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Globalisation and Small Developing Countries

The Imperative for Repositioning

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Small, developing countries which are vulnerable to external events and that have limited adjustment capacity are particularly exposed to the effects of globalisation. The changes encompassed by globalisation have far-reaching implications for small developing countries. Indeed, the overall impact is one that makes change in small developing countries an imperative that must be addressed with urgency. These economies can reduce the adverse implications of globalisation and take advantage of the opportunities through a process of 'strategic global repositioning'.

Globalisation

Globalisation is a multi-dimensional process which is transforming at a rapid rate and in a profound way all aspects of national and global activities and interactions. The pace, extent and character of globalisation differ among the economic, political and social. It is a process in which barriers to the international flow of goods, services, capital, money, and information are being increasingly eroded and/or eliminated. This process is well advanced and in many respects, is irreversible.¹

decades after 1950, slowed perceptibly in the period 1974 to 1984, recovered between 1984 and 1989, and has grown rapidly since 1990. For the period 1950 to 1994, the volume of world trade grew at a rate of 1.6 times faster than that of world production, varying from a low of 1.2 during the 1970s to a high of 2.8 in the 1990s. During these years the value of world output increased by a factor of 5, while the value of world trade in goods multiplied by a factor of 14.² The WTO calculates that the ratio of world trade in goods and services to output increased from 15 to 22 per cent between 1974 and 1994 and estimates that it increased from 7 to 15 per cent over the period 1950 to 1974; i.e. it has more than tripled since 1950.³ In recent years, international trade and capital flows have grown at a faster rate than world GDP. During 1983–93, there was a 71 per cent increase in the volume of world merchandise exports, double the 35 per cent growth in world output.⁴ Since 1970 flows of direct foreign investment have grown at rates in excess of those at which international trade and world output have expanded.⁵ During 1991–1996, direct foreign investment inflows increased by 24.4 per cent, far in excess of GDP and exports of goods and services that expanded by 10.7 per cent and 14.3 per cent respectively.⁶

Globalisation involves the creation of larger economic units through expansion, mergers and acquisitions by multinational corporations, and the coalescing of national economies through regional integration to form regional trade blocs.⁷ Trade blocs have increased in importance both in terms of the share of world trade they encompass and the number of countries that participate in them. The number of regional trade agreements notified to the GATT/WTO has increased since 1948,⁸ with a dramatic increase taking place during the last decade. By early 1999 there were 194 agreements of which 87 were established since 1990. Intra-regional trade has grown rapidly throughout the world since the late 1940s and now accounts for 59 per cent of world trade,⁹ accounting for almost 70 per cent of trade in Western Europe.¹⁰ The emergence of regional trade blocs, either market induced or politically engineered, represents a transition from an atomistic world economy of national economies to a global market. The proliferation of regional trade arrangements is simultaneously a response to globalisation and a factor shaping globalisation.¹¹

Character of Globalisation

1. Economic

The economic dimension of globalisation includes the following features:

a) *Dominance of the Global Market*

Essentially, there is only one market – the world market. Management guru Peter F. Drucker explains that 'every business must become globally competitive, even if it manufactures and sells only within a local or regional market. The competition is not local anymore – in fact it knows no boundaries. Every company has to become transnational in the way it is run.'¹² Globalisation is not only integrating trade, investment and financial markets. It is integrating consumer markets and consumption patterns. Local and national tastes are yielding to global social standards and aspirations in consumption. 'Global elites' and 'global middle classes' follow the same consumption styles, showing preferences for 'global brands'. There are the 'global teens', some 270 million, 15–18 years old in 40 countries, inhabiting a 'global space', a single culturally homogenous world of the same videos, films, computer games, music and designer clothes.¹³

International media, particularly from the United States, disseminate a vast volume of films, television programmes, music, books, magazines, and computer software that is increasingly creating a global popular culture. Indeed, entertainment around the world is dominated by American-made products, which are purveyors of American values and views on politics, wealth, individuality, gender, violence, dress, sex and so on. United States distribution¹⁴ is the largest in global terms. For example, Blockbuster Entertainment Corporation has 2,000 outlets in twenty-six countries, *Readers Digest* has 48 international editions in 19 languages; *Cosmopolitan* magazine has 36 foreign editions and *Playboy* magazine has 16 international editions.

b) *Intensification of competition on a world scale*

The implication of global competition is that even goods and services that are produced and exchanged within the national domestic sphere have to meet standards of quality and costs of production that are set globally. For example, in the early 1960s in the United States, the country with the largest domestic market, only 4 per cent of US domestic production was subject to

to relocate an ever-widening range of operations and functions to wherever cost-competitive labour, assets, and infrastructure are available. The new technologies make it feasible to standardise, routinise and coordinate activities that previously were subject to the friction of space and therefore regarded as non-tradable. They enable such activities to be turned into 'real-time' activities.

Competition has intensified not only among firms but also among countries, as all countries are increasingly exposed to the global market. Developing countries can no longer plan for the continued existence of preferential trading arrangements. The developed countries no longer feel obliged to provide preferential trade arrangements to developing countries¹⁶ with minute markets, no indispensable raw materials, and limited strategic importance. Small developing countries in particular must be prepared to adapt to the elimination or erosion of preferential trade regimes, such as the LOMÉ Convention and the Caribbean Basin Initiative.

c) *Growth of services*

The average annual growth in trade in commercial services between 1980 and 1993 was 7.7 per cent, compared to 4.9 per cent for merchandise trade. The overall share of services in total trade amounted to 22.2 per cent in 1993 (up from 17 per cent in 1980), and it is estimated that in the early 1990's service industries accounted for 50 to 60 per cent of total foreign direct investment flows.¹⁷ Furthermore, services account for 61 per cent of GDP in industrialised countries and between 35 and 51 per cent of GDP in developing countries.¹⁸ The United States generates 72 per cent of its GDP in the form of services. Services accounted for 30 per cent of US exports¹⁹ and jobs in the service sector accounted for 75 per cent of total employment.²⁰ In Great Britain and Switzerland, service industry exports, especially financial and tourism services, have already exceeded the export of goods.

d) *Facilitating technology*

The increasing globalisation of economic transactions and activities has been facilitated, and in some instances impelled by, rapid development of new technologies of communications, informatics, and manufacturing. New technologies have reduced transaction time, eliminated geography and

information processing and telecommunications propel globalisation by eliminating the costs resulting from distance, the importance of location and the advantages of large size. For example, the cost to transmit a 42-page document from New York to Tokyo by airmail would be US\$7.40 over two days, by courier US\$26.25 over 24 hours; by fax US\$28.83 over 31 minutes and by e-mail \$0.10 over two minutes.²² The cost of a commercial bank transaction on the Internet is roughly one US cent, dramatically less than that of any other distribution channel, i.e. a cost of US\$1.07 by the bank branch, US\$0.73 by the mail; US\$0.54 by telephone payment; US\$0.27 by ATM; and US\$0.01 by the Internet.²³ These technological developments have started to transform organisation structures, the nature of work, and the character of products, production techniques and international marketing. Indeed, the so called 'death of distance' will revolutionise the way people live and work²⁴ as we enter what has been called an 'age of globally networked intelligence'.²⁵

e) *Disembedded Finance*

The global financial system underwent three revolutions almost simultaneously: deregulation, internationalisation, and innovation²⁶ and new technology (telecommunications and computers) which have transformed cross-border activity in financial services.²⁷ Financial flows have become disembedded from the real economy, with much of the global financial flows being unrelated to production, trade and investment. This has been compounded by the emergence of global financial markets with a dramatic shift 'from a financial structure which was predominantly state-based with some transnational links, to a predominantly global system in which some residual local differences in markets, institutions, and regulations persist as vestiges of a bygone era'.²⁸ The magnitude of the flows have dwarfed the resources of central banks and have reduced considerably the capacity of even the industrialised countries to control these flows.²⁹ Transactions in foreign exchange markets have now reached the astonishing sum of around \$1.2 trillion a day – over fifty times the level of world trade. Around 95 per cent of these transactions are speculative. The daily volume of transactions on the foreign exchange market of the world total some \$900 billion – equal to France's GDP – and some \$200 million more than the total foreign currency reserves of the world's central banks.³⁰ The significant increase in short-term financial flows and reduced regulatory capacity of governments has

factor in banking crises and exchange rate collapses in Mexico and the recent Asian crisis. Global financial markets also heighten the speed and extent of the spread of financial contagion.³² While new mechanisms for crisis prediction, prevention, and management are urgently needed there is no consensus on proposals ranging from reform of the IMF³³ to new global institutions for financial surveillance and regulation.³⁴

f) *Electronic commerce*

Electronic commerce (e-commerce) is a major development in the global economy. It involves business conducted on the Internet and other network based data inter-change systems. E-commerce will continue to affect fundamentally the way economic activities are conducted in financial services, telecommunications, entertainment, and various other services. Internet access and use is likely to grow rapidly. Estimates of Internet growth vary. US Government estimates indicate that in December 1995, approximately 10 million people were using the Internet, but 3 years later the number had jumped to 140 million.³⁵ Worldwide, from a base of 4.5 million users in 1991 and 60 million in 1996, the number was projected to rise to roughly 300 million by the end of the last century.³⁶ Electronic commerce is predicted to involve \$300 billion by the end of the year 2000.³⁷ By 2003, Internet could account for 2 per cent of all commercial transaction.³⁸ It is estimated that in 1998 on-line commerce revenues amounted to \$12 billion.³⁹

2. Corporate Reorganisation

Multinational corporations (MNCs) now account for about a third of world output and two-thirds of world trade. A quarter of world trade is made up of intra-firm transactions taking place within multinational corporations.⁴⁰ They also account for half of world trade in manufactured goods and eighty per cent of the world's land cultivated for export crops.⁴¹ Their prominence and 'global reach'⁴² is such that Greider regards the MNC as being at the centre of what he calls 'the manic logic of global capitalism'.⁴³ In 1996, 85 of the top 100 MNCs were headquartered in the Triad, i.e. US, Europe, and Japan and their dominance is evident in ownership of foreign assets, foreign sales, and foreign employment.⁴⁴ Amoroso describes this phenomenon as 'the triadic capitalism of the transnational corporations'.⁴⁵ Concomitant

Corporate reorganisation has taken a number of forms including downsizing of administrative and managerial super-structures, strategic corporate alliances⁴⁷ both through joint ventures and outsourcing, mergers, real-time activities, and global webs.⁴⁸ The most prominent feature of corporate reorganisation in recent years has been mergers and acquisitions, including cross-border mergers and acquisitions, which account for one quarter of all mergers and acquisitions worldwide and 58 per cent of direct foreign investment flows.⁴⁹ The total value of mergers and acquisitions in 1998 was \$2.45 trillion, an increase of 54 per cent over 1997 and up by 613 per cent from \$0.4 trillion in 1992.⁵⁰ While the number of mergers per annum has fluctuated over the last decade, nine of the ten largest mergers occurred during the past year, eight of them in the last six months. Mergers and acquisitions in emerging markets have increased in recent years.⁵¹ Mergers impact on competition, consumer's interest, and barriers to entry, transcending national regulatory systems and tax avoidance – and on the continued emergence of a transnational-owning class.

3. Political

A global convergence of economic, technological, and ideological forces which drive the process of globalisation is shifting power away from governments toward multilateral institutions, and a small number of multinational corporations and financial institutions⁵² increasingly wield economic and political influence. Multinational corporations are estimated to account for a third of world output and two-thirds of world trade.⁵³ Concomitant with the globalisation of economic processes, which is proceeding rapidly, there is a tendency for the nation-state to fragment, particularly where there are long-standing religious, racial, tribal, and ethnic differences. Some have gone as far as proclaiming the demise of the nation-state,⁵⁴ certainly in an economic sense, but also increasingly as a viable political actor. This seems premature, as the nation-state has not been superseded by any political formation. However, sovereignty in all its dimensions has been constrained considerably⁵⁵ by economic interdependence. The weakening of allegiances to the nation-state⁵⁶ is understandable at the psychological level because globalisation and its homogenising influence erode the basis for national allegiances, with the result that people are increasingly resorting to allegiances which are more tangible, easily discernible, and

and beneficiaries of, the global economy and society, and those whose economic activities, cultural practices, and traditional lifestyles are threatened or, as importantly, perceived to be threatened, by globalisation.⁵⁷

Globalisation will require increased international co-operation on worldwide issues, such as sustainable development. This will necessitate a trade-off between national sovereignty and multilateralism. National governments will not willingly relinquish management of national and international issues but governments will have less control over the design and implementation of national and international economic policy. Policies will have to be much more closely calibrated and flexible. For example, while it may be desirable to move towards free trade in goods and services, it may not be feasible to permit the completely unregulated flow of short-term money which has produced such instability in exchange rates. The rationale for free trade in goods cannot provide a justification for free capital mobility, as both history and recent events confirm the need for judiciously applied restraints on capital mobility. There is a reluctance to surrender national sovereignty, consequently attempts to expand rule-making on the multilateral level will face serious political limits.

The policy options available to the nation state are increasingly restricted and dictated by globalisation. The framework of policies, which enables a country to participate in international economic processes and to be viewed favourably by global corporations, has been described as the 'Golden Straitjacket'.⁵⁸ To compete successfully in global markets, countries have to remove obstacles and barriers to entrepreneurship, capital, and technology. Institutional change is advised because the policy imperatives

... are unlikely to be met where the legal system fails to provide adequate protection to property rights and respect for the sanctity of contracts; where the political system cannot or will not provide stability and security; and where the social system does not encourage transparency and displays a high degree of tolerance for corruption and nepotism.⁵⁹ (Elliott Zupnick, 1999)

The role of the state has changed and will continue to change as the process of globalisation proceeds. Markets, both global and national, have reduced the dominance of government in economic affairs,⁶⁰ and together with changing political and economic thinking, will impact on the nature and the role of the state, perhaps leading to a 'third way'⁶¹ which is neither state-control nor *laissez-faire*. There are many social services and economic goods which markets cannot be relied upon to provide⁶² which raises the

the political process within the nation-state is likely to undergo profound change.⁶⁴

4. Social

A prominent feature of globalisation is the widening gap between developed countries and the majority of developing countries. This is reflected in differences in income levels and other indicators of human well-being. The decline in the value of unskilled labour to production and labour-saving technological innovations have had a deleterious effect on employment in developing countries.

a) Widening rich-poor gap

The process of globalisation is highly uneven in the world economy, and although causality cannot be definitely established, is associated with an increasing gap between the rich and the poor. The concentration of private foreign investment among the OECD countries and the marginalisation of sub-Saharan Africa are the most dramatic examples. Many of the bases of comparative advantage of the developing countries are no longer valid; for example cheap labour is of declining importance in manufacturing and even in agriculture. Technology has also reduced the importance of natural products and increased the efficiency with which primary products are utilised. The terms of trade for the least developed countries have declined a cumulative 50 per cent over the past 25 years. The share of the poorest 20 per cent of the world's population in global income is 1.1 per cent, down from 1.4 per cent in 1991 and 2.3 per cent in 1960. The ratio of the income of the top 20 per cent to that of the poorest 20 per cent rose from 30 to 1 in 1960 to 61 to 1 in 1991 – and was at 84 to 1 in 1995.⁶⁵

Prospects are not good for closing the gap, particularly for the least developed countries. The World Bank's projection for growth in developing countries for the period 2002-08 is that it will be lower than in the 1990s.⁶⁶ In the last two years, *The Economist's* index of industrial-commodity prices has fallen by 30 per cent. In real terms commodity prices are at their lowest since this index was first published a century and a half ago.⁶⁷ The disparities in growth are not likely to be reduced while 92 per cent of foreign direct

countries is highly concentrated. During the 1990s, nine of the 147 developing countries received 90 per cent of all direct investment flows.⁶⁹

b) Labour

The deregulation of markets, the mobility of capital, and the foot-loose character of multinational corporations have forced workers in all countries to compete for jobs. Given that it is not only technologically possible and economically advantageous to manufacture goods in poor Asian, Latin American or African countries with unregulated labour markets, the bargaining power of workers in advanced countries has been eroded. Indeed, it has been argued that there has been a decisive shift in the balance of power between capital and labour to the disadvantage of workers.⁷⁰ Wage levels in developed countries, it is argued, are undermined by globalisation, the industrialisation of Asia and the products made by 'cheap' labour in developing countries.

It is widely believed in the United States and Western Europe that imports from developing countries are driving down wages and transferring jobs overseas.⁷¹ Empirical evidence, however, has revealed that globalisation and developing-country imports have had only a modest effect on wages, employment, and wage and income inequality in the advanced economies.⁷² The shifts in the types of employment, which appear to be associated with globalisation, emanate from new technologies such as robotisation and computerisation and corporate strategies, which put a disproportionate burden of adjustment on workers.⁷³ There has been a decline in low-skilled labour costs in total production costs in many global industries. The decline is estimated to be from an average of 25 per cent in the 1970s to between 5 and 10 per cent at present.⁷⁴ These developments have reduced job security⁷⁵ in all economic activities, prompting one commentator to speak of the 'Age of Insecurity'.⁷⁶

5. Governance

The emergence of an increasingly globalised and integrated world economy raises the question of its management. The post-World War II economy was atomistic, consisting of national economies, and was managed by the Bretton Woods institutions (IMF and World Bank) and the GATT. This

1971 marked the end of this institutional structure for global management. The end of the Cold War and the relative decline of US dominance has left an increasingly globalised and interdependent world economy without a hegemony to ensure decision-making and to enforce the rules.⁷⁷ In the 1960s the US-dominated international manufacturing trade contributed 25 per cent of all international trade flows, whereas in the 1990s its share of world manufacturing trade dropped to just 12 per cent.⁷⁸ This is best illustrated by the inability of the US to stabilise international currency markets as the international reserves of the G7 countries and the IMF are dwarfed by international currency flows. The decline of US hegemony⁷⁹ has caused a shift towards co-operation, which recognises the tripolar⁸⁰ economic configuration at present and requires a consensual decision-making process. A global architecture of rules must increasingly replace power-based international decision-making. However, a genuinely democratic and multilateral system of rules and management is not even in its embryonic stage.

The emergence of a global market has prompted some observers to call for the elimination of formal managerial institutions and to advocate that the global marketplace be untethered by national governments and international agencies.⁸¹ In some situations, private-sector institutions could regulate their own activities.⁸² A pure market approach, i.e. let the chips and the workers fall where they may, would be neither fair nor politically feasible. For example, in this scenario, the IMF would not assist countries in difficulties nor would governments assist in the structuring of private financial institutions. The fall-out from this type of global governance would be the diminution or elimination of institutions that would supervise and regulate the operation of global markets. The solution obviously lies somewhere between these two extremes, a dilemma reflected in the recent debate in the US over the role of the IMF and whether it should be given increased resources. The hands-off, free-market approach denigrated the IMF for bailing out profligate governments and bankrupt private banks. Indeed, it is claimed that the existence of the IMF has encouraged poor management by both the public and the private sector.⁸³ The opposing view regards the IMF as not sufficiently interventionist and advocates both more funding and earlier, preventative intervention. Yet another approach is to scale down the role of institutions like the IMF.⁸⁴

One of the ironies of globalisation is that increasing interdependence and the creation of global markets would logically require increasing liberalisation. However, as liberalisation proceeds there has been a proliferation of rules and international dispute-settlement mechanisms. The Uruguay Round, which established the WTO, also substantially liberalised the mul-

tilateral trade regime in terms of reduced tariffs and quantitative restrictions and expanded coverage to include services, intellectual property rights, and agricultural commodities. The irony is that trade liberalisation has resulted in more disputes being referred to the WTO than at any time previously. Since the inception of the WTO dispute-settlement mechanism in January 1995, there have been over 150 disputes.⁸⁵ As national barriers to international transactions are progressively reduced or eliminated, the need to standardise national regimes becomes imperative. The adverse implications of inadequate national regulatory regimes require multilateral discipline. A multilateral rule-based regime, however, is only as strong as its weakest link. Consequently, as globalisation proceeds, it will necessitate better regulatory regimes and a standardisation of rules across countries.

6. Cultural

The rapid and profound technological changes which have occurred in recent years have ushered in a new era in the world economy, which is distinguished by a comprehensive globalisation of all spheres. Advances in electronic data interchange, establishment of systems for the computer-controlled trans-shipment and clearance of goods, improved voice and data communication networks, automated banking, and international telemarketing have defined the nature of international relations. Global society and international politics have been transformed by developments in telecommunications technology, which have revolutionised the speed and conduct of all aspects of global interaction – economic, social and political. The instant global availability of information via satellite, computers and telecommunications technology has the potential to change, irrevocably, all aspects of human life.

A global mass culture has emerged as a result of economic globalisation, international availability of media and international migration. Within this overarching development there is simultaneously homogenisation, and cultural complexity because cultures are not obliterated. Cultures are nevertheless 'de-territorialised'⁸⁶ and cultural differences are increasingly found within societies, and to a lesser extent between societies.⁸⁷

It is culture which binds societies together and ensures that social interaction is practiced on the basis of commonly accepted norms and behaviour patterns. The accompanying homogenisation of ideas and behaviour patterns reduces cultural diversity. This is particularly evident in young people, who are the most exposed to global media, the least immune, and

who consequently exhibit a remarkable similarity in taste and consumption patterns. Modern societies cannot be insulated against the media and further integration into a global society, but do not have to succumb to a homogenisation of global culture,⁸⁸ which is functionally integrated with global production and consumption.

In political relations, the integrity of the nation-state, the notions of sovereignty and national identity all require re-examination, given these global changes. Global media have aggravated tensions between developed and developing countries, as they reveal for all to see the vast gap in standards between rich and poor, exacerbating social contradiction and international tension. At the same time, global communications media have also established world public opinion as a potent force in international relations and a significant factor in the internal politics of countries, as evidenced in the liberation of South Africa and the implosion of communism.

Small developing countries have been continuously exposed to international media in the form of books, magazines, periodicals, radio broadcasts and, more recently, TV channels, particularly those originating in North America, transmitted by satellite technology. This has had a profound impact on lifestyles, consumer habits and patterns of behaviour. To the extent that exposure has escalated, there is corresponding dilution of national identities, as external influences permeate all aspects of life and begin to change, or at least threaten, the uniqueness of national identities.⁸⁹

7. Psychological

Technological developments in telecommunications, computerisation, and informatics have eliminated the barriers of distance and time, resulting in the reconstitution of the world into a single social space.⁹⁰ The contemporary process of globalisation engenders an intensification of economic, financial, cultural and social cross-border interaction and growing awareness of this reality.⁹¹ It is accompanied by processes of disintegration, as traditional political, social, and economic structures are eroded, and new ones are beginning to emerge. Globalisation at the cultural level is reflected in the emergence of 'global consciousness'. Global consciousness is manifested as a social matrix of people all over the world, unified through mass

they share. This has enormous consequences not only for the role of the nation-state as a territorially bounded community, but also, for the organisation of economic production on a cross-border basis. It permits the emergence of 'imagined' communities, cultures, and even systems of authority and social control that traverse borders.

Globalisation increasingly creates a mindset of thinking globally and seeing the world as a single entity. Robertson describes this as 'the intensification of consciousness of the world as a whole'.⁹² However, as it weakens the distinctiveness of national identities, an even more assertive defense of the differences in language, culture, myth, and fantasy is emerging. As it brings societies closer together, makes us all neighbours, and destroys the boundaries of identity and even national and regional consumption styles, the reaction is to cling to sub-national differences that remain. At the same time that economic forces and the availability of information have become global, there has been a countervailing movement towards smaller social units. This is evident in a major resurgence in nationalism and ethnicity. Even as the nation-state yields to the amalgamation of the national economies into transnational blocs, there is an accompanying psychological impact, characterised by a feeling of being overwhelmed and disoriented. Individuals seek, but often can no longer find, a secure sense of identity in the political and social formation of the nation-state. Inevitably, identity begins to be located in culture, race, language and ethnicity, which both transcend and fragment the society and the nation-state. The individual's attachment to smaller groups can threaten traditional national identity.

Small Developing Countries

The number of countries and states in the world has increased significantly in recent decades; in particular, there has been a proliferation of small states and economies. At the end of World War One, there were 62 independent countries, by 1946 that number had risen to 74 and currently stands at 193. Most of these are small states. Indeed, 87 countries have a population of less than 5 million, 58 have under 2.5 million people, and 35 have less than 500,000 people.⁹³ The majority of these small states are developing economies.

Small states, especially small developing economies, can be significant beneficiaries of globalisation or can be overwhelmed by the challenges of

from free trade than any other type of economy. These countries, it is suggested, should liberalise as comprehensively and as rapidly as possible. According to an OECD study, 'countries that have been more open have achieved double the annual average growth of others . . . enjoy higher rates of private investment.'⁹⁴

Over the period 1985-95, the developing countries that achieved the fastest economic growth were the countries that, as a group, had the highest ratios of imports and exports to GDP. Medium and low-growth countries had import and export ratios that were roughly half as large as the fast-growing countries.⁹⁵

Specifically, the countries which have achieved the highest rates of economic growth, mainly the newly industrialised countries of Asia, are supposed to have achieved this by free-trade policies. The fundamental weakness in this argument is the assumption that all economies are alike and therefore have similar capacities to adjust and seize the opportunities of free trade. This paradigm does not adequately take account of size of economies. Small developing economies are a sub-set of the genre of small economies. These economies differ from other economies in structural characteristics, which have implications for the character of the growth process and the capacity for adjustment.

1. Vulnerability

Vulnerability in small developing countries is derived from the structure of these economies, which reflect their small size.

a) A high degree of openness

External transactions are large in relation to total economic activity, as indicated by the high ratio of trade to GDP. There is heavy reliance on external trade because of a narrow range of resources and the inability to support certain types of production, given the small scale of the market. Economic openness is measured by imports and exports of goods and services as a percentage of GDP.

b) Export concentration

The limited range of economic activity in small economies is reflected in concentration on a limited number of exports accompanied, in the majority

of cases, by a relatively high reliance on primary commodities. In extreme cases, one primary product export accounts for nearly all of exports; for example, in 1991 bananas accounted for 92 per cent of total exports in Dominica and 87 per cent in St Lucia; phosphate was 91 per cent of exports in Nauru; and timber amounted to 69 per cent of exports in the Solomon Islands.⁹⁶ Export concentration is compounded by the dependence on one or two export markets, for example, Britain absorbs 80 per cent of Dominica's bananas and 90 per cent of St Lucia's exports.

There is a high degree of openness, that is, the trade/GDP ratio is high. The high degree of openness and the concentration in a few export products, particularly primary commodities whose prices are subject to fluctuations in world markets, make small economies vulnerable to external economic events and expose them to real shocks of an intensity unparalleled in larger countries.⁹⁷ Economic vulnerability can be a feature of an economy of any size and level of development, but it is compounded by a small size, a tendency to natural disasters, remoteness, and insularity. Studies of developing countries have demonstrated that there is a direct relationship between vulnerability and size, with the smallest developing countries being the most vulnerable. The World Bank/Commonwealth Secretariat study shows that of 111 developing countries, 26 of the 28 most vulnerable were small countries and the 28 least vulnerable were all large states.⁹⁸ Canada, Brazil, Argentina, and the United States have vulnerability indexes of 0.2 or less, while Caribbean and Central American economies exceed 0.4. The ten smallest economies range from 0.595 for Barbados to 0.843 for Antigua.⁹⁹

2. Volatility

Volatility is a pronounced characteristic of developing countries, which export a few primary products, particularly minerals and agricultural commodities,¹⁰⁰ and experience erratic fluctuations in capital. Volatility in small developing countries also entails susceptibility to natural disasters and a severely constrained adjustment capacity. Volatility is costly since it reduces economic growth because of its adverse impact on investment, resource allocation, productivity, financial intermediation, inflation, exchange rates, and income distribution.¹⁰¹ Small states experience higher income volatility than larger states. As estimated by the World Bank/Commonwealth Secretariat, 'the standard deviation of annual real per capita growth is about 25 per cent higher'.¹⁰²

a) *Export instability*

Small economies have traditionally experienced export instability because of their dependence on a few primary product exports. Many small economies have tried to reduce export instability by shifting to services, particularly tourism and financial services. However, the change in export composition toward the service industry has been accompanied in some cases by higher instability in export earnings.¹⁰³

b) *Volatility of capital flows*

Capital flows in developing countries exhibit significant volatility, as in Latin America's case.¹⁰⁴ A recent study of FDI flows in the last 20 years reveals that small developing countries are at a disadvantage in attaining FDI relative to larger developing countries. Even when they have sound economic policies, small developing countries are rated 28 per cent more risky.¹⁰⁵

c) *Susceptibility to natural disasters*

One of the peculiarities of small developing countries, particularly small islands, is the prevalence of natural disasters.¹⁰⁶ The impact of a natural disaster on a small economy and its financial sector can be far more devastating than it is on a large economy, where the damage is relatively localised. For example, the damage to Jamaica from Hurricane Gilbert in 1988 amounted to about 33 per cent of GDP; to Antigua from Luis and Marilyn in 1995, to about 66 per cent of GDP; to Montserrat from Hugo in 1989, to about 500 per cent of GDP. In comparison, the damage to the United States from Hurricane Andrew in 1992, while much larger in an absolute amount, amounted to only 0.2 per cent of GDP.¹⁰⁷

d) *Constrained adjustment capacity*

Volatility is pronounced in small developing economies because of structural rigidities and institutional weakness resulting in limited adjustment capacity. Their adjustment process is more difficult, larger relative to GDP, and of necessity slower than the adjustment process for larger economies.¹⁰⁸ One feature, which has restricted fiscal policy and trade liberalisation, is the high dependence on trade taxes as a percentage of government revenue. Trade taxes account for more than one-half of government revenue in St

Lucia, Belize, and the Bahamas, and over one-third of government revenue in Guatemala and the Dominican Republic.

3. Lack of International Competitiveness

Small economies have severe constraints on their material and labour inputs both in amount and variety, because of their limited land area and small populations. These constraints make it very difficult to attain global standards of efficiency and economies of scale for a wide range of products and lead to high unit costs of production. Small economies tend to have a narrower range of domestic and export production because of the small size of the market and the limited range of resources. Small market size also tends to cause high costs because there is often a lack of competition. In fact, in many instances the market can only support a single product – creating a monopoly. Concentration is usually significantly higher in developing countries than in developed countries, for example in manufacturing.¹⁰⁹ This is particularly true in the case of small developing countries where small domestic markets make it difficult for firms to attain economies of scale and, if they do, it is usually by market dominance, in many instances as monopolies.¹¹⁰

Firms in small economies, especially small developing economies, are all small by comparison with firms in large or developed countries and multinational corporations. The total sales of the largest US firm, General Motors, is 328 times larger than the biggest Caribbean firm, Neal and Massey of Trinidad and Tobago. Wal-Mart, the largest employer in the United States, has a staff complement of 675,000 compared to the Caribbean's top employer, Lascelles Demercado of Jamaica, which employs 6,800.¹¹¹ Export firms in small developing countries are minute by global standards, for example 74 per cent of exporting firms in Jamaica have less than 100 employees.¹¹² Small firms even in developed countries are at a disadvantage compared to large firms. Small firms can attain neither internal economies of scale (where unit cost is influenced by the size of firm) nor external economies of scale (where unit cost depends on the size of the industry, but not necessarily on the size of any one firm). Small economies, and thereby small industries (including export sectors) are unlikely to foster the competitive dynamic necessary for firms in small economies to achieve competitive advantage.¹¹³ Competitive advantage is more likely to occur when the economy is large enough to sustain 'clusters' of industries connected through vertical and horizontal relationships. Small firms in small develop-

ing countries have severe difficulties in attaining 'economies of scope', i.e. economies obtained by a firm using its existing resources, skills and technologies to create new products and/or services for export. Exposure to global competition requires small firms to invest heavily just to survive in their national market, and more so in order to export. Larger firms are better able to generate new products and sources from existing organisations and networks.¹¹⁴

Production is also burdened by higher costs for imports because small economies pay higher transportation costs.¹¹⁵ Higher costs derive from the relatively small volume of cargo, small cargo units, and the need for bulk breaking. Small economies pay an average of ten per cent of the value of merchandise exports as freight costs, compared to a 4.5 per cent worldwide average and an 8.3 per cent developing countries' average.¹¹⁶ The private sector has to bear the cost of sub-optimal public sector operations, and this increases their cost of production.

The public sector in small economies accounts for a larger share of GDP, which reflects a certain indivisibility of public administration structures and functions – every country, no matter how small, has a prime minister, a parliament, a police force, etc. The growth of the public sector has been due in part to an enhanced role for public sector investment in the economy which, however, has been associated with reduced growth.¹¹⁷

Imperatives For Change

The world economy is not changing; it has already changed. The only thing that is certain is change itself, and change at an exponential rate. The ability to discern changes, to adopt and adapt new technology and rapidly reorganise will ultimately determine the capacity to respond. Firms, governments and individuals must get accustomed to the lack of permanence and not resist change but recognise that it is unavoidable and represents both challenge and opportunity. The countries which succeed in the new globalisation are the countries, which pursue 'pro-active adjustment', that is, they adjust quickly, in anticipation of, and in response to global changes in demand and technology. Those countries which pursue 'reactive adjustment', that is, react to events late and defensively by focusing on protectionism, are not going to survive, and will not achieve growth. It is not possible in this new globalisation to insulate production or demand from global competition and changes. Therefore, it is not possible for small developing economies to achieve growth if they opt for the route of protectionism.

There must be pro-active adjustment, which improves competitiveness in the global market place.

Small developing economies are a particular genre of economy and therefore have particular characteristics, which affect their capacity to achieve sustained economic development.¹¹⁸ Given the profound changes which are taking place in the global economy and the speed of these changes, small developing economies must adapt to this new environment. Successful adaptation can best be achieved by a process of strategic global repositioning.¹¹⁹ This process involves the formulation and implementation of a strategic plan of repositioning a country in the global economy. Such plans are designed to consolidate and improve existing production lines while reorienting the economy toward new types of economic activities for both the national and global markets. In most developing countries, this involves structural transformation, not merely adjustment, to achieve economic diversification, in particular export diversification.

Strategic Global Repositioning

Strategic global repositioning is a process of repositioning a country in the global economy by implementing a strategic plan. Such a plan is designed to consolidate and improve existing production while reorienting the economy by creating new types of economic activities. In most small developing countries, this means structural transformation, not structural adjustment, to achieve economic diversification, in particular export diversification. The need for strategic global repositioning is derived from trends in the global economy, and the composition of exports of small, developing economies, which is skewed toward primary products. Strategic global repositioning must be accompanied by policies which improve the competitiveness and efficiency of companies, by creating a stimulating entrepreneurial environment. Selective trade, fiscal and credit policies supported by medium-term education, technology policies focused on 'strategic sectors', and close co-operation between government and the business sector contribute to the targeted development of internationally competitive industries. Market-oriented and strategic state management, combined with the co-operation of companies, government agencies, research institutions, and funding institutions can create dynamic competitive advantages. These kinds of policies must be directed to long-term strategies to mobilise market forces, build up

world-market-standard firms, and systematically develop efficient economic locations.

1. Envisioning New Development Perspectives

Small developing countries have traditionally attempted a transition from agriculturally based economies, which export primary products to an industrialised economy exporting manufactured goods. The motivations were obvious, given that industrialisation was regarded as synonymous with development and high per capita incomes. The conventional wisdom in development economics since the early 1950s has viewed industrialisation as a strategy for transforming developing economies into developed economies. All developing countries attempted industrialisation, in the vast majority of cases, by an initial phase of import-substitution industrialisation. Having nurtured infant industries by protectionist measures and incentives to foreign investment, economies were to become exporters of manufactured goods, capitalising on wage differentials between developed and developing countries, as well as taking advantage of raw material availability and energy, where available. However, very few developing countries succeeded in achieving this scenario. A few have become known as the newly industrialised economies, the most notable examples being the 'Asian Tigers'. Changes in the world economy which no longer require low-wage manufacturing and the very success of the newly industrialised countries have filled this niche in the international division of labour and the attendant industrialisation and export opportunities.

The option of industrialisation based on low wages is therefore no longer feasible for the majority of small developing countries. However, this is not the disaster that it appears to be, because, for some countries with the necessary attributes, it is both possible and desirable to relinquish the unquestioning faith in the procreative power of industrialisation, and to diversify to become service-oriented economies. The export of services can provide growth because services are the fastest growing component of the world economy. Like industrialisation, this is not an option, which every small developing country can pursue.

There must be both recognition of the need to change and a willingness to innovate. Every process of adjustment begins with a change of mind-set, outlook and attitude. This process of adjustment will only commence in earnest when there is a change of mind-set in both the public and private sector and entrepreneurs dare to think in new and adventurous terms. There

has to be a paradigm shift, which should now be possible since reality so clearly contradicts the viability of the entrenched, dominant 'industrialisation paradigm'. The 'industrialisation paradigm' based on import stabilisation industrialisation behind protectionist barriers rationalised by 'infant industry' arguments has exhausted the national market. Regional integration proffered the solution of the amalgamation of economies into a regional market, which would permit economies of scale and improve efficiency through competition.¹²⁰

2. Maintaining a Predictable Macroeconomic Framework

It is essential that stability in macroeconomic policy be sustained in the medium term in order to provide an environment conducive to investment and a minimum of disruption. The macroeconomic policy instruments such as fiscal policy, monetary policy, and exchange-rate policy must be applied in a consistent manner and complemented by an institutional framework which facilitates private sector-led, market-driven growth. Rodrik's study of developing economies concludes that 'the ability to maintain macroeconomic stability in the face of often turbulent external conditions is the single most important factor accounting for the diversity of post-1975 economic performance in the developing world.'¹²¹ Domestic economic policies have a key role in reducing vulnerability to external contagion. A recent IMF study of foreign exchange market crises in the 1990s found that those worse affected exhibit pre-crisis inadequacy in economic fundamentals and institutional weaknesses.¹²² Economic growth is most likely where macroeconomic policy measures are carefully calibrated with the microeconomic conditions necessary for structural adjustment¹²³ and supported by effective governance, the rule of law, entrenched property rights, and low barriers to international trade.¹²⁴

Mobilising capital, technology, and the human skills necessary for effective competition in the global marketplace can be garnered in the global economy, provided that the national economic environment is attractive and stable. In addition to appropriate macroeconomic policies, the critical components of the national economic environment are a predictable institutional framework, consistent with current global standards and practices, for example, well-established property rights and strategic planning based on continuous dialogue and interaction between the leadership of the private sector, the public sector, the trade unions, and social sectors. This can be augmented by inputs from individuals and organisations abroad.

Close and continuous co-operation between the leadership of these sectors is essential in order to effectively formulate strategic planning and targeted implementation. What is needed is a marriage, which harnesses the vision and expertise of all sectors. This co-operation has been a critical factor in the economic success of Japan and the newly industrialised countries of Asia, particularly in promoting private-/public-sector synergy and the allocation of decisions between the market and public administration.¹²⁵

3. Producing Competitive Exports

The outlook for the demand and prices of raw materials and primary products is not encouraging. Given the history of fluctuating commodity prices and declining terms of trade against manufactured goods, it is important that the products, which are exported, are competitive in price and viable in the medium to long term.

a) Export diversification

There has to be a willingness to look beyond traditional economic activities to the new dynamic sectors in the global economy, such as microelectronics, biotechnology, telecommunications, robotics, and information. A transition from economies dominated by low-wage and labour-intensive activities to technology-based and information-intensive activities is required. A glimpse of the opportunities can be gleaned from the fastest growing firms in the US, which are concentrated in computers (retailing, networking, software, manufacturing, health care, leisure/recreation and financial services).¹²⁶ Services are the fastest growing sector in world trade and the jobs created are relatively high-wage and environmentally safe. There are good prospects for the export of services to developed countries.

The need to focus attention on the expansion of new exports for the global market should not diminish attention to be given to other sectors and products. While the opportunities for growth in traditional sectors, such as agriculture and labour-intensive manufacturing, are not as propitious, these sectors should not be abandoned. Indeed, there may be complementarities and linkages. Complementarity between new and old sectors is clearly evident between tourism and agriculture in the small economies of the Caribbean.¹²⁷ What is required is balanced development emphasising diversification of exports by creating new exports while improving the competitiveness of traditional exports where feasible. Consolidating existing pro-

duction by improving cost efficiency, enhancing and maintaining the quality of mineral processing, agro-industrial and manufacturing exports remain an important objective. The prevalence of outdated technology, low capacity utilisation, lack of inter-industry linkages and the shortage of skilled labour must be addressed. Expanding existing services such as tourism and informatics, which have attained international standards in productivity and are competitive in the global market place, is also important. Undoubtedly, there will be some new manufacturing industries in which small developing economies can successfully participate. In small developing countries the needed increase in productivity in traditional export industries and new economic activities can benefit from new technologies in both sectors. The widespread diffusion and application of information technology not only creates an industry in itself but also raises productivity in agriculture, manufacturing, and services. Services account for an increasing proportion of the value of all products. The expansion of a service sector is therefore not an alternative to traditional production but is complementary and a necessary component of all products.¹²⁸ The workforce will have to be more skilled, knowledge-oriented and capable of adapting to new technology. Management, production, and decision-making will have to be 'informationalised'.¹²⁹ Export firms will have to develop the capacity to respond quickly to changes in demand in existing and new markets in the world economy. This, more than anything else, is the secret of success of the newly industrialised export economies of Asia.

The travel and tourism industry is the largest industry in the world and the leading employer. It is also one of the fastest-growing sectors of the world economy, accounting for ten per cent of the world's employment and GDP.¹³⁰ Tourist arrivals are forecasted to grow by 4.3 per cent per annum over the next 20 years and receipts from international tourism by 6.7 per cent per year.¹³¹ Tourism is already important in many small economies, such as those in the Caribbean where, in 1994, the tourism sector accounted for 24.5 per cent of the GDP; 18.7 per cent of employment; and 60 per cent of earnings from the export of goods and services in Barbados,¹³² as was also the case in the Maldives.¹³³ However, if tourism is to continue to grow, it must diversify to include new products such as heritage tourism,¹³⁴ health tourism¹³⁵ and eco-tourism.¹³⁶

The services sector in the US will provide 50–90 per cent of all new jobs in the United States between now and 2005.¹³⁷ Many of these millions of jobs, for example in informatics and accounting, can be undertaken in small developing countries given wage differentials and the availability of communications technology. With its relatively less expensive expertise, India

is becoming a leader in informatics and the export of computer software. Today, software exports amount to US\$1.75 billion, compared to US\$500 million in 1993, and US\$74 million in 1985.¹³⁸ The industry has continued to grow rapidly with 61 per cent of exports going to the United States¹³⁹ and almost 160 of the Fortune 500 companies out-source their software requirements to India.¹⁴⁰ Many small, developing economies have the right factor mix, lower wages, and close proximity to a major industrial country to be the site for back-office operations such as data processing, accounting and other business services. Swiss Air has moved its accounting department from Switzerland to Bombay, India¹⁴¹ and Cigna, a large US healthcare company, is one of several US companies that have set up back offices in Ireland.¹⁴² In the area of offshore financial services, the Bahamas and the Cayman Islands have been involved in offshore banking since the late 1970s.

The entertainment industry is one of the fastest-growing sectors of the world economy. The worldwide sales of recorded music have grown by more than 300 per cent, from US\$12 billion in 1981 to US\$39.7 billion by 1995.¹⁴³ Music from small developing countries, for example reggae music from Jamaica, has the potential to earn significant amounts of foreign exchange. Reggae recordings, sold in the United States, earned revenue of over \$270 million and account for 14 per cent of the albums sold in the British market. Approximately 7 per cent of the albums sold in the UK are recorded or written by Jamaicans.¹⁴⁴ Film-making has significant potential, as a series of recent productions have demonstrated, but much more needs to be done to encourage this lucrative industry through, for example, an aggressive campaign to attract film companies and productions as is being done in Ireland.¹⁴⁵

The high cost of health-care in the developed countries makes it cheaper for individuals to travel to small developing countries for treatment, for example, the northern Caribbean and Central America. An increasing number of Americans have been going to Mexico for treatment because the cost of a doctor's visit is as much as 80 per cent lower than in the US and some drugs are up to 75 per cent less expensive.¹⁴⁶ There is a growing trend towards persons in developed countries retiring abroad, particularly to developing countries with warm climate because their income purchases more abroad than in the USA. The market for retirement facilities will increase sharply in the next twenty years.¹⁴⁷ The small developing countries in close proximity to the developed countries, with year-round warm weather, and relatively lower wage levels, constitute an environment suit-

per cent of total global population growth.¹⁴⁸ A decisive shift in the demographic structure of developed countries has already occurred. Approximately 9.2 per cent of the population in these countries was over 65 years old in 1960, increasing to 13.3 per cent in 1990 and is projected to reach 20.2 per cent in the year 2020.¹⁴⁹

b) Revitalising Traditional Exports

Traditional sectors like export agriculture can be revitalised by improving the quality and price competitiveness of export staples, like sugar, bananas, and coffee. In addition, new export products should be explored. The export opportunities of the traditional sector have not been exhausted, but require some imagination and innovation, for example, exotic horticulture, banana chips, and 'tropical boutique agriculture'.¹⁵⁰ Recent successful non-traditional agro-exports to the USA include winter vegetables, high-value fruit and cut flowers.¹⁵¹ New niche industries are emerging daily, such as export of butterfly pupae from Costa Rica.¹⁵² Revitalisation requires a combination of increased productivity, product innovation, and the penetration or creation of niche markets. In recent years, Israel has been unable to compete in the European market with imports of citrus from Brazil, Morocco, and other developing countries. Israel's market has since developed new hybrids of citrus which are sweet, colourful, seedless, and easy to peel. Not only did exports of 'easy peelers' increase by 65 per cent over the last year, but Israel is also exporting the technology to non-competing countries such as South Africa.¹⁵³

Manufacturing is a difficult option for small developing economies and tends to be viable when there are favourable circumstances, for example, the availability of raw materials or cheap energy as in the case of Trinidad and Tobago or special market access to industrialised countries, e.g. the apparel industries in Jamaica and the Dominican Republic which export under the auspices of the Caribbean Basin Initiative. The establishment of export processing zones has enabled some small, developing countries to maintain some manufacturing.¹⁵⁴ Computer technology and what Krugman¹⁵⁵ calls the 'slicing-up of the value chain' to produce goods in a number of stages in different locations, adding a little value at each stage, have reduced the importance of large-size producing units.

Defensive and reactive adjustment, which seeks the preservation of industries or the retention of aspects of production which can be seen

it reduces competitiveness of exports and provides higher priced goods to the national market, reducing demand and increasing inflation. In the long run, entrepreneurs will find ways to import cheaper alternatives and will relocate uneconomic aspects of production in other countries in order to retain international price competitiveness and national market share. In addition to innovation, productivity and competitiveness are increasingly determined by the generation of new knowledge or by access to, and processing of information. Small developing economies must seek to create a technologically advanced, information-based society, and keep up with customisation and informationalisation proceeding in such key sectors as the apparel industry.¹⁵⁶

4. Improving Productivity

Globalisation necessitates continual improvements in productivity. In particular, attention will have to be given to increasing labour productivity, improving managerial capacity, and upgrading infrastructure.

a) Management

Management will have to become more sophisticated, keep abreast of developments in international markets, and constantly update itself on new technological innovations. Managerial capacity has improved considerably and professionalism has increased in recent years. However, there is still room for improvement, particularly in the public sector. In the short run the private sector's managerial capacity can be upgraded by importing skilled managers and other professionals. This need not mean that foreigners, unaware of the country's culture and traditions, should take over top managerial posts. In the short run there are more than enough skilled Caribbean professionals overseas who, under the right circumstances, would be willing to return home. Countries must no longer be viewed as physical places but as a 'nations without borders'. In the long run, this requires a re-orientation of post-secondary education away from an emphasis on the arts, and towards management, accounting, computer programming, and all aspects of modern technology.

In a business environment, characterised by frequent changes requiring rapid responses, management and workers must evolve a new relationship in which traditional roles and attitudes must be replaced by a collaborative interaction. The relationship between management and workers and be-

tween different levels within the production process will have to change in a way which ensures incentives and maximises productivity. The interaction within the workplace will have to be more co-operative and the divisions less rigid, permitting more dialogue between trade unions and management. If productivity is to be increased and innovations encouraged, it is imperative that the atmosphere becomes less adversarial and more genuinely interactive. The traditional notion of the worker will have to be abandoned and replaced by a new concept which recognises worker participation in managerial decisions and employee stock-ownership programmes. These developments will require trade unions to expand their traditional role beyond wages and working conditions to include employment creation/preservation, education/training, and ownership participation. The fact that the number of work stoppages and strikes has decreased in recent years is an indication that this process has already begun.

b) Labour

The productivity of labour of both workers and managers would need to be upgraded. This means improvement in the quantity and quality of education. The importance of this issue is illustrated by the experience of the East Asian countries. The expansion and transformation of education and training during the last three decades has been a key factor in the 'economic miracle' achieved by East Asian economies.¹⁵⁷ This has to be tackled both within the individual enterprise and in the society as a whole. Firms need to put more emphasis on vocational training and on-the-job education. The new technology of learning can make an important contribution in this regard. Multimedia training enables workers to learn faster and in more detail, particularly those workers who are functionally illiterate. For example, low-income countries cannot compete effectively when there are 1.6 personal computers per one thousand people in these countries compared to 199.3 per thousand in high-income countries.¹⁵⁸

Increasingly, the world economy will be dominated by knowledge-based industries, especially services, making the quality of human capital a critical factor. In the case of many developing countries, much of their human capital resides outside their borders. Every effort must be made to repatriate such capital. Just as incentives and special programmes exist for foreign investment, similar schemes must be established to encourage overseas nationals with professional skills to return home. It might even be necessary to run an advertising campaign to attract skilled foreign professionals as is

now being done aggressively by the Government of Canada.¹⁵⁹ Overseas communities and returning professionals and businessmen have spearheaded several of the new growth sectors in India, such as computer hardware and software.¹⁶⁰

c) Infrastructure

There is an urgent need to improve the extent and quality of physical infrastructure such as roads, irrigation, electricity, and telecommunications in order to reduce the operating costs of firms in all sectors. Road transportation and telecommunications now require a quantitative leap in anticipation of increased demand and must utilise state-of-the-art technology. Under the right conditions, much of the required expansion in physical infrastructure could be financed by private capital, including foreign capital. This has already begun to happen in electricity generation and airport expansion. The improvement in infrastructure must focus not only on modernisation but must take cognisance of the need to close the gap with developed countries. For example, developing countries cannot compete effectively where telephone main lines per 1,000 inhabitants are 25.7 in low-income countries, compared with 546.1 in high-income countries.¹⁶¹

5. Modernise International Marketing

There are problems with production in small developing countries, such as inconsistent quality, irregularities in supply, and poor labeling. Inadequate marketing has also been a severe constraint on exports. There are some sectors which have achieved sophisticated levels of marketing in some services, notably tourism. In some instances these weaknesses have been obviated by strategic corporate alliances, commodity agreements, and sub-contracting. However, much can be done to catch up with new marketing techniques and technologies,¹⁶² and with interactive electronic marketing in particular.¹⁶³ Interactive retailing, which is growing rapidly in developed countries,¹⁶⁴ can take many forms, including personal computer-users linked to on-line services and Internet-based retailers, multimedia kiosks, interactive home shopping programmes over cable and satellite TV networks, and CD-ROM-based shopping catalogues. All of these formats allow the consumer to purchase by telephone or computer and pay by credit card,

the fact that in the US, which is the largest single market, more than one-third of all households own personal computers and the number is growing at approximately 35 per cent per year.¹⁶⁶ The number of Internet subscribers has grown from 25 million in 1993 to 90 million in 1995 and was projected to be 1 billion by the year 2000.¹⁶⁷

6. Forging Strategic Corporate Alliances

Corporate integration, consolidation, and restructuring through cross-border mergers and acquisitions is a world wide phenomenon. This has resulted from striving for size, and reorganisation, consolidation, and pruning in preparation for more intensive competition in the global market place.¹⁶⁸ Another response to competition has been the formation of strategic business alliances. These arrangements have superseded bitter political differences and economic rivalry. As a result China and Taiwan are involved in petro-chemicals,¹⁶⁹ Toshiba (Japan) and Samsung (Korea) collaborate on chips,¹⁷⁰ Air France and Lufthansa on hotel chains, Meridian and Kempinski share marketing and reservation systems¹⁷¹ and Nissan buys auto parts from a Toyota affiliate.¹⁷²

Some firms and financial institutions from small developing countries have become multinational corporations. However, the vast majority are very small. A merger movement among nationally-owned firms would make these firms more viable and more attractive joint-venture partners with foreign investors. This is critically important in the export sectors because most exporters are small compared to the multinational corporations against which they have to compete in the world market and major export markets such as the United States and Europe. Small size puts exporting firms at a severe disadvantage and, therefore, there is a need for corporate alliances¹⁷³ or mergers which can provide access to capital, expertise, management and technology.¹⁷⁴

Concluding remarks

Differences in size between states and economic units, particularly those whose operations are global, are an important dimension of globalisation, which has not been given sufficient attention. This issue needs to be addressed urgently both by individual small, developing countries and by the

level, disparities in size must be addressed by ensuring that the international regulatory regime and institutions incorporate sensitivity to this problem. In the same way that national governments make provisions for small farms and small businesses, the global community must mediate the encounter between small countries and small economic units and their larger counterparts in the global marketplace. In this regard, nearly all economic units operating in, or from, small developing countries are small by global standards.

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