

*Universidad de Puerto Rico  
Recinto de Río Piedras  
Departamento de Economía  
Unidad de Investigaciones Económicas*

*Industrialization and Trade  
in the Caribbean*

Irma Tirado de Alonso  
Catedrática Asociada  
Florida International University

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## *Prefacio*

El trabajo de la doctora Tirado, que presentó en agosto de 1992 ante la facultad y estudiantes de este Departamento, reseña varios aspectos que cubre en el libro acerca del comercio en el Caribe, que publicó recientemente<sup>1</sup>. El artículo se centra en analizar los procesos de industrialización y sus consecuencias sobre el comercio internacional y regional en tres economías caribeñas. Para el análisis selecciona Haití, República Dominicana y Jamaica, por ser tres economías insulares con diferentes bases culturales y económicas.

Comienza el artículo revisando los procesos de industrialización en las tres economías, incluyendo las tensiones entre medidas de sustitución de importaciones y promoción de las exportaciones. Señala la autora que, entre 1981 y 1990, el valor añadido (a precios constantes) en la manufactura declinó en Haití, se mantuvo esencialmente constante en República Dominicana, mientras que en Jamaica creció a una tasa anual promedio de 3 por ciento durante la década. Ejecutorias éstas que levantan dudas acerca del éxito logrado por los esfuerzos de industrialización en estas economías caribeñas.

Al examinar los patrones de comercio internacional, la autora argumenta que las economías bajo consideración se encuentran en situaciones difíciles, a causa de sus déficits comerciales. Solamente la República Dominicana ha sido capaz de aumentar sus exportaciones y reducir sus importaciones en proporciones favorables.

Entre las conclusiones de la autora se plantea la necesidad de que estos países revisen sus estrategias de industrialización, hacia unas más balanceadas. Las estrategias a adoptar deben incluir la integración económica de la región, establecer eslabonamientos entre los procesos manufactureros y el resto de la economía, así como promover los procesos económicos que sean intensivos en el uso de recursos humanos capacitados; lo cual requiere, como es natural, desarrollar, a nivel nacional, la oferta de esos recursos.

Ramón J. Cao García, Ph. D.  
Director UIE

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<sup>1</sup>I. T. de Alonso, ed., *Trade Issues in the Caribbean*, New York: Gordon and Breach Science Publishers, 1992.

### *La Autora*

Irma Tirado de Alonso hizo sus estudios de bachillerato y maestría en economía en la Universidad de Puerto Rico, Recinto de Río Piedras. Continuó estudios graduados en la Universidad de York, en Inglaterra, donde obtuvo el doctorado en economía. Fue profesora del Departamento de Economía de la Universidad de Puerto Rico, Recinto de Río Piedras, por varios años, ocupando la dirección departamental. Actualmente es catedrática asociada en Florida International University, donde coordina el programa graduado en economía.

Las áreas de interés profesional de la doctora Tirado son la econometría, la economía de la educación y la economía del Caribe. En estos campos, ella tiene una extensa lista de publicaciones profesionales, que incluye tanto artículos como libros, además de haber servido como consultora en varias agencias gubernamentales.

# INDUSTRIALIZATION AND TRADE IN THE CARIBBEAN

by

Irma Tirado de Alonso\*

The strengthening of the manufacturing sector has been an important component in the economic development strategies of the Caribbean countries. A principal feature has been the encouragement of foreign investment in the manufacturing sector in order to undertake production for both local and export markets.<sup>1</sup> In some of the countries, the manufacturing sector has been separated into two distinct elements. The first sector would include activities directed towards domestic markets, which has been highly protected; the second consists of assembly type manufacturing dedicated for exports, which has evolved as a result of incentives offered, mainly by the United States. In the Caribbean both types of manufacturing can be found in many countries, with the cases of the Dominican Republic, Haiti and Jamaica being the best examples. Although these countries have many marked differences, in terms of social and economic indicators, they are similar in their industrialization strategies. To supplement domestic investment, these countries have attracted foreign investment by relying on generous tax holidays and by offering high ceilings on profit repatriation, along with other incentives and subsidies. They have also relied on assembly operations to strengthen their manufacturing sectors, so as to increase their foreign exchange earnings and to reduce the high rates of unemployment. The purpose of this paper is to analyze the industrialization experience of these three countries, and to document how this experience is reflected in the changing composition of their trade structures. In addition, some recommendations will be offered in the conclusion.

## I. ECONOMIC INDICATORS

According to World Bank's statistics, Haiti is ranked among the low-income economies in the world, while the Dominican Republic, and Jamaica, are classified as lower middle-income economies.<sup>2</sup> In 1989, the corresponding per capita GNP were \$360, \$790, and \$1,260. As shown in TABLE I, during the 1980s these economies had rates of growth much over than those attained in the period 1965-1980. In particular, the manufacturing sectors of Haiti and the Dominican Republic have had critical declines, while Jamaica was able to recover from the low levels attained during 1965-1980. The Inter-American Development Bank reports that, in real 1988 dollars,

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\* Associate Professor, Department of Economics, Florida International University, Miami, Florida, 33199. Comments are welcomed.

the magnitude of manufacturing value added attained in 1990 by Haiti (\$303 million) was lower than the value achieved in 1981 (\$374 million). In the case of the Dominican Republic, the estimated value added by manufacturing in 1990 (\$860 million) was almost equal to the magnitude attained in 1981 (\$851 million). Jamaica, on the other hand, was able to increase it from \$546 million to \$712 million for the same period.<sup>3</sup>

TABLE I  
GROWTH OF PRODUCTION: 1965-1980; 1980-1989

SECTORS	HAITI		DOMINICAN REPUBLIC		JAMAICA	
	1965-1980	1980-1989	1965-1980	1980-1989	1965-1980	1980-1989
GDP, TOTAL	2.9	-0.5	8.0	2.4	1.4	1.2
AGRICULTURE	1.0	-0.4	6.3	1.8	0.5	0.6
INDUSTRY	7.1	-1.6	10.8	2.9	-0.1	1.4
MANUFACTURING	6.2	-2.1	8.9	1.1	0.4	2.1
SERVICES	2.7	0.1	7.3	2.3	2.7	1.0

SOURCE: World Bank, World Development Report, 1991.

## II. MANUFACTURING SECTOR PERFORMANCE

In previous decades, the development strategy followed by these countries was chiefly one of import substitution. Industrial production was mainly directed at domestic markets in the cases of Haiti and the Dominican Republic, while in the case of Jamaica, besides the domestic market, it included the regional market of the CARICOM, as well, in response to the import substitution conditions created by each country and by integration arrangements.<sup>4</sup> The domestic industrial structure was sheltered by high tariff protective barriers and massive fiscal and other government incentives were also offered. The firms were allowed to import duty free raw materials, intermediate goods, and capital goods.

The manufacturing sector in these countries has benefitted, as well, from foreign investment in the export processing zones (EPZs). These are zones where firms import raw materials and component parts, mainly from the United States.

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Labor-intensive methods are then used to assemble the products, after which finished products are exported back to the United States. The factories located within these zones enjoy many benefits, such as tax exemptions, import incentives, export exemptions, and even exemptions from minimum wages.<sup>5</sup> Employment in these zones has also increased significantly. These factories are largely geared toward the final assembly of wearing apparel and electronic components. The incentives rendered via the United States Tariff Schedule (USTS), Items 9802.00.60 and 9802.00.80, (formerly sections 806.30 and 807), and those of the Caribbean Basin Initiative (CBI) have encouraged the establishment of industrial complexes in these areas, whose products are destined exclusively for the United States market.<sup>6</sup> The European Economic Community (EEC) --through the provisions of the Lomé Convention-- offer to the CARICOM countries, and to Haiti and the Dominican Republic, the opportunity of exporting some manufactured goods under preferential treatment. Mention should also be made of the US and EEC Generalized Systems of Preferences (GSP), which provide duty-free treatment to most exports from the Caribbean, and the Multifiber Arrangement (MFA) which, although it is an import restricting policy, has not affected the imports from the Caribbean as they have not filled their quotas of textiles and garments.<sup>7</sup>

Despite the incentives offered, the manufacturing sector in the Caribbean nations is relatively small in most areas. By 1988 the share of manufacturing value added in GDP was 15 percent in Haiti, 11 percent in the Dominican Republic and 18 percent in Jamaica (TABLE II). In the three countries, the main manufacturing activity has been concentrated in the processing of food, beverages, and tobacco (TABLE III). The most important transformation occurred in the case of the Dominican Republic where the share of this sector was reduced, while the manufacturing of chemicals increased significantly.

TABLE II  
STRUCTURE OF PRODUCTION  
1965 AND 1989

(Percentage Distribution)

SECTORS	HAITI		DOMINICAN REPUBLIC		JAMAICA	
	1965	1989	1965	1989	1965	1989
AGRIGULTURE	NA	31	23	15	10	5
INDUSTRY	NA	38	22	26	37	45
MANUFACTURING	NA	15	16	11	17	18
SERVICES	NA	31	55	59	53	50

SOURCE: World Bank, World Development Report, 1991.

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TABLE III  
STRUCTURE OF MANUFACTURING  
1970 AND 1986

(Percentage Distribution of Manufacturing Value Added)

SECTORS	HAITI		DOMINICAN REPUBLIC		JAMAICA	
	1970	1986	1970	1984*	1970	1986
FOOD, BEVERAGES AND TOBACCO	38	41	74	54	46	50
TEXTILES AND CLOTHING	22	15	5	5	7	6
CHEMICALS	2	3	6	23	10	13
OTHER	38	41	15	18	36	31

\* Percentage of gross output.

SOURCES: United Nations, Industrial Statistics Yearbook, various issues, and World Bank, World Development Report, 1991.

## 1. HAITI<sup>8</sup>

Industrialization efforts in Haiti began in the late 1940s, with an import-substitution strategy. Activities were mainly devoted to the production of cement, shoes, textiles, paper products, essential oils, beverages, and food products. These industries received incentives through tariff protection and import bans, duty free import of equipment and supplies, and protection from local competition.<sup>9</sup> The Haitian based industries were highly capital-intensive, and were characterized by excess capacity and high operating costs, which translated into higher domestic prices in comparison to alternative imports of the same products.<sup>10</sup>

The low level of domestic demand attributable to the insignificant level of disposable income in Haiti, meant a limited market for local import-substitution industries, and as a result, output began to decline after a brief period of growth. An export promotion strategy was then launched in the 1960s, through the passage of the Law on New Industrial of Agricultural Enterprises. The incentive provided by this Law, which has been amended several times, provided exemptions of import duties on raw materials, machinery and supplies, exemptions of export duties on manufactured output, exemption of income and license taxes on all new industries for a period of five to ten years, and unlimited profit repatriation. However, the political instability of the country during the 1960s was not conducive to investment. The situation changed somewhat during the 1970s and the country was able to attract foreign investment, and more than 200 enterprises were established.<sup>11</sup> There are no free zones in Haiti to accommodate assembly operations, but as a result of the provision of industrial estate facilities and of the existing infrastructure in the capital city, all industrial activity has concentrated in the capital city, all industrial activity has concentrated in the Port-au-Prince region.

Many United States-owned companies commenced assembly operations in Haiti in the 1970s, taking advantage of the proximity to the United States, Haiti's abundant and low-cost labor supply, and United States tariff provisions. It has been estimated that employment in the assembly industry, which had reached 60,000 in 1984, had declined to 40,000 by the end of 1987.<sup>12</sup> By 1990 the downward trend continued as social unrest discouraged manufacturers.<sup>13</sup>

In the case of Haiti, the manufacturing activities generated through assembly operations have been indisputable contributors to income, output, and employment. Exports of manufactured goods have alleviated the difficult situation of the balance of payments. In addition, these operations have stimulated the banking, transportation, and communications sectors.

In Haiti, manufacturing has been a rapidly growing sector where 14 percent of GDP is generated and around seven percent of the labor force is employed.<sup>14</sup> Assembly of component parts operations has been the main feature. These industries mainly produce apparel, electronics, toys, and sporting goods. The sector grew significantly from 1965 to 1980, but in the 1980s it has contracted.<sup>15</sup> In the latter decade, the value added by manufacturing has had a negative average annual rates of growth of -2.1 percent (TABLE I).

"Consumer non-durable goods" industries (classifications 31 and 32 of the ISIC, which consists of food, beverages, tobacco, textiles, apparel, leather, and footwear) have been the leading products in Haiti's manufacturing sector. Since the 1960s half of the value added in manufacturing corresponded to these two classifications (TABLE II). The other important sector corresponded to the assembly of electronic equipment.<sup>16</sup>

## 2. DOMINICAN REPUBLIC

Since the 1960s, every government in the Dominican Republic has consistently given priority to industrialization and has sought to diminish the economy's dependence on sugar. The industrial policy framework which has dominated manufacturing in Dominican Republic has been governed by the passage of the Industrial Incentives Law (Law Number 299) in 1968, and by the approval of a parallel foreign exchange market in 1967. Both events encouraged an inward development of the industrial sector. Priority was given to the production of consumer goods which replaced goods that were previously imported, and thus created a bias against the export of manufactured goods. For example, in 1970, manufactured goods constituted only five percent of merchandise exports, and these exports comprised an even lower proportion of manufacturing production. By 1987, the share of manufactured goods in total merchandise exports increased to 22 percent, after a peak value of 29 percent in 1986.

Law Number 299 imposed high tariffs on imported finished goods and provided exemptions for imports of raw materials and intermediate goods. Capital goods were imported at a lower exchange rate and this promoted the use of capital-intensive technology and encouraged the use of imported inputs. At the same time, exports of manufacturers were discouraged by the requirement that exporters were compelled to exchange their proceeds in part or in full at the official exchange rate, instead of the rate used for imports.

Because of high levels of effective protectionism, production was oriented towards the internal market rather than for exports.<sup>17</sup> This created a dualism between enterprises geared exclusively to exports in the free zones and those producing exclusively for the domestic market. The resulting effect was a bias against industries for exports, and favorable policies towards those industries producing for the domestic market. Empirical studies clearly indicate that those domestically oriented industries have been characterized by a high import content and a high level of excess capacity (an estimated 45 percent average excess capacity was found in 1983).<sup>18</sup> The combined effect of industrial incentives has provided and encouraged the production of finished goods with imported inputs. Little stimulus has been given for the development of local intermediate goods.<sup>19</sup>

In the Dominican Republic, the relative importance of the manufacturing sector as a percent of GDP has increased moderately. It represented an average 14.9 percent of GDP during the decade of 1960-1969. From 1970-1979 the sector had increased its average share to 18.6 percent, having stabilized at a level around 18 percent for most of the 1980s. By 1990, however, the share had decreased to 16.7 percent, reflecting a decline in domestic manufacturing activity while industrial activity in the tax free zones was flourishing.<sup>20</sup> The value added in manufacturing had a positive average annual rate of growth of 8.9 percent from 1965-1980, but the rate decreased to 1.1 percent for the period 1980-1989 (TABLE I).

Statistics furnished by the United Nations,<sup>21</sup> concerning the number of establishments, average number of employees, wages and salaries paid, and gross output by two-digit ISIC codes convey the importance of the high concentration of manufacturing activity in food producing sectors. In 1970, 74 percent of the output was generated in this activity. In the 1980s, the share had decreased and there had been a surge with respect to the chemical industry (TABLE III). Nonetheless, throughout the period, more than 75 percent of the labor force remained concentrated in the food industry.

Nontraditional exports have been stimulated by an Export Promotion Law (Law Number 69) implemented in 1979, and a Free Zone Law (Law Number 145) approved in 1983. Law Number 145 offers producers in the free zones important fiscal incentives, in terms of tax holidays and duty free import of machinery and raw materials. On the other hand, Law Number 69 grants incentives to non-traditional exports by providing both foreign exchange incentives and fiscal incentives.<sup>22</sup>

Despite the orientation of manufacturing to the local market, domestic demand for manufactured goods has been satisfied largely through imports. As seen in TABLE V, in 1965, according to World Bank estimates, imports of manufacturers corresponded to 63 percent of total imports. By 1987 the share of imported manufactured goods rose to 77 percent.<sup>23</sup>

### 3. JAMAICA<sup>24</sup>

Similar developments were taking place in Jamaica. Tax holidays and liberal profit repatriation were offered by the Industrial Incentives Law, the Export Industry Encouragement Law, and the Pioneer Industries (Encouragement) Law. In addition, the Jamaica Industrial Development Corporation has focused its activities on providing: (1) technical assistance, (2) training, and (3) construction/expansion of factory space.<sup>25</sup> Duty-free zone for manufacturing and assembly operations have been established around Kingston, the capital city, and around Montego Bay.

In Jamaica, food and agricultural products (ISIC 31) have been the main industrial activity (TABLE III). Chemicals (ISIC 35) have also been significant and include the production of industrial chemicals, pharmaceutical products, refined petroleum products, rubber products, and plastic products. Textiles and apparel (ISIC 35) has remained important as these enclave-type industries take advantage of the special provisions granted under USTS, formerly Section 807, for the re-export of assembled garments.

## III. TRADE PERFORMANCE OF MANUFACTURED GOODS

The Caribbean islands are small trading nations; they rely on foreign trade, not to mention, foreign finance, and foreign technology, for their economic activities. In 1990, ratios of foreign trade (exports plus imports of goods and services) to Gross Domestic Product were as high as 109 percent in Jamaica. In the cases of the Dominican Republic and Haiti, the ratios were less impressive, but at equally significant levels of 81 and 37 percent, respectively.<sup>26</sup>

During the 1980s, the three countries under consideration have had negative current account and trade balances.<sup>27</sup> Exports (fob), in the Dominican Republic which in 1981 achieved the highest value during the decade of \$1,188 million, decreased to \$704 million in 1990. In Haiti, exports decreased from \$151 million to \$139 million for the same period, after achieving its highest value of \$223 million in 1985. Jamaica was the only one of the three

countries able to increase exports during the decade: from \$974 million in 1981, exports increased to \$1,126 million in 1990, but with wide fluctuations during the decade. Many of the fluctuations can be attributed to lower commodity prices. The decline in sugar and coffee prices in the cases of Haiti and the Dominican Republic, as well as alumina in Jamaica, contributed to deteriorating terms of trade.

Imports (fob), behaved as follows: they increased in the case of the Dominican Republic from \$1,452 million in 1981 to \$1,807 million in 1990, and with respect of Jamaica from \$1,297 million to \$1,603 million for the same period. On the other hand, imports decreased in the case of Haiti, from \$360 million in 1981 to \$225 million in 1990.

The rates of growth of merchandise trade for the periods 1965-1980 and 1980-1989, are given in **TABLE IV**, and they portray the difficult economic situation of these economies. Only the Dominican Republic was able to increase exports and to reduce imports in favorable proportions.

OECD (Organizations for Economic Cooperation and Development) countries are important trade partners of the Caribbean nations. Trade with the United States is particularly important for these countries because they participate in the following agreements: (1) the Generalized System of Preferences (GSP), which gives duty free treatment to many items from developing countries; (2) the United States Tariff Schedule, former Sections 806.30 and 807, which allows duty free entry of that portion of a finished component; (3) the Caribbean Basin Initiative (CBI), which also grants duty-free treatment to specified manufactured goods, provided they meet the requirement of a 35 percent local value-added; (4) the extension of the Multifiber Arrangement, which is a bilateral agreement to restrict textiles and clothing exports, but which has not affected the Caribbean countries, as they have not filled their quotas; (5) "super 807", which guarantees access to United States markets for apparel assembled in the Caribbean without regard to quota levels, but with the specification that the clothing be made entirely of United States materials; and (6) the quotas on sugar, which has affected these countries notably.<sup>28</sup>

The percentage compositions of imports and exports of the three countries, by main classifications are presented in **TABLES V** and **VI**. Information will be analyzed for each individual country.

TABLE IV  
GROWTH OF MERCHANDISE TRADE  
1965-1980 AND 1980-1989  
(Percentage)

COUNTRY	GROWTH RATES			
	EXPORTS		IMPORTS	
	1965-1980	1980-1989	1965-1980	1980-1989
HAITI	5.5	-6.9	7.0	-5.1
DOMINICAN REPUBLIC	0.3	1.2	5.0	4.4
JAMAICA	-0.4	-2.1	-1.9	1.1

SOURCE: World Bank, World Development Report, 1991.

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TABLE V  
STRUCTURE OF MERCHANDISE EXPORTS: 1965 AND 1989  
(Percentages)

SECTORS	HAITI		DOMINICAN REPUBLIC		JAMAICA	
	1965	1989	1965	1989	1965	1989
FUELS, MINERALS AND METALS	14	0	10	2	28	16
OTHER PRIMARY COMMODITIES	62	14	88	28	41	26
MACHINERY AND TRANSPORT EQUIPMENT	3	16	0	5	0	1
OTHER MANUFACTURERS	20	70	2	65	31	58
TEXTILES AND CLOTHING*	3	43	0	35	4	13

Source: World Bank, World Development Report, 1991.

\* Textiles and clothing is a sub-group of "other manufacturers".

TABLE VI  
STRUCTURE OF MERCHANDISE IMPORTS: 1965 AND 1989

(Percentages)

SECTORS	HAITI		DOMINICAN REPUBLIC		JAMAICA	
	1965	1989	1965	1989	1965	1989
FOOD	31	23	25	14	22	19
FUELS	6	1	10	6	9	14
OTHER PRIMARY COMMODITIES	5	2	2	3	4	4
MACHINERY AND TRANSPORT EQUIPMENT	14	26	23	30	23	21
OTHERMANUFACTURERS	44	47	40	47	42	42

SOURCE: World Bank, World Development Report, 1991.

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TABLE VII  
OECD IMPORTS OF MANUFACTURED GOODS  
1989

(Percentage Composition)

SECTORS	HAITI	DOMINICAN REPUBLIC	JAMAICA
TEXTILES AND CLOTHING	54	48	33
CHEMICALS	2	1	63
ELECTRICAL MACHINERY AND ELECTRONICS	15	6	0
TRANSPORT EQUIPMENT	0	0	0
OTHERS	29	46	4

SOURCE: World Bank, World Development Report, 1991.

## 1. HAITI

Haiti's foreign trade has shown a deficit since 1960, reflecting lower world coffee prices, declines in the volume of sugar and coffee exports, rising costs of fuels, and consistent import demand for food, industrial supplies and transportation equipment.<sup>29</sup> As shown in TABLE V and VI, although imports have remained more or less consistent, there has been a pronounced structural change in exports, as manufactured goods have surpassed agricultural products as the main export revenue earner.

Trade is strongly oriented towards OECD countries, especially the United States. These developed countries mainly import textiles and clothing from Haiti (TABLE VII). More than 50 percent of imports come from the United States and about three-fourths of the exports go to the United States. The EEC is Haiti's second major trading partner.<sup>30</sup>

As shown in TABLE VIII, from 1983 to 1989 the United States increased its imports from Haiti under USTS Item 807.00, from \$197 millions to \$220 millions. Most of these imports by the United States were apparel products (TABLE IX), and by 1989, assembled products exceeded the value of coffee and sugar as Haiti's leading primary exports to the United States (TABLE XI).

TABLE VIII  
UNITED STATES IMPORTS OF ASSEMBLED PRODUCTS UNDER ITEM 807.00  
1983 AND 1989

SECTORS	HAITI		DOMINICAN REPUBLIC		JAMAICA	
	1983	1989	1983	1989	1983	1989
CUSTOM VALUE IN MILLION OF \$	197	220	161	663	15	164
SHARE OF TOTAL UNITED STATES IMPORTS FROM COUNTRY (%)	58.5	59.0	20.0	40.5	5.5	31.1

SOURCE: G. Schoepfle and J. Pérez-López, "Export Oriented Assembly Operations in the Caribbean", in *Trade Issues in the Caribbean*, edited by I.T. de Alonso (Philadelphia: Gordon and Breach Science Publishers, 1992).

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TABLE IX  
 COMMODITY DISTRIBUTION OF UNITED STATES IMPORTS OF  
 ASSEMBLED PRODUCTS UNDER ITEM 807.00

1983 AND 1989

(Share of total 807.00 imports from country)

SECTORS	HAITI		DOMINICAN REPUBLIC		JAMAICA	
	1983	1989	1983	1989	1983	1989
APPAREL PRODUCTS	39	75	85	84	83	92
ELECTRICAL PRODUCTS	32	7	7	7	--	--
MISCELLANEOUS MANUFACTURERS	19	11	4	--	2	--

SOURCE: G. Schoepfle and J. Pérez-López, "Export Oriented Assembly Operations in the Caribbean", in Trade Issues in the Caribbean, edited by I.T. de Alonso (Philadelphia: Gordon and Breach Science Publishers, 1992).

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TABLE X  
 ASSEMBLED PRODUCT EXPORTS AS A SHARE  
 OF TOTAL COUNTRY EXPORTS, 1983, 1985, 1988 AND 1989

(Percent)

	1983	1985	1988	1989
HAITI	35.0	41.3	37.8	NA
DOMINICAN REPUBLIC	6.3	9.5	20.4	22.4
JAMAICA	1.0	2.2	5.0	4.9

SOURCE: G. Schoepfle and J. Pérez-López, "Export Oriented Assembly Operations in the Caribbean", in Trade Issues in the Caribbean, edited by I.T. de Alonso (Philadelphia: Gordon and Breach Science Publishers, 1992).

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TABLE XI  
LEADING PRIMARY PRODUCT EXPORTS AND THE VALUE OF  
ASSEMBLED PRODUCT EXPORT  
1983 AND 1989  
(MILLION OF UNITED STATES \$)

	1983	1989
<b>HAITI</b>		
Coffee	55.5	36.6*
Sugar	1.5	1.0*
Assembled Products	58.0	65.8
<b>DOMINICAN REPUBLIC</b>		
Sugar	276.4	217.8
Coffee	76.4	87.6
Dora	164.5	88.8
Ferronickel	83.5	372.0
Cocoa beans & products	60.9	49.9
Assembled Products	49.4	207.4
<b>JAMAICA</b>		
Alumina	337.1	436.9
Bauxite	113.7	125.7
Sugar	58.2	63.3
Assembled Products	7.0	47.4

SOURCE: G. Schoepfle and J. Pérez-López, "Export Oriented Assembly Operations in the Caribbean", in Trade Issues in the Caribbean, edited by I.T. de Alonso (Philadelphia: Gordon and Breach Science Publishers, 1992).

\* 1988.

## 2. DOMINICAN REPUBLIC

In 1965, nearly 100 percent of the Dominican Republic's exports consisted of primary products, while in 1989 this same class of products accounted for only 30 percent of the total (TABLE V). This fact illustrates the heavy domestic bias that existed in the manufacturing sector in the 1960s, before assembly operations were started.

The structure has changed considerably since that time, and by 1989 manufactured

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goods were the principal exports.

The Dominican Republic's imports have changed in composition during the 1965-1989 period (TABLE VI). Food, and fuels have decreased their shares, while the demand for machinery and transportation equipment and other manufactured goods has remained strong.

The United States was the principal export market for the Dominican Republic with a percentage share of 76 percent in 1976. After the decrease in the price of the sugar, the share declined to 56.7 in 1982, but increased again after 1985. The EEC is a second but much less significant partner.<sup>31</sup> However, it is expected that after 1990, through the stipulations of the Lomé Convention, the share of exports to Europe will increase substantially.

United States imports of Dominican manufactured goods increased tremendously from \$161 million in 1983 to \$663 million in 1989, as a result of the industrial tax free zones and the incentives offered by USTS, section 807.00 (TABLE VIII). However, it is estimated that by 1990 these exports would have decreased somewhat as a result of the recessionary period in the United States.<sup>32</sup> Apparel products constituted 84 percent of the assembled products, while electrical products were 7 percent. These products compose around one-fifth of Dominican exports, and by 1989, assembled products followed ferronickel and sugar as the leading primary exports (TABLES VIII, IX, X, AND XI).

### 3. JAMAICA

In Jamaica, the rates of growth of both exports and imports were negative during the 1965-1980 period. During the 1980s the rate of exports was negative, while the rate of growth of imports turned positive (TABLE IV).

TABLES V and VI show the changing composition of merchandise exports and imports. In terms of exports, the 1960s were characterized by a heavy concentration on primary commodities, as two-thirds of exports were comprised of food, fuels, minerals, metals and other products. Moreover, there was a domestic orientation of manufacturing as a result of the import substitution strategy which was implemented in the 1960s, and because of the protective nature of incentives. Nonetheless, by 1989, the share of primary commodities had decreased to 42 percent, and manufactured goods, which were 31 percent in 1965, increased to 58 percent of the total.

The percentage structure of merchandise imports (TABLES VI), shows heavy reliance on food, fuels and capital goods, which reflects a low local capacity to produce these type of goods and it is indicative of the constraint faced by Caribbean nations in their attempt at reducing dependence on imported inputs and investment goods.<sup>33</sup>

There is a substantial concentration of foreign trade for these Caribbean countries. The United States is also the main trading partner for Jamaica, followed distantly by the EEC and Canada. Jamaica has been another country which has succeeded in increasing its exports of assembled products for the United States, under USTS, Item 807.00. The customs value of these finished manufactured products increased from \$15 millions in 1983 to \$164 million in 1989, of which 92 percent were apparel products. (TABLES VIII, IX, AND X). However, unlike Haiti and the Dominican Republic, for Jamaica, these exports constitute only about 5 percent of its total exports (TABLE XI).

#### IV. PERSPECTIVES

Some studies have been undertaken to evaluate the manufacturing strategy followed by the Caribbean countries.<sup>34</sup> The combined findings of most of these studies indicate that the industrial structure of most of these countries is not competitive by international standards, and that in some aspects, it is problematic and inadequate.

It has been concluded that given that the industrialization strategy followed has allowed for the duty-free import of raw materials and capital goods, the sector has become capital intensive. In addition, the cost of production has been increased by both the importation of raw material and capital goods, and, in the case of Jamaica, by the high wages demanded by labor unions. Excess capacity has been another feature of the industrial activity. Last but not least, the sector has been vulnerable to fluctuations in world supply and world prices, and waves of protectionism by the developed countries.

Some recommendations have been given in order to strengthen the industrialization efforts in the Caribbean. For example, the recommendations of the Group of Caribbean Experts which evaluated the CARICOM in the 1980s are applicable to other Caribbean islands, as well.

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Among their recommendations there was one of particular importance which underscore the need to complement the strategy of import substitution with that of export promotion:

"The regional development strategy must seek to stimulate simultaneously industrial activities designed to satisfy regional demands and activities to exploit extra-regional markets".<sup>35</sup>

However, the Group of Experts recommends that in devising the program for export industries, attention should be given to local subcontracting activities and to local or joint venture export operations, in addition to the traditional assembly-type operations. The Group cautions that this industrial development will be achieved if there is risk capital available, if there is training in export marketing technology, and if there are arrangements for the provision of export finance. In order to market the output, it will be equally necessary to maintain both the level of supply and the level of quality control.

The report prepared for the Caribbean Community Secretariat,<sup>36</sup> also provided valuable recommendations for all Caribbean countries in order to achieve growth through foreign trade. Among the main proposals put forth, the following require careful consideration: (1) increase cost-competitiveness, which would require some combination of unit factor cost reductions and technological improvement; (2) reduction of the anti-export bias, by phasing out and selective dismantling of the existing protective mechanisms; (3) targeting the market of other less developed economies, which requires the identification of possible markets, and the exercise of market skills; and (4) restraining import growth by fiscal and credit policies. In this respect, these nations will have to become more competitive in world markets. The major impediments of the Caribbean countries that need to be overcome include: (1) a weak external marketing capacity, in terms of lack of trained, knowledgeable, and experienced personnel; (2) a lack of price competitiveness, although automation has made labor intensive methods less attractive; and (3) weaknesses in decreasing imports, due to their productive structure which requires imported raw materials and capital goods.

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Nevertheless, there are good prospects for the Caribbean nations to increase their exports. As expressed by Allister McIntyre:

"Basically, the large majority of Caribbean countries have to transform their patterns of development from one centered around the utilization of natural resources, to one relying upon the utilization and upgrading of their human resources".<sup>37</sup>

Besides these valuable recommendations, these countries will have to consider, in addition: (1) diversifying their production, by concentrating in agro-industry, (2) expanding non-traditional exports, (3) taking far-reaching advantages of the provisions granted by the main trading partners in the United States and the EEC, and (4) expanding the size of the regional market by attempting regional integration.

However, in order to promote exports and manufacturing activity, these countries will have to overcome serious deficiencies. In the first place, there is an acute need for financial capital, for both medium and long term projects. Secondly, assembly operations in the tax free zones should develop backward linkages with the rest of the economy. In this respect, ways should be explored to increase, among others, the use of local inputs, local supplies of packaging material, and local insurance services. Attempts should be made to provide needed infrastructure, in terms of sea and air transportation, which is at present costly and deficient. There is also the necessity to improve the level of marketing capabilities. There is a need for knowledgeable, trained, and experienced personnel, in dealing with the markets of the developed countries, if exports to those markets are going to continue escalating. But, above all, it is imperative that the anti-export bias be reduced.

Haiti shares many of the problems that exist in the Dominican Republic and Jamaica, but at the same time offers many of the same advantages as the other countries. The main difficulty relative to the establishment of new venture manufacturing activities, is related to the unstable political atmosphere and uncertainties present in Haiti.

As indicated earlier, the future of manufacturing and the capability of increasing exports of manufactured goods from the Dominican Republic, Jamaica, as well as in Haiti, depend on many factors, some of which are beyond the control of their governments.

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## ENDNOTES

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