresses diversification in terms of how many products of equal shares a country would have to export to reach the same level of diversification. A higher number of equivalent products implies that a country’s exports are more diversified (that is, less concentrated in few products).

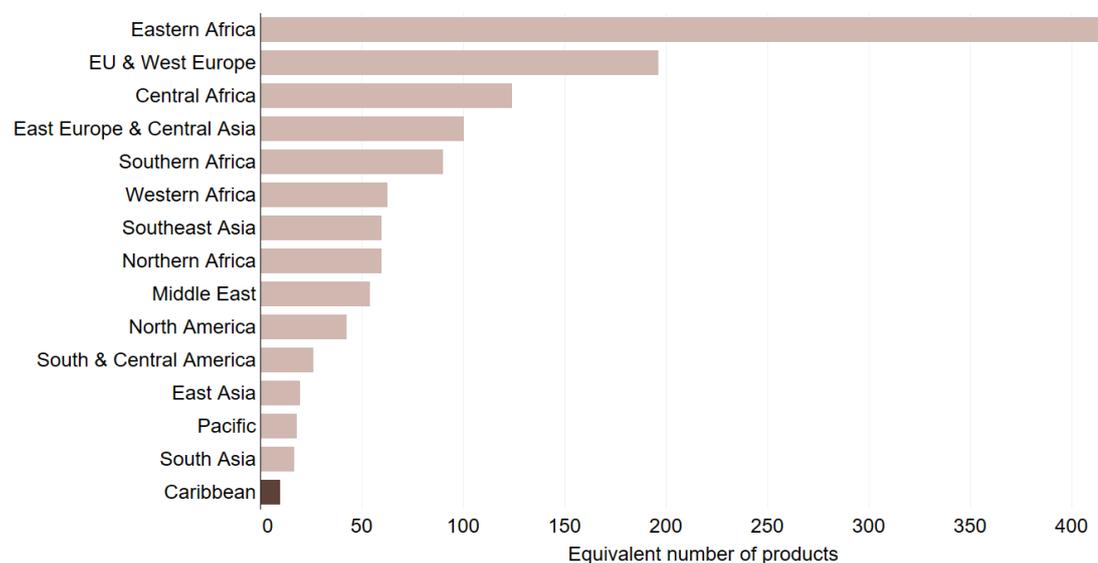
The figure below shows the export diversification levels of Africa and the Caribbean in all market regions.⁹ The bilateral trade of both regions is much less diversified than their exports to other parts of the world. While Africa exports just 10 equivalent products to the Caribbean, it ships 416 equivalent products to Eastern Africa. Five products alone account for 80% of Africa’s exports to the Caribbean.

The results are similar for the Caribbean. If exported at equal shares, the Caribbean would export only eight equivalent products to Africa, compared to 91 products to the Americas.

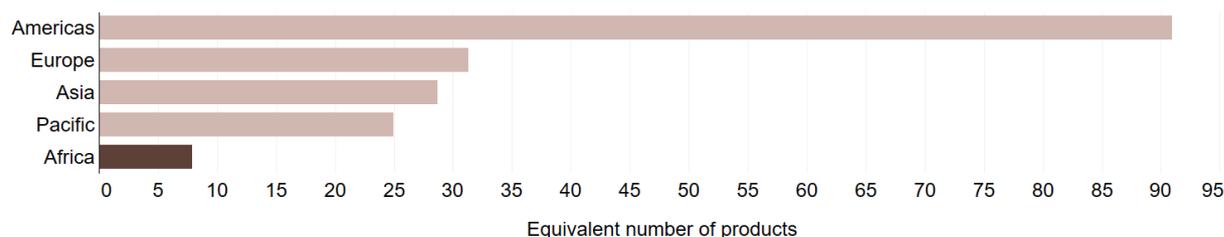
⁹ Concentration is calculated using the inverse Herfindahl-Hirschman index, which can be interpreted as the number of ‘equivalent products’ – that is, the number of products that would yield the given level of concentration if the export value were divided evenly across products. For example, 11 equivalent products implies a level of export concentration as high as it would be if the exporter were exporting 11 products at equal shares.

Figure 8: African-Caribbean trade is very concentrated

(a) Africa to world regions



(b) The Caribbean to world regions



Source: Authors' calculations based on ITC Trade Map (2022)

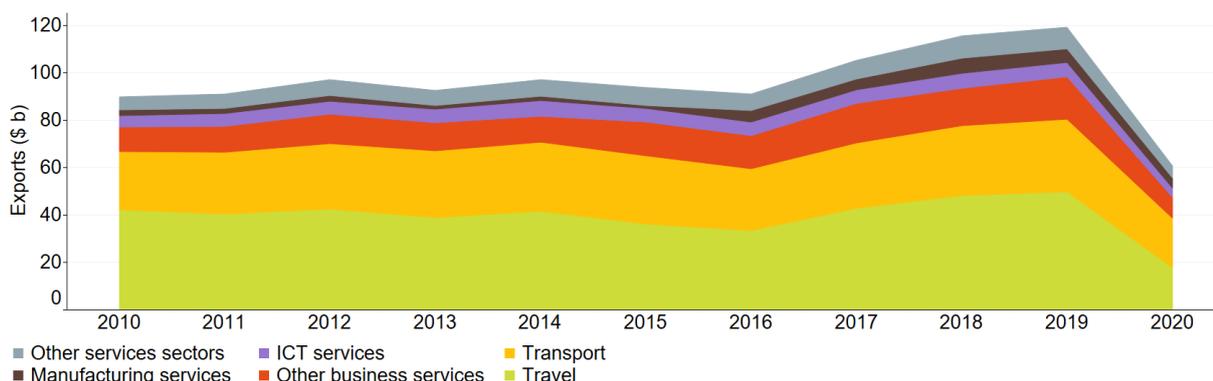
Focus on services: COVID-19 hit hard on travel exports

Services exports in both regions were increasing steadily until 2020, when the COVID-19 pandemic stopped most touristic travel. Between 2010 and 2019, the travel sector accounted for most of both regions' services exports (42% for Africa and 75% for the Caribbean, on average). Travel exports plunged by around 65% in both regions in 2020. Connected service sectors, like transport and business services, were affected as well albeit less than travel services.

Although Caribbean exports of personal, cultural and recreational activities rose 32% in 2020, the sector is small and could not compensate for the decline in travel and other services sectors. As a result, the Caribbean's total revenues from services exports fell as much as travel exports dropped. In Africa, where the share of travel in exports tends to be lower, total services exports declined by 49%.

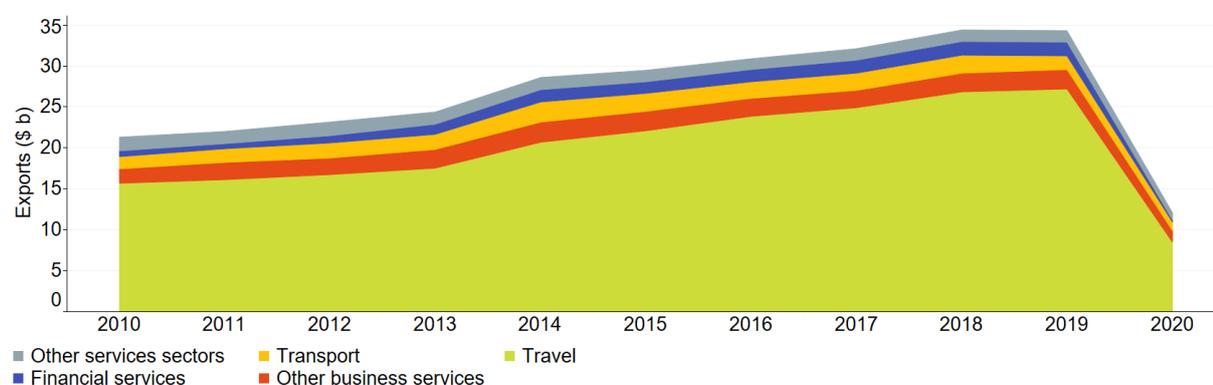
Evidence from the third quarter of 2021, available for three African or Caribbean countries that rely heavily on tourism revenues, indicates that the sector had only partially recovered that year. The Seychelles recorded \$95 million of travel exports, more than three times its 2020 revenue, but still well below the 2018 and 2019 levels in the same quarter. Cabo Verde's travel exports reached \$31 million – a third below pre-pandemic levels. The situation in the Bahamas had improved more by that time: its third-quarter travel revenues (\$842 million) were just slightly below the \$887 million generated in the third quarter of 2019.

Figure 9: COVID-19 triggered sharp drop in African services exports



Source: ITC Trade Map (2022)

Figure 10: Caribbean services exports fell dramatically in 2020



Source: ITC Trade Map (2022)

Competitiveness: Market access barriers, transport costs limit trade

The overlap between the export and import structures of Africa and the Caribbean suggests trade complementarity between the regions.¹⁰ However, declining levels of bilateral trade and a limited export basket point to obstacles that make market access difficult, among them tariffs, non-tariff measures and transports costs.

Tariffs

Countries in Africa and in the Caribbean do not hold any bilateral or regional free trade agreements with each other. This lack of preferential market access makes the two regions less likely to import goods from one other, relative to suppliers from countries that may have signed such agreements.

The figure below shows the average tariff rates that African and the Caribbean exporters face in each other's markets for their most important export sectors, as well as the tariff disadvantages relative to competitors.¹¹

¹⁰ We considered the possibility that supply and demand may not match between the two regions, i.e. that what one region sells is not in demand in the other one. However, the complementarity between African export supply and the Caribbean's import demand, and vice versa – while low – is similar to the complementarity with other partner regions. Africa's export basket corresponds better to the demand structure of the Caribbean than to the demand structure of North America and, notably, even to that of some African subregions.

¹¹ Tariff advantage is an indicator that compares the tariff an exporting country faces in a target market with the weighted-average tariff applied by that market to the world (bilateral imports of the product are used as weights). If the exporting country faces lower tariffs in the target market than its competitors, it enjoys a tariff advantage. If the exporting country faces higher tariffs than its competitors, it faces a tariff disadvantage.

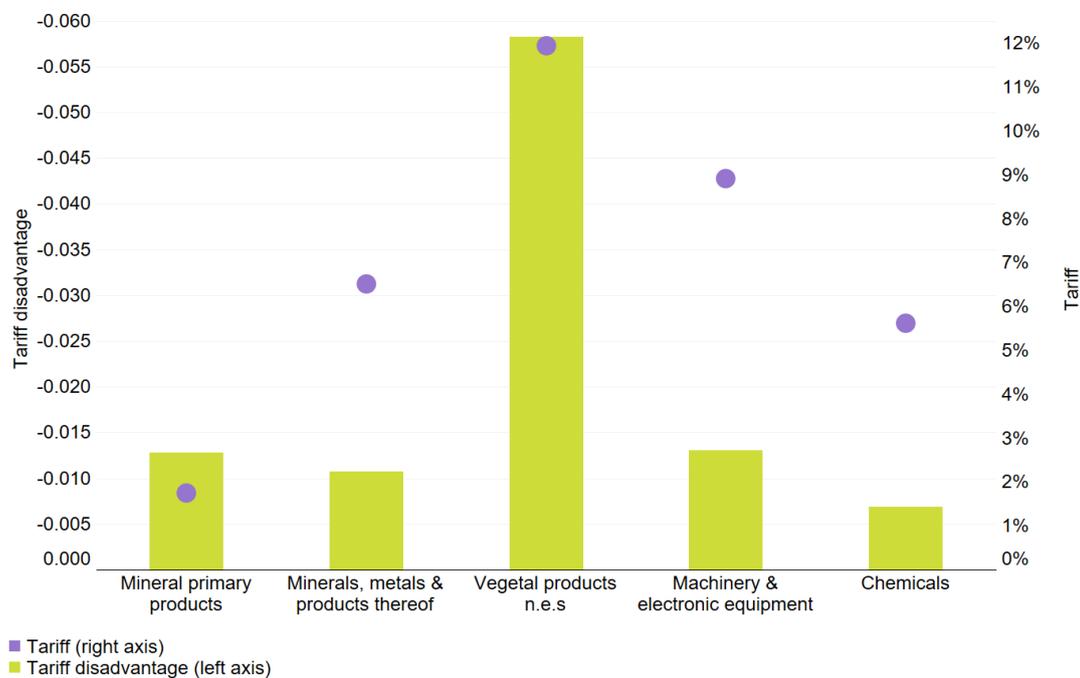
African exports to the Caribbean face average tariffs ranging from 1.7% for mineral primary products to 28.2% for beverages. Average tariffs tend to be lower for two of Africa's key export sectors to the Caribbean – mineral primary products (1.7%) and chemicals (5.6%) – and higher for sectors that are less important in bilateral trade today.

In vegetal products, for example, African exporters on average are charged a 11.9% tariff rate, which translates into a large tariff disadvantage. Caribbean countries import these products mostly from the United States and Honduras,¹² which enjoy preferential market access under the Dominican Republic-Central America Free Trade Agreement.¹³

Caribbean exports to Africa can face average tariffs as high as 27% for apparel and textiles products, which means a tariff disadvantage of 8.6 percentage points relative to competitors. Tariffs are lower in the sectors where the Caribbean's exports to Africa are most significant: chemicals (3%), vehicles (0.3%) and mineral primary products (4%). The tariff disadvantage in these sectors is relatively modest.

Figure 11: Tariffs and tariff advantages

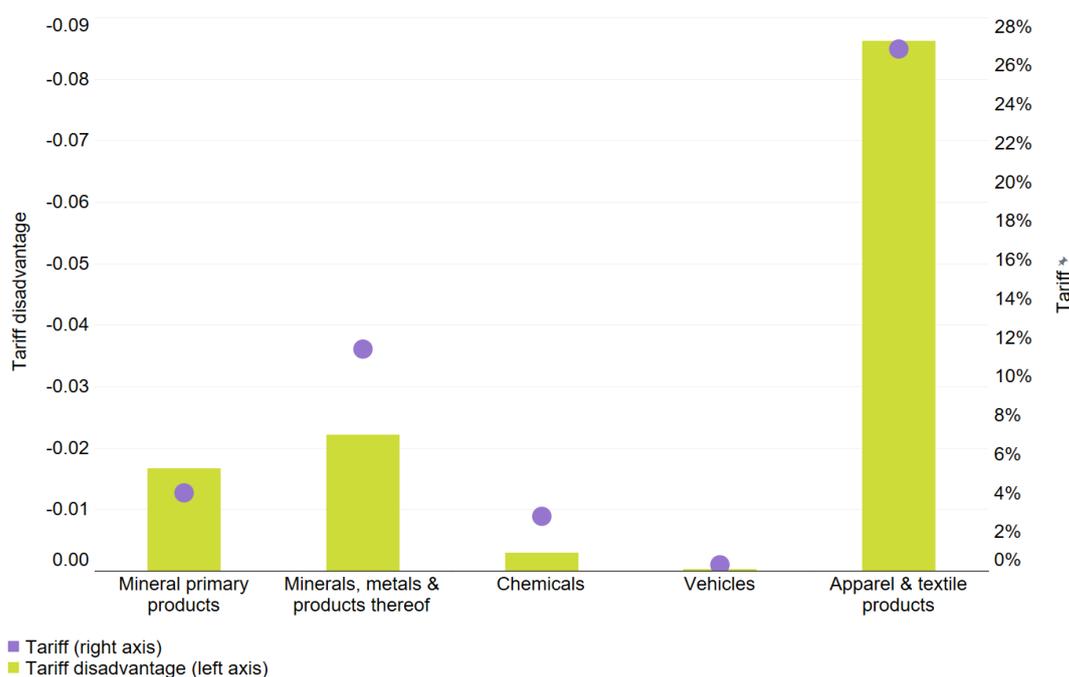
(a) Africa to the Caribbean



¹² Ecuador also exports vegetal products to the Caribbean, using most-favoured nation tariffs.

¹³ This is the first free trade agreement between the United States and a small group of developing countries: Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua.

(b) Caribbean to Africa



Source: Authors' calculations based on ITC Trade Map (2022)

Non-tariff measures

Tariff conditions partly explain the low trade integration and the concentration on sectors with preferential rates. Non-tariff measures could also curtail bilateral trade. Regulatory requirements affecting both exports and imports can hinder trade because they are plentiful and often imply high fees and charges for traders. The effects of these requirements are more pronounced when exporting to relatively small markets as the fixed cost to overcome the obstacles is high compared to the potential gains.

ITC surveys in Caribbean and African countries shed light on a few of these barriers to trade between the two regions, as reported by businesses.¹⁴

Ghanaian exporters of footwear, hats/headgear, glass beads and sculptures, for instance, report delays of up to 21 days in acquiring the certificate of origin that Cuba requires.

Trinidad and Tobago's exporters of aromatic bitters report issues pertaining to lengthy product registration processes in Nigeria, sometimes exceeding 18 months. To avoid this, these exporters often use alternative channels and countries instead of shipping directly to Nigeria, which ends up being more costly. Exporters of makeup products to Ghana say they must undergo testing procedures that are so stringent and expensive that they cannot comply with them.

Companies not only face barriers in export markets, but also in their home countries.

For instance, some exporters from Ghana and Malawi to the Caribbean cite high customs and excise fees as well as delays in obtaining export licences. Several exporters of skin lotions, shampoos and disinfectants from Trinidad and Tobago say they failed to export to South Africa because their national export–import bank could not perform credit checks on South African businesses due to limited business linkages.

¹⁴ Additional information on the survey, its methodology and results can be found at <https://ntmsurvey.intracen.org>.

One Jamaican exporter of scrap batteries to Ghana said complying with export licensing and permit requirements is difficult. Before batteries can be shipped to Ghana, Jamaica's National Environment and Planning Agency requires a letter from each port/country indicating that the exporter has the permission of the transit country's government to pass through its port. The exporter says it takes 4-5 months to obtain a letter to pass through Spanish ports, resulting in delays in getting the batteries to Ghanaian customers.

Import constraints are another hurdle. Companies in Trinidad and Tobago that import cloves, shea butter and wines from Africa cite pre-shipment inspection requirements, complex documentary procedures, high customs fee and complex, time-consuming and repetitive import licensing requirements as hindrances.

Transport costs

Transport costs, long recognized as a critical determinant of trade flows, are often more burdensome than tariffs. Many factors can influence transport costs, including the distance to trade partners, the mode of transport used, the type of products traded, economies of scale, infrastructure, the expediency of customs and the market structure and regulation of logistics services.

On average, goods traded between African and the Caribbean travel more than 9,000 kilometres (km). This is 3,561 km more than the average distance of other suppliers to the Caribbean and 2,183 km more than the average distance of other suppliers to Africa. While these differences certainly constitute a disadvantage, both Africa and the Caribbean trade frequently with other regions with which they face similar or larger distance disadvantages. For example, Africa's distance disadvantage when exporting to North America is close to 4,000 km, and the Caribbean's distance disadvantage in Europe is 2,244 km.

Both Africa and the Caribbean also face significant challenges regarding transport costs. The insular nature of the Caribbean makes efficient ocean freight and port services vital, while at the same time limiting intermodal and inter-port competition. The small scale of the markets in the region is associated with modest trade volumes, which can in turn affect transport costs to and from the Caribbean negatively through several channels. In general, not only do smaller trade volumes beget higher freight and port charges, but they also prompt additional port calls, leading to increased planning and scheduling requirements.

For the Caribbean in particular, smaller trade volumes have also led to imbalances in cargo occupancy¹⁵ and increased transshipment needs with the advent of containerization.¹⁶ Lastly, modest trade volumes can disincentivize investment in port infrastructure. Port efficiency and equipment, port security and customs procedures, and delays have also been identified as trade hurdles in the region.

Ports also push up transport costs from and to Africa. UNCTADstat data indicate that most African ports performed below the world average in 2018–2021, as measured by the median time spent in port and the average cargo- (or container-) carrying capacity. However, the main transport challenge in Africa is the land freight infrastructure. Although goods must be transported over vast distances to reach ports, the African rail network has hardly developed away from the colonial extractive model linking mines to ports. Most cargo is transported by roads, which are scarce and not strategically located.

This refers not only to domestic transport, but also to intra-African costs, with several large landlocked countries in the region. In this setting, the problem of cargo imbalances strikes land freight as well, pushing up transport costs.

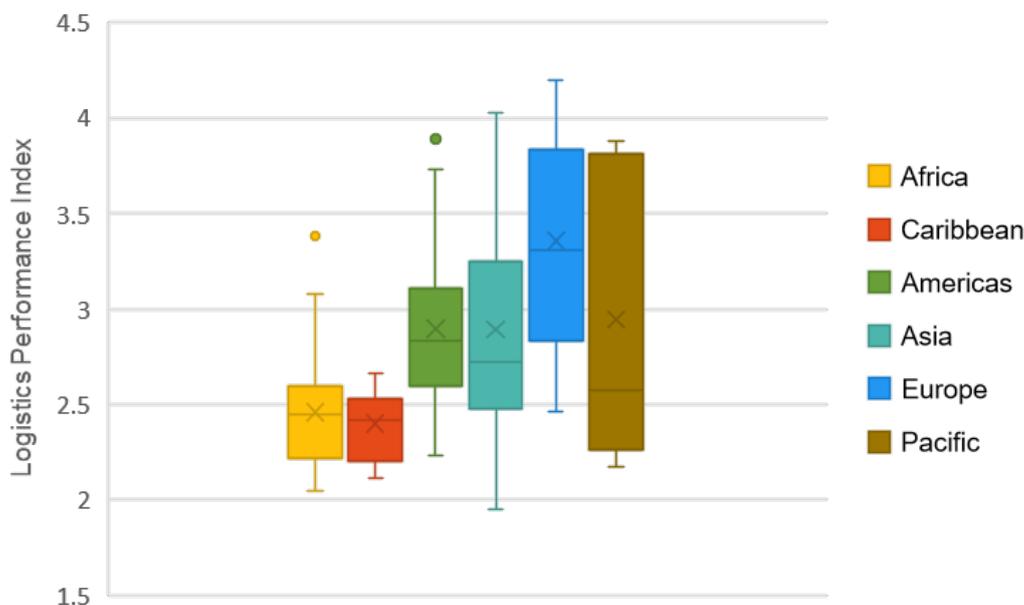
This combination of shortcomings and hurdles in transport in Africa and the Caribbean is well reflected in the Logistics Performance Index. This index, developed and published by the World Bank, captures different aspects of transport costs, among them the quality of trade- and transport-related infrastructure, the quality of logistics services, the ease of arranging competitively priced shipments, the efficiency of customs, etc.

Africa and the Caribbean have the lowest scores on the index. While some African countries perform on par with other regions in terms of logistics, they are the exception rather than the norm.

¹⁵ To finance backhauling of empty vessels or containers, underuse of freight capacity going one way is compensated by an increase in the price of freight directed the opposite way.

¹⁶ The larger vessels used for containerized cargo have led to a model of regional and subregional ports, requiring additional unloading and reloading of cargo ('transshipment') for goods to reach their final destination.

Figure 12: Africa and Caribbean score lowest on logistics index (2018)



Note: Ranking is 1=low, 5=high. The middle line of each box represents the median Logistics Performance Index value in each region, the x in each box represents the mean. The bottom line of each box represents the first quartile value per region. The top line of each box represents the third quartile. The vertical lines extend from the ends of the box to the minimum and maximum values. The dots are outliers.

Source: Authors' calculations based on the Logistics Performance Index of the World Bank¹⁷

The transportation costs discussed earlier and illustrated in Figure 12 are not bilateral – that is, the elevated transportation costs of the Caribbean do not refer specifically to the region's trade with Africa, or vice versa. As both regions underperform all others in this regard, however, higher transportation costs are bound to have a negative impact on bilateral flows.

In sum, market access conditions – including tariffs, non-tariff measures and transportation costs – can partially explain the low level and heavy concentration of trade between Africa and the Caribbean. Additionally, the lack of economies of scale in production, the small market sizes and the absence of specific bilateral advantages suggest that neither region is likely to become a priority partner for the other.

Still, specific bilateral opportunities do exist and can be tapped. The next chapter explores how exports and product diversification can be increased.

¹⁷ For additional methodological detail and results, please see lpi.worldbank.org.

Chapter 3

Export potential and diversification opportunities

Tapping into export potential: Adding \$250 million to goods exports

Key sectors offer opportunities to ease the risks from global crises

Focus on services: Caribbean can boost exports to Africa, especially tourism

CHAPTER 3 EXPORT POTENTIAL AND DIVERSIFICATION OPPORTUNITIES

The previous chapter showed that mineral primary products, vessels and chemicals dominate African-Caribbean trade. However, large multinationals often control trade in natural resources, and expansion of this trade is limited by the availability of these resources. Furthermore, reporting inconsistencies affect trade in vessels (see Box 1). The chapter also showed that most African-Caribbean trade involves just a few countries and markets.

ITC's export potential methodology identifies opportunities for export growth in existing and new markets by considering supply, demand and the ease of trade measures. Looking beyond natural resources and vessels, it highlights promising products for diversifying the bilateral trade portfolio. The findings presented in this chapter are estimates of annual export or export growth potential by 2026.¹⁸

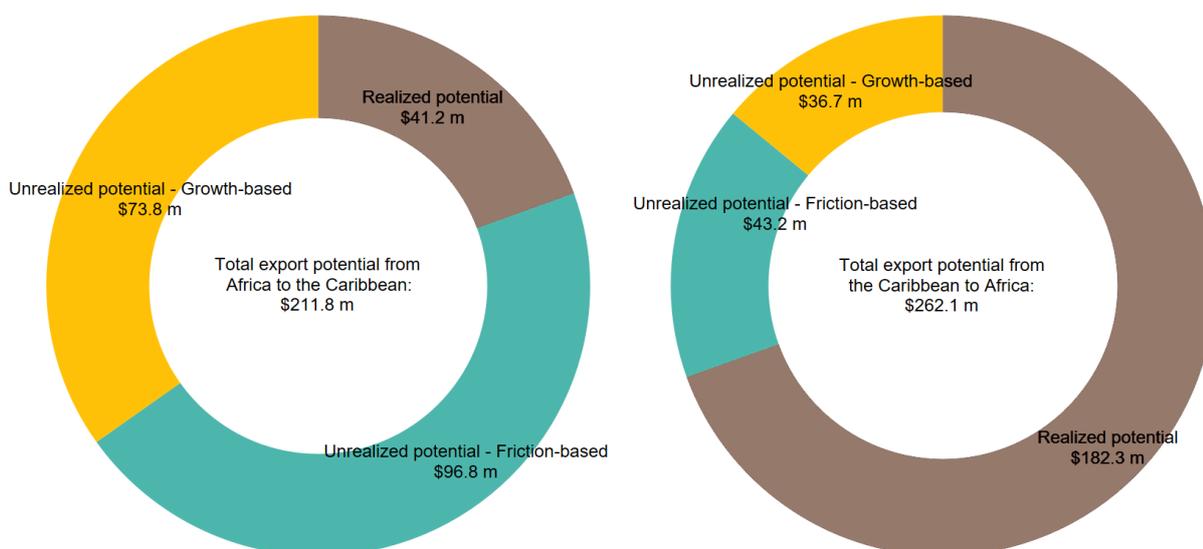
Tapping into export potential: Adding \$250 million to goods exports

Africa has the potential to export merchandise worth \$211.8 million to the Caribbean. More than 80% of this potential, or \$170.6 million, remains unrealized. This is due in equal part to growth expectations and to obstacles or frictions such as inadequate information about the rules and regulations of the target market and difficulty complying with them, as well as challenges meeting the preferences of consumers, navigating distribution channels and finding buyers.

Identifying and addressing these obstacles or frictions is the first step to exploit the export potential. It is known as static or friction-based unrealized potential. The second step involves channelling investments in sectors that will benefit the most from economic and population growth or expected tariff changes – known as dynamic or growth-based unrealized potential.

The Caribbean's export potential to Africa is \$262.1 million. Most of this potential has already been realized, leaving \$79.9 million of possible additional exports by 2026. More than half of the untapped potential is friction-based.

Figure 13: Africa seizes only a small share of its potential for exports to the Caribbean



Source: Authors' calculations based on data from ITC Export Potential Map (2022)

¹⁸ For more information, please see Annex I.

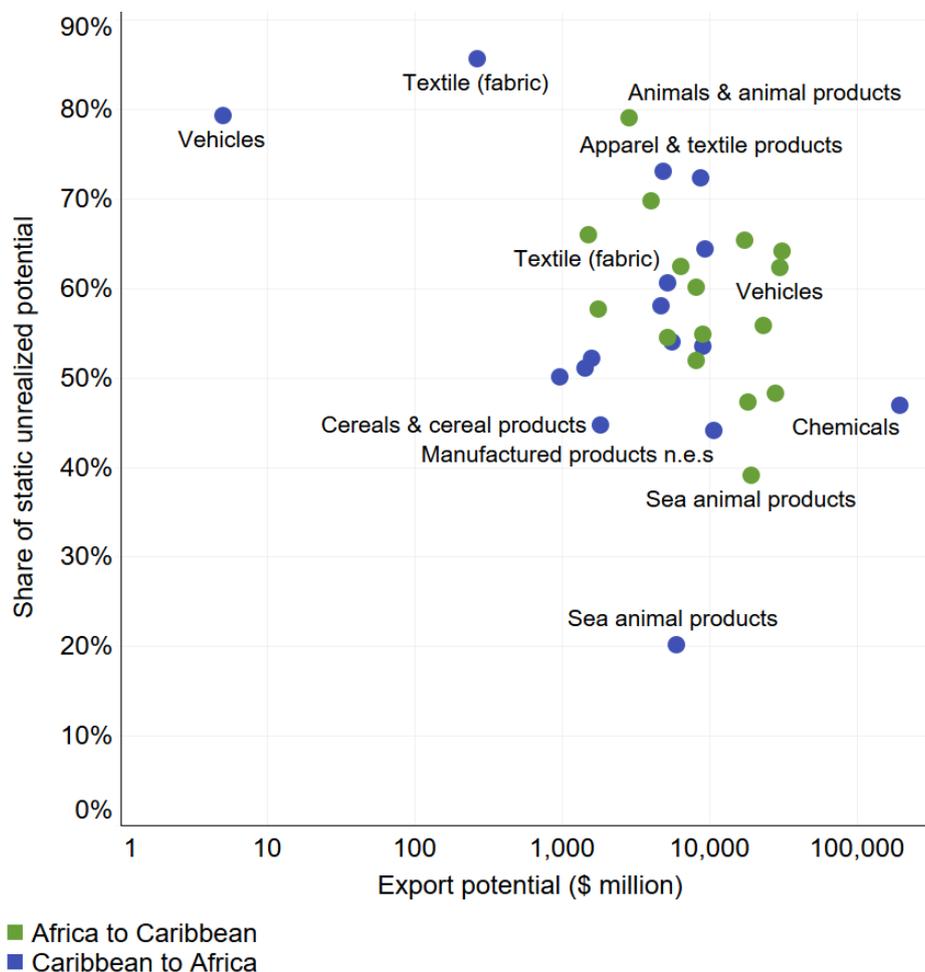
Figure 14 shows that the higher the share of frictions in the total untapped potential, the lower a sector's export potential. This is true for trade in both directions.

In Africa, for example, animals and animal products and cereals and cereal products both have a relatively modest export potential below \$4 million to the Caribbean. At least 70% of the unrealized export potential is friction-based. The export potential of the sea animal products, horticulture and wood, paper, rubber and plastics sectors is much larger, with growth expectations explaining more than half of the unrealized potential. This could indicate that larger sectors have more resources to overcome trade frictions than smaller ones.

In addition, the benefit of paying the fixed cost to overcome frictions (e.g. conducting necessary market research, laboratory and testing fees) is relatively higher when potential export gains are large.

In the Caribbean, 74% of the export potential to Africa comes from the chemicals sector. However, only a small share – 11%, equivalent to \$22.1 million – is unrealized today. More than half of this unrealized potential is growth-based. Other sectors have greater scope to increase exports in relative terms: more than 90% of the export potential is yet to be tapped in both the wood, paper, rubber and plastics sector and the beverage sector. As is the case for Africa, frictions play an important role in smaller sectors such as textile, vehicles, and apparel products.

Figure 14: Smaller sectors struggle more to overcome frictions



Source: Export Potential Map (2022)

Three main exporters hold nearly 80% of Africa's export growth potential in the Caribbean: South Africa (\$73.8 million), Egypt (\$36.2 million) and Morocco (\$24.8 million). Four-fifths of the export potential in these three countries remains untapped. Despite its strong trade links with the Caribbean, South Africa has a surprisingly large share (66%) of friction-based untapped potential. About half of the growth opportunities in Egypt and Morocco are subject to the removal of frictions.

Although this share is higher in some countries with less potential for bilateral trade, the relationship between export potential and frictions is not as evident as at the sector level. This could imply that along with size, sector specificities are an important driver of friction-based potential. While South Africa, Egypt and Morocco account for most of Africa's trade potential, 27 African countries have the possibility to expand their exports to the Caribbean by at least \$100,000 annually.

In the Caribbean, the Dominican Republic (\$24.2 million), Jamaica (\$22.1 million) and Trinidad and Tobago (\$14.5 million) together hold more than 75% of the unrealized export potential to Africa. However, 15 other Caribbean countries could increase their exports to Africa by \$100,000 or more each year as of 2026. The Bahamas, which accounts for 30% of Caribbean exports to Africa, has \$4.8 million in export growth potential.

The shares of unrealized export potential vary greatly across exporters. While only 9% of Trinidad and Tobago's export potential to Africa is unrealized (74% friction-based), the share in Jamaica and the Dominican Republic is much higher at 49% (42% friction-based) and 78% (50% friction-based), respectively.

Key sectors to ease the risks from global crises

The COVID-19 pandemic, the war in Ukraine and climate change are crises with global economic consequences. The world's poorest populations, already vulnerable, could lose even more access to essential food or healthcare. While trade between Africa and the Caribbean cannot solve these problems, it can fill some of the niche gaps across these sectors or generate much-needed revenues to procure basic items from international suppliers.

The following section highlights opportunities in agribusiness, fertilizers, healthcare products and vehicles – all crucial sectors for the regions' broader economic development. These four sectors cover 57% of Africa's total unrealized export potential to the Caribbean.

Other important products with growth potential include worked diamonds (\$6.3 million, mostly to the British Virgin Islands), sawn wood (\$3.2 million, mostly to the Dominican Republic), portland cement (\$3 million, mostly to Haiti), sanitary articles (\$2.2 million, across several markets, including Haiti and the Dominican Republic), semi-manufactured gold (\$2 million, mostly to the Dominican Republic), unglazed ceramic articles (\$1.8 million, mostly to the Dominican Republic), reception apparatus for television (\$1.7 million, mostly to the Dominican Republic and Cuba) and structures (\$1.6 million, across 23 Caribbean markets).¹⁹

The four sectors account for 63% of the Caribbean's unrealized export potential to Africa. Furthermore, the Caribbean could realize \$10.6 million of additional aluminium oxide exports, which Jamaica already exports to Cameroon for use in the local aluminium industry. The apparel industry could generate another \$4.2 million of exports, mostly to the Algerian market (despite high import tariffs). A trade agreement that reduces apparel tariffs would increase the potential for trade in this sector.

The Caribbean also has a \$4 million fully unrealized potential in expansible polystyrene, a material used for food packaging that enjoys high and growing demand in South Africa.

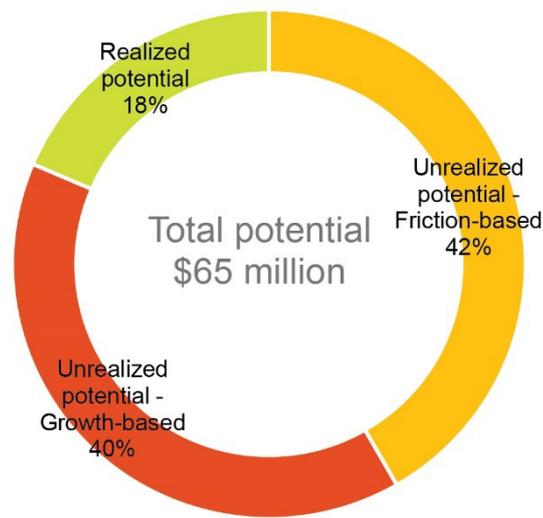
¹⁹ Some products have relatively high export values but low unrealized potential. For Africa to the Caribbean, this is the case for cement clinkers, carboys & other glass containers, beauty products and anhydrous ammonia. For the Caribbean to Africa, the products are anhydrous ammonia, gold and organic chemicals.

Zooming in: Agribusiness²⁰

Developing the agribusiness sector is a way to counter growing concerns about food insecurity. Both Africa and the Caribbean are net importers of cereals, which saw steep price hikes in spring 2022 after Russia invaded Ukraine.²¹ Climate change is likely to make harvests less predictable, which could trigger additional price volatilities. Although agribusiness trade between the two regions cannot solve basic nutrition issues, it offers possibilities to generate income from the exports of value-added products, enabling them to better cope with rising commodity prices.

From Africa to the Caribbean

Figure 15: Africa has \$53 million in untapped agribusiness export potential to the Caribbean



Africa has export potential in agribusiness to the Caribbean of \$65 million, of which 81% (\$53 million) is not yet realized. Half of the untapped potential is friction-based, the other half is growth-based.

As the left side of Figure 16 shows, the leading origins of untapped potential are South Africa (28%), Egypt (23%) and Morocco (20%) while the Dominican Republic (36%), Cuba and Haiti (14% each) are the top markets with untapped potential.

The untapped potential is distributed across several sectors (Figure 16, right), led by value-added items such as processed fish products (18%, mostly preserved sardines), processed food products (12%, including uncooked pasta, malt extracts and sweet biscuits), and vegetable oils and fats (8%, largely soybean oil and palm oil).

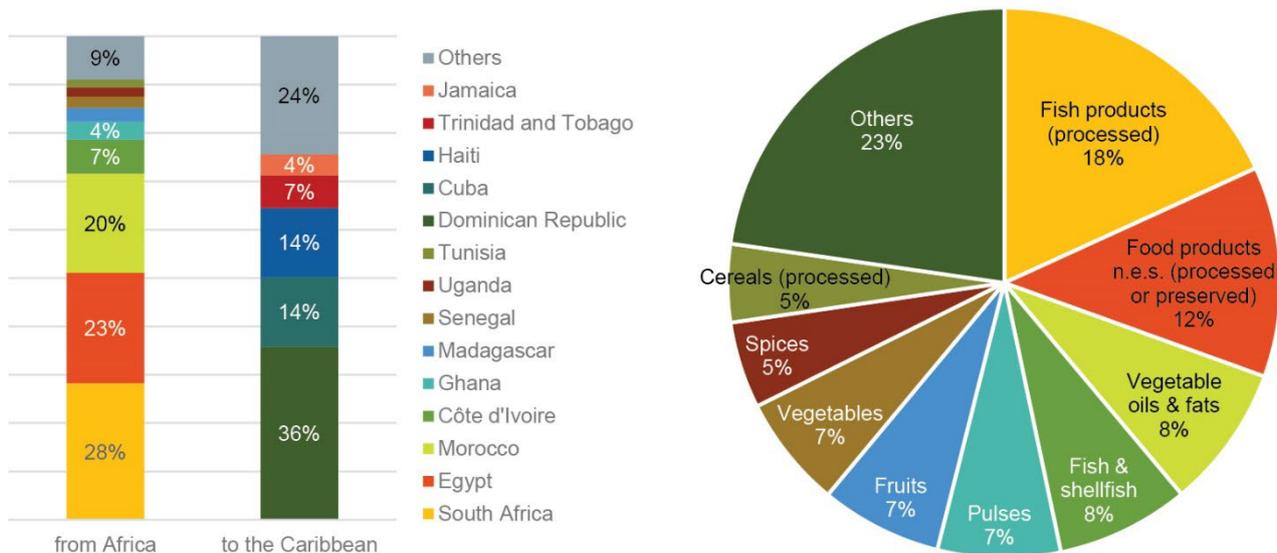
Interestingly, while 68% of Africa's global export growth opportunities in the agribusiness sector are in raw commodities, in the Caribbean market, the share of raw commodities in the total untapped potential of Africa's agribusiness sector is only 35%. This means that relative to world markets, Africa's export growth opportunities to the Caribbean are more in transformed products.

Source: Export Potential Map (2022)

²⁰ All codes of the Harmonized System from Chapters 1–24.

²¹ ITC Trade Briefs from March 2022, <https://tradebriefs.intracen.org/2022/3>.

Figure 16: Unrealized export potential in agribusiness, by origin, destination and sector



Source: Export Potential Map (2022)

Diversifying Africa's agribusiness exports to the Caribbean

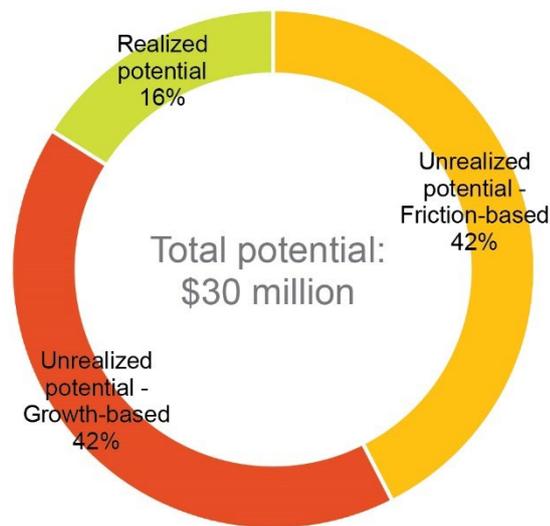
Africa's trade balance in some of the processed food and vegetable oil products with untapped export potential is negative, implying that there is still local demand that is not yet met by African suppliers. In other goods, Africa has a relative advantage to cater Caribbean demand without comprising food security at home.

Much of the potential for processed fish is in existing markets. Of the \$7.8 million export growth potential for sardines, 76% is for the Dominican Republic, the destination of \$4.2 million of African exports in 2016–2020. Africa exports most of its prepared or preserved tuna to Europe, while the Caribbean imports tuna from Thailand and China. Tapping into the \$1.3 million export potential would therefore be way to diversify African-Caribbean trade.

Africa also has potential for additional kidney bean exports (\$3.2 million), mostly to Cuba, a new market for African suppliers of the product. Finally, fruits and vegetables offer opportunities for trade diversification. Africa has a global trade surplus of potatoes and onions, for example, each of which has an unrealized export potential of \$1.1 million in the Caribbean. Import tariffs of 24% for kidney beans, 30% for potatoes and 33% for onions discourage more exports in these goods, despite proven demand.

From the Caribbean to Africa

Figure 17: Caribbean has \$25 million in untapped agribusiness export potential to Africa



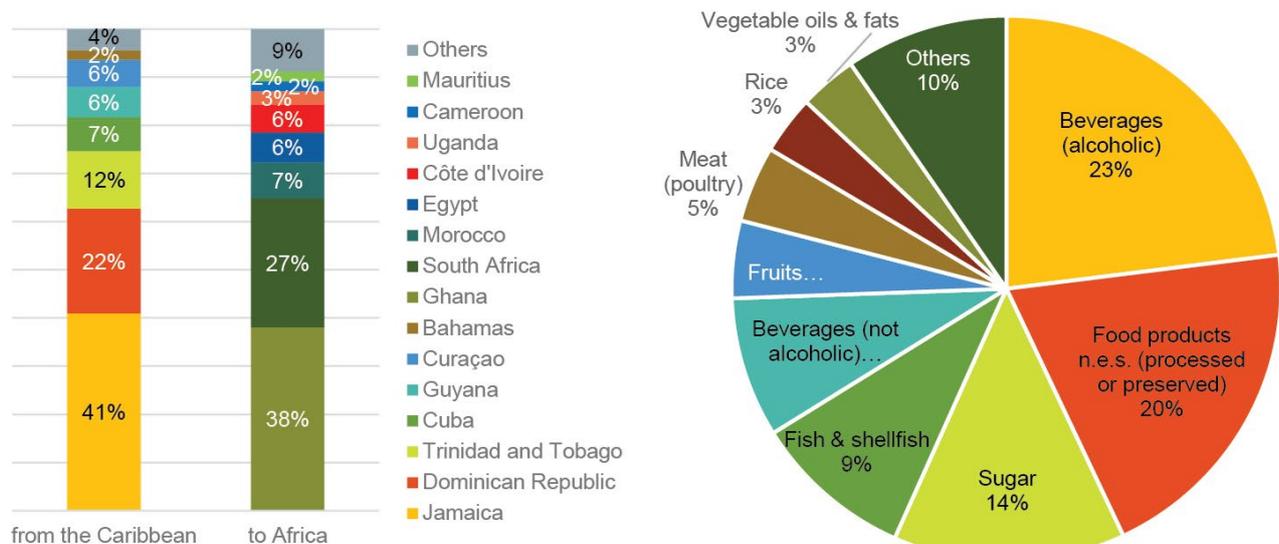
The Caribbean has export potential in agribusiness to Africa of \$30 million, of which 84% (\$25 million) is not yet realized. Half of the untapped potential is friction-based, the other half is growth-based.

The top origins of untapped potential (Figure 18, left) are Jamaica (41%), Dominican Republic (22%) and Trinidad and Tobago (12%) while the top markets with untapped potential are Ghana (38%), South Africa (27%) and Morocco (7%).

The untapped potential is distributed across several sectors (Figure 18, right), led by alcoholic beverages (23%, mostly rum), processed foods (20%, including sauces, bread and sweet biscuits) and sugar (14%, mostly raw cane sugar). Compared to world markets, a larger share of the Caribbean's untapped potential in African markets is in transformed, and hence value-added products (79% versus 51%).

Source: Export Potential Map (2022)

Figure 18: Unrealized export potential in agribusiness, by origin, destination and sector



Source: Export Potential Map (2022)

Diversifying the Caribbean's agribusiness exports to Africa

The Caribbean's agribusiness exports to Africa can grow twice as much in new markets (\$16.6 million) as in existing (\$8.2 million) markets. South African, already served by the Dominican Republic, has \$1.3 million of potential for additional rum exports from several Caribbean suppliers. Ghana is a new potential market with strong prospects for import demand where Caribbean producers have an untapped potential worth \$2.1 million.

Ghana and South Africa also have untapped potential for processed foods including sauces, bread and biscuits – but so do Caribbean markets. Sugar cane offers further export opportunities of \$2 million in existing markets (mostly Morocco) and \$1.3 million in new markets (mostly Egypt). The export potential could grow greatly if the 95% average tariff that Caribbean sugar exporters face in Africa was lowered. Finally, frozen fish (tuna, skipjack) has potential for additional exports, mainly to Côte d'Ivoire, and frozen fowl to Ghana.

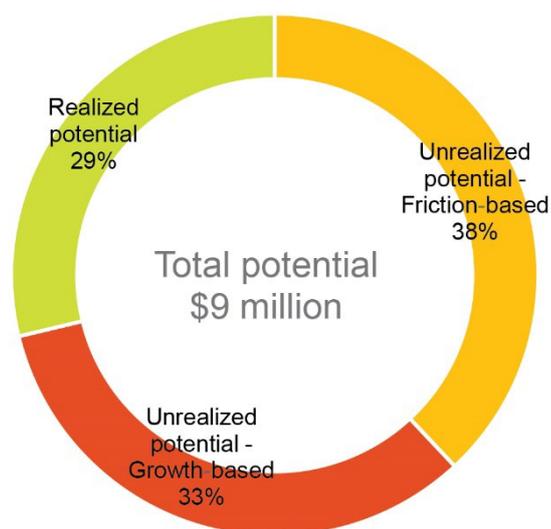
The Caribbean could also try to diversify the product palette it exports to Africa. One interesting opportunity could be new types of fruit wines (classified as vermouth and other wine of fresh grapes), for which Jamaica holds almost half a million dollars of export potential to Africa (96% in the Ghanaian market).

Zooming in: Fertilizers²²

The war in Ukraine has disturbed global fertilizer markets. The price of potassium chloride surged 178% between May 2021 and May 2022.²³ Both the Caribbean and Africa have a trade surplus in fertilizers, with annual exports of \$436.3 million and \$6.4 billion, respectively.²⁴ The sector offers a two-way export growth potential of \$11.1 million that could further boost opportunities in interregional agribusiness trade as well.

From Africa to the Caribbean

Figure 19: Africa has \$6.4 million in untapped fertilizer export potential in fertilizer to the Caribbean



Africa has an export potential in fertilizers to the Caribbean of \$9 million, of which 71% (\$6.4 million) is not yet realized. Frictions explain slightly more of the unrealized potential than economic growth prospects.

The top origins of untapped potential are Morocco (45%), Egypt (23%) and Algeria (19%), as shown in Figure 20 (left). The top destination markets with untapped potential (Figure 20, left) are the Dominican Republic (69%), Cuba (11%) and Suriname, Guyana and Haiti (5% each).

The untapped potential is distributed across several types of fertilizers (Figure 20, right), the main ones being urea (36%), diammonium hydrogenorthophosphate (26%), and other mineral or chemical fertilizers (16%).

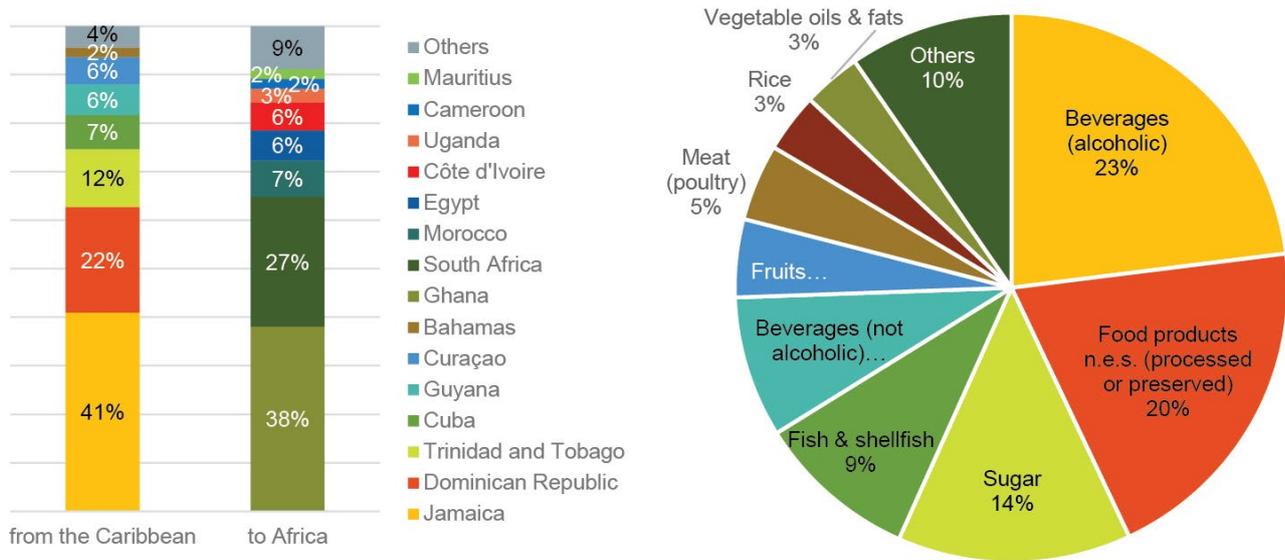
Source: Export Potential Map (2022).

²² Fertilizers include all products of the Harmonized System, Chapter 31.

²³ Trade Briefs from July 2022. See <https://tradebriefs.intracen.org/2022/7>.

²⁴ 2016–2020 average values.

Figure 20: Unrealized export potential in fertilizers, by origin, destination and product



Source: Export Potential Map (2022)

Diversifying Africa's fertilizer exports to the Caribbean

Africa already exports small amounts of urea and other mineral or chemical fertilizers to Caribbean markets, notably the Dominican Republic. However, the Dominican Republic's main supplier is Trinidad and Tobago, the world's 20th largest urea exporter. Although urea is often traded over long distances, other fertilizers not available in the Caribbean have better chances of market success. Cuba, for example, could become a new market for African mineral or chemical fertilizer exporters.

Diammonium hydrogenorthophosphate, ammonium nitrate and ammonium dihydrogenorthophosphate also have potential for exports to Caribbean markets, which have sourced these products from the United States and the Russian Federation in past years.

Furthermore, Africa holds export growth potential in phosphoric acids (\$928,000), which Caribbean countries may use as an input in their own fertilizer industries or as an ingredient of healthcare products such as soaps or toothpaste. Africa exports \$1.9 billion of phosphoric/polyphosphoric acids globally, but nothing to the Caribbean. Cuba and the Dominican Republic, which import this product mainly from China, Brazil and Mexico, are promising markets.

From the Caribbean to Africa

Anhydrous ammonia is the Caribbean's top export product to Africa. Yet annual bilateral exports of this fertilizer input are expected to remain at \$161 million, the level in past years. Urea has more potential for additional export revenues. Trinidad and Tobago is the region's main supplier, with global exports worth \$157.8 million annually.²⁵ The country has a \$5 million export growth potential in South Africa, 80% of which is hindered by frictions. However, Trinidad and Tobago may face competition from Egypt, the fifth largest urea exporter worldwide, which has untapped potential of \$30 million in the South African market.

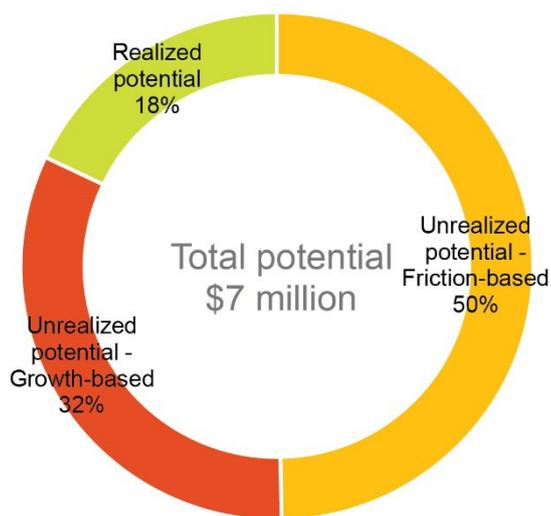
²⁵ 2016–2020 average.

Zooming in: Health-related products²⁶

The African continent supplies only 7% and the Caribbean only 4% of their own needs for healthcare products. During the pandemic, an average of 76% of African imports of personal protective equipment and 72% of other medical supplies were subject to temporary trade measures.²⁷ The resulting shortages of health-related products emphasized the need for both the development of regional value chains and the diversification of supply. The different specializations of the African and the Caribbean healthcare industries could be leveraged to respond to some of the needs that cannot be met by local suppliers.

From Africa to the Caribbean

Figure 21: Africa has \$5.9 million in untapped healthcare export potential to the Caribbean



Africa has an export potential in health-related products to the Caribbean of \$7 million, of which 82% (\$5.9 million) is not yet realized. Existing frictions in trade play a larger role in the untapped potential than expectations of growth.

The top origins of untapped potential are South Africa (57%), Egypt (14%) and Morocco (12%), as shown in Figure 22 (left).

The top destination markets with untapped potential (Figure 22, left) are the Dominican Republic (28%) and Cuba (24%), with smaller shares in Guyana, Haiti and others.

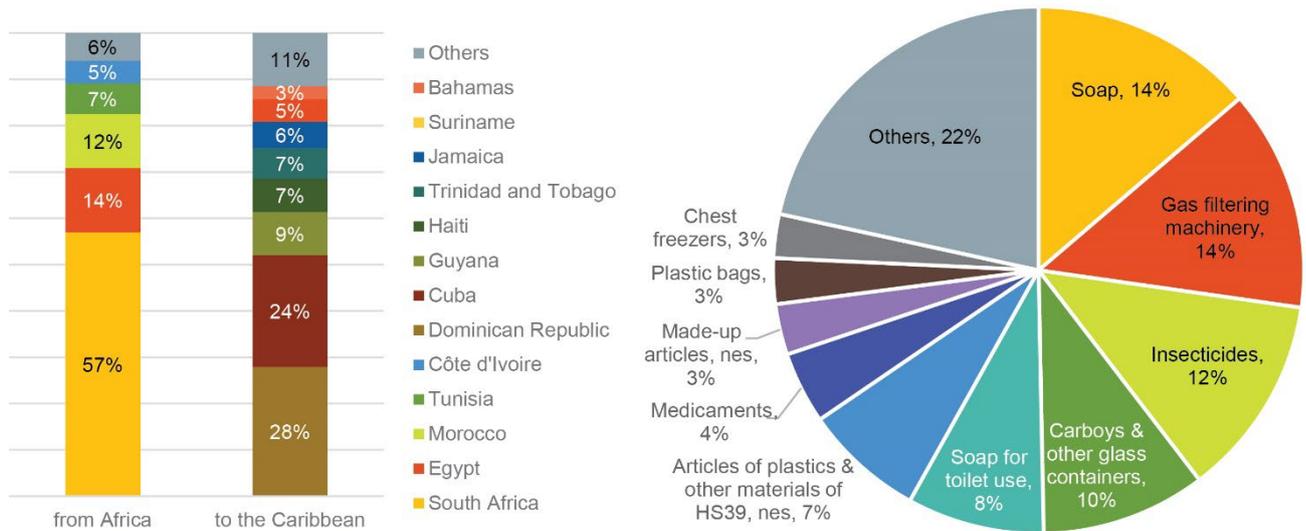
The untapped potential is distributed across a range of products used or produced by the medical industry including soaps, gas filtering machines, insecticides, glass containers, plastics and medicaments.

Source: Export Potential Map (2022)

²⁶ Healthcare products include the World Health's Organization's list of medical products, goods in the pharmaceutical and vaccine value chains as defined by Helble, M. (2012) and other products of Chapter 30.

²⁷ Figure from May 2020. See https://umbraco.exportpotential.intracen.org/media/1184/medical-industries-in-africa_final_ag-web.pdf.

Figure 22: Unrealized export potential in healthcare products, by origin, destination and product



Source: Export Potential Map (2022)

Diversifying Africa’s healthcare product exports to the Caribbean

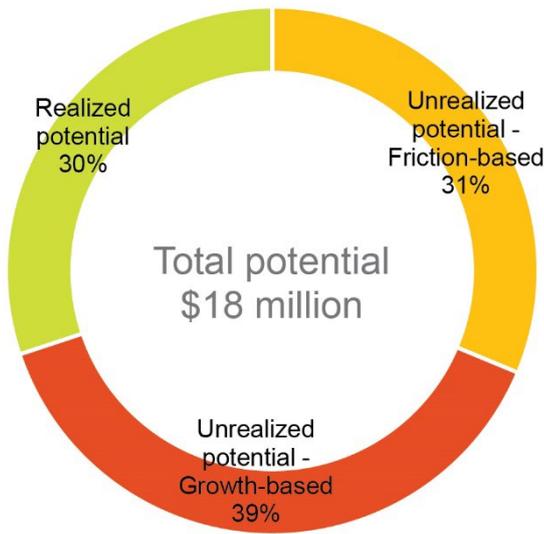
Africa’s export potential to the Caribbean for health-related products is highest for soaps (\$2.1 million), of which \$1.8 million remains to be realized. Cuba and Haiti are the most promising Caribbean markets, with an unrealized potential of nearly \$807,000 and \$286,000, respectively. Frictions play a key role in hindering the full realization of this potential, and tariff differentials of up to 14 percentage points relative to competitors stand in the way of more potential.

There is also scope for Africa to increase its exports of medical air and gas filtering machinery²⁸ to the Caribbean, by nearly \$834,000. African exports of gas filtering machines to the Caribbean are negligible, though the continent exports \$1.6 billion worth of the machinery to the world.

²⁸ Medical air and gas filtering machinery is used in healthcare to remove bacteria, viruses and other contaminants.

From the Caribbean to Africa

Figure 23: Caribbean has \$12.6 million in untapped healthcare export potential to Africa



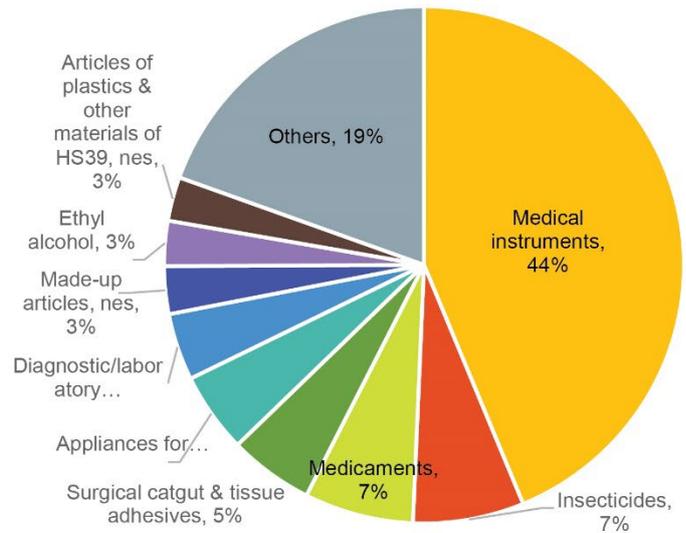
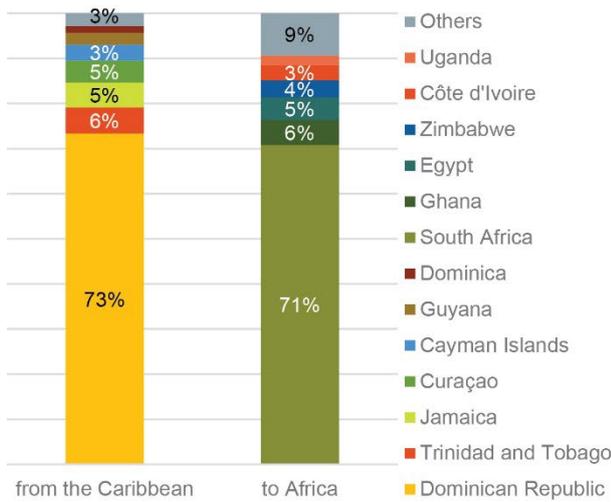
The Caribbean has an export potential in health-related products to Africa of \$18 million, 70% of which is untapped. Existing trade frictions and expectations of growth in the coming years have equal roles in the untapped potential, which is concentrated in the Dominican Republic (73%).

Trinidad and Tobago and Jamaica also hold export growth potential of 6% and 5%, respectively (Figure 24, left). A large share of the untapped potential in this product group is in the South African market (71%), with smaller shares in Ghana (6%) and Egypt (5%) (Figure 24, left).

About half of the untapped potential is in medical instruments. The rest is distributed across a range of products including insecticides and medicaments (7% each) and surgical catgut and appliances for ostomy (5% each).

Source: Export Potential Map (2022)

Figure 24: Unrealized export potential in healthcare products, by origin, destination and product



Source: Export Potential Map (2022)

Diversifying the Caribbean's health-related product exports to Africa

The Dominican Republic is one of the world's top suppliers of medical instruments, with annual exports of \$862 million. While three-quarters of these exports go to the United States, a small share worth \$1.5 million is destined to South Africa. Exports to South Africa could grow by \$4.6 million a year by 2026, and exports to other African markets by \$665,826.

The untapped export potential in other health-related products, including in medicaments, surgical catgut and appliances for ostomy, is less than \$1 million. Africa's own supply capacities for some of these products are very limited, while demand is high and growing quickly.

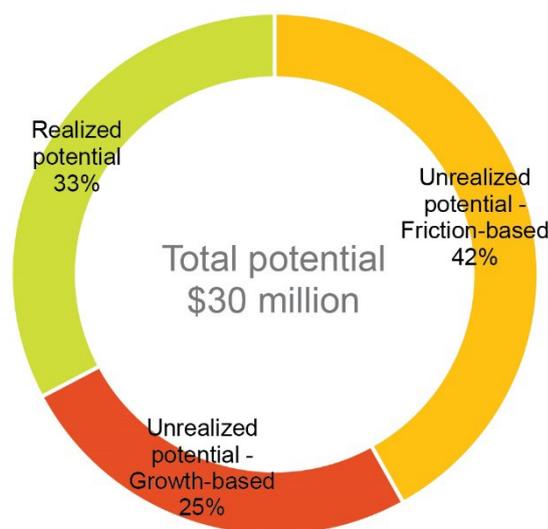
Zooming in: Vehicles²⁹

The AfCFTA Secretariat has identified the automotive sector as a priority value chain. In recent years, motor cars consistently ranked in the top 10 of Africa's exports. A detailed value chain diagnostic, commissioned by the European Union and carried out by ITC predicts that exports will grow further when problems related to fragmentation of production, quality and missing value chain links are resolved.³⁰

Below, we focus on Africa's export potential to the Caribbean for vehicles and on the Caribbean's export potential to Africa for vehicle inputs.

From Africa to the Caribbean

Figure 25: Africa has \$20.1 million in untapped vehicle export potential to the Caribbean



Africa's has \$30 million in export potential for vehicles to the Caribbean, 67% of which remains untapped. A larger part of the untapped potential is friction-based.

The untapped potential is concentrated in South Africa (80%) and Morocco (16%) as well as in other countries with emerging car industries (Figure 26, left). Many markets in the Caribbean offer growth potential, including the Dominican Republic, Guyana, British Virgin Islands, Jamaica and Trinidad and Tobago (all more than 10%) (Figure 26, left).

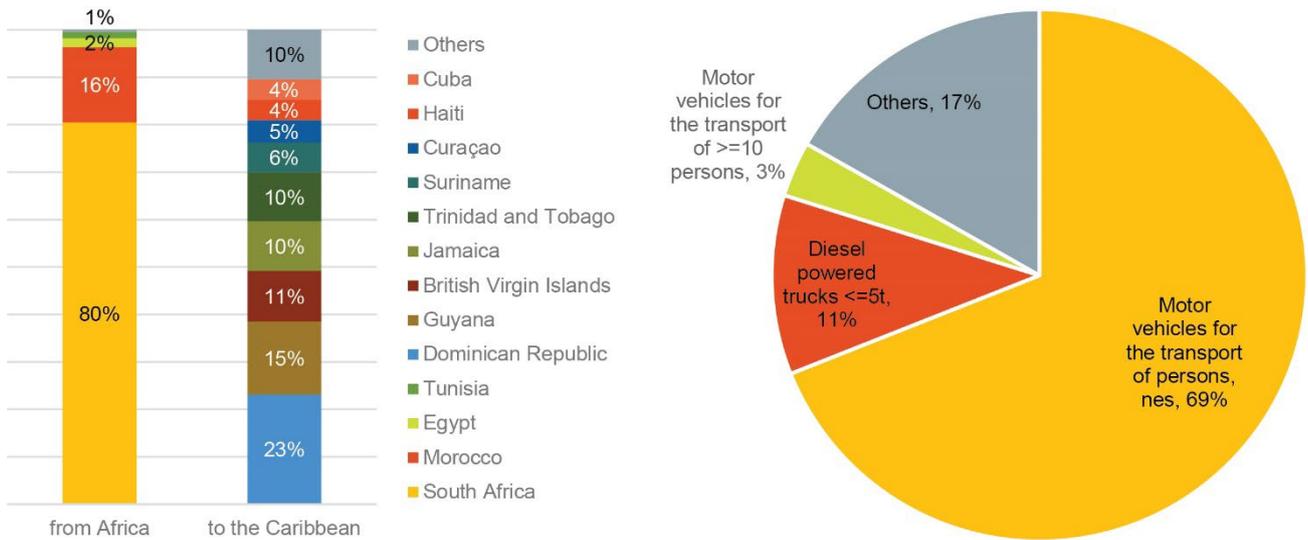
More than two-thirds of this potential is in cars. The rest is distributed across several types of vehicles, such as diesel-powered trucks (11%).

Source: Export Potential Map (2022)

²⁹ The vehicle sector encompasses motor vehicles (part of Chapters 84 and 87), trains (part of Chapter 86) and bicycles (part of Chapter 87) as well as 223 automotive inputs (ITC, 2022).

³⁰ ITC (2022): *Made by Africa – Creating Value Through Regional Integration*.

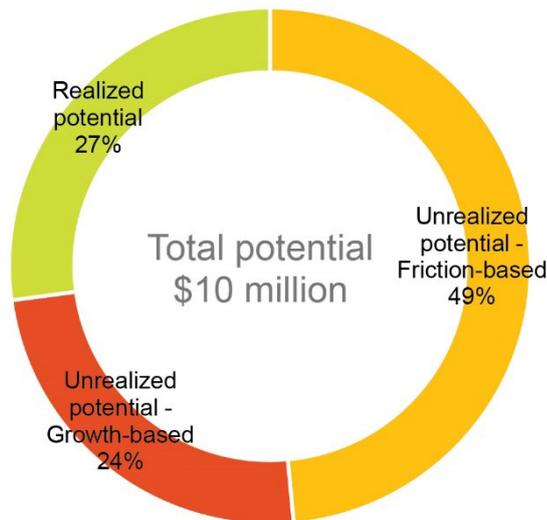
Figure 26: Unrealized export potential in vehicles, by origin, destination and sector



Source: Export Potential Map (2022)

From the Caribbean to Africa

Figure 27: Caribbean has \$7.3 million in untapped vehicle input export potential in to Africa



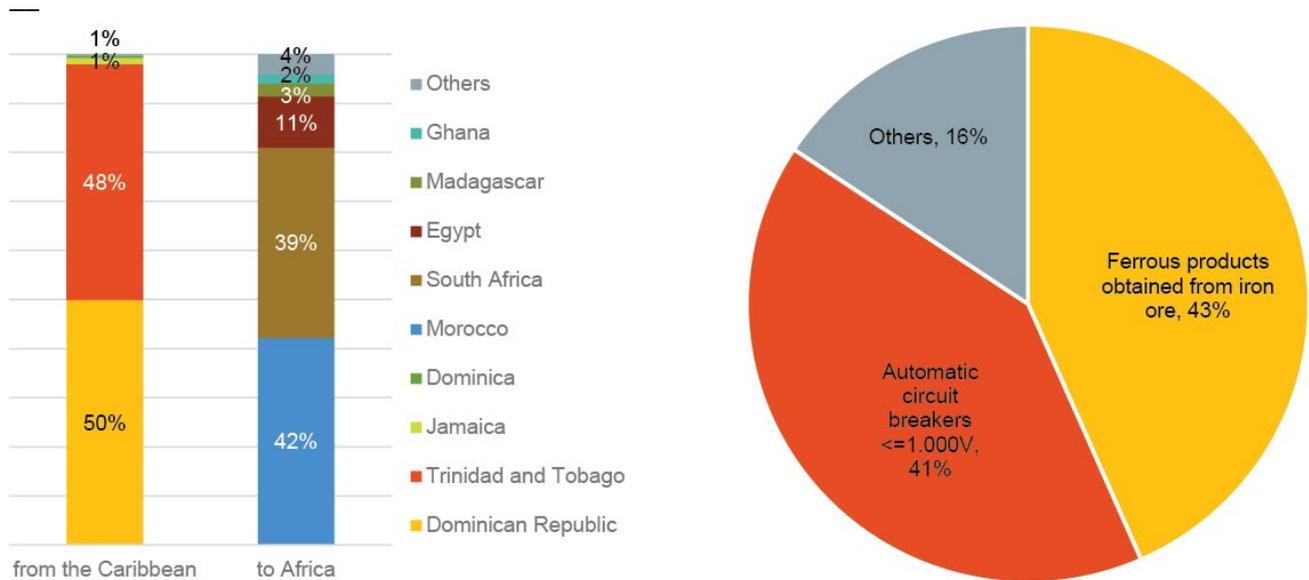
The Caribbean has \$10 million in export potential for inputs into the vehicle sector, of which \$7.3 million remain untapped. Most of the untapped potential is friction-based.

The untapped potential is almost equally split between Dominican Republic and Trinidad and Tobago, with minor untapped potential across other Caribbean countries (Figure 28, left). On the market side, Morocco (42%), South African (39%) and Egypt (11%) hold most of the potential.

The untapped potential splits almost equally between ferrous products obtained from iron ore (43%) and automatic circuit breakers (41%), with minor growth potential across other inputs.

Source: Export Potential Map (2022)

Figure 28: Unrealized export potential in vehicle inputs, by origin, destination and sector



Source: Export Potential Map (2022)

Diversifying the Caribbean's vehicle input exports to Africa

The Caribbean can supply Africa's automotive industry with two key inputs: ferrous products obtained from iron ore and automatic circuit breakers, used in electric motors. Both have an unrealized potential above \$3 million. The Caribbean exports \$618.4 million of automatic circuit breakers to world markets every year, but only negligible amounts to Africa. Most of the Caribbean's export growth potential for these automotive inputs is in African markets that have a vital car industry: South Africa, Morocco and Egypt.

Focus on services: Caribbean can boost exports to Africa, especially tourism

As already mentioned, data on African-Caribbean services trade are not available. While it is possible to calculate the regions' potential to export services to one another using an adapted version of the export potential methodology, the data constraints mean it is not possible to distinguish between realized and unrealized export potential.

Africa has a services export potential of \$91.1 million to the Caribbean. More than 40% lies in the transport sector alone (\$40.4 million), followed by other business services (\$25.6 million) and travel (\$16.7 million). Together, these three sectors represent more than 90% of Africa's total services export potential.

Transport and other business services could be more important in bilateral trade than they are now in Africa's global exports. These two sectors drive the 'servicification' of value chains by bringing goods quickly to consumers and by offering legal and other consulting services to firms in support of their trade activities.³¹

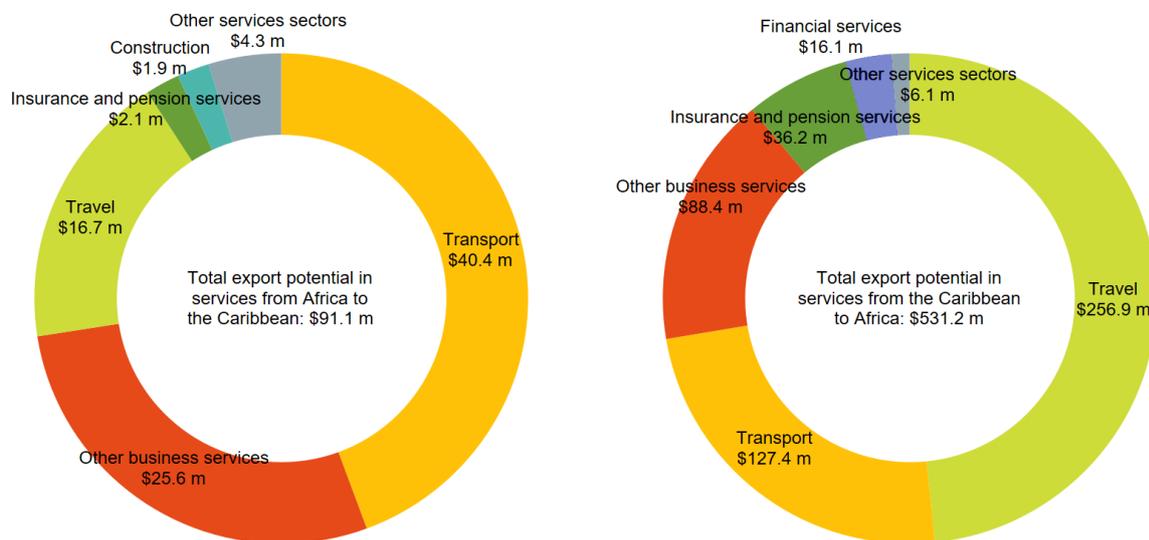
These services could be vital for Africa's trade with the Caribbean, given the large distance between the two regions, their low logistics performances and reports of difficulties dealing with each other's regulatory requirements (see Chapter 2).

The Caribbean's services export potential to Africa is much larger, at \$531.2 million – twice its export potential in goods. Travel accounts for nearly half of this potential (\$256.9 million), followed by transport (\$127.4 million) and other business services (\$88.4 million). The three sectors combined hold almost 90% of the Caribbean's potential to export services to Africa.

³¹ ITC (2022). *SME Competitiveness Outlook 2022: Connected services, competitive businesses* (forthcoming).

Financial services, which have export potential of \$16.1 million, could boost the competitiveness of firms operating in cross-border value chains. Forthcoming ITC survey data shows that digital solutions help small and medium-sized enterprises in particular to access loans and make payments.³²

Figure 29: Travel, transport and business services hold considerable export potential



Source: Authors' calculations based on Export Potential Map (2022)

³² ITC (2022). *SME Competitiveness Outlook 2022: Connected services, competitive businesses* (forthcoming).

Chapter 4

Unlocking South-South trade potential

CHAPTER 4 UNLOCKING SOUTH-SOUTH TRADE POTENTIAL

The first three chapters of this report outlined opportunities for export success in Africa-Caribbean trade, both in terms of values and diversity of export portfolios. The hundreds of millions of dollars of potential trade in goods and services between the two regions will not, however, materialize on their own – particularly in a global context where transport and shipping costs have skyrocketed, entire continents face a cost-of-living crisis and firms (large and small) are fighting for survival.

Even in 'normal' times, trade follows historical patterns of consumer tastes, market forces and shipping lanes, which for many developing countries have been oriented towards former colonial powers or large, developed country markets. Re-orienting the driving forces of trade towards greater South-South trade, including Africa and the Caribbean, requires a concerted push to transform trading patterns that are deeply rooted in history and, as a consequence, often resistant to change.

Four lessons from ITC work

The International Trade Centre has promoted South-South programmes since its creation, gradually expanding its trade-only focus to include investment. In the 1970s, ITC pioneered initiatives for regional trade expansion in Asia and Latin America. Although ITC has refined its tools since then, its fundamental approach has not changed: facilitating South-South business links primarily by addressing perception asymmetries and providing the information companies need to do business in new markets.

In 2020, ITC published *Designing for Impact: South-South Trade and Investment* (ITC, 2020), a compilation of lessons learned from previous South-South projects, many of which have direct relevance to the Africa-Caribbean setting. Combined with this study on Africa-Caribbean trade and lessons of other ITC projects since its creation nearly six decades ago, there are four clear lessons for policymakers, firms and international organizations on both sides of the Atlantic.



Lesson #1: Create a market intelligence ecosystem that focuses efforts, fills data gaps and overcomes misperceptions

Misperceptions and information asymmetries/gaps are often more pronounced in South-South partnerships. Limited market information, lack of experience or exposure, and existing biases are among the causes. This holds true for both exporting and importing countries. For example, traders and investors may have misperceptions about risks, opportunities, social and political contexts, or ease of doing business in the recipient country. Specifically for trading relationships, lack of understanding or trust may exist between buyers and sellers, or on specific issues such as suitable packaging and delivery time.

Overcoming initial hesitations and misperceptions in the African and Caribbean context requires a clear effort by governments, trade/investment promotion organizations and international organizations to provide transparency and focus for market opportunities. This effort should:

- **Create easily accessible, business-friendly tools to make African-Caribbean trade more transparent.** These tools should enable business actors to identify export and import opportunities, compare market access requirements, monitor national trade performance and make well-informed trade decisions. The tools should cover topics such as trade statistics, tariff data and rules of origin related to applicable free trade agreements, as well export potential estimations, market price information and regional trade/investment data.
- **Identify a long list of sectors as a starting point for trade promotion,** on the basis of these market intelligence tools and export potential analyses. Use a mix of quantitative and qualitative data – important given that data availability and information asymmetry are particular challenges in many developing countries – to narrow down bi-regional efforts to a short list of priority sectors.

- **Identify a clear list of institutional partners to target for early buy-in.** This list should include, at a minimum, relevant government agencies, industry associations, investors/buyers and micro, small and medium-sized enterprises at the lower end of the production scale. For each priority sector, develop joint sector strategies and roadmaps between prospective African and Caribbean stakeholders so institutional partners, governments and industry clearly understand priorities, expectations and actions over a fixed time horizon.



Lesson #2: Build relationships through trade fairs and business-to-business meetings

African and Caribbean firms must attend business-to-business meetings and trade fairs to create visibility and promote the sustainability of trade links. It will depend on the firms and sectors in question, but in many cases, attendance by an African or Caribbean business delegation at a trade fair or business-to-business meeting hosted by the other region could be a novelty. This can lead to trial orders and inquiries.

Reaching a point where buyers and sellers conduct regular business requires a level of trust that can only be established after several interactions. Initiatives that aim to create sustainable business linkages therefore must plan for repeated attendance, ideally over several years.

To overcome challenges of scale, African and Caribbean governments and firms should market businesses as a regional group (or even subregional groups) for better visibility. This approach is useful for small delegations or in countries where the sector may still be nascent, with only few companies active. Joint marketing as a regional African or Caribbean bloc gives potential buyers an impression of the scale and diversity on offer that may not come across when marketed by a country individually. It also encourages exchanges, learning and business linkages among businesses within their own region.

To promote upgrading and value addition, African and Caribbean businesses should exchange best practices, technologies and skills. Trade fairs and business-to-business meetings in other developing countries are excellent learning opportunities that complement exposure activities. The learning effect can be particularly effective in a South-South context, because the technologies adopted and business challenges in one developing country are often both similar and relevant to others.



Lesson #3: Tackle high tariffs and non-tariff barriers, building on regional integration initiatives

Trade between the two regions is, perhaps unsurprisingly, heavily concentrated in sectors where tariffs are low. High tariffs hold back more bilateral trade potential precisely in those sectors where African and Caribbean firms are globally competitive.

A bilateral or regional trade agreement would be a major step towards strengthening and diversifying trade ties in accordance with each region's comparative advantages. Any sort of region-to-region free trade accord would, naturally, need to be carefully crafted to ensure that the resulting tariff schedules, rules of origin and regulatory requirements were harmonized with both the African Continental Free Trade Area and the Caribbean Single Market and Economy.

Non-tariff barriers, however, pose the most prohibitive obstacle to trade. Frictions, such as complex regulatory requirements or sector-specific logistical problems, block nearly half of the growth opportunities identified in this report. This finding is especially true for smaller firms and sectors, as compliance with regulations incurs high fixed costs compared to the potential gains. Policymakers should consider harmonizing or mutually recognizing regulatory requirements, incorporating mechanisms to report and identify challenges encountered by traders.

One of the most insurmountable barriers to African-Caribbean trade is transport costs. Critically, this report finds that costs are not necessarily related to distance: both Africa and the Caribbean trade frequently with other regions with which they face similar or larger distance disadvantages. Reducing transport costs means investing in better port and land freight infrastructure as well as better logistics and customs services.



Lesson #4: Focus on the future of trade, particularly services exports

This report has shown the enormous potential of trade in services, including a potential half-billion dollars' worth of exports from the Caribbean to Africa. A transatlantic boost in services trade could help economies ravaged by COVID-19 and soaring energy costs, at a time when governments are facing rising demands on scarce foreign exchange.

Yet the potential goes far beyond the quantitative figures identified in this report.

In Africa, the Caribbean and the wider group of developing countries, the services sector is increasingly driving economic transformation. ITC recommends that governments set the conditions for a competitive and innovative space in which providers of 'connected' services can thrive.³³

The forthcoming 2022 edition of ITC's flagship report, *SME Competitiveness Outlook, Connected services, competitive businesses*, urges governments to focus on strengthening competitiveness in four sectors: transport, finance, information and communication technology, and business and professional services. Its research and business surveys show that these four services sectors in particular are critical for inclusive growth and trade. They improve business competitiveness, both in services and manufacturing.

³³ ITC (2022). *SME Competitiveness Outlook 2022: Connected services, competitive businesses* (forthcoming).

Appendices and References

APPENDICES

Appendix I Export potential indicator: Data and methodology

The ranking of products and markets with export potential relies on the International Trade Centre's export potential methodology. This methodology has been developed to identify and quantify export opportunities.

The export potential indicator is calculated for each country at the product level, for all possible importers, and with a horizon in 2026. Identifying growth and diversification opportunities for 2026 instead of current ones allows us to consider expected growth trends in the exporting country, in destination markets and competitors, and expected changes in tariffs.

The export potential indicator is built on three components:

- The total export **supply** capacity of the exporter for a given product in 2026
To estimate a country's export supply capacity of a given product in 2026, we consider its current share of world exports of that product and the expected growth of the country until 2026 compared to the expected growth of all other countries that export that same product, as well as the average tariffs the country faces when exporting this product compared to the average tariffs other countries face when exporting it.
- The total import **demand** for that product in any given market in 2026
To estimate any market's import demand for a product in 2026, we consider its current imports of the product, its expected per capita growth until 2026, how growth affects its import demand, the tariff that market will impose on the exporting country for that product in 2026 compared to the one it will impose on other countries, and the distance between the market and the exporting country compared to its distance to competitors.
- The **ease** of trade between the exporter and importer
The ease of trade is a measure that captures how easy or difficult it is for the country to export to any given market, compared with world markets on average.

Using these three components, we calculate the potential export values in 2026 for each product a country already exports consistently, in dollar terms, to any given market, including markets currently not served.³⁴ The estimated potential export value in 2026 can then be compared to the current export value to identify growth opportunities: the gap constitutes the unused export potential. Note that the unused export potential may be associated with changes expected in coming years (growth trends or tariff changes), or to existing frictions.³⁵

The [ITC Trade Map](#) is the source of all trade data used in export potential assessments. Various measures ensure that unreliable data reports do not distort results. First, the indicators are based on five-year averages (2016–2020). All products must be exported in the three most recent years and imported in all five years to ensure that only continuously supplied and demanded products are suggested as potential areas for export promotion activities. Second, a mix of the direct flow (as reported by the country itself) and the mirror flow (as reported by the country's trade partners) flow is used to estimate 'true' export and import values.

Third, a thorough reliability check identifies and disposes of unreliable reporters whose reported trade flows are not used in the analyses. In cases where a country's reports systematically differ from those of its trade partners, only reliable mirror statistics are used.

Tariff data are taken from the ITC [Market Access Map](#). All other data come from external data sources.³⁶

³⁴ Not all products are considered. Products that are classified as harmful or not relevant to export potential are omitted from calculations. A full list of the products excluded can be found [here](#).

³⁵ See additional details on the methodology in Decreux and Spies (2016).

³⁶ For more details, see Decreux and Spies (2016).

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