

**STRATEGIC GLOBAL REPOSITIONING OF
CARIBBEAN ECONOMIES**

by

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***Toward A Caribbean Consensus: A Region
Coping with Globalization***

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I. GLOBALIZATION

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

The term globalization became an important concept in the early 1980s and has since become ubiquitous. There is no single definition which is agreed upon but it is generally understood to be 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.

Currently there is a contentious debate over the character and extent of globalization. Some have argued that globalization is an epochal shift in capitalism¹ and either that it has already been achieved, or that it is inevitable or irreversible.² Others have argued that the extent of globalization is exaggerated. Indeed, they assert that globalization is not a new phenomenon, but is merely an acceleration in the process of the internationalization of capitalism and/or the market.³ These researchers argue that the level of globalization at present is not significantly different from that which prevailed in international trade and international capital flows between the last decade of the 19th century and the early part of the 20th century. Comparisons of this type are always difficult, given the quality of statistical data and the computation of these figures. On the other hand, there are those who perceive globalization as unprecedented, both in character and the number of countries involved in the global economy. In addition, some point out that the instantaneous availability of news and information on a global scale has essentially created the so-called “Global Village.”

The pace of integration, judged by the growth of international trade and capital flows, while uneven since World War II, is accelerating. It grew in the first two decades after 1950, slowed perceptibly in the period 1974 to 1984, recovered between 1984 and 1989, and has grown rapidly since 1990. The period 1950 to 1994 was one of steady integration through trade and investment. For the entire period, the volume of world trade grew at a rate of 1.6 times faster than that of world production, ranging from a low of 1.2 times during the 1970s to a high of 2.8 times in the 1990s. Over this 45-year period, the value of world output increased by a factor of five, while the value of world trade in goods multiplied by a factor of 14.⁴ The WTO calculates that the ratio of world trade in goods and services to output increased from 15 per cent to 22 per cent between 1974 and 1994 and estimates that it increased from 7 per cent to 15 per cent over the period 1950 to 1974. In other words, this ratio has more than tripled since 1950.

In recent years, international trade and capital flows have grown at a faster rate than world GDP.⁵ 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.⁶ Since 1970, flows of direct foreign investment have grown at rates in excess of the rate at which international trade and world output has expanded.⁷ There has been a prodigious growth in international lending, with loans increasing from US\$59.4 billion per annum during 1976-80 to US\$136.7 billion in 1993.⁸ It is estimated that 90 per cent of these financial transactions do not serve what economists consider an economic function.⁹

At the economic level, globalization is creating larger units, both corporate entities, e.g. multinational corporations, and the coalescing of national economies through regional integration to form regional trade blocks.¹⁰ Trade blocks are a fundamental aspect of the world economy, both in terms of share of the world trade they encompass and the number of countries that participate in them. In 1995, 51 reciprocal, GATT-notified regional trade agreements were in force that accounted for 50 per cent of world trade.¹¹ A 1992 survey listed 23 preferential trade arrangements, encompassing 119 countries and accounting for approximately 82 per cent of international trade in goods.¹² Most of these arrangements seem to be moving toward becoming trade blocs, and they accounted for two-thirds of world trade in 1992.¹³ Intra-regional trade has grown rapidly throughout the world since the late 1940s and now accounts for one half of world trade, accounting for almost 70 per cent of trade in Western Europe.¹⁴

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. However, the proliferation of regional trade arrangements, simultaneously with numerous bilateral initiatives can and often does complicate rather than liberalize trade. Regional trade blocs raise the question of the compatibility of regionalism and multilateralism in international trade arrangements. Depending on the circumstances, regionalism can be building blocks or stumbling blocks in the liberalization of the multilateral trading system.

II. CHARACTER OF GLOBALIZATION

The pace, extent and character of globalization vary in the economic, institutional, political and social spheres.

1. Economic

The economic dimension of globalization includes the following features:

a. Dominance of the Global Market

Essentially, there is only one market and that is 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."¹⁵

Globalization is not only integrating trade, investment and financial markets, it is integrating consumer markets and consumption patterns. Local and national boundaries are breaking-down in the setting of social standards and aspirations in consumption. "Global elites" and "global middle classes" that follow the same consumption styles, are showing preferences for "global brands." There are the "global teens"-- some 270 million, 15-18 year-olds in 40 countries -- inhabiting a "global space," a single pop-culture world, soaking up the same videos and music and providing a huge market for designer running shoes, T-shirts and jeans.¹⁶

The dominance of the United States in international media has led to a vast outpouring of the products of its popular culture, i.e. films, television programs, music, books, magazines and computer software. 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 etc. United States' distribution¹⁷ 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, the United States, the country with the largest domestic market, only 4 percent of US domestic production was subject to international competition in the early 1960s, today it is over 70 per cent.¹⁸ The fusion of computer technology with telecommunications makes it possible for firms to relocate an ever-widening range of operations and functions to wherever cost-competitive labor, assets and infrastructure are available. The new technologies make it feasible to standardize, routinize 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. As a result, developing countries can no longer plan for the continued existence of preferential trading arrangements. The developed countries no longer feel obliged to provide these arrangements to developing countries with minute markets, no indispensable raw materials and limited strategic importance. Developing countries must be prepared to adapt to the elimination or erosion of preferential trade regimes, such as the LOMÉ Convention and the Caribbean Basin Initiative (CBI).

c. Growth of Services

The average annual growth in trade in 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 1990s, service industries accounted for 50 to 60 per cent of

total foreign direct investment flows.¹⁹ Furthermore, services account for 61 per cent of GDP in industrialized countries and between 35 and 51 per cent of GDP in developing countries.²⁰ The United States generates 72 per cent of its GDP in the form of services. In 1991, services accounted for 30 per cent of US exports.²¹ Jobs in the service sector accounted for 75 per cent of total employment in the United States in 1993.²² In Great Britain, service industry exports, especially financial and tourism services, have already exceeded the export of goods.

d. Facilitating Technology

The increasing globalization of economic transactions and activities have been facilitated and in some instances impelled by rapid development of new technologies in communications, informatics and manufacturing. New technologies have reduced transaction time, eliminated geography and distance, thereby creating an environment of 24-hour trading. In this environment, the "mindset must be speed."²³ The new developments in information processing, and telecommunications propel globalization 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.²⁴ 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.²⁵ These technological developments have started to transform organization structures, the nature of work, and the character of products, production techniques and international marketing. Indeed, the so called "death of distance" will revolutionize the way people live and work²⁶ as we enter what has been called an "age of globally networked intelligence."²⁷

e. Disembedded Finance

The global financial system underwent three revolutions almost simultaneously - deregulation, internationalization and innovation.²⁸ Furthermore, new technologies (telecommunications and computers) have transformed cross-border activity in financial services.²⁹ 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 emergence of global financial markets as governments have liberalized their national financial systems. Stopford and Strange pointed out that there has been 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."³⁰ The magnitude of the flows have dwarfed the resources of central banks and have reduced considerably the capacity of even the industrialized countries to control these flows.³¹ 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. Approximately 95 per cent of these transactions are speculative. The daily volume of transactions on the foreign exchange markets 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.³² With the significant increase in short-term financial flows and reduced regulatory capacity of governments has been a growing vulnerability to the disruptions, which result from instability of short-term funds. Greider attributes this to the "capacity to become deranged in the pursuit of higher returns."³³ The instability in short-term funds has been a major factor in banking crises and exchange rate collapses in the Mexican peso crisis and the recent Asian crisis.

f. Electronic Commerce

Electronic Commerce (E-Commerce) is a major development in the global economy. It involves business conducted on the internet and other networks based data inter-change systems. E-commerce has and will fundamentally affect 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 three years later the number has jumped to 140 million.³⁴ The WTO estimates internet use at 4.5 million worldwide in 1991, 60 million in 1996 and 300 million by the end of the century.³⁵ By 2003, internet could account for 2 per cent of all commercial transactions according to the WTO.³⁶ A study by Nortel Networks forecasts e-business to grow by 86 per cent to reach \$1,300 billion annually by 2003, approximately seven per cent of the world's gross domestic product.³⁷ (In 1997, there were about 100 million Internet users; this number is projected to increase to 300 million by 2001). It was estimated that in 1998 on-line commerce revenues amounted to 12 billion dollars.³⁸

2. Institutional/Organizational

Multinational corporations (MNCs) now account for about a third of world output and two-thirds of world trade. A quarter of world trade consists of intra-firm transactions taking place within multinational corporations.³⁹ They also account for half of world trade in manufactured goods and eighty per cent of the world's land cultivated for export crops.⁴⁰ Indeed, the sales and labor force of some multilateral firms are larger than the GDP and population of many countries. Their prominence is such that Greider regards the MNC as being at the center of what he calls "the manic logic of global capitalism."⁴¹ In 1996, 85 of the top 100 MNCs were headquartered in the Triad, (US, Europe and Japan). In 1990 and 1996 the United States, Japan, the United Kingdom, France and Germany alone accounting for three-quarters of the multinational firms. This dominance is evident in the number of firms, foreign assets, foreign sales and foreign employment.⁴² Amoroso describes this phenomenon as "the triadic capitalism of the transnational corporations."⁴³

Corporate reorganization has taken a number of forms, including downsizing of administrative and managerial super-structures, strategic corporate alliances both through joint ventures and outsourcing, mergers, real-time activities and global webs.⁴⁴ The most prominent feature of corporate reorganization in recent years has been mergers and acquisitions. In 1997 total cross-border mergers and acquisitions worldwide amounted to a record level of \$342 billion. Cross-border mergers and acquisitions accounted for 58 per cent of direct foreign investment flows. Cross-border mergers and acquisitions

accounted for one quarter of all mergers and acquisitions worldwide.⁴⁵

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 1992.⁴⁶ 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. It is not clear what combination of factors is driving corporate concentration, since manufacturing processes which yield economies of scale are declining in importance. In addition, mergers raise questions about the impact on competition, consumer's interest, barriers to entry, transcending national regulatory regimes, tax avoidance and on the continued emergence of a transnational owning class. Mergers will widen disparities in size. For example, in 1988 no Latin American or Caribbean firms were included in the 1,000 largest companies in the world.⁴⁷

Mergers and acquisitions in emerging markets remained at record levels in the first half, reaching a total of \$34.3 billion compared with \$34.1 billion in the first half of 1997. The number of deals worth more than \$50 million rose sharply, though, from 72 to 119, reflecting a big increase in activity even as share prices fell. Latin America was most active, with 46 deals worth 16 billion. In Asia there were 45 deals worth \$11 billion. Half of that was spent in South Korea. By mid-September 1999, cross-border mergers and acquisitions were 1.3 times higher than the total for 1998.⁴⁸ UNCTAD estimates that the foreign affiliates of transnational corporations produce a quarter of world output. They had sales of \$11,000 billion in 1998, which far exceeds world exports of \$7,000 billion.⁴⁹

3. Political

A global convergence of the economic, technological and ideological forces which drive the process of globalization is shifting power away from governments toward multilateral institutions and a small number of multi-nationals, corporations and financial institutions⁵⁰ who increasingly wield economic and political influence. Multinational corporations are estimated to account for a third of world output and two thirds of world trade.⁵¹ Concomitant with the globalization of economic processes, there is a trend towards fragmentation of the nation state, 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,⁵² 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 have been constrained considerably by economic interdependence.⁵³

The weakening of allegiances to the nation-state,⁵⁴ is understandable at the psychological level because globalization and its homogenizing influence erode the basis for national allegiances, with the result that people are increasingly resorting to allegiances which are more tangible, easily discernible and traditional. This tendency is made more pronounced by the bifurcation of national economies/societies between those who are active participants in and beneficiaries of global economy and society, and those whose economic activities, cultural practices and traditional lifestyles are threatened or

more importantly, perceived to be threatened, by globalization.⁵⁵ This poses serious political and social problems because the global national divide is superimposed on existing class structures. For example, the business community may be divided between those who participate in and favor the global economy, and those who are being overwhelmed by exposure to globalization.

Globalization will require increased international cooperation on worldwide issues, e.g. sustainable development. This will necessitate a trade off between national sovereignty and multilateralism. National governments will not willingly relinquish management of national and international phenomena, but in reality, 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 movements, 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 globalization. The framework of policies, which enable a country to participate in international economic flows and processes and to be viewed favorably by global corporations, is aptly described by Friedman as the "Golden Straitjacket".⁵⁶ Zupnick warns that 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."⁵⁷

The role of the state has and will change as the process of globalization proceeds. This, together with changing philosophical, political and economic thinking, has led to the realization that a "third-way"⁵⁸ has to be developed which is neither state-controlled nor laissez-faire. There is a range of social services and economic goods that markets cannot be relied upon to provide.⁵⁹ This raises the issue of the effectiveness of the state⁶⁰ regardless of the role to be performed. Not only will government have to be "reinvented" but also the very nature of the political process within the nation-state is likely to undergo profound change.⁶¹

4. Social

A prominent feature of globalization 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 labor relative to production and labor saving technological innovations has had

a deleterious effect on employment in developing countries.

(a) Rich -Poor Gap

The process of globalization is highly uneven in the world economy and is associated with (although causality cannot be definitely established) an increasing gap between the rich and the poor. The concentration of private foreign investment among the OECD countries and the profound marginalization of Africa are the most dramatic examples. Globalization presents both opportunities and challenges for developing countries and least developed countries. The extent to which these countries can seize the opportunity depends on a comprehensive process of structural transformation and strategic global repositioning. Many of the bases of comparative advantage of the developing countries are no longer valid, e.g. cheap labor 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 utilized. The terms of trade for the least developed countries has declined a cumulative 50 per cent over the past 25 years. The share of the poorest 20 percent 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 1995.⁶²

According to the Human Development Report, global poverty is not being reduced. Indeed, of the 4.4 billion people in developing countries, most are poor. Nearly three-fifths lack basic sanitation, a third have no access to clean water, a quarter do not have adequate housing, a fifth have no access to modern health services and about 20 per cent do not have enough dietary protein. Almost 3 billion people - half the world's population - live on less than two dollars a day.⁶³

Prospects are not good for closing the gap. In 1999, the World Bank predicted that in per capita terms, developing country growth would fall to 0.4 percent in 1998, well below industrial countries' 1.4 percent. The Bank went on to estimate that Brazil, Indonesia, Russia and 33 other developing countries, which between them, account for 42 percent of total GDP for the developing world, and more than a quarter of its population, were likely to see negative per capita growth in 1998.⁶⁴ This represents an increase over 1997 where 21 countries, representing 10 per cent of the population of the developing world, were expected to experience negative per capita growth. In the last two years, The Economists' 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.⁶⁵ The disparities in growth are not likely to be reduced when 92 per cent of foreign direct investment is received by only 28 per cent of the world's population.⁶⁶ This is compounded by the fact that direct foreign investment in developing countries is highly concentrated. During the first half of the 1990s, 9 of the 147 developing countries received 90 per cent of all direct investment flows.⁶⁷

(b) Labor

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 but also economically advantageous to manufacture goods in poor Asian, Latin American or African countries with unregulated labor markets, the bargaining power of workers in advanced countries have 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.⁶⁸ Wage levels in developed countries, it is argued, are undermined by globalization⁶⁹, the industrialization of Asia and the entry into world markets of the post-communist countries with low wage rates. It is claimed that the effect of competition from countries with inadequate worker rights, low taxes and few regulations, has been to force harmonization of policies on all states, in particular those which retain social welfare provisions. As a result, policies creating a deregulated labor market and cuts in welfare provisions are adopted as defensive strategies in response to policies implemented in poor countries. These measures cause economic inequalities to increase and erode stakeholder relationships, creating powerful social and political counter-movements.

Despite the benefits of globalization for industrialized countries, there is a growing concern in the United States and parts of Western Europe because competition with developing countries and imports from these countries are believed to be driving down wages and transferring jobs overseas.⁷⁰ Empirical evidence, however, has revealed that globalization and developing country imports have had only a modest effect on wages, employment and wage and income inequality in the advanced economies.⁷¹ The shifts in the types of employment which appear to be associated with globalization emanate from new technologies such as robotization and computerization as well as corporate strategies which put a disproportionate burden of adjustment on workers.⁷² There has been a decline in low-skilled labour costs as a component of 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.⁷³ These developments have reduced job security⁷⁴ in all economic activities, prompting one commentator to speak of the “Age of Insecurity.”⁷⁵

5. Governance

The emergence of an increasingly globalized and integrated world economy raises the question of its management. The post-World War II economy was atomistic, i.e. consisting of national economies managed by the Bretton Woods institutions (IMF and World Bank) and the GATT. This system reflected the existing polarization of the Cold War and the hegemony of the United States. The delinking of the United States dollar from gold in August 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 globalized and interdependent world economy without a hegemony to ensure decision-making and to enforce the rules.⁷⁶ 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 has dropped to just 12 per cent.⁷⁷ This is best illustrated by the inability of the US to stabilize international currency markets as the international reserves of the G7 countries and the IMF are dwarfed by international currency flows. The decline of U.S. hegemony⁷⁸ has caused a shift towards cooperation, which recognizes the tripolar⁷⁹ economic configuration at present and

requires 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 advocate the need to eliminate formal managerial institutions and advocate that the global marketplace be untethered by national governments and international agencies.⁸⁰ In some situations private sector institutions could regulate their own activities.⁸¹ 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 institutions which 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.⁸² The opposing views regard the IMF as not sufficiently interventionist and suggest more funding and earlier preventative intervention. Yet another approach is to scale down the role of institutions like the IMF.⁸³

One of the ironies of globalization is that increasing interdependence and the creation of global markets would logically require increasing liberalization, however, as liberalization has proceeded, there has been a proliferation of rules and international dispute settlement mechanisms. For example, the Uruguay Round which created the WTO, also created the most liberalized multilateral trade regime in terms of reduced tariffs and quantitative restrictions and expanded coverage to include services, intellectual property rights and agricultural commodities. However, there have been more disputes referred to the WTO than at any time previously. Since the inception of the WTO dispute settlement mechanism in January 1995, there has been over 150 disputes.⁸⁴ As national barriers to international transaction are progressively reduced or eliminated, the need to standardize national regimes becomes imperative. The adverse implications of inadequate national regulatory regimes requires multilateral discipline. A multilateral rule-based regime, however, is only as strong as its weakest link. Consequently, as globalization proceeds, it will necessitate better regulatory regimes and a standardization 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 world economy, which is distinguished by a comprehensive globalization of all spheres. Advances in electronic data interchange, establishment of systems for the computer controlled transshipment 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 revolutionized 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 have the potential to change, irrevocably, all aspects of human life.

Hence we see the emergence of a global mass culture as a result of economic globalization, international availability of media and international migration. At the same time this tendency towards homogenization co-exists with cultural complexity because different cultures are not obliterated. Cultures are increasingly “deterritorialized”⁸⁵ and cultural differences are increasingly found within societies, and to a lesser extent between societies.⁸⁶

It is culture, which binds societies together and ensures that social interaction is practiced on the basis of commonly accepted norms and behavior patterns. Accompanying homogenization of ideas and behavior patterns reduce 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 homogenization of global culture,⁸⁷ 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.

Caribbean 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 Caribbean lifestyles, consumer habits and patterns of behavior. To the extent that exposure has escalated, there is a corresponding dilution of Caribbean identity, as external influences by osmosis permeate all aspects of life and begin to change, or at least threaten, the uniqueness of Caribbean identity.⁸⁸

7. Psychological

Technological developments in telecommunications, computerization, and informatics have eliminated the barriers of distance and time, resulting in the reconstitution of the world into a single social space.⁸⁹ The contemporary process of globalization engenders an intensification of economic, financial, cultural and social

cross-border interaction and growing awareness of this reality.⁹⁰ It is accompanied by processes of disintegration, as traditional political, social, and economic structures are eroded, and new ones are beginning to emerge. Globalization 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 communication. Today people have social relations and even organized community relations regardless of space, i.e. regardless of the territory that they share. This has enormous consequences not only for the role of the nation-state as a territorially bounded community, but also for the organization 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.

Globalization 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."⁹¹ 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 neighbors, destroys the boundaries of definitions identity even as national or 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, characterized 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.

III. 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 I, there were 62 independent countries. By 1946 that number had risen to 74 and currently, there are 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.⁹² The majority of these small states are developing economies.

Small states, especially small developing economies can be significant beneficiaries of globalization or can be overwhelmed by the challenges of competing with larger, more developed countries. Small developing economies, are very open economies, and it is claimed that they will benefit more from free trade than any other type of economy. These countries, it is suggested, should liberalize as comprehensively and as rapidly as possible. According to a O.C.E.D. study, "countries that have been more open have achieved double the annual average growth of others....enjoy higher

rates of private investment.”⁹³ “Over the period 1985-1995, 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.”⁹⁴ Specifically, the countries, which have achieved the highest rates of economic growth, mainly the newly industrialized 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.

(a) Characteristics of Small Economies

Small economies have certain characteristics, such as a high degree of openness, limited diversity in economic activity, export-concentration on one to three products, significant dependency on trade taxes, and small size of firms.

1. 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.

2. Export Concentration

The limited range of economic activity in small economies is reflected in concentration on one to three 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, e.g., in 1991, bananas accounted for 92 per cent of total exports in Dominica and 87 per cent in St. Lucia. Export concentration is compounded by the dependence on one or two export markets, e.g. Britain absorbs 80 per cent of Dominica’s bananas and 90 per cent of St. Lucia’s exports.

3. Dependence on trade taxes

Small economies have a high dependence on trade taxes as a percent 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.

4. Small Size of Economic Units

Firms from small countries are small by comparison with multinational corporations and firms in large economies. Small firms are at a disadvantage in the global marketplace because they cannot realize economies of scale, are not attractive business partners, and cannot spend significant funds on marketing, research and development. Comparing 1996 total sales of the largest national firms, General Motors (US - \$164

billion) is 9 times larger than Petrobras (Brazil - \$17 billion) which in turn is 35 times larger than Neal & Massy (Trinidad & Tobago - \$0.5 billion).⁹⁵ Sales and employment of some multinational corporations are larger than the GDP and population of many countries.

5. Vulnerability and Constrained Adjustment Capacity

Small size has implications for economic growth, vulnerability and the capacity to adjust to external economic change. The undiversified economic structure of small economies translates into an adjustment process that is more difficult, larger relative to GDP, and of necessity slower than the adjustment process for larger economies.⁹⁶

(a) Physical Vulnerability

One of the peculiarities of small, developing countries, particularly small islands, is the prevalence of natural disasters. The World Bank has estimated 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 localized. For example, the damage to Jamaica from Hurricane Gilbert in 1988 amounted to about 33% of GDP; to Antigua from Luis and Marilyn in 1995, to about 66% of GDP; to Montserrat from Hugo in 1989, to about 500% 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% of GDP.⁹⁷

(b) Competitiveness

Small economies have severe constraints on their material and labor inputs both in amount and variety, because of their limited land area and small populations. These constraints prevent the attainment of 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 - i.e. a monopoly.

Small firms in small economies, especially small developing economies, are at a major 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.⁹⁸ 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, developing 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 organizations and networks.⁹⁹

Small economies pay higher transportation costs¹⁰⁰ because of the relatively small volume of cargo, small cargo units, and the need for bulk breaking. Small economies pay an average of 10 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.¹⁰¹

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,¹⁰² which, however, has been associated with reduced growth.¹⁰³

(c) Vulnerability

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 some primary products and agricultural commodities whose prices are subject to fluctuations in world markets, make small economies vulnerable to external economic events and expose small economies to real shocks of an intensity unparalleled in larger countries.¹⁰⁴ Economic vulnerability can be a feature of an economy of any size and level of development, but it is compounded by size, proneness to natural disasters,¹⁰⁵ and remoteness and insularity. In a recent study, Briguglio constructed a "vulnerability index" encompassing all three of these aspects.¹⁰⁶ His calculations reveal a direct relationship between vulnerability and size, with the smallest countries being the most vulnerable. 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 10 smallest economies range from 0.595 for Barbados to 0.843 for Antigua.

(d) Instability

Small economies have traditionally experienced export instability because they depend on a few primary product exports. It could be argued that many small economies, have reduced this export instability by shifting to services, particularly tourism and financial services. Some studies, however, have indicated that the change in export composition toward the service industry has been accompanied by higher instability in export earnings, as was the case in Jamaica.¹⁰⁷

IV. IMPERATIVE 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/adapt new technology and rapidly reorganize will ultimately determine the capacity to respond. Firms, governments and individuals must get accustomed to the lack of permanence and not resist change but recognize that it is unavoidable and represents challenge and opportunity. The countries which succeed in the new globalization 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 globalization 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.¹⁰⁸ 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.¹⁰⁹ 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.

V. 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 to 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, and 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-orientated and strategic state management, combined with the cooperation 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 industrialized economy exporting manufactured goods. The motivations were obvious, given that industrialization was regarded as synonymous with development and high per capita incomes. The conventional wisdom in development economics since the early 1950s has

been industrialization as a strategy for transforming developing economies into developed ones. All developing countries attempted industrialization, in the vast majority of cases, by an initial phase of import-substitution industrialization. Having nurtured infant industries by protectionist measures, and incentives to foreign investment, economies were to become exporters of manufactured goods, capitalizing 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. These few have become known as the newly industrialized 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 industrialized countries have filled this niche in the international division of labor and the attendant industrialization and export opportunities.

Therefore, the option of industrialization has been largely preempted and is no longer feasible for the vast majority of developing countries. This, however, 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 industrialization, and switch immediately to service-oriented economies. The export of services can provide the so-far elusive development, given that services are the fastest growing component of the world economy. Like industrialization, this is not an option, which every developing country can pursue. Those with the potential must move immediately to seize this opportunity.

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, outlook and attitude. This process of adjustment will only commence in earnest when there is a change of mind in both the public and private sector and entrepreneurs dare to think the new and adventurous. There has to be a paradigm shift, which should now be possible since reality so clearly contradicts the viability of the entrenched, dominant "industrialization" paradigm. The "industrialization paradigm" based on import stabilization industrialization behind protectionist barriers rationalized by "infant industry" arguments has exhausted the national market. Regional integration proffered the solution, as the amalgamation of economies into a regional market, which would permit economies of scale and improve efficiency through competition.¹¹⁰

2. Maintaining a Stable Macroeconomics Policy Framework

It is essential that stability in macro-economic policy be sustained in the medium term providing an environment conducive to investment and minimizing dislocating expectations. The macro-economic 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, "the ability to maintain macro-economic 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."¹¹¹ Domestic economic policies have a key role in

reducing vulnerability to external contagion. A recent IMF study of foreign exchange market crises in the 1990's found that those worse affected exhibit pre-crisis inadequacy in economic fundamentals and institutional weaknesses.¹¹²

3. Producing Competitive Exports

The outlook for the demand and prices for 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 financial services and to the new dynamic sectors in the global economy e.g. micro-electronics, biotechnology, telecommunications, robotics, and information. The transition from low-wage, labor-intensive activities to technology, and information intensive activities will depend on the quality of human resources. An indicator of where there are opportunities is in the growth sectors of the U.S. economy. The fastest growing 25 firms in the U.S. are concentrated in computers (retailing, networking, software), manufacturing, health care, leisure/recreation and financial services.¹¹³ The workforce will have to be more skilled, knowledge oriented and capable of adopting new technology. Management, production and decision-making will have to be "informationalized".¹¹⁴ Export firms will have to develop the capacity to respond quickly to changes in demand in existing and new markets, in particular, the world economy. This more than any thing else is the secret of success of the newly industrialized export economies of Asia.

Service activities are the fastest growing items in world trade and in the U.S. economy which is our largest trading partner. The jobs created would be relatively high-wage and environmentally safe. The prospects for the export of services, especially to the United States are very encouraging. The services sector will provide one-half of all new jobs in the United States between now and 2005.¹¹⁵ Many of these 12.5 million jobs, e.g. data processing and accounting can be undertaken in small, developing countries given wage differentials and communications technology.

The need to focus attention on the expansion of services for the global market should not diminish attention to other sectors and products. While the opportunities for further industrialization are not as propitious for the manufacturing sector, they should not be abandoned at the expense of services. The substitution of one panacea for another would be detrimental. What is required is balanced development, emphasizing diversification of exports.

This in effect means consolidating existing industrial production, improving cost efficiency, enhancing and maintaining the quality of existing mineral processing, agro-industrial, and manufacturing exports. It is also important to expand existing services e.g. tourism and data processing, which have attained international standards in productivity and are competitive in the global market place. Undoubtedly, there will be some new

manufacturing industries in which small developing economies can successfully participate. The fundamental point is that industrialization is not the panacea it has been assumed to be and the focus of economic strategy should be shifted to place emphasis on the development of services for sale to the global economy.

(i) Tourism is one of the fastest growing sectors of the world economy with international receipts from tourism amounting to \$404 billion or 1.5 per cent of the world's gross national product.¹¹⁶ Tourism is important in many small economies e.g. the Caribbean where in 1994 the tourism sector accounted for 24.5 per cent of the GDP and 18.7 per cent of employment.¹¹⁷ However, if tourism is to continue to grow into the twenty-first century, it must diversify to include new products such as health tourism¹¹⁸ and eco-tourism.¹¹⁹

(ii) The high cost of health care in the developed countries makes it cheaper for individuals to travel to small, developing countries for treatment e.g. the USA and 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 percent lower than the U.S. cost and some drugs are up to 75 per cent less expensive.¹²⁰ 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.¹²¹ The small, developing countries in close proximity to the developed countries year-round warm weather, and relatively lower wage levels constitute an environment suitable for the development of retirement communities. Over the next 50 years, the global population over 65 years old will increase by 1 billion, nearly 50 per cent of total global population growth.¹²² A decisive shift in population structure in developed countries has already occurred. Approximately 9.2 per cent of the population in these countries were over 65 years old in 1960, increasing to 13.3 per cent in 1990 and this is projected to reach 20.2 per cent in the year 2020.¹²³

(iii) 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 1985.¹²⁴ The industry has continued to grow rapidly, with 61 per cent of exports going to the United States¹²⁵ and almost 160 out of the Fortune 500 companies outsourced their software requirements to India.¹²⁶ Cigna, a large American healthcare company, is one of several U.S. companies that have set up back offices in the heart of an Irish countryside, reducing their wage bills through the help of modern advances in telecommunications. The branch office in Ireland handles around 5,000 medical claims a day, which is equivalent to 20 percent of Cigna's business. The paper work from doctors, patients, and corporate clients across the US is flown to Ireland from New York and couriered to the processing site. It is then entered into the computer, and transmitted through two dedicated optic fiber cables back to Cigna's headquarters in Delaware, where, because of the time difference, it arrives in time for the following day's business.¹²⁷

(iv) 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 and accounting. Swiss Air has moved its accounting department from Switzerland to Bombay, India.¹²⁸ In the area of offshore financial services, the Bahamas and the Cayman Islands have been involved in offshore banking since 1979.

(v) The entertainment industry is one of the fastest growing sectors of the world economy. The worldwide sales of pre-recorded music has grown by more than 300%, from US\$12 billion in 1981 to US\$39.7 billion by 1995.¹²⁹ Music from small, developing countries have potential for earning foreign exchange e.g. reggae music from Jamaica. It has been estimated by the Recording Industry Association of America (RIAA) that between 1992 and 1993, 27 million units of Reggae albums, compact discs, cassettes and single recordings were sold in the United States, earning a revenue of approximately \$270 million. The British Phonographic Industry (BPI) states that "Dance/Soul Reggae music traditionally accounted for 10 percent of the album market". This increased noticeably in 1993 to 14 percent for albums and 8 percent for the singles market. Urban contemporary music which includes Reggae, accounts for 7 percent of global recording sales of an estimated US\$25.8 billion. The British Phonographic Industry reports that 4.5 percent of the singles sales and 7 percent of the album sales sold in the UK are performed or written by Jamaicans.¹³⁰ The potential earnings from soca and calypso music exports from Trinidad and Tobago has not been fully realized.¹³¹ Film-making has significant potential, as a series of recent productions have demonstrated that a lot more needs to be done to encourage this lucrative industry e.g. an aggressive campaign to attract film companies and productions, such as is being done in Ireland.¹³²

(b) Revitalizing Traditional Exports

Traditional sectors like export agriculture, can be revitalized 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".¹³³ Recent successful non-traditional agro-exports to the USA include winter vegetables, high value fruit and cut flowers.¹³⁴

Developing countries which are not at the lower end of the wage spectrum must expect the low-wage jobs to bypass them. The solution is a combination of increased productivity, product innovation, and the penetration or creation of niche market. In recent years, Israel has been unable to compete in the European market with imports of citrus from Brazil, Morocco and the developing countries. Israel has since developed new hybrids of citrus which are sweet, colorful, seedless, and easy to peel. Not only did exports of "easy peelers" jump by 65 per cent over the last year, but Israel is exporting the technology to non-competing countries such as South Africa.¹³⁵ 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 customization and informationalization proceeding in such key sectors as apparel.¹³⁶

Defensive and reactive adjustment which has as its objective the preservation of industries or the retention of aspects of production which can be accomplished at a lower cost in other countries is self-defeating. In the short run, 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.

4. Improving Productivity

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

(a) Management

Management will have to become more sophisticated, be constantly in touch with 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 take over top managerial posts. There are more than enough skilled "*Caribbean professionals*" overseas, who under the right circumstances would be willing to return to 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, characterized 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 between different levels within the production process will have to change in a way which ensures incentives that maximize productivity. The interaction within the work place will have to be more cooperative 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 become less adversarial¹³⁷ and more genuinely interactive. The traditional notion of worker will have to be abandoned and a new concept which recognizes worker participation in managerial decisions and employee stock ownership programs. 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 over the last couple of years has shown a reduction is an indication that this process has already

begun.

(b) Labor

The productivity of labor (workers and managers) needs to be upgraded, and this means improvement in the quantity and quality of education. The importance of this 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" of East Asian economies.¹³⁸ 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 help. For example, multimedia training enables workers to learn faster and in more detail, particularly those workers who are functionally illiterate.

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 of their borders. Every effort must be made to repatriate it. Just as incentives and special programs exist for foreign investment, similar schemes must be established to induce 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.¹³⁹ Overseas communities and returning professionals and businessmen have spearheaded several of the new growth sectors in India, e.g. computer hardware and software.¹⁴⁰

(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 be 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 modernization but must take cognizance of the need to close the gap with developed countries.

5. Forging Strategic Corporate Alliances

Corporate integration, consolidation, and restructuring through cross-border mergers and acquisitions is a worldwide phenomenon. This has resulted from (1) striving for size (2) market presence (3) competition has forced consolidation and pruning (4) easing of regulations governing mergers and (5) preparing for more intensive competition from U.S. and Japanese firms in the global market place.¹⁴¹ In today's global economy, capital has no nationality, indeed even bitter political differences and economic rivalry have been swept aside by strategic corporate alliances e.g., China and Taiwan will collaborate in building a petro-chemical plant in Malaysia.¹⁴² Toshiba and Samsung (Korea) will collaborate on chips.¹⁴³ Traditional rivals are now collaborating in Europe, e.g. Air France and Lufthansa plan to merge their hotel chains, Meridian and

Kempinski and share marketing and reservation costs.¹⁴⁴ Nissan plans to buy auto parts from a Toyota affiliate.¹⁴⁵

Some firms and financial institutions from small, developing countries have become multinational corporations. A merger movement would make firms more viable and more likely joint-venture partners with foreign investors. This is critical, as many exporters are small compared to the multinational corporations against which they have to compete in the world market and major export markets like the United States and Europe. Small size puts exporting firms at a severe disadvantage and therefore, there is need for collaborative corporate alliances or mergers to provide a larger capital base, pool resources and expertise and access the latest technology.¹⁴⁶

6. Modernize International Marketing

There are problems with production in small developing e.g., inconsistent quality, irregularities in supply, poor labeling. Inadequate marketing has also been a severe constraint on exports. However, there are some sectors, which have achieved sophisticated levels of marketing, e.g. in some services, notably tourism. In some instances these weakness has been obviated by strategic corporate alliances, commodity agreements and sub-contracting. However, much can be done to catch up with new marketing techniques and technologies¹⁴⁷, in particular, interactive electronic marketing.¹⁴⁸ Interactive retailing which is growing rapidly in developed countries¹⁴⁹ can take many forms, including personal computer users linked to on-line services and Internet-based retailers, multimedia kiosks, interactive home shopping programs 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 credit card, while allowing the retailer reduced costs of storage and display areas for products.¹⁵⁰ The necessity to develop electronic marketing is suggested by the fact that in the U.S., which is the largest single market, more than one-third of all households own personal computers and the number is growing at approximately 35 percent per year.¹⁵¹ The number of Internet subscribers has grown from 25 million in 1993 to 90 million in 1995 and is projected to be 1 billion by the year 2000.¹⁵²

7. Facilitating Political Environment

It is important that small, developing countries mobilize capital, technology, and the human skills necessary for effective competition in the world economy. These inputs, which are necessary to development, can be garnered in the global marketplace, provided the national economic environment is attractive. The critical components of the national economic environment are: (a) a stable institutional framework which is consistent with current global standards and practices e.g., intellectual property rights (b) strategic planning namely a process of 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 organizations abroad. Close and continuous cooperation 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 cooperation has been a critical factor in the economic success of Japan and the newly industrialized countries of

Asia particularly, private-public sector synergy and the allocation of decisions between the market and public administration.¹⁵³

VI. CONCLUDING REMARK

Given the current trends in globalization, it is clear that small, developing countries, such as those in the Caribbean, need to immediately commence a process of strategic global repositioning. However, the internal changes required in these economies to adapt to this new environment must be complemented by action at the international level. The appropriate measures which should be considered have been outlined elsewhere.¹⁵⁴

Differences in size among states, economic units and between states and economic units, particularly those whose operations are global, are an important dimension of globalization which has not been given sufficient attention. This issue needs to be addressed urgently not only by individual small, developing countries but also by the global community. Disparities in size must be addressed by ensuring that international regulatory regimes 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.

Nevertheless, small countries should not wait for action by the international community to begin their adjustment process. The extent to which these countries can take advantage of and capitalize on opportunities presented by the new global marketplace ultimately depends on proactive measures taken internally.

ENDNOTES

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