

Location, Location, Location: The Caribbean Presents an Opportunity Close at Hand

By Eric Martinez

Spanning 28 countries and supporting a diverse population of over 21 million, the Caribbean is the world region most dependent on agricultural imports, especially consumer-oriented products. With a moderate-to-high standard of living, yet lacking competitive economies of scale for agricultural production and food processing, the Caribbean has consistently proved a profitable destination for U.S. exports.

The United States already commands a 56-percent share of this \$2.3-billion-a-year market. And U.S. exporters are poised to benefit further from developments in the Caribbean tourism industry and the world economy that will increase demand for consumer-oriented agricultural products.

Tourism: The Key Factor

The importance of tourism to the Caribbean's economy in general and to its market for consumer-oriented agricultural products in particular cannot be overemphasized. The health of the tourism industry is a primary indicator of the demand for food products.

On average, revenues from tourism ac-

count for over 70 percent of gross domestic product (GDP) per island. Nearly 55 percent of the Caribbean's labor force works in the service sector.

As a result of the proximity of the United States to the Caribbean and the permeation of cultural influences that makes U.S. goods so popular, a period of prosperity for Caribbean tourism often translates into a period of growth in demand for U.S. exports.

And the Caribbean has been experiencing just that kind of growth. Since 1992, growth in the region's tourist arrivals from around the world and in per-capita tourist expenditures have increased by more than 4 percent annually.



THE UNITED STATES IS ESSENTIALLY TRADING IN ITS OWN BACKYARD HERE.



These trends have helped to fuel an annual growth rate of nearly 5 percent in U.S. consumer agricultural exports. In 1992, for example, 15 million tourists visited the Caribbean, spending an average \$2,690 per capita. By 1999, 20 million tourists came to the region, spending an average \$3,550.

With more tourists spending more money, consumption of consumer-oriented products has climbed.

Slowdown? Just the Opposite!

A first glance would suggest that the Caribbean is exceptionally vulnerable to any slowdown in the U.S. economy. Summed up by the phrase, "When the United States sneezes, the Caribbean gets a cold," this line of reasoning assumes that fewer people would be going on vacation, and would therefore bring less revenue to the tourism-dependent islands. With fewer tourists spending less money, thereby re-

ducing local income, demand for U.S. consumer-based exports would fall.

This first glance, however, is belied by the actual results. In fact, the Caribbean appears to be one of the few regions in the world that benefits from a slowdown in the U.S. economy. It is precisely during periods of sluggish growth that the largest numbers of Americans visit the Caribbean—because it is closer and cheaper than other destinations.

The numbers indicate that Americans will always go on vacation. Economic conditions determine where—and how—they will spend their money.

During 1981-89, the United States experienced high levels of unemployment and inflation, a stock market crash, considerable economic uncertainty and slow growth. Yet over these years, U.S. tourist arrivals to the Caribbean grew at an average annual rate of nearly 5 percent.



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In contrast, from 1991 to 2000, the U.S. economy was barreling ahead, with its longest expansion in history; a stock market routinely setting new record highs; unemployment and inflation very low; spending on goods and services skyrocketing; and U.S. international air travel jumping 23 percent.

Yet during this period of unprecedented prosperity, the annual growth rate in U.S. arrivals to the Caribbean fell by 40 percent: from 4.8 to 2.7 percent. During those years, Americans flush with cash traveled to more distant, exotic and pricey locations, such as China and the South Pacific.

Now, with the pace of the U.S. economy once again moderating, the Caribbean will likely receive another wave of American tourists with American tastes. In addition to the preferences for American goods they will bring, the revenue they provide will also likely generate an increase in local consumption, and consequently an increase in demand for U.S. consumer-oriented agricultural goods.

Where Will the Growth Be?

Because tourism is the main industry in the Caribbean, competition among the islands can be fierce—although ultimately counterproductive. To avoid a price war that

would do more harm than good, each island markets to its own niche clientele, and then seeks to monopolize it.

While every island has cultural and geographical differences to recommend it, each island tends to target a specific market through price differences. And it is the key element of price that will determine where trade growth will occur in the Caribbean during the U.S. economic slowdown.

The traditionally more expensive islands are vulnerable to substitution by tourists who will go to cheaper Caribbean destinations. The islands that experience the greatest growth in tourism will have the largest increase in demand for U.S. imports.

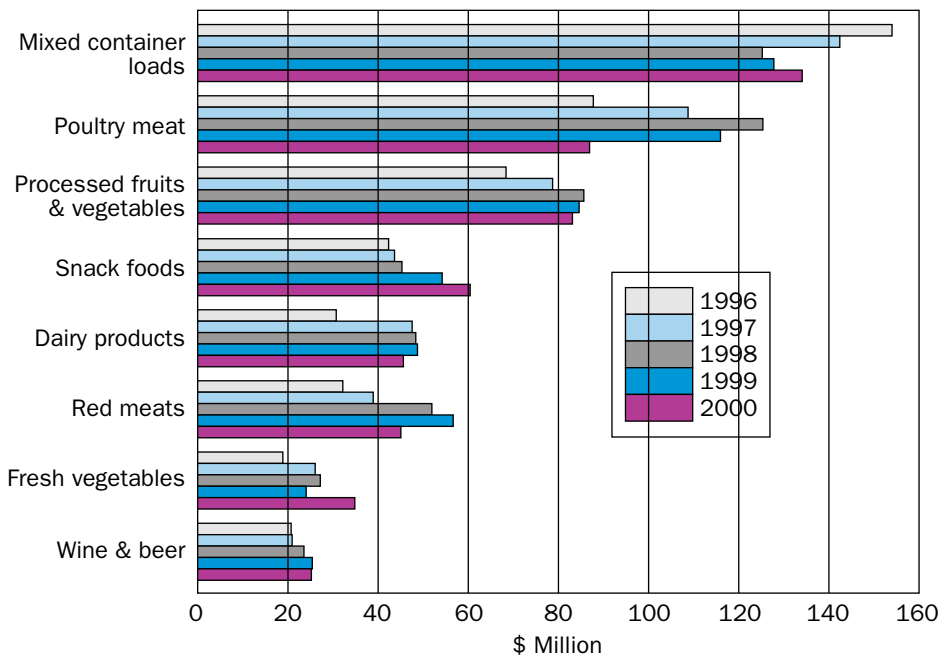
A decrease in demand for imports can be anticipated in the highest priced islands—such as Bermuda, Turks and Caicos, and the Caymans—as tourists go to more affordable destinations. Conversely, growth in demand for U.S. exports will occur in the mid-level and less expensive islands that are benefitting from this substitution, such as Jamaica, the Bahamas and the Dominican Republic.

Other Factors Fueling Growth and Assuring Stability

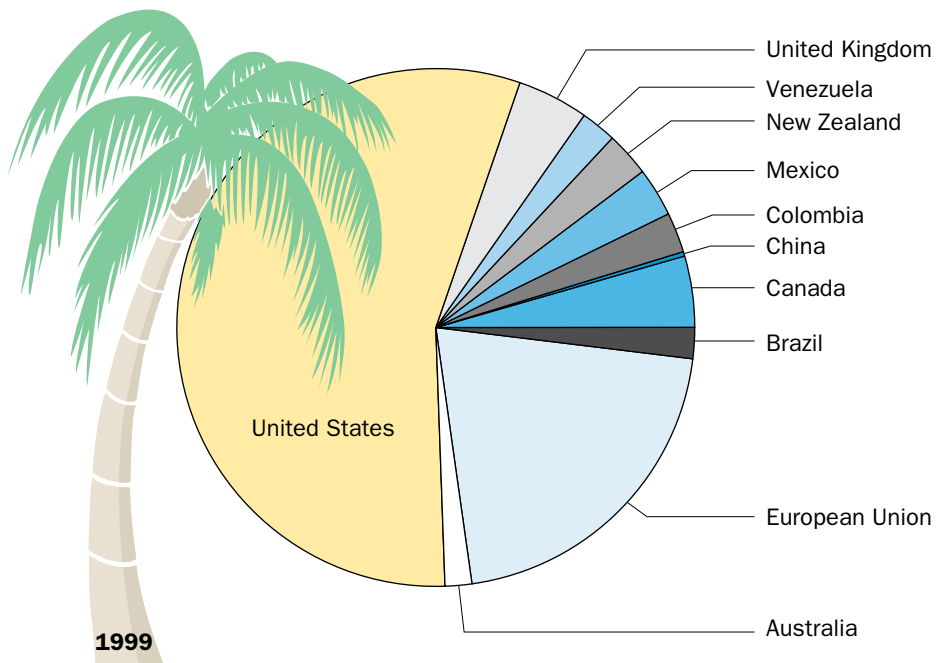
As noted above, the United States exerts a powerful commercial influence on the Caribbean. The region receives most U.S. television networks, and U.S. goods and preferences have a substantial impact on product demand. As a result, current U.S. consumer trends often indicate future market opportunities in the Caribbean.

Moreover, the Caribbean is heavily dependent on food imports. With an average 12.6 percent of arable land per island, it is more profitable for these nations to invest their labor and capital in tourism. The average trade deficit per island stands at \$731 million.

U.S. Best Sellers in the Caribbean Consumer Food Market



How the United States Stacks Up Against the Competition for the Caribbean Food Market



The composition of tourists visiting the Caribbean has become increasingly American. While Europe is still a big market, the weakening euro has made it very expensive for Europeans to visit a region where most currencies are pegged to the dollar. With an increasingly large majority of tourists coming from the United States, demand for U.S. food products will likely show a corresponding surge.

Meanwhile, the Caribbean's domestic market also provides a steady outlet for U.S. consumer-oriented products. The region has established a relatively high standard of living; and with an average per capita GDP

of \$11,600, it constitutes a stable market for U.S. products.

Sizing Up the Competition

The United States holds a dominating trade position in the Caribbean. With the cheapest transportation costs, the greatest array of products and a high level of quality, the United States is essentially trading in its own backyard.

The U.S. position in each island market varies; generally it is strongest in the current and former British colonies, and weakest in the French overseas departments of Guadeloupe and Martinique.

The primary competition for U.S. exporters comes from Europe, which has steadily held a 25-percent share of the Caribbean's consumer-oriented import market. The next biggest player is Canada, with 4 percent of consumer imports, followed by New Zealand and Mexico, each with 3 percent.

In identifying potential export markets, it's vital to understand that market shares do not fluctuate very much; the foregoing shares have remained consistent for the past 10 years. Rather, it is the market's absolute size that contracts and expands in concert with the cycle of the tourism industry.





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Trade Practices

Caribbean import procedures are usually clear and well established. Because it must rely so heavily on imports, the region has developed smooth and efficient trade practices. In the majority of islands, products typically go through Customs in less than three days.

Regulations regarding food imports vary widely depending on the country. A general rule of thumb is that the richer the country, and the smaller the proportion of the population involved in agriculture, the less complicated the importation process.

Exporting to islands such as the Bahamas or the Caymans tends to be straightforward, provided the products are in good condition and have been packaged and stored properly. Exporting to the Dominican Republic or Jamaica, on the other hand, can require numerous permits and licenses. Importation of certain products may be strictly regulated or banned outright to protect local producers.

Most Caribbean governments rely

heavily on Customs duties to finance their operations, so tariffs on imported goods tend to be rather high. Many of the countries in the Caribbean are members of the Caribbean Community (CARICOM), and impose a Common External Tariff of 25-40 percent on all agricultural imports.

Some Final Caveats

Political stability, economic prosperity and immediate growth resulting from increased tourism make the Caribbean an excellent destination for U.S. exports. For successful market entry, the key is preliminary research. Every island has cultural and economic differences that affect demand, and these concepts must be incorporated into an exporter's marketing strategy.

In addition, an exporter must follow trends in America's domestic market, while always considering potential changes in tourists' tastes and demands. Finally, a visit to the region can provide an invaluable understanding of the subtle differences in each island that make its market unique. ■

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Retail sector, food service sector and foreign agricultural import requirement reports on individual Caribbean countries are available on the web; go to www.fas.usda.gov, select **Attaché Reports**, and choose one of the three categories and the individual country name, or the Caribbean Basin region.

