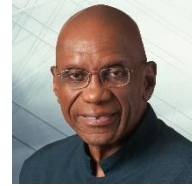




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Realistic Prospects for Export Diversification in the Caribbean

The candidates for export diversification in the Caribbean are the products and services that these countries are able to market successfully in North America, Europe and elsewhere, in competition with other international suppliers. Notice that our concern is exports; production for the domestic market provides no foreign exchange, and without foreign exchange for essential imported supplies, fuel and materials, nothing can be produced.

Tourism is the industry in which the Caribbean has a distinct comparative advantage, thanks to our tropical climate, excellent beaches and proximity to the North American and European markets. Tourism still offers the greatest potential for economic growth everywhere in the insular Caribbean, but it requires smart official policies to realise its potential, especially in more mature markets. The Caribbean as a whole remains a competitive tourism destination, but each country and location has its own particular appeal. It is incumbent on national governments to craft land use policies and incentives to preserve and enhance the features and qualities that set each destination apart. The target must always be to increase earnings of foreign currency; the preferred strategy is to increase the quality of the product so that it will fetch a higher price, along with a modest, sustained increase in the number of visitors. It is a good sign

when people comment on how expensive things are, but hotels are always full to capacity. Conversely, when guests enthuse that they are getting three-star quality for one-star price the business is headed for bankruptcy. The aim should always be to provide good value for the quality of service on offer.

The agricultural exports that were once the mainstay of Caribbean economies declined into insignificance with the end of the special marketing arrangements for sugar and bananas provided by the UK and the European Union. Caribbean protests that their competitors in these markets were benefiting from subsidies on beet sugar and substitutes cut no ice. Their taxpayers were content to subsidise their own farmers, but they had no interest in subsidising Caribbean producers.

Garment manufacturing, pharmaceuticals and the assembly of small instruments and devices offered some opportunities for exports during the 1970s and 1980s, but Asian countries have now captured that market. The same is true of call centres, data processing centres and other services that require modest levels of skill.

The remaining possibilities are in non-traditional areas, and they all face major difficulties. The most promising is renewable energy. Replacing fossil fuels with solar and onshore wind power saves on imports of an input that is essential to all production and consumption. Solar and onshore wind are the only fully matured renewable energy technologies currently available to the Caribbean. However, there are major costs of storage and distribution associated with the transition to renewables. The power generated must be stored for use as needed, and the existing grid which distributes the electricity from a central power station to consumers must be replaced with a smart grid that collects electricity from thousands of producers and stores or delivers it to consumers as needed. The storage and grid replacement costs are very high, and when added to electricity tariffs which are already high, they constitute a formidable barrier.

Caribbean artistic talent has earned the region an enviable international reputation, in music, literature, painting, theatre, performance and the festival arts. Caribbean countries continue to seek ways to domesticate the economic benefits from the cultural industry. However, unlike tourism, where the customer travels to the country, practitioners in the cultural industry must travel to their customers. There are economic benefits to the home country, depending on how much time the practitioner spends there, but they are not large enough to make a significant contribution to the diversification of exports.

The challenges to marketing other products and services successfully in North America and Europe, the most accessible markets, have proved insurmountable. There have been individual successes with educational services, medical services, specialised manufactured products, rum and other items, but there is no Caribbean country which can boast of a diversified export base as a result of these efforts.

While diversification of products is not possible, the Caribbean may diversify the markets to which it sells and the qualities of product on offer. For example, hotels may choose to market selectively by US zip codes, making a choice based on the quality of accommodation they offer and the average income of the neighbourhood. Communications technology now offers possibilities for targeted marketing and strategies tailored to the demographic the producer needs to reach. The US is not a single market for any Caribbean producer; within every city there will be counties of wealthy households whose travel is unaffected by economic fluctuations, not to speak of great disparities between states and regions of the country. Seen from this perspective, the possibilities for diversification within the Caribbean's traditional tourism markets in North America and Europe are limitless.

My Economic Letters may be found under "[Commentary](#)" at DeLisleWorrell.com.