

NOTES & COMMENTS**THE CARIBBEAN'S FUTURE IS NOT
WHAT IT WAS*****RICHARD L. BERNAL**

The world is not changing, it has changed, and this means that the future is not what it was! The only certainty for the future is change and this will occur at an increasingly rapid rate. Rapid and profound changes are occurring in the world economy as the process of globalization impacts on all aspects of economic life through the world. This is having far reaching implications, particularly in small developing economies including those of the Caribbean region. These economies face an enormous challenge in responding to changes in the organization of the world economy they because they are characterized by vulnerability, volatility, limited adjustment capacity and the constraints posed by their small size. From the vantage point of 1990 the future of the Caribbean looked assured as traditional exports enjoyed preferential treatment and prospects for tourism and offshore banking were encouraging. A little over a decade circumstances have changed significantly and it cannot be business as usual. The forms of wealth have changed, new economic activities have emerged and the bases of economic growth are different. The situation in which the Caribbean states find themselves requires a process of strategic global repositioning.

I. THE CHANGED FUTURE

The fact that the future is not what it was, is clearly revealed by comparing the circumstances in which the Caribbean found itself in 1990 and the situation which now confronts these countries.

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A. Outlook in 1990

In terms of growth the 1980s was a lost decade for Latin America and the Caribbean and several countries were heavily indebted to external creditors. The mood was one of cautious optimism with prospects for a variety of debt relief initiatives.¹ Jamaica was one of the economies that contracted in the 1980s but Deputy Prime Minister P.J. Patterson saw positive prospects for tourism, bauxite mining, information processing, ornamental horticulture, investment from overseas Jamaicans and a rebuilt banana industry.²

1. *Interdependent national economies*

The world economy consisted of interdependent national economies with a certain amount of autonomy in economic policy. Regional integration schemes, which were in vogue during the 1960s as an extension of import substitution industrialization strategies waned in the 1970s, and intra-regional trade actually contracted during the 1980s. The decade of the 1990s began with a determination to recoup the setbacks suffered during the lost decade of the 1980s. The resuscitation of economic growth was to be accomplished by a "born again" faith in economic liberalism. There was the prospect of deepening integration in the European Union in 1992 but the re-emergence of regionalism was not seen as the primary vehicle of stimulating growth. The North American Free Trade Area was just at the stage of conceptualization.

2. *Preferential Trade*

The justice and utility of provisions of special and differential treatment enshrined in the GATT was a tenet of trade policy of developed countries towards the least developed and the developing countries. It was a principle whose procreative stimulus to economic development was questioned by only a few and whose morality was

1 Richard L. Bernal, "Caribbean Debt Relief", *Caribbean Studies*, Vol. 4, No. 2 (June, 1991) pp. 45-58.

2 "The Challenge of the Nineties: Earning Our Way Through Production". Statement to Parliament by the Hon. P. J. Patterson, Deputy Prime Minister, January 31, 1990. Kingston: Jamaica Information Service, 1990.

unchallenged even by the most uncharitable. There were secure preferential trade arrangements for the majority of products exported by the CARICOM countries. Bananas and sugar were marketed under special protocols associated with the Lomé Convention between the European Union and the African, Caribbean and Pacific group of countries. The Caribbean Basin Initiative passed by the Reagan administration in 1983 covered 90% of the products involved in US-Caribbean trade, although it omitted some of the goods in which the CBI countries had comparative advantage such as textiles, apparel, leather goods, gloves and tuna. Trade with Canada was conducted under the Carib-Can arrangement, a preferential trade framework broadly similar to the CBI. Sugar entered the US market through a special system of bilateral quotas.

3. Development Cooperation

The proactive power of cooperation between developed countries and developing was a widely accepted approach to promoting growth and development. The European Economic Community was still convinced that preferential trade and development assistance through the Lomé Convention could contribute to the development of the ACP countries. In mid-1990 President Bush announced the Enterprise for the Americas Initiative including a new Multilateral Investment Fund and a package of bilateral debt relief proposals. The 1980s was a period in which the CARICOM countries received increased development assistance in the form of (a) a substantial increase in bilateral development assistance from the United States associated with the early years of the CBI. Jamaica, in particular, was a significant beneficiary in the first half of the 1980s. (b) Towards the end of the 1980s and into the early 1990s Guyana and Jamaica received assistance in the form of debt relief through re-scheduling, cancellation and debt swaps. (c) Levels of lending from multilateral financial institutions increased compared to the 1970s as Jamaica and Guyana received loans from the IMF for stabilization and from the World Bank for structural adjustments. Countries with relatively higher per capita income were not targeted for graduation from soft money facilities as Barbados and the Bahamas were in the 1990s.

4. *Low Wage Manufacturing*

At the end of the 1980s foreign investment from developed countries was still seeking to establish production in countries where wages were substantially lower. This is evident in the massive relocation of certain lines of production to Mexico and to the newly industrialized countries of Asia. It was also pronounced in the relocation of apparel production from the US to lower wage countries, which qualified for the CBI. The comparative advantage that developing countries have because of wages lower than those in industrialized countries is nullified by the higher applied tariffs on labour-intensive manufactures than the average of industrial goods.

5. *Social and Political Stability*

In 1990 all the countries of CARICOM had democratically elected governments and the issues of transnational crime and money laundering associated with drug trafficking was just being recognized as a potential threat to the security of the region. The Anglophone Caribbean was justly renowned for its democracy — which constituted much more than periodic elections, its human rights and its resolute stand against drug trafficking and corruption. Stability, peace and institutional development contributed to the “social capital”³ which is such an important intangible in the development process.

B. **Present Outlook**

Since 1990 there have been two types of change, first, new developments and second, changes of degree in trends which existed in 1990.

1. *Acceleration of Globalization*

Globalization is a multi-dimensional process, which is transforming at a rapid rate and in profound ways all aspects of national and global activities and interactions. Inherent in globalization a process in which barriers to the international flow of goods, services,

3 Partha Dasgupta and Ismail Serageldin (eds.), *Social Capital. A Multiscoped Perspective*, Washington D.C.: World Bank, 2000.

capital, money and information are being increasingly eroded and/or eliminated. International trade and capital flows have grown at a faster rate than world GDP. During the period 1950 to 1994 the volume of world trade grew at a rate of 1.6 times faster than that of world production. World output grew by 2.7 % between 1981 and 1990 compared to a growth rate of 4.5 % for world trade. During 1990-1999 world output increased by 2.3 % per annum while world merchandise trade increased by 6.3 % per year.⁴ This process is well advanced and has far reaching implications for these countries. Small, developing countries which are vulnerable to external events and that have limited adjustment capacity are particularly exposed to the effects of globalization.

2. *Reciprocity*

Developing countries can no longer plan on 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). The European Union has indicated that the agreement to supercede the Lomé Convention is to bring the ACP countries over a prescribed time, into a reciprocal trade relationship and to further their integration into the world economy. The CBI is to be overtaken by the Free Trade Area of the Americas (FTAA), which is to be based to reciprocity. The dismantling of the European Union's banana regime illustrates the pressure being exerted to eliminate preferential arrangements and replace them with agreements based on reciprocity.

3. *Dominance of the Global Market*

The psychology of globalism has come to dominate as a state of mind over national and local notions of space and time. Technological developments in telecommunications, computerization, and

4 Ibid, p. 38.

informatics have eliminated the barriers of distance and time, resulting in the reconstitution of the world into a single economic and social space. Essentially, there is only one market and that is the world market. Every business must become globally competitive, even if it produces and sells only within a local or regional market. The competition is no longer local in ambit, as it is not confined to national boundaries. 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. The advent of e-commerce has accelerated this trend.

4. *Growth of Services*

Services constitute one of the fastest growing sectors of the world economy and trade and service related direct foreign investment have grown faster than trade in goods since 1980.⁵ The overall share of services in total trade is over 25 %, and service industries accounted for 50 - 60 % of total foreign direct investment flows.⁶ Furthermore, services account for about 60 % of GDP in industrialized countries and between 35 and 51 % of GDP in developing countries.⁷

5. *Rapid Changes in Technology*

The increasing globalization of economic transactions and activities has 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."⁸ The new developments in information processing, and telecommunications propel globalization by eliminating the

5 Ibid, p. 69.

6 Ibid, pp 47-48.

7 *Liberalizing International Transactions in Services. A Handbook*, Washington DC: UNCTAD and World Bank, 1993, pp. 6-7.

8 Stan Davis and Christopher Meyer, *Blur: The Speed of Change in the Connected Economy*, New York: Time Warner Books, 1999.

costs resulting from distance, the importance of location and the advantages of large size.

Information technology has not merely added a new dimension to the way business is conducted, but has altered fundamentally the nature, management and organization of business and started to transform 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 work⁹ as we enter what has been called an "age of globally networked intelligence."¹⁰

Changes in technology have considerably reduced the importance of low wages. 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 % in the 1970s to between 5 and 10 % at present.¹¹

6. *Enlargement of Economic Units*

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 blocs.¹² Trade blocs 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. The emergence of regional trade blocs, whether market induced or politically engineered, represents a transition from an atomistic world economy of national economies to a global market.

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

9 Francis Cairncross, *The Death of Distances: How the Communications Revolution Will Change Our Lives*, Boston: Harvard Business School Press, 1997.

10 Don Tapscott, *The Digital Economy: Promise and Peril in the Age of Networked Intelligence*, New York: McGraw-Hill, 1996.

11 Charles Oman, *Globalisation and Regionalism: The Challenge for Developing Countries*, Paris: Organization for Economic Co-operation and Development, 1993, p. 17.

multinational corporations.¹³ They also account for half of world trade in manufactured goods and eighty percent of the world's land cultivated for export crops.¹⁴ Indeed, the sales and labor force of some multilateral firms are larger than the GDP and population of many countries.

The most prominent feature of corporate concentration in recent years has been mergers and acquisitions. Cross-border mergers and acquisitions accounted for 60 % of direct foreign investment flows. Mergers could widen disparities in size among corporate entities.

7. *Reduced Policy Autonomy*

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 multinational corporations and transnational financial institutions.¹⁵ Some have gone as far as proclaiming the demise of the nation-state¹⁶ in an economic sense but also increasingly as a viable political actor. While the nation-state has not been superseded by any political formation, sovereignty in all its dimensions has been considerably constrained by economic interdependence.¹⁷ Governments have less control over the design and implementation of national and international economic policy.

12 Richard L. Bernal, *Trade Blocs: A Regionally Specific Phenomenon, or Global Trend?*, Walter Sterling Surrey Memorial Series, Washington, D.C.: National Planning Association, September, 1997.

13 UNCTAD, *World Investment Report*, 1994, Geneva: UNCTAD, 1994.

14 John Stopford and Susan Strange, *Rival States, Rival Firms*, Cambridge: Cambridge University Press, 1991, p. 15.

15 Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy*, Cambridge: Cambridge University Press, 1996, and David C. Korten, *When Corporations Rule the World*, Hartford: Kumarian Press and San Francisco: Barrett-Kochler, 1995.

16 Kenichi Ohmae, *The End of the Nation-State*, New York: Free Press, 1995.

17 Walter B. Wriston, *The Twilight of Sovereignty*, New York: Charles Scribner's Sons, 1992.

International financial flows have become disembodied from the real economy, with much of the global financial flows being unrelated to production, trade and investment. This has been facilitated by the emergence of global financial markets as governments have liberalized their national financial systems. The financial structure, which was predominantly state-based with some transnational links, has shifted to a global system with some national differences in markets, institutions, and regulations persisting as vestiges of an earlier era. The magnitude of the flows has dwarfed the resources of central banks and reduced considerably the capacity of even the industrialized countries to control these flows.¹⁸

8. *Decline of Developed Country Empathy*

There has been a very pronounced decline in the empathy of developed countries for developing countries as self-interest has replaced enlightened self-interest in an atmosphere in which the unfettered market is a panacea for development. Apart from the philosophical shift, which rationalizes such an approach to development, the change also reflects the increased capability of newly industrialized economies and middle-income countries to compete successfully with the developed countries. The decline in empathy is evident in the sharp reduction in development assistance, escalating protectionism in agriculture and the attempts to foreclose certain development options.

Foreign aid to the Caribbean countries has declined because multilateral financial institutions no longer view them as poor and there has been a move to have them "graduate" from eligibility for certain "soft money" facilities. Bilateral aid has declined significantly e.g. US aid has dropped from US\$459 million in 1985 to just over US\$100 million.¹⁹ This decline in US aid is paralleled by a reduction

18 Gregory J. Millman, *The Vandals' Crown, How Rebel Currency Leaders Overthrew the World's Central Banks*, New York: The Free Press, 1995.

19 Richard L. Bernal, "U.S. Caribbean Relations at the Dawn of the Twenty-First Century" in Richard L. Bernal, Anthony T. Bryan and Georges A. Fauriol, *The United States and Caribbean Strategies. Three Assessments Policy Papers on the Americas*, Vol. XII, No. 4, Washington D.C.: Center for Strategic & International Studies, April 16, 2001, pp. 3-25.

in development assistance from the OECD countries from 0.33 % of GNP in 1990 to 0.22 % in 2000.²⁰

The actions of developed countries acting through the Organization for Economic Cooperation and Development (OECD) to close out the niche in the world economy to provide off-financial services and tax differentials, which some very small developing countries have mastered, is hostile. A few small developing economies have been able to compete in the global financial marketplace, the traditional preserve of the rich and powerful and are being penalized for so called "harmful tax" practices and inability to control money laundering. Truth be told, the notion of harmful tax competition is invalid in a liberal world economy of sovereign states.

C. How the Future Has Changed

The future looks very different now than it did in 1990. In 1990 the future for the Caribbean was one of coexistence in a world economy of interdependent economies, which in varying degrees exercised some amount of autonomy in national economic policy. Export prospects seem assured because the principal exports of the region were assured of preferential market access under the CBI, the Carib-Can and the Lomé Convention. Staple agricultural exports were sold under special arrangements e.g. sugar and bananas under specific protocols linked to the Lomé Convention and sugar under bilateral quota arrangements with the United States. Development assistance appeared to be on a settled footing accompanied by the prospects of some action on some of the new initiatives in debt relief then being advocated. New industries like tourism were growing, established sectors such as financial services were flourishing and low-wage labour-intensive manufacturing such as apparel continued to show vitality. Mineral industries in particular bauxite/alumina and oil/natural gas were expanding production and attracting new foreign investment. The threat of drug trafficking and the associated money laundering and violence had not yet assumed the gargantuan proportions which could undermine democracy and political stability.

By 2002 the future was not what it was in 1990, it had changed dramatically and into a less certain and more challenging future. Since 1990 the extent and pace of globalization had intensified considerably consequent on rapid changes in technology and the emergence of new technologies along with enlargement of corporate entities and the amalgamation of national economies into trade blocs with the erosion of sovereignty and the loss of the capacity for autonomous economic policy. The developed countries are vigorously pushing the dismantling of preferential trade arrangements and reciprocity has become the mantra of the advocates of the "new economy". Caribbean countries must now confront the growing exposure to competition in the global marketplace without the benefit of an assured future for special commodity arrangements and while experiencing declining development assistance flows. Prospects for low-wage, labour-intensive manufacturing are not encouraging in view of labour-saving technological change and the relatively high wages in CARICOM countries. The small firms of the Caribbean are up against formidable competitors in the multinational corporations whose size and mergers and corporate alliances are increasing their market dominance. In these circumstances, adjustment is inevitable but governments must realize that they cannot rely on foreign aid flows to fund the development of infrastructure, which will be central to the adjustment.

II. CARICOM SITUATION

The countries of the Caribbean are engulfed in a major economic recession contributed to by exogenous factors notably the slowdown in the world economy, even in the developed countries, and compounding of this trend by the fallout following the terrorist attacks on the US on September 11, 2001. Most economies have been experiencing little or no growth with serious problems in major traditional export sectors especially bananas in the Eastern Caribbean islands. Tourism in particular has been hard hit and is still considerably below capacity utilization and substantial discounting. There is no disputing the deleterious impact of external factors but that aside, internal factors of both a short-term and structural nature have been among the causes. Most aspects of small size cannot be overcome by development policy but the question is could the performance have

been better and if so would these economies have been more resilient to external shocks. For instance, the extended period of preferential trade arrangements, which undoubtedly contributed to growth, employment and welfare but did the beneficiary countries make full use of the time to restructure their economies and diversify their exports?

Small size is an additional constraint on the process of development. The small developing economies of CARICOM have certain characteristics such as a high degree of vulnerability due to the significant openness of the economy and extreme export concentration, small size of economic units, limited adjustment capacity, income volatility and considerable dependence on trade taxes. In particular the small size of economic units and indeed the small size of the national market has limited the international competitiveness of production of goods and services for both export and the domestic market.²¹

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). Sales and employment of some multinational corporations are larger than the GDP and population of many countries. The average farm size in the US is 435 acres whereas 95 % of the farmers in Guyana have less than 50 acres and 98 % of the farms in Jamaica are less than 25 acres.

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

21 For more on this topic see Richard L. Bernal, "Globalization and Small Developing Countries: Challenges and Opportunities" in David Peretz, Rumman Faruqi and Eliawony J. Kisanga (eds.), *Small States in the Global Economy*, London: Commonwealth Secretariat, 2001, pp. 39-51.

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 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.²² 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.

Granted the structural problems that emanate from small size and the negative impact of external events it must be admitted that the economic situation of CARICOM states reflects inertia in the changing internal and external circumstances. There has been no new economic paradigm in the last quarter of a century. Put bluntly, the economic crisis is also an intellectual crisis. In the colonial period the plantation economy was enforced and induced well into mid-20th century by the British based on a paradigm that tropical countries and non-white people were best if not only suited for the

22 Michael E. Porter, *The Competitive Advantage of Nations*, New York: Free Press, 1990, pp. 71-73.

production and export of raw materials and unprocessed agricultural products. They strenuously denied the feasibility of industrialization only for the import substitution industrialization paradigm to dominate development policy in the 1960s and be vigorously attempted by the newly independent states of the Caribbean. This paradigm did not meet the aspirations for growth, employment generation and investment and gave way to an indigenous paradigm of state-led strategies in most countries, varying from the Socialist-inspired to the authoritarian to state-led mixed economy. This paradigm in turn coexisted with the paradigm of regional integration first mooted during the short lived West Indies Federation of the late 1950s as a way of transcending the limits of industrialization in small economies but this has proven to have limitations. The regional integration paradigm has remained the intellectual template of economic policy since its inception and has been the unchallenged foundation of economic thought of policymakers in the CARICOM region. Little has been done to refashion and re-dimension regional integration as the West Indian Commission Report suggested. Prahalad warns "If you want to escape the gravitational pull of the past, you have to be willing to challenge your own orthodoxies".²³ For example, regional integration and cooperation can continue to contribute to Caribbean development but might be strengthened by giving more attention to the corporate rather than the almost exclusive focus on the governmental and becoming market-driven and less state-directed.

III. 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

23 Cited in Rowan Gibson (ed.), *Rethinking the Future*, London: Nicholas Brealey Publishing, 1997, p. 7.

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.²⁴ 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. This process involves the formulation and implementation of a strategy of repositioning a country in the global economy. An integral aspect of such a strategy is the consolidation and improvement of 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.

IV. STRATEGIC GLOBAL REPOSITIONING

Strategic global repositioning²⁵ is a process of repositioning a country in the global economy by implementing a strategic plan. Such a

24 Richard L. Bernal, "The Integration of Small Economies in the Free Trade of the Americas", *Policy Papers on the Americas*, Vol. IX, Study I, CSIS, February 2, 1998.

25 Richard L. Bernal, *Strategic Global Repositioning and the Future Economic Development of Jamaica*, North-South Agenda Paper No. 18, Miami: North-South Center, University of Miami, May, 1996.

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 toward long-term strategies to mobilise market forces, systematically develop efficient world-market-standard firms and the marketing of the country as a joint government - private sector strategy.²⁶

1. Vision and Mind-set

The conventional wisdom in development economics since the early 1950s has been industrialization as a strategy for transforming developing economies into developed ones. Small, developing countries have traditionally attempted a transition from agriculturally based economies, which export primary products to an industrialized economy exporting manufactured goods. By nurturing 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. However, few developing countries

26 Philip Kotler, Somkid Jatusripitak and Suvit Maesincee, *The Marketing of Nations. A Strategic Approach to Building National Wealth*, New York: Free Press, 1997.

succeeded in achieving this scenario, the most notable examples being the "Asian Tigers".

This, however, is not the disaster that it appears to be, because countries with the necessary attributes can switch to service-oriented economies. The export of services can provide significant employment, investment and growth, 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 Caribbean economies with the potential must move immediately to seize this opportunity or improve their competitiveness in the existing service sectors. Improved efficiency in producer services can contribute to lowering of costs in other sectors, which use these services as inputs.

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 this occurs 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 paradigms. It can not be business as usual, governments have to rethink the tenets of past development policy and find innovative techniques to improve the efficiency of their operations i.e. re-inventing government.²⁷ The private sector has to be innovative, it can no longer decide to produce a good and then attempt to sell it, it must start by ascertaining what the market wants and set about producing it and delivering it at a competitive price. Nor can it expect to produce the same good for long periods of time, in fact the revolution in communication, transportation and information technologies has shifted the balance of power in favour of the consumer, therefore, the firms that succeed are those which quickly and continuously improve products or create new products.²⁸

27 David Osborne, *Reinventing Government: Entrepreneurial Spirit Is Transforming the Public Sector*, New York: Addison-Wesley, 1993.

28 Robert B. Reich, *The Future of Success: Working and Living in the New Economy*, New York: Vintage Books, 2000.

2. Stable Macroeconomic Environment

It is essential that stability in macro-economic policy be sustained in the medium term providing an environment that is predictable and therefore conducive to investment and minimizing dislocating expectations. 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.²⁹ Governments need to maintain competitive exchange rates and exercise fiscal discipline but this does not preclude a developmental role for the public sector in support of the private sector. The extent to which the government facilitates the operation of the market and the activities of the private sector depends on the quality of its bureaucracy. While regulation is necessary excessive bureaucracy and inefficient public sector operations impede private sector efficiency. A good market economy requires a good private sector for which a good public sector is a necessary but not sufficient condition.

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. A critical component of the national economic environment is a stable institutional framework, which is consistent with current global standards and practices e.g., intellectual property rights. Well established property rights,³⁰ efficient formal institutions and the reduction in government bureaucracy can release entrepreneurial energy and capital from the informal sector,³¹ which has become significant in several Caribbean economies. Regulatory systems need to be less

29 Dani Rodrik, *The New Global Economy and Developing Countries: Making Openness Work*, Washington, D.C.: Overseas Development Council, 1999.

30 Douglas C. North, *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press, 1990, and Douglas C. North and R. Thomas, *The Rise of the Western World. A New Economic History*, Cambridge: Cambridge University Press, 1973.

31 Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York: Basic Books, 2000.

complex, more transparent and more easily accessible. A critical component will have to be a change in the culture in the public sector from one of problems with every solution to solutions to every problem.

3. Competitive Exports

The outlook for the demand and prices for raw materials, and primary products is not encouraging. Raw materials, primary products and agricultural products have a history of fluctuating prices, declining terms of trade against manufactured goods and are encumbered by protectionism such as tariff escalation and put at a disadvantage by subsidies and domestic support in developed countries. Given that the outlook is so discouraging it is important that exports become competitive in price and quality. Caribbean countries are not at the lower end of the wage spectrum and must expect the low-wage jobs to bypass them. In these circumstances many products in which the Caribbean was competitive may no longer be viable options or there will have to be a major effort to remain competitive. The solution is a combination of increased productivity, product innovation,³² and the penetration or creation of niche markets. 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" in such key sectors as apparel.

a. Diversification

There must be a willingness to look beyond traditional economic activities to financial services and to the new dynamic sectors in the global economy e.g. microelectronics, biotechnology, telecommunications, robotics, and informatics. The transition from low-wage,

32 For a discussion of innovation in the tourism sector see Auliana Poon, "Flexible Specialization and Small Size: The Case of Caribbean Tourism", *World Development*, Vol. 18, No. 1 (1990) pp. 109-123.

labour-intensive activities to technology and information intensive activities will depend on the quality of human resources. 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". 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.

Service activities are the fastest growing items in world trade and in the US economy, the Caribbean's largest trading partner. The prospects for the export of services, especially to the United States are very encouraging. The services sector is estimated to provide one-half of all new jobs in the United States and these jobs are relatively high-wage and environmentally safe. Many of these 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) The high cost of health care in the developed countries makes it cheaper for individuals to travel to other countries for treatment

e.g. from the USA to Mexico,³³ the northern Caribbean and parts of Central America. With its proximity to the USA, the standard of health care and the quality of its medical professionals, health care is a major new opportunity.³⁴

(ii) There is a growing trend for persons in developed countries to retire, particularly to developing countries with warm climates because their income purchases more abroad than in the USA. The market for retirement facilities will increase sharply in the next twenty years. 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. A decisive shift in population structure in developed countries has already occurred. Approximately 9.2 % of the population in these countries was over 65 years old in 1960, and this is projected to reach 20.2 % in the year 2020. Over the next 50 years, the global population over 65 years old will increase by 1 billion, nearly 50 % of total global population growth.³⁵ If 3 % of the 100 million old persons in OECD countries retired to developing countries it could result in annual expenditure of \$30-50 billion and \$10-15 billion in medical expenditures.³⁶

(iii) With its relatively less expensive expertise, India is becoming a leader in informatics and the export of computer software. The industry has continued to grow rapidly, with 60 % of exports going to the United States and almost 160 out of the Fortune 500 companies outsourced their software requirements to India. Several US companies have set up back offices in Ireland reducing their wage bill across the US.

33 Jorge Augusto Arredondo Vega, "The Case of the Mexico-United States Border Area" in Simonetta Zarrilli and Colette Kinnon (eds.), *International Trade In Health Services: A Development Perspective*, Geneva: UNCTAD and World Health Organization, 1998, pp. 161-174.

34 Alvin G. Wint, "International Competitiveness and Rare Tradeables: Assessing the Jamaican Health System", *Social and Economic Studies*, Vol. 51, No. 3 (September, 2002), pp. 1-26.

35 Peter G. Peterson, *Grey Dawn: How the Coming Age Wave Will transform America and the World*, New York: Times Books, 1999, p. 13.

36 *Global Economic Prospects and the Developing Countries*, Washington DC: World Bank, 2002, p. 76.

(iv) Some small, developing economies that have the right factor mix, lower wages and access to markets in major industrial countries can exploit niches in the world economy, provide financial services and be the sites for back-office operations such as data processing and accounting. The Bahamas, Barbados and the Cayman Islands have been successfully involved in offshore financial services³⁷ based on comparative advantage.

(v) The entertainment industry is one of the fastest growing sectors of the world economy. Music from the Caribbean countries has enormous potential for earning foreign exchange but the potential earnings from reggae, soca and calypso music have not been fully realized. Carnivals in Trinidad and other Caribbean islands are already a major industry with global demand, linkages and spin-offs. Film-making also 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.

(vi) There are good prospects for the export of university level education particularly by distance teaching and the Internet. Caribbean citizens and their descendents constitute a market at least as large as the domestic market. To date foreign universities have supplied medical and veterinary university education from locations in Grenada and St. Kitts.

b Revitalizing Traditional Exports

Defensive adjustment policies, including protectionism, which has as its objective the preservation of industries or the retention of aspects of production that 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

³⁷ Esther C. Suss, Oral H. Williams and Chandina Mendis, *Caribbean Offshore Financial Centers: Past, Present and Possibilities for the Future*, IMF Working Paper WP/02/88, Washington DC: International Monetary Fund, 2002.

order to retain international price competitiveness and national market share.

Traditional sectors in export agriculture can be revitalized by improving the quality and price competitiveness of export staples like sugar, bananas and coffee. The export opportunities of the traditional sector have not been exhausted, but require some imagination and innovation. First, attention must be seriously devoted to transforming these industries from exporting commodities in their unrefined or least processed form to using the output as an input in a product with higher value added. For example, maybe the sugar industry should be a cane industry supplying not raw sugar but inputs for a brand name rum industry and bananas for banana chips instead of as a perishable fruit. Secondly, change the product to meet demand in new markets e.g. organic "brown" rice, organic bananas exported to markets where there is a growing demand for organic food and blended fruit juices instead of orange juice. Thirdly, developing new products, which utilize the existing resources, for example, land, labour and infrastructure displaced from banana cultivation might be switched to orchids, exotic horticulture, and "tropical boutique agriculture".³⁸ Fourthly, marketing is a critical factor in repositioning an established product, which is difficult to differentiate. If Kiwi fruit, an ugly, tasteless fruit of dubious nutritional value can be marketed so can some of the traditional agricultural items of the Caribbean. Ironically while the banana industry is wilting, sales of bananas in the UK have increased by 150 % in the last 17 years while fruit sales in general have risen by only 15 %.³⁹ Fifthly, the maintenance and development of brands such as Appleton, Mount Gay and El Dorado in the rum industry provide higher returns and customer loyalty.

Although tourism is a traditional export, it is one of the fastest growing sectors of the world economy. Tourism in the Caribbean accounts for 25 % of the region's Gross Domestic Product (GDP) and

38 A. Reyes-Pacheco, *An Option for Caribbean Agriculture Development: Tropical Boutique Agriculture*, Kingston: Inter-American Institute for Cooperation on Agriculture, May, 1992.

39 Robin McKie, "Britain goes bananas over its favourite fruit", *Guardian Weekly*, July 25-31, 2002, p. 25.

20 % of employment generated by 32 million tourists who spend almost \$18 billion.⁴⁰ While in many respects the Caribbean is producing a world-class product and has some world-class firms, the industry is not without problems⁴¹ and it must diversify if tourism is to continue to grow into the twenty-first century. Diversification could include new products⁴² such as health tourism⁴³, eco-tourism, tourism geared to older travelers and cultural and heritage tourism.⁴⁴

Many governments need to disabuse themselves of the notion that industrialization is synonymous with development. This was the prevailing wisdom in development economics during the 1950s and 1960s but has proven not to be the engine of growth it was made out to be, indeed the export of manufactured goods is not a feasible growth strategy for many small, developing countries either because it never was or because it no longer is viable. Apparel is a low skill, low wage activity and hence it is highly mobile internationally as it moves to where wages are lowest. Therefore, while it was a country industry at one time in the Caribbean, it may very well be an industry whose time has come and gone, gone to lower wages in Central America, Africa and Asia. Where the conditions for a manufacturing industry are propitious as in Trinidad it is a valuable export sector and should be pursued with enlightened vigour. However

40 *Caribbean Tourism Statistical Report 1999-2000*, Barbados: Caribbean Tourism Organization, 2001, and Caribbean Group for Cooperation in Economic Development, *A Study to Assess the Economic Impact of Tourism on Selected Caribbean Countries*, The World Bank, May 1996.

41 Anthony T. Bryan, *Caribbean Tourism: Igniting the Engines of Sustainable Growth North-South Agenda* Paper No. 52, Miami: North-South Center, University of Miami, November, 2001.

42 Chandra Jayawardena, "Future Challenges for Tourism in the Caribbean", *Social and Economic Studies*, Vol. 51, No. 1, March, 2002, pp. 1-23.

43 M Huff-Rouselie, C.S. Shepherd, R. Cushman, J. Imrie and J. Laita, *Prospects for Health Tourism Exports for the English-Speaking Caribbean*, Washington DC: World Bank, 1995, and Anne P. Crick, "A Competitive Analytical Approach to Health Tourism in Jamaica", *Social and Economic Studies*, Vol. 51, No. 3 (September, 2002) pp. 131-149.

44 Keith Nurse, "Bringing Culture into Tourism: Festival Tourism and Raggaie Sunsplash in Jamaica", *Social and Economic Studies*, Vol. 51, No. 1 (March, 2002) pp. 127-143.

those countries where conditions are not as favorable can still find opportunities e.g. the 20 most market-dynamic products during the period 1980-1998 including a number of products which do not require "rocket science" such as perfumery and cosmetics, leather goods, electrical machinery, and undergarments, knitted and textile.⁴⁵

4. Improving Productivity

Globalization 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*

Achieving and maintaining international competitiveness will require improved and innovative management.⁴⁶ Managerial capacity has improved in recent years, but there is a need for further improvement, particularly in the public sector. In the short run, 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 overseas-based Caribbean professionals 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 a business environment, characterized by frequent changes requiring rapid responses, the relationship between management and workers will have to be harmonious, if productivity is to be increased. The interaction within the work place will have to be more cooperative, permitting more dialogue between labour and management, and innovation encouraged. These developments will require trade unions to expand their traditional role beyond wages

45 *Trade and Development Report*, 2002, Geneva: United Nations, 2002, pp. 54-58.

46 Alvin C. Wint, *Managing Towards International Competitiveness: Cases and Lessons from the Caribbean*, Kingston; Ian Randle, 1997.

and working conditions to include employment creation/preservation, education/training, and ownership participation.

In the long run, upgrading the managerial capacity will require a re-orientation of post-secondary education to emphasize sciences, management, accounting, computer programming, and all aspects of modern technology. University level education will have to be significantly expanded.

b Labour

Increasingly, the world economy will be dominated by knowledge-based industries, especially services, making the quality of human capital a critical factor. The productivity of workers must be upgraded, and this requires improvement in the quantity and quality of education. This has to be pursued both within the individual enterprise and in the society as a whole, by putting an emphasis on vocational training and on-the-job education. Productivity can also be improved by social partnerships based on tripartite dialogue between the private sector, governments and organized labour.⁴⁷

Much of the human capital of the Caribbean resides outside of the region and every effort must be made to utilize it. There are a variety of options including but not confined to repatriation, for example tapping specialized expertise via e-mail and short term consultancies. 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. Returning professionals and entrepreneurs have spearheaded several of the new growth sectors, e.g. computer hardware and software.⁴⁸

47 For a review of such arrangements in the Caribbean see Samuel J. Goolsaran, *Caribbean Labour Relations Systems: An Overview*, Port of Spain; International Labour Office, 2002) pp. 24-40.

48 Joyce Barnathan et al, "Passage Back to India", *Business Week*, July 17, 1995, pp. 44-46.

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. Telecommunications infrastructure now requires a quantitative leap in anticipation of increased demand and must be state-of-the-art technology. The improvement in infrastructure must focus not only on modernization but must take cognizance of the need to close the gap with developed countries. Under the right conditions, much of the required expansion in physical infrastructure could be financed by private capital, including foreign capital.

d *Technology*

Inadequate international marketing has been a severe constraint on exports, although there are some sectors, which have achieved sophisticated levels of marketing, e.g. tourism. In some instances these weakness has been obviated by strategic corporate alliances, marketing agreements and sub-contracting. However, much can be done with new marketing technologies⁴⁹, in particular, interactive electronic marketing, such as on-line services, Internet-based retailers, multimedia kiosks, interactive home shopping programs over cable and satellite and TV networks. These formats allow the consumer to purchase by telephone or computer and pay by credit card, while allowing the retailer reduced costs of storage and display areas for products. The number of Internet users is estimated to be over 1 billion.

Some of the new technologies such as electronic commerce i.e. business conducted on the Internet and other networks based on data inter-change systems, can be used to alleviate or overcome the disabilities of small size of firms.⁵⁰ The advent of E-commerce has and will fundamentally affect the way economic activities are conducted in financial services, telecommunications, entertainment, tourism and various other services.

49 "Reinventing the Store", *Business Week*, November 27, 1995, pp. 84-96.

50 A. Golstein and D. O'Connor, *E-Commerce for Development. Prospects and Policy Issues*, Paris: OECD, 2000.

e *Investment*

The world is awash in capital as is evident in the flows to Latin America and the Caribbean during the period 1990 to 2000 when net foreign direct investment inflows as a percent of GDP rose from 0.7 to 3.9 %. In several of the small, developing countries of the Caribbean net foreign direct investment has increased as a percent of GDP during the last decade i.e. the Bahamas, Jamaica, Trinidad and Tobago, Grenada and Guyana.⁵¹ The mobilization of private foreign investment can supplement and expand on domestic savings to raise the overall level of investment. Creating and maintaining a stable, predictable and open economic environment can facilitate successful business, promote domestic investment and attract private foreign investment. With the "right" policies the CARICOM countries can garner foreign capital, skills and technology to complement national resources to ensure economic development.

5. **Strategic Corporate Alliances.**⁵²

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. Small size puts exporting firms at a severe disadvantage but collaborative corporate strategic alliances or mergers can provide a larger capital base, expand resources, pool expertise and introduce new technology.⁵³ Some firms and financial institutions from small, developing countries have become multinational corporations, but these like the rest of firms in small developing economies are small by global standards. A merger movement would make firms larger, more viable and more attractive joint-venture partners with foreign investors. This is critical, for exporters which are small compared to the multinational

51 *Human Development Report 2002*, New York: United Nations Development Programme, 2002, pp. 203-206.

52 Joseph L. Badaraco Jr., *The Knowledge Link: How Firms Compete through Strategic Alliances*, Boston: Harvard Business School Press, 1991, and Martin K. Starr, *Global Corporate Alliances and the Competitive Edge*, New York: Quorum Books, 1991.

53 Agmon Tamir and Richard L. Drobnick (eds.), *Small Firms in Global Competition*, New York: Oxford University Press, 1994.

corporations against which they have to compete in the world market and major export markets like the United States and Europe.

6. Planning

Strategic planning requires: (a) 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. (b) 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.⁵⁴

7. Overcoming Xenophobia

Many elements in the public and private sectors need to overcome xenophobia. The preoccupation with national ownership is myopic and the apprehension about foreigners coming in and taking jobs is exaggerated. The Caribbean must abandon this mentality and worry less about ownership, and be more concerned about where value is added, why reinvestment occurs and how jobs are created. Foreigners coming in and finding employment should not be cause for worry, because people and investment from abroad create economic activity, they do not deprive locals of jobs or economic opportunities. The Caribbean has to overcome xenophobia and participate in the global economy, not in a defensive and reluctant way, but with a creative and opportunity-seeking approach.

54 Robert Wade, *Governing the Market. Economic Theory and the Role of Government in East Asian Industrialization*, Princeton: Princeton University Press, 1990.

8. Re-invigorating Regionalism

There is an urgent need to complete the process of regional integration by implementing the Single Market and Economy so as to realize the benefits of a common market, provide the basis for common regional positions in external negotiations and provide a preparatory experience for exporters prior to full exposure to global competition. However, the implementation of many aspects of the revised Treaty of Chaguaramas is uneven and very delayed, for example, little or nothing has been achieved on intellectual property rights, competition policy and government procurement. Harmonization of company law, customs procedures and macroeconomic policy have not been earnestly attempted. A common currency and a regional airline are hardy perennials, which are recited at every opportunity. National implementing legislation does not yet exist to remove restrictions on the movement of capital and trade in services. The much-heralded common external tariff is a labyrinth of exceptions and derogations.

Even if the single market and economy is completed it may still not be sufficient to create a market which is large enough to allow firms to attain economies of scale and governments to pool resources for provision of common services. Serious consideration must be given to widening CARICOM's membership to include the rest of the Caribbean, including Cuba and possibly Central America to make CARICOM a much larger economic space and thereby increase the possibilities of realizing economies of scale. Widening cannot be pursued to the detriment of the deepening of the integration movement but both must be pursued simultaneously in a carefully calibrated manner.⁵⁵

The integration process is in imminent danger of being overtaken by external developments associated with the intensification of globalization. Unless meaningful action is taken CARICOM could change from an externally vulnerable integration process⁵⁶ to an ex-

55 William Demas, *West Indian Development and the Deepening and Widening of the Caribbean Community*, Kingston: Ian Randle, 1992.

56 Richard L. Bernal, "CARICOM: Externally Vulnerable Regional Economic Integration" in Roberto Bouzas and Jaime Ros (eds.), *Economic Integration in the Western Hemisphere*, Notre Dame: University of Notre Dame Press, 1994, pp. 171-202.

ternally driven integration process. Enhancing the internal dynamic of integration must be enhanced by complementing the removal of market barriers by corporate integration. The integration process engineered by governments must be accompanied by corporate integration. Governments should promote the movement of capital in the region, as well as facilitate mergers and strategic alliances of Caribbean-owned corporate enterprises.

9. Trade Policy

The trade policy, which is now in place, is, unfortunately, largely externally driven. The region continues to scramble to react to the development of a trade agenda, which is set outside of the region. The region must take the initiative and be pro-active rather than the current reactive approach. Currently external developments dictate the agenda for the trade policy, the region reacts to that and implicit in that reaction is conforming to a development strategy. The region must reverse this process so that there is a development strategy, which precedes, informs and is serviced by an external trade policy. A regional cooperative approach is best and that process has begun with the Regional Negotiating Machinery. CARICOM must shed 20th century ideas if it is to mediate the encounter with globalization, in particular, it must find a balance between unconditional free trade and special and differential treatment for small, developing economies. There must be consideration for small, developing economies and firms in these economies, which are all small by global standards. Such a demand is neither unprecedented nor unreasonable since every government makes provisions for small farmers and small businesses by tax concessions, special loan programmes, technical assistance, quotas etc but no such countervailing measures are available at the regional or global levels. Therefore sensitivity to the difficulties faced by small firms must be codified into the trade agreements themselves.

A regional approach is the most efficacious way to proceed because it economizes on the cost to the countries of the region by pooling scarce skilled human resources and sharing representational duties. A cooperative regional approach also increases the leverage of small states because by operating as a single unit they increase their critical political mass. The Caribbean Regional Negotiating

Machinery gives effect to this approach to external trade negotiations.

It is imperative that the process of adjustment must commence immediately and cannot be allowed to await the completion of the various trade agreements. The adjustment process can start before the trade negotiations are completed because the negotiations, whether in the WTO or between the EU and the ACP or the FTAA, or in bilateral agreements such as the Dominican Republic and CARICOM, all entail basically the same elements and principles and these emanate from the process of globalization which is driving in one form or another, the trade liberalization agenda.

10. International Alliances

Involvement in international alliances will continue, however, existing alliances need to be kept under continuous review with a willingness to adjust and even change them where circumstances warrant such action. A re-evaluation must be conducted of the traditional assumption that there is third-world solidarity, or a developing country alliance but there are not such wide differences. The region needs to rethink foreign policy and strategic alliances to service its economic agenda and external trade objectives. For example, smallness is a major issue because as globalisation takes place, not only do corporate units enlarge but also national economies merge and become large economic blocs. In this regard there is an issue of smallness. It threatens not only small economies and firms in small economies, but also small and medium-sized enterprises in developed economies. There may be an alliance which transcends the old north-south and south-south axes, in which small entities can find common ground in dealing with multilateral rules, transitional corporations and globalization. These would involve a constituency which spans the developed countries and the developing countries.

V. CONCLUDING REMARK

Given the current trends in globalization, small, developing countries in the Caribbean, need to immediately implement a process of strategic global repositioning. The history and recent developments demonstrate that the Caribbean has the capacity to successfully for-

multate and implement a process of strategic global repositioning. The critical requirement for the adjustments and structural transformation necessary for economic development in the 21st century is skilled human resource. The Caribbean has more than enough human capital, both in quantity and quality, a fact that is obvious if the Caribbean is understood as a nation without borders, or as a transnational society and economy consisting of the homelands and the diaspora. The capital, technology and other resources, which must complement the human resources of the region, can be garnered from the global economy by establishing and maintaining the kind of economic environment, which is conducive and indeed attractive to such inflows.

There is a tradition of excellence that is evident in many of the goods and services produced by the region, in particular those which are unique and world renowned such as Jamaica Blue Mountain coffee, Demerara rum and Angostura bitters. The ability to compete in highly sophisticated industries such financial services, steel, natural gas, bauxite and tourism demonstrate that there is a capacity to be internationally competitive. The Caribbean has world-class products and world-class firms, for example, 48 of the world's 100 best all-inclusive hotels are in the Caribbean, and 17 of them are in Jamaica.⁵⁷

The Caribbean has produced people who have attained the highest levels of human achievement in every field of endeavor from sports to the arts. Societies which have produced the likes of Marcus Garvey, Arthur Lewis, Derek Walcott and Bob Marley, can meet any challenge. The Caribbean people having overcome slavery and colonialism can cope with the constraints of small size and meet the challenges of globalization. The future is not what it was but we must not see things as they are and ask why, but see things as they could be, and set about achieving that envisioned future.

57 John Issa and Chandra Jayawardena, "All-Inclusive Business in the Caribbean", in Chandra Jayawardena (ed.), *Caribbean Tourism: People, Service and Hospitality*, Kingston: Ian Randle, 2002.