

ABSTRACT

Will CARICOM's Real Natural Trading Partner Please Stand Up?

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In this dissertation four empirical studies on bilateral trade among members of the Caribbean Community (CARICOM) and between CARICOM countries and their extra-regional trading partners are presented. The first Chapter applies the trade intensity index model to assess the strength of the natural trading partner relationship among CARICOM countries and between CARICOM countries and 60 non-CARICOM countries. The evidence from the trade intensity index model reveals that intra-CARICOM trade is determined largely by special country bias rather than trade complementarity. A similar trend is observed for extra-CARICOM trade. Moreover, industry level trade complementarity is only observed in a few product groups. The Chapter also identifies that Central America, Asia and Latin America are the most “natural” trading partners for the CARICOM region. The second study extends the trade complementarity analysis to examine the significance of trade complementarity and non-reciprocal trade preferences as determinants of CARICOM member's exports. Evidence from gravity models indicate that trade complementarity is not a significant determinant of CARICOM's exports. Furthermore, the gravity models shows that CARICOM countries are faced with a dual challenge in the extra-CARICOM

market of (i) dependence on declining non-reciprocal trade preferences and (ii) a lack of trade complementarity. The third Chapter examines the welfare impact of the proposed CARICOM-Canada FTA on CARICOM countries. Evidence from a revealed comparative advantage index and a transition probability matrix suggests that CARICOM members have generally lost comparative advantage in their exports to the Canadian economy. Moreover, the results from a partial equilibrium model show that the liberalization of tariffs on Canadian imports would lead to a significant loss in tariff revenues and economic welfare for CARICOM countries. The fourth Chapter uses a Vector Autoregressive (VAR) model to estimate the impact of the growth spillovers from emerging economies on CARICOM countries. The findings reveal that emerging markets have a significant impact only on resource rich CARICOM countries.

Key words: Jeetendra Khadan, natural trading partner hypothesis, trade complementarity, non-reciprocal trade preferences, welfare effects and growth spillovers.