GLOBALISATION AND THE CARIBBEAN

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“If you can’t see the world, and you can’t see the interactions that are shaping the world, you surely cannot strategise about the world. And if you are going to deal with a system as complex and as brutal as globalisation, and prosper within it, you need a strategy for how to choose prosperity for your country or company”

**Introduction**

Globalisation has already impacted the economies and societies of the Caribbean, and, with the current pace of technological and other changes, its effects will intensify. Given its complexity, its potentially disruptive power together with its opportunities, there is clearly immense need to understand it, to take advantage of whatever benefits it offers and to minimise potentially negative outcomes. This, however, will not be possible without an understanding of this new world order which is shaping and will continue to shape our lives in the Caribbean and the rest of the world. Hence the purpose of the paper is to provide some understanding of globalisation and of its impact on the Caribbean.

The paper begins with a discussion of the definition of globalisation and of the dating of the current period of globalisation. The third section looks at the various drivers of the globalisation process while the fourth section reviews the dominant characteristics of globalisation. The next three sections discuss the strengths and weaknesses of the Caribbean within the context of the current world order followed by some discussion of the new opportunities available. The eight and ninth sections look in some detail at two specific opportunities – e-government and e-commerce. The paper ends with a discussion of the threats to the Caribbean (Section X) and a discussion of the implications for CDB policies and projects (Section XI).

**I. Definition of Globalisation**

There are many dimensions to the phenomenon of globalisation – technological, social, economic, cultural, environmental, political, etc. However, in this study, the focus will be on the economic dimensions of globalisation. Accordingly, globalisation here is defined simply as the integration of markets for goods and services, capital and labour. Soros, who has a more limited but very important perspective nevertheless, equates globalisation with “the free movement of capital and the increasing domination of national economies by global financial markets and multinational corporations”.

**II. Date of Globalisation Period**

The current period of globalisation generally is dated either from 1980 (Soros, 2002; Wolf, 2004) or from the fall of communism in 1989 (Friedman, 2000). For example, Friedman (2000) defines globalisation as “the dominant international system that replaced the Cold War system after the fall of the Berlin Wall”. However, in most cases, the year 1980 is cited as the beginning of the current period of globalisation. The latter date is chosen to coincide with the beginning of the administrations of Ronald Reagan (1981-89) and Margaret Thatcher (1979-90) both of whom were strong proponents of market liberalisation. It should be pointed out, however, that dates as regards the beginning of the current wave of globalisation are to some extent more a matter of convenience rather than of substance, since the march towards global integration of markets began before 1980 as, for example through the General Agreement

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2/ In the study, the Caribbean refers to the 17 borrowing member countries (BMCs) of the Caribbean Development Bank – Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, Commonwealth of Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Turks and Caicos Islands.
3/ Soros (2002), p. vii
on Tariffs and Trade (GATT) which was established since 1948. What can be said, perhaps more conclusively, is that certain events (the floating of exchange rates in the early 70s, the oil crises of the 70s, the fall of communism) merely accelerated the current wave of globalisation. Others such as Sachs and Warner (1995) would argue, quite correctly, that globalisation preceded even the First and Second World wars which merely interrupted a process that began in the final decades of the 19th century.

III. Drivers of Globalisation

It is generally recognized that there are three principal drivers of globalisation. The first is technology, specifically communications technology (internet, cell phones, fax, e-mail, teleconferencing) which has contributed to the substantial lowering of communications cost worldwide and the shrinking of economic space. The foregoing development has in turn been driven by innovations in computerisation, miniaturization, telecommunication and digitization. As distance becomes increasingly less of a constraint, location also becomes less of a factor in economic decisions. Companies become less tied to any single location and are therefore more footloose. The implications of this for the Caribbean and other countries is that competition for foreign investment is likely to be more fierce since with few exceptions, companies can locate almost anywhere.

The second driver is the substantial reduction in costs and time as regards transport, an important influence particularly in the integration of goods markets (Ulubagşoğlu, 2004; Crafts, 2004). This is seen, for example, in the decline in freight costs as a percentage of import value, especially in the developed market economies, where the ratio fell from 4.4% in 1990 to 3.9% in 2003. The rise in productivity in the transport sector is being driven by intensive use of information and communications technology to facilitate faster processing and overall improved management of cargo; by exponential growth in containerised freight across transport modes (water, road, railway); by rapid growth recently in the use of the railway and growing exploitation of scale economies as companies use larger ships. The change in shipping technology and productivity over the last few decades is well demonstrated by Klein and Kyle (1997):

"Container vessels are loaded with 20, 35, or 40 foot boxes in which the cargo is packed before it reaches the ship. Break-bulk vessels averaged about 12,000 dead-weight tons, carried crews of 35 to 40, and spent half of their time in port loading and unloading cargoes. Container technology uses vessels of 30,000 or more tons, with crews of fewer than twenty, and requires hours, rather than days, to load and unload cargoes."

Efforts to liberalise the market for ocean transport in the United States (US) and Europe through dilution of the price-fixing powers of shipping conferences, have also contributed to reduced cost by introducing greater competition among suppliers. Lower freight costs increase the profitability of shippers and stimulate trade.

7/ UNCTAD (2005), p.71. Note, however, that in the case of developing countries, the ratio rose from 8.6% in 1990 to 9.1% in 2003, more than double the ratio of the developed countries and indicate that developing countries have a far way to go in enhancing transport efficiency which is critical to their exploiting the trade opportunities offered by globalisation. In the case of some Caribbean countries, the ratios in 2003 were substantially higher than the average for developing countries – The Bahamas (10.9%); Barbados (19.3%); Grenada (20.1%); Jamaica (14.8%); St. Kitts and Nevis (11.5%); St. Lucia (10.9%); Trinidad and Tobago (11.7%). Possible reasons include relatively small cargo volumes; relatively small cargo units and the need for bulk breaking (Commonwealth Secretariat and World Bank Joint Task Force on Small States (2000), p.6.

The third important driver of globalisation has been policy at both the national and international levels. With the collapse of communism in 1989, there remained essentially only one model of economic development – capitalism. Hence, the 90s witnessed substantial liberalisation of markets within and across nations, strongly supported by the international financial institutions (IFIs), armed with the policies of the Washington Consensus. For example, the Caribbean in the 90s witnessed the beginning of the process of dismantling of trade preferences for major Caribbean agriculture exports to the European Union (EU). Currently, the Caribbean is engaged in several other initiatives to lower tariff and non-tariff barriers to trade (WTO, FTAA, EPAs). During the 90s also, under the prodding of IFIs, many Caribbean countries dismantled capital controls.

IV. Dominant Characteristics of Globalisation

Competition

Building on the definition given previously, globalisation over the last quarter century can be further defined as a dynamic process of integration of markets, a process of continuous creative destruction, to use Schumpeter’s phrase, in which inefficient companies are destroyed and replaced by those that are efficient; uncompetitive countries fall further and further behind at an increasingly faster pace together with their unskilled and their poor. It is a process that places increasing emphasis on competition, on efficiency and productivity.

Marketisation

As the definition given above makes explicit, globalisation places substantial and, some may argue, excessive emphasis on market development. The term “market fundamentalism” in many quarters has become almost synonymous with globalisation. Market fundamentalists argue that the market is the most efficient allocator of resources and hence tolerate no interference with the market mechanism. As some commentators note ((Stiglitz, Friedman, 2000); Soros 2002), however, while market expansion has been a major contributor to economic development in the last quarter century, the overemphasis on markets is misguided. Governments still have a very important role to play in the process of economic and social development. Even Williamson (2000), the architect of the Washington Consensus, has acknowledged the importance of government, and has recently denied any advocacy on his part of a smaller role for government.10/ Soros (2002) argues that globalisation has caused a misallocation of resources between private and public goods, that markets are designed to generate wealth, not take care of social concerns or needs (poverty alleviation, environmental protection, labour conditions, human rights etc.).11/

"Because market forces and institutions are ethically indifferent, they require a deliberative, communal intelligence to prevent extreme injustices."12/

"A pure market vision is not enough. It is too brutal and therefore not politically sustainable. What is needed is a new social compact that both embraces free markets but also ensures that they benefit and are tolerable for as many people as possible."13/

In fact, Soros notes that the lack of a redistributive mechanism at the global level is one of the major weaknesses of globalisation, and has argued strenuously for the establishment of a new international arrangement to address this issue.14/

11/ Soros (2002), p.5
12/ Friedman (2000), p.192
13/ Op. Cit., p.444
Of particular importance as regards market development in this era of globalisation is the unprecedented development of international financial markets. Soros (2002) refers to the development of capital markets as the salient feature of globalisation.\(^{15}\) Propelled by advances in information and communications technology, by innovations such as the widespread use of securitizations and the development of the junk bond market, by growth in institutional investors, international financial markets have grown explosively, both in terms of the amount of funds continuously circling the globe in search of investments and the number of investors involved. International financial markets are now the main sources of international investment, replacing major government donors and development banks.

**Emphasis on Good Macroeconomic Policy**

One of the major implications of globalisation is that it has brought into the international spotlight issues of macroeconomic policy and good governance. International financial markets focus on macroeconomic policy and performance in determining the attractiveness of a country as regards investment. This may from time to time involve some tension between governments and financial markets in that the latter has very fixed ideas (essentially based on the Washington Consensus) as to what may be considered good macroeconomic policy. If one takes the approach of Sachs (2004) that development issues should be approached clinically, that is, thoroughly analysed and policy prescriptions made on a case-by-case basis, then there clearly will be circumstances when Caribbean governments will have to depart from what financial markets regard as good policy. The East Asian tigers in this regard offer a good model, using government intervention when necessary and allowing the market free rein otherwise. The important lesson to be learnt from the East Asian experience is that the approach to economic management and certainly government intervention, ought not to be doctrinaire, but pragmatic. This explains the variety and differences in their interventions, making it somewhat difficult to categorise or schematise.\(^{16}\) There is a role for (wise) government as indicated by the Caribbean economists below.

\[ ^{14}\] Soros (2002) proposed the issuance and use of SDRs to finance the provision of public sector goods in less developed countries (p.73).

\[ ^{15}\] Soros (2002), p.3


\[ ^{18}\] Bourne (1991), p. 23

\[ ^{19}\] Venner (1991), p. 2

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"The reality for the small states of the Caribbean, as for many other ex-colonial underdeveloped countries, is that the state has to play a highly proactive role in the development process."\(^{17}\)

"The successes of Japan, the South-East Asian NICs and Brazil in this Century with industrial targeting, development and export promotion through the instrumentality of government intervention in the economic system should at least refute claims that government intervention is intrinsically counter-productive."\(^{18}\)

"It would be unwise to assume in today’s circumstances that market forces both domestically and internationally could deliver development to countries which had not yet achieved such a status."\(^{19}\)

When Government intervenes, however, the reasoning must be sound in order to push the development process forward and to maintain market confidence.

**Emphasis on Good Governance**

Good macroeconomic policy is merely one component of good governance which is being increasingly emphasised as an important requirement for participation in the globalisation process. Good governance is being emphasised at both the government and corporate levels. At the government level,
important components of good governance include effective anti-corruption laws; strong, transparent domestic institutions; transparency of macroeconomic policy and data; rule of law; accountability; an effective legal, regulatory and monitoring capability; respect for property rights; political stability; democratic government; smooth transfers of political power; and efficient government. At the corporate level good governance is characterized by the existence of certain international norms such as capital adequacy; clear rules as regards insider dealing and connected lending; good accounting and auditing rules; public disclosure of audited documents; domestic bankruptcy legislation and procedures etc. According to Sachs and Warner (1995):

"Integration means not only increased market-based trade and financial flows, but also institutional harmonisation with regard to trade policy, legal codes, tax systems, ownership patterns, and other regulatory arrangements. In each of these areas, international norms play a large and often decisive role in defining the terms of the reform policy."  

In this regard, the initiatives of the Caribbean Forum for Good Governance to mainstream internationally accepted principles of good governance within the corporate sector, both private and public, but also in family-owned businesses and in the general public sector, are a clear recognition within the Region of the importance of good governance.

"A number of researchers have now concluded that most of the differences in income per capita across countries stem not from differences in capital-labor ratios, but from differences in total factor productivity, which, in turn, could be explained by "soft" factors or "social infrastructure" like governance, rule of law and respect for property rights."  

While the foregoing statement may be controversial, it is true that what has emerged in the current period of globalisation is a new expanded paradigm of comparative advantage that is much more complex than Adam Smith ever envisaged.

**Income Inequality**

The relationship between globalisation and income inequality has attracted substantial attention and controversy. Friedman (2000) and others (Watkins, 2002; Parayil, 2005) note, for example, the widening of the income gap between the rich and the poor within the industrialised and developing countries. Friedman (2000) points out that at the global level also the gap between rich and poor has been widening, a view shared by others [Shari (2000); Parayil (2005)]. He reports, for example, that “in 1960, the richest 20% of the world’s people in the industrialised nations were 30 times richer than the world’s poorest 20%. In 1995, the ratio had risen to 82.” Milanovic (2006) reported that the ratio of income received by the wealthiest 5% of the world’s population to that received by the poorest 5% was 165. However, as Milanovic (2006) also points out, while there is agreement on the existence of substantial income inequality among nations, there is disagreement as to its trend. For example, Firebaugh and Goesling (2004) among others (Sala-i-Martin, 2002; Bhatta, 2002; Crafts, 2002) while not denying the existence of substantial global income inequality, claim that it declined in the last two decades of the 20th Century because of outstanding growth performance in China and South Asia which have an estimated 40% of the world’s population. Real growth in China and South Asia was more than twice the world’s average during 1980-2000.

24/ Milanovic (2006), p. 142
26/ Several studies have estimated the Gini coefficient for the world economy at between 0.6 and 0.7 (see Milanovic (2006), p.140.
The contradictory findings as regards global income inequality are the result of the application of two different types of indicators of income inequality, one of which is population weighted (Firebaugh and Goesling, 2004 and others) while the other is not (Friedman, 2000 et al). It is true that the extreme tails of global income distribution during the last two decades of the 20th Century have been elongated because of, on the one hand, the above average growth in income of Western countries and, on the other hand, the economic decline in Sub-Saharan Africa. The latter results are generally seized upon by those who emphasise the link between globalisation and income inequality. It is also true, however, that the outstanding performance in China, South and East Asia with their large populations and high levels of poverty helped to narrow the gap between the West and the developing countries. The latter performance, using population weighted measures of per capita income such as the Gini coefficient, resulted in declining estimates of global income inequality. In the absence of an agreed approach, the controversy over global income inequality continues unabated and unresolved.

In discussing the issue of income inequality, it is important to remember, however, that it is two-dimensional, having both an internal and international component. Much of the debate on the relationship between globalisation and income inequality has focused on the international dimension, placing considerable attention on the income gap between industrialised and developing countries in the generally accepted belief that the latter is a much greater contributor to global income inequality than within country inequality. Global income inequality is an issue of considerable interest to the Caribbean and elsewhere. It is an issue that ultimately has to be dealt with collectively at the international level, and clearly, the Region will have to be a part of that initiative (Soros, 2002; Milanovic, 2006).

Given the fact that an estimated 25% of the Caribbean population on average is considered poor, increased attention will have to be paid to the issues of income inequality and poverty at the national and regional levels. Deterioration in both cases is clearly one of the potential threats to the Caribbean of globalisation. To counter this effectively, the Region will have to ensure greater attention to the collection of data on poverty and income distribution while pursuing aggressively various poverty reduction initiatives. Currently, the availability of such data in the Region while improving, is still very sparse.

V. Strengths of the Caribbean vis-à-vis Globalisation

The Caribbean has several advantages or strengths as regards globalisation. Among these is the fact that the Region is democratic; adheres to a system of laws; has embraced economic liberalism particularly since the beginning of the 90s, including the reduction or elimination of capital controls. The Caribbean has a relatively high level of education compared with other less developed countries, is also English-speaking and geographically close to the US, the largest single market in the world. As pointed out in UN (2004), English is still the dominant language in the New Economy. Most of the ICT and technical courses, books and manuals are in English. Close to 90% of the documents on the Internet are in English. Close to one-third of the approximately 900 million (mn) users of the Internet are English-speaking. Also, as pointed out below, English is an advantage in the outsourcing market. Unfortunately, English is an asset which the Caribbean does not fully exploit.

27/ Milanovic (2006) notes that it is important to distinguish between three different measures of income inequality between nations: (i) inequality between countries’ mean incomes; (ii) inequality between countries’ mean incomes weighted by population; and (iii) inequality between world individuals (p. 131)
28/ For an interesting study of the impact of globalisation on income inequality in the Caribbean and Central America, (see Ancochea (2004).
29/ UN(2004), p. 105
The foregoing policies and attributes have certainly endeared the Caribbean to international financial markets as witnessed by the substantial capital inflow into the Caribbean in the latter half of the 90s even as investment was being withdrawn from East Asia in the wake of the financial crisis of 1997/98. An additional strength in this context is that, because of the size of its economies, the Region requires relatively little capital, viewed within the context of global financial markets, to effect a significant impact on growth and development. Of course, the assumption is that borrowing is not excessive, is negotiated on satisfactory terms and is used optimally.

Similarly, small amounts of growth in exports relative to world trade can contribute substantially to increases in real per capita income. An increasingly liberalised trade environment offers the possibility of exploring and exploiting global markets for whatever exportables the Caribbean may produce. Under globalisation, the Caribbean should no longer consider itself immobilised by historic economic relationships but instead capable of forging new trading alliances and structures to its advantage. The time has come for the Region to think and act globally.

VI. Vulnerabilities of Caribbean states vis-à-vis Globalisation

Small states such as those in the Caribbean bring to the globalisation process certain inherent weaknesses or vulnerabilities which make them susceptible to economic shocks. Common vulnerabilities include a small resource base both in terms of skills and natural resources; limited institutional capability within both the public and private sectors; small domestic markets inhibiting the realisation of scale economies; remoteness (lying outside of established trading routes, making international transportation very costly); proneness to natural disasters; environmental fragility; high export dependence and particularly dependence on a small number of exports and a limited number of markets; high import dependence including, in particular, dependence on imported energy (Briguglio,1995; Crowards, 1999; Downes and Mamingi, 2001). According to the Commonwealth Secretariat and World Bank (2000) study on vulnerability of states within the Commonwealth, 10 Caribbean countries were categorised as highly vulnerable and 3 exhibited high to medium vulnerability. 30/ These results for the Caribbean were very similar to those of Briguglio (1995).

Given all of the abovementioned vulnerabilities, integration into the world economy on the basis on competitiveness seems a daunting task. Clearly, some of the vulnerabilities, such as a small resource base or susceptibility to natural disasters, have remained and will remain with globalisation. In other cases, however, the opportunity now exists to address at least somewhat these vulnerabilities and thus reduce their constraining effect on growth and development. For example, within the context of globalisation, it is becoming increasingly inappropriate to talk of small domestic markets as constraining growth through lack of scale economies. This arguably would be true only of non-tradeables. The more liberal trade environment inherent in the process of globalisation means expanded market opportunity internationally. Also, new technologies in several cases have made small scale decentralised production in goods and services competitive.31/ Furthermore, according to Bernal (1996), “strategic corporate alliances have made it possible for networks of small firms to overcome the limitations of size and compete effectively against large corporations.”32/ Globalisation also allows a wider array of choices in the trading arena with respect to both products and target markets, thus reducing potentially two of the major vulnerabilities of small states – product and market concentration. Remoteness and its implications for cost and indeed for the Region’s competitiveness in certain sectors, are being eroded by the significant reduction in communications costs which is one of the hallmarks of globalisation. High transport costs of cargo, however, remain a constraining factor to continued reliance on high volume commodity exports.

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31/ UNECLAC (2005), p.16.
32/ Bernal (1996), p.5
suggesting strongly that the Caribbean has to change its trading strategy towards lighter and higher value-added products, especially in the context of a more competitive trading environment. An even better strategy would be to restructure the Region’s exports towards weightless products. In fact, the percentage of weightless products in an economy’s exports is today used as an indicator of development.

Additionally, because of the openness of these economies, they will continue to be vulnerable to terms of trade and other shocks from the external environment. For example, the Region’s vulnerability to oil shocks will continue and will likely intensify as a result of strong energy demand arising from robust economic growth in China and India. On a more positive note, increasing raw material demand, related to strong economic growth in East Asia, China and India, will continue to benefit particularly regional producers of mining products - Trinidad (oil), Guyana (bauxite) and Jamaica (bauxite and alumina) - as it has in Latin America where some countries (for example, Chile, Brazil, Venezuela and Peru) in recent years have experienced improved terms of trade, an export boom, growing trade surpluses, significantly improved current account balances and an accumulation in reserves. 33/

As regards external financing, the limited access to resources that once existed, based essentially on the partial willingness of bilateral donors and constrained capacity of multilateral development banks, has now been widened by access to international financial markets. As a result, the flow of external resources to the Region has not only increased in recent years but is now also accompanied by new vulnerabilities.

With the exception of the crisis in Jamaica in the latter half of the 90s and for which the causes were arguably more domestic than external, the Caribbean fortunately, so far has not faced financial crises (currency, banking and debt) of the sort experienced by Mexico (1994-95); Argentina (2001-02); Brazil (1999), or East Asia (1997-98) and others. Nevertheless, these and other crises and the devastation (sharp exchange rate depreciation, depletion of reserves, recession, collapse of the financial sector, increased unemployment and poverty, social and political instability etc.) caused should at least alert the Region to the dangers of involvement in international financial markets, given the increased frequency and severity of such crises within the current wave of financial globalisation. It should prompt the Region towards greater vigilance as regards the level and types (short, medium, long-term) of capital inflows, especially short-term flows, and the need to enhance the legal infrastructure and monitoring capability particularly within the financial sector. In this regard, the Financial Sector Assessment Program (FSAP) of the World Bank and the International Monetary Fund (IMF), which identifies the sector’s strengths and weaknesses and promotes policies for reducing systemic risk, can make significant contributions to enhancing the stability of the Region’s financial sector. Financial crises are more likely to occur in countries where legal and regulatory oversight is weak.

The Region clearly needs to be more circumspect and strategic in its engagement in the financial markets, given the known dangers and imperfections (asymmetric information, currency speculation, herding behaviour, moral hazard, adverse selection, risk of contagion etc.) and the fact that the benefits expected from involvement therein are in many cases not as tangible as hoped (de la Torre et. al, 2002; IMF, 2003).

"If financial integration has a positive effect on growth, there is as yet no clear and robust empirical proof that the effect is quantitatively significant." 34/

The foregoing statement is significant, coming as it does from the IMF which is a strong advocate of financial globalisation. However, it should be emphasised that the impact on growth depends very

34/ IMF (2003), p. 3.
much on project selection, the type of capital inflows and the efficiency and effectiveness with which financial resources are managed. For example, foreign direct investment and portfolio equity flows have been found to have a positive impact on growth (Rogoff, 1999; Reisen and Soto, 2001). In fact, the Region is well-advised to place more emphasis on attracting the latter types of inflows which are long-term, less costly, less risky and in the case of direct investment, is often accompanied by technological expertise, an issue to which the Region has paid inadequate attention.

While much attention has focused on the risk of a financial crisis resulting from a weak financial sector, the fact is that the globalisation of financial markets is a danger not only to the financial sector but also to public sector finances. For example, Sahay (2004) reported that at the end of 2003, 15 Caribbean countries were among the most indebted in the world. This suggests the need for strengthening the legal and institutional infrastructure in fiscal management. In this regard, the use of fiscal responsibility acts as in the case of the European Union (EU), India, Indonesia, Argentina and India is certainly worthy of serious consideration. Coupled with a significantly improved investment capability and strengthened debt management, they can improve the capacity to deliver better fiscal and debt outcomes within the current global environment. The foregoing policy prescriptions are based on the substantial vulnerability of small economies to fiscal instability particularly from external loans, given their limited borrowing capacity. For example, a loan of US$100 mn in 2005 was equivalent to 22%, 22.1% and 35.8% of Gross Domestic Product (GDP) in Grenada, St. Kitts and Nevis and Dominica respectively as compared with 1% and 0.7% of GDP for Jamaica and Trinidad and Tobago. Particularly for the smaller Caribbean economies, fiscal mistakes in the form of excessive borrowing are easy to commit and difficult to correct.

The foregoing observations/statistics underscore one of the fundamental weaknesses in Caribbean economies in the globalisation process - the lack of resources (financial and technical) to effectively restructure Caribbean industries and economies. This is in part reflected in the lack of decisiveness and the length of time taken to make firm decisions as to the future of declining industries. Lack of resources has often led to policy paralysis accompanied simultaneously by a lack of vision and action as regards the identification and pursuit of new areas of economic activity. The lag in Caribbean economic performance in recent decades as noted below should therefore not be surprising. While per capita incomes in several Caribbean economies is high, it is not the appropriate indicator by which to judge the capacity to adjust. The level of GDP and hence the capacity to borrow would be much more appropriate. By this standard, most Caribbean economies are small. It is not incorrect to argue that the richer countries, because of their greater resource endowment are better placed to engage beneficially in trade liberalisation, given their resource endowments both for the restructuring of sunset industries and the establishment of sunrise industries. For the Caribbean, the narrow resource base and the paucity of external assistance are fundamental weaknesses as regards beneficial participation in the new world trading order.

The inequity of the international trading regime is another major obstacle to beneficial participation in the globalisation process. The tremendous weakness of the Caribbean and other small countries in their engagement in trade negotiations is reflected in the lopsided outcomes which they so often inherit as part of the trade liberalisation process. For example, the opening up to competition of agricultural markets for major agriculture commodity exports, as a matter of very deep interest to the Caribbean, has in fact been a one-sided affair, dictated by the World Trade Organization (WTO) rules with which the EU has attempted to comply and as a result of which the ACP countries are the major losers. On the other hand, the US, EU, Japan and several other emerging countries have been able to maintain their agriculture markets closed to international competition, and in fact aborted the WTO negotiations rather than open up their markets.

Another important weakness not often mentioned explicitly in the literature is the limited technological capacity of the Region as evidenced by the low rate of innovation and by its inability to adapt new technologies. Given the fact that globalisation is largely technology driven, this is a significant
weakness and the Region will have to take substantial initiatives to address this deficiency. As indicated below, the Caribbean will have to emphasize math, science and technology training at all levels in the education system. However, much more than this will be necessary in order to entrench science and technology into the production processes so as to reap the productivity gains. The formulation of a comprehensive strategy for technological development in the Region is absolutely necessary and long overdue.

VII. Opportunities Presented by Globalisation

While globalisation has presented significant challenges to the Caribbean, notably in the area of international trade through the diminution of preferences for major agriculture commodity exports, the Region also needs to be aware of the opportunities that it presents.

**Increased Trade**

One notable opportunity is the possibility of increased exports, given the dynamism of the trade environment. During 1990 to 2005, growth in world trade volume (commodities and services) averaged 6.5%, significantly faster than growth in economic activity.\(^{35}\) Exceptional growth performance in China, East and South Asia and several other outstanding performers among the less developed countries (Chile, Cyprus, Mauritius, etc.), in recent decades is significantly rooted in export expansion. Indications are that while major regional commodity exports have so far been impacted negatively by trade liberalisation, the opportunity exists, with adequate resource inflows, appropriate trade, exchange rate and other economic policies, to benefit substantially from the general freeing up of trade. The challenge is the identification and exploitation of the new and dynamic trading opportunities as they present themselves. For small island states such as those in the Caribbean, the consensus is that the export opportunities would be mainly in the service sector (tourism, financial services, offshore health care, software development, entertainment etc.) which has shown greater dynamism than merchandise trade (Commonwealth Secretariat and World Bank Joint Task Force, 2006).

**Corporate Outsourcing**

Together with increased trade volumes and the resulting potential for enhanced income flows, employment and poverty reduction, new prospects in specific areas or sectors have emerged. One such area is that of corporate outsourcing. Outsourcing is defined simply as the contracting of an external supplier to carry out a specific task. It is a market which will most likely continue to grow rapidly as international competition intensifies, forcing companies, particularly in the industrialised countries, to constantly seek least cost options. While motivated essentially by the desire to lower costs, often it is also a result of the desire to pursue specific additional strategic advantages such as access to emerging technologies and a wide array of skills; the freeing up of resources to pursue increased market share, greater business flexibility etc.

From the Caribbean perspective, a very important reason for exploitation of this new market opportunity is the fact that it is an export service industry, helping the Region to escape the constraints of high transport and other infrastructure costs which have compromised the Region’s competitiveness. Furthermore, while estimates of the exact size of the industry are difficult to obtain, commentators all agree that it is large and expanding rapidly. For example, the offshore information technology services market alone in 2005 was estimated at US$13.0 billion (bn) and was projected to double by 2010.\(^{36}\)

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\(^{35}\) IMF, World Economic Outlook Database, April 2006.

The English speaking Caribbean certainly can prepare its labour force to compete in some of the higher value niches in the outsourcing market. The range of outsourcing activities is quite wide and growing. It includes the provision of information service systems; accounting; bookkeeping; payroll services; call centers; answering services; telemarketing; computer system design and related services; data processing; internet publishing and broadcasting; software publishing; financial research; health services/medicine (for example, medical transcription) etc. India, Malaysia, Philippines, Pakistan, Indonesia, China and others are participating successfully in the outsourcing market.

English has been cited as one of the pull factors in the market for outsourcing, giving the Region a natural advantage. Other pull factors include a common accounting and legal system based on the United Kingdom (UK) or US law; and a steady supply of the required skills. Some countries have also built high-tech centers (call centers, engineering centers, medical technology campuses etc.) to accommodate the new activities.

VIII. E-Government

Increasingly, Governments have been developing the capacity to provide a wide range of services electronically, essentially through the Internet. These include the provision of general information (history, culture, weather, policy documents, laws, regulations, education, health, social welfare, job availability, various databases, archived information etc.); downloadable forms, sale of various types of government licences (for example, for drivers, vehicles); permits (for example, for building) and certificates (ID cards, death/marriage certificates, passports); company registrations, payment of taxes, parking tickets etc. For example, the South Korean Central Government website, one of the leading websites internationally, offers guides for approximately 4,000 services to the public and almost 400 services online.

The motivations for e-government development are essentially threefold. They include a significant increase in government savings (an important consideration in the Caribbean, given the current fiscal performance of several countries); a more convenient and efficient interface between Government, business and the public, a very important consideration in the context of increasing global competition; and a stimulus to the diffusion of the Information and Communications Technology (ICT). The latter rationale is of particular importance as indicated below.

"The new imperative of development is to employ ICT applications across the board for creation of economic opportunities and human development. It is not a matter of choosing between traditional programs to further education, health or ICT but choosing the most effective way for ICTs, to help in the delivery of development goals."

E-government within the Caribbean is very much in its initial stages. In fact, a survey undertaken by the UN (2004) ranks the Caribbean below the world average, albeit slightly, in terms of readiness for e-government. The rankings for the Caribbean as regards readiness for e-government ranged from 59th for Jamaica to 119th for St. Vincent and the Grenadines within a sample of 179 countries. In the Region, Jamaica, Trinidad and Tobago, and The Bahamas ranked first, second and third respectively.

38/ UN (2004), p.32.
40/ The survey covered 191 countries. The index of e-readiness was based on a composite index which included assessments of Central Government websites, telecommunications infrastructure and human resource development (UN (2004) (p. ix)). The index is “a measure of the capacity and willingness of a country to use e-government for ICT-led development.” (p.13).
### Table I: Index of E-Government Readiness

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>0.3657</td>
<td>99</td>
</tr>
<tr>
<td>The Bahamas</td>
<td>0.4649</td>
<td>62</td>
</tr>
<tr>
<td>Barbados</td>
<td>0.4563</td>
<td>65</td>
</tr>
<tr>
<td>Belize</td>
<td>0.4150</td>
<td>76</td>
</tr>
<tr>
<td>Cuba</td>
<td>0.3478</td>
<td>104</td>
</tr>
<tr>
<td>Dominica</td>
<td>0.3681</td>
<td>98</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>0.4111</td>
<td>77</td>
</tr>
<tr>
<td>Grenada</td>
<td>0.3588</td>
<td>102</td>
</tr>
<tr>
<td>Guyana</td>
<td>0.4243</td>
<td>71</td>
</tr>
<tr>
<td>Haiti</td>
<td>n.a</td>
<td>n.a.</td>
</tr>
<tr>
<td>Jamaica</td>
<td>0.4793</td>
<td>59</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>0.4231</td>
<td>72</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>0.4616</td>
<td>64</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>0.3239</td>
<td>119</td>
</tr>
<tr>
<td>Suriname</td>
<td>0.3474</td>
<td>105</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>0.4670</td>
<td>61</td>
</tr>
<tr>
<td>UK</td>
<td>0.8852</td>
<td>3</td>
</tr>
<tr>
<td>US</td>
<td>0.9132</td>
<td>1</td>
</tr>
<tr>
<td>World Average</td>
<td>0.4127</td>
<td></td>
</tr>
</tbody>
</table>

Source: UN Global E-Government Readiness Report, 2004

While the Region’s ranking as regards human resource development was very competitive, its rankings were depressed by the low performance on the other two components of the index – website development and telecommunications infrastructure. According to UN (2004), the Caribbean sub-region had the lowest website scores for the Americas. The telecommunications infrastructure indicator is a composite of six indices: (i) the number of Internet users per 1,000; (ii) the number of PCs per 1,000; (iii) the number of telephone lines per 1,000; (iv) the number of mobile telephone users per 1,000; (v) the number of Television sets per 1,000; and (vi) the number of persons online. For example, Jamaica had 228 Internet users per 1,000 compared with 551 in the case of the US. However, St. Vincent and the Grenadines had only 58, and Suriname 41, approximately one-tenth and one thirteenth respectively that in the US. Jamaica and Trinidad had 54 and 80 computers per 1,000 compared with 659 for the US.

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41 UN (2004), p.89. The Caribbean sub-region included Antigua and Barbuda, The Bahamas, Barbados, Cuba, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago.
### TABLE 2: TELECOMMUNICATIONS INFRASTRUCTURE INDICATORS IN THE CARIBBEAN

<table>
<thead>
<tr>
<th></th>
<th>Internet Users/1,000</th>
<th>PCs/1,000</th>
<th>Telephone Lines/1,000</th>
<th>Mobile Phones/1,000</th>
<th>Online Population (‘000)</th>
<th>TVs/1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>128.2</td>
<td>n.a</td>
<td>487.8</td>
<td>489.8</td>
<td>75.2</td>
<td>493.0</td>
</tr>
<tr>
<td>The Bahamas</td>
<td>192.3</td>
<td>n.a</td>
<td>405.6</td>
<td>390.3</td>
<td>56.2</td>
<td>243.0</td>
</tr>
<tr>
<td>Barbados</td>
<td>111.5</td>
<td>104.1</td>
<td>494.4</td>
<td>198</td>
<td>21.9</td>
<td>290.0</td>
</tr>
<tr>
<td>Belize</td>
<td>108.8</td>
<td>127.0</td>
<td>123.7</td>
<td>204.5</td>
<td>68.4</td>
<td>183.0</td>
</tr>
<tr>
<td>Cuba</td>
<td>10.7</td>
<td>31.8</td>
<td>51.1</td>
<td>1.6</td>
<td>195.5</td>
<td>251.0</td>
</tr>
<tr>
<td>Dominica</td>
<td>160.3</td>
<td>89.7</td>
<td>303.9</td>
<td>120.0</td>
<td>28.0</td>
<td>232.0</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>36.4</td>
<td>n.a</td>
<td>110.4</td>
<td>206.6</td>
<td>21.3</td>
<td>96.0</td>
</tr>
<tr>
<td>Grenada</td>
<td>141.5</td>
<td>132.1</td>
<td>316.5</td>
<td>71.3</td>
<td>58.3</td>
<td>376.0</td>
</tr>
<tr>
<td>Guyana</td>
<td>142.2</td>
<td>27.3</td>
<td>91.5</td>
<td>99.3</td>
<td>136.1</td>
<td>70.0</td>
</tr>
<tr>
<td>Haiti</td>
<td>9.6</td>
<td>8.8</td>
<td>15.1</td>
<td>16.9</td>
<td>4.2</td>
<td>6.0</td>
</tr>
<tr>
<td>Jamaica</td>
<td>228.5</td>
<td>53.7</td>
<td>169.7</td>
<td>534.8</td>
<td>37.3</td>
<td>194.0</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>212.8</td>
<td>191.5</td>
<td>500.0</td>
<td>106.4</td>
<td>51.5</td>
<td>256.0</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>82.2</td>
<td>150.0</td>
<td>319.5</td>
<td>89.5</td>
<td>19.2</td>
<td>368.0</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>59.8</td>
<td>119.7</td>
<td>233.5</td>
<td>85.3</td>
<td>30.3</td>
<td>230.0</td>
</tr>
<tr>
<td>Suriname</td>
<td>41.6</td>
<td>45.5</td>
<td>163.5</td>
<td>225.2</td>
<td>33.2</td>
<td>241.0</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>106.0</td>
<td>79.5</td>
<td>249.8</td>
<td>278.1</td>
<td>103.1</td>
<td>346.0</td>
</tr>
<tr>
<td>UK</td>
<td>423.1</td>
<td>405.7</td>
<td>590.6</td>
<td>840.7</td>
<td>572.4</td>
<td>950.0</td>
</tr>
<tr>
<td>US</td>
<td>555.4</td>
<td>658.9</td>
<td>645.8</td>
<td>488.1</td>
<td>591.0</td>
<td>835.0</td>
</tr>
</tbody>
</table>

Source: UN Global E-Government Readiness Report, 2004

Apart from evaluating the level of development of e-government within the Region, the ranking is of further interest in that it reflects the Region’s competitiveness in the New Global Economy with its emphasis on ICT. While the leading ICT nations have placed substantial emphasis on ICT development, the Caribbean is yet to awaken fully to its importance for the economic and social development of the Region.

Because of constraints of market size and also the lack of geographical constraints in the use of the technology and the potential for cost sharing, the Caribbean may want to pursue the development of e-government as a regional enterprise rather than as a set of separate national projects. It is interesting to note that the major initiatives in e-government in both the US and the EU have been taken at the federal level. There is a plethora of best practices in the US, UK, Sweden, Denmark, Canada, Australia, Singapore, South Korea, Taiwan, considered among the world leaders in e-government, from which the Caribbean can benefit in its development of e-government.

### IX. E-Commerce

An area of even greater opportunity is that of e-commerce, defined as the production, distribution, marketing, sales or delivery of goods and services by electronic means. For example, in the US, business to consumer e-commerce was estimated at approximately US$80 bn in 2005 and growing at more than 20% per annum. Growth in Internet sales in the US is substantially outpacing traditional retail sales,
albeit starting from a smaller base. Internet sales were estimated at approximately 2% of all US sales in 2004. It was estimated that approximately 80 mn shopped online in 2005. In the UK, online purchases by consumers in 2005 were estimated £8.4 bn, equivalent to 3.1% of total retail spending but representing a growth rate 15 times the retail average and also accounting for almost half the growth in retail sales. While business to consumer transactions seem relatively small, business to business e-commerce transactions are estimated at more than US$1 trillion internationally and growing exponentially. UNCTAD estimated global e-commerce transactions at US$2.3 trillion in 2002 with a projection to US$12.8 trillion by 2006, most of it (93.3%) taking place in the developed countries.

Driven by liberalisation of the telecommunications industry, technological developments (such as high-speed Internet connectivity/broadband, growth of e-banking, Electronic Data Interchange and ever increasing Internet penetration globally, e-commerce has undergone explosive growth since the mid-90s. An important influence has been the need for producers to maximise efficiency in a very competitive global environment. This is being achieved through e-commerce by means of, for example, improved inventory/supply chain management, enhanced customer relationship management, automated payment systems etc. Governments in partnership with the private sector (industry associations, Chambers of Commerce) in several countries (US, EU, Sweden, Norway, Mexico, India, South Korea etc.) have aggressively supported the development of e-commerce through modernisation and expansion of telecommunications (land lines, cell phones, fiber optic cable) and information infrastructure (bandwidth, computers, Internet etc.) Several Governments (EU, India, Mexico) have also expanded substantially training opportunities in e-commerce development and management. These Governments have also put in place the necessary legal infrastructure to inspire greater trust on the part of participants in e-commerce. Growth of e-commerce has been propelled by several additional factors such as, for example, low start-up costs, short repayment periods, and, of course, access to a global market place, 24 hours a day, 7 days a week. The World Internet population in 2004 was estimated at approximately 800 mn.

"With a single personal computer, credit card, phone line, modem, color printer, Internet link, Web site and Federal Express delivery account, anyone could sit in the basement and start his or her own publishing house, rental outlet, catalogue business, global design or consulting firm, newspaper, advertising agency, distribution business, brokerage firm, gambling casino, video store, bank, bookstore, auto sales market or clothing showroom. And it could be done overnight at very low cost and the company could become a global competitor by the next morning."  

The race for global dominance in e-commerce is already on with several countries (for example, EU, India, UK, Singapore) making public their intention to be the world leader. In the Caribbean, while such aspirations are unrealistic, e-commerce has potentially a critical role to play in the Region’s development and hence the need to aggressively pursue appropriate action towards its establishment and expansion. The industry affords the Caribbean the opportunity to shift towards high value-added and niche products and thus overcome to some extent the disadvantage of high transport costs. In pursuit of e-commerce development, Caribbean Governments will have to pay particular attention to several key areas – such as the upgrading and extension of telecommunications and information infrastructure; substantial provision of training in e-commerce establishment and management; appropriate legal infrastructure (for example, laws legalising electronic signatures; security standards with respect to private information and financial transactions; consumer protection, etc.).

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42/ Economic Intelligence Unit Limited, 2005, p.85.
X  Threats to the Caribbean from Globalisation

While it can be rightly claimed that globalisation/trade liberalisation offers many opportunities, it also poses many threats. Some companies, industries and countries are taking advantage of the new economic opportunities. Others, however, are being severely challenged. The results are substantial numbers of jobs lost and a hike in poverty rates, at least in the short run, and maybe even in the long run, if the necessary structural adjustments are not undertaken (Winters, 2002). Within the Caribbean, the most notable example of this experience is the diminution of EU preferences and its impact on the banana and sugar industries. Other industries as well within the Region have suffered similarly from the inability to compete in export markets or with cheaper imports. This has been the experience, for example, of manufacturing in the Region which in many countries (Barbados, Jamaica, Trinidad and Tobago, St. Vincent and the Grenadines, Dominica) has stagnated or declined during the last decade and a half. In fact, the average real GDP growth for the Caribbean was 2.8% during 1990 to 2005 compared to growth of 3.5% for all small states (population equal to or less than 1.5 mn) and 4.2% for all developing countries, suggesting a decline in the Region’s global competitiveness.48/

According to Matteis (2004), an open economy is vulnerable to chronic balance of payments deficits due to the low elasticity of international demand for exports and high elasticity of demand imports (Matteis, 2004).49/ Given the increasing openness of Caribbean economies as a result of trade liberalisation, the expectation would be, all other things being equal, a worsening of the trade and current account of the balance of payments and increased pressure to borrow externally in the absence of an adequacy of autonomous external flows. The data indicate that for a sample of 13 Caribbean countries, the trade and current account deficits widened considerably in the current period of trade liberalisation.50/ During 1961-1970 and 1971-1980, the trade deficit (goods and non-factor services) averaged 3% and 6.8% of GDP respectively. During 1981-1990, 1991-2000 and 2001-2004, the average trade deficit widened to 11.8%, 9.1% and 12.5% of GDP respectively, between three to four times the deficit in 1961-1970. While exports of goods and services declined from an average of 51.4% of GDP (1961-1970) to 49.7% of GDP (2001-2004), imports of goods and services grew steadily from a mean of 51.4% of GDP (1961-1970) to 64.4% of GDP (2001-2004). The current account deficit averaged 8.7% of GDP during 1971-1980, improved moderately to 8.4% during 1981-1990 before deteriorating to 9.4% and 11.6% of GDP respectively for the periods 1991-2000 and 2001-2004 as the impact of trade liberalisation intensified. Trade liberalisation has therefore placed some pressure on the balance of payments, international reserves and exchange rates in the Caribbean and contributed to some of the massive accumulation of external debt witnessed since the latter half of the 90s in some Caribbean countries.

In the future there will be clearly other economic difficulties, other closures, other jobs lost as a result of the process of trade liberalisation/globalisation. In fact, the frequency with which this occurs is likely to intensify, given the increasingly dynamic nature of the international economic environment. Regional policy makers clearly will have to be much more strategic in their approach to the liberalisation of markets, paying particular attention to the pace of liberalisation (both as regards adjustment time and the rates of tariff reduction) while continuing simultaneously to press for the increased market access and the substantial external resources needed to allow them to integrate beneficially into the global economy.51/ According to Gonzales (2000),

50/ Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago.
51/ Given current difficulties in accessing resources to help the Caribbean and other small countries take advantage of new trading opportunities, there is some cogency in Soros’ (2002) argument about the need for an automatic mechanism for the transfer of resources from the winners to the losers in the globalisation process.
“Small states should have the flexibility not to make further commitments to reduce tariffs and bind at reduced rates beyond what is considered consistent with their development needs.”

Given the stubborn resistance of the US, EU and Japan to the liberalisation of the agriculture sector, one may argue that small, very vulnerable economies like those in the Caribbean are likely now to have somewhat greater leeway as regards the trade liberalisation process, helping them foremost in the attainment of growth and development goals, rather than engaging in blind adherence to trade liberalisation. In the absence of the appropriate conditions for success (adequate adjustment time, improved market access, substantial external resources etc.), trade liberalisation for many countries of the Region will continue to be a threat instead of the opportunity it is claimed to be.

In this context, there is need to support the losers, to ensure that they can re-enter the job market. An important requirement would be the provision of retraining opportunities together with financial support during the period of training. Caribbean Governments and the private sector need to ensure that current social protections and safety nets are upgraded and expanded to meet the substantial challenges posed by globalisation. Governments may also want to use tax breaks to companies and individuals for training/re-training as a means of sharing some of the adjustment costs which in some cases will be substantial. The upgrading of social protection and safety nets and retraining opportunities are critical to reducing political resistance to change and enhancing the speed of adjustment, a very important requirement in an increasingly dynamic environment. In this context significantly improved labour market information systems to ensure minimisation of the mismatch between skills demand and training are imperative. Greater movement of labour under the CARICOM Single Market and Economy (CSME) can also contribute to acceleration of the regional adjustment process.

Beyond the retraining initiatives enforced by adjustment requirements, governments and social partners need to understand and appreciate fully the substantial role that human resource development plays in the current economic environment. Knowledge and its applications through its impact on total factor productivity are today recognized as key factors in economic growth. As Farrell (1991) and many others have noted, human resource development has been a major contributor to the Asian miracle.

“...These states have all invested a great deal more than we have in training people, and building up cadres of sophisticated, highly skilled people. They have developed the techniques for rewarding, motivating and retaining these people. They have trained larger percentages of their people at tertiary level, and done so particularly in critical areas such as engineering, business management, and in advanced specialised areas related to particular industries. The quality of their training has also been generally high.”

Clearly, substantially greater attention has to be placed on upgrading the skills of the labour force and on continuous adult education. Places of work must be transformed into learning institutions.

In the New Economy, it is recognised internationally that application of ICTs is a major contributor to enhanced productivity and improved growth performance. Strong ICT capability can improve the Region’s competitiveness across a wide range of economic activity. Hence, knowledge in the use of these technologies must become a major priority for the Caribbean. Adequate exposure to and training in ICTs at all levels of the education system are critical for economic success. In fact, the Caribbean needs to mainstream the use of ICTs into the education process and into every facet of economic activity.

At a more general level, what is emerging in the new environment is the need for a more dynamic education system, one that responds much more quickly to the changing demands of a globalised labour

market. This means that the Region will have to constantly review curricula at all levels to determine the subject areas to which relatively greater emphasis must be given. In schools and universities, the current consensus is that much greater emphasis should be placed on mathematics and the sciences (computer sciences, engineering, biotechnology etc.) in order to adequately prepare students for the new workplace. Increasingly educators and representatives of the business sector in the US, for example, are advocating more rigorous programs of mathematics and science at the secondary and tertiary levels in order to maintain competitiveness in the global economy. Regional education institutions will need to introduce more frequently new subject areas, such as, for example, e-commerce, e-government and globalisation, reflective of the changing demands in the workplace. In addition to determining the particular subject emphases, education institutions will need to review more frequently the content of their subject areas in order to maintain relevance in a rapidly changing world economy.

In carrying out the latter exercises, it is important that educators dialogue and partner (through adjunct professorships, student attachments in the Caribbean and abroad etc.) on an ongoing basis with companies in the Region (or abroad, for example, Microsoft etc.) which clearly have first hand knowledge of the changing requirements of the workplace. Overall, the main conclusion is that the regional education system cannot be passive or lackadaisical in the face of a rapidly changing world economy. To do so will doom the Region to economic failure. Of course, radical transformation of the education sector will be costly and will likely require a reordering of spending priorities, new sources and strategies of financing.

At the same time that these increasing demands are being made on the public purse, there is the continuous threat of a loss of policy flexibility and indeed, possibly of policy autonomy in some areas, given the new orthodoxies by which economic performance is evaluated as a result of the substantial influence of IFIs, of rating agencies and the dominance of global financial markets. For example, an over-insistence on conservative fiscal policies can constrain the state in responding to short-term economic downturns, to the development of social infrastructure, poverty reduction initiatives or the imperatives of economic adjustment. The policy straitjacket can effectively weaken the ability of the state to implement important initiatives. While under substantial attack in the developing world, the Washington Consensus still remains the dominant paradigm used by the IFIs and by which economic policy is judged. Hence the struggle for policy space will be an enduring one. Policy flexibility, together with a significantly improved skills base, adequate social protection and safety nets are all important elements of the increased flexibility needed to engage successfully in a dynamic global economy. Courtney Blackman (2006), for example, attributes Barbadian economic performance to the pragmatism of the political directorate which has “separated reality from ideology” and has approached economic problems from “a Bridgetown, not a Washington perspective.” Accordingly, Barbados has not devalued nor floated its currency; has not fully liberalised its capital account and has not allowed the emergence of high real interest rates.

XI. Implications for CDB (policies and projects)

Several policy implications arise from the foregoing discussion as regards the CDB. Firstly, the CDB itself needs to understand the changing environment within which it operates and make the necessary adjustments. For example, CDB has to consider that because of financial globalisation, competition has intensified within the financial market in which it operates. Other players, notably regional and IFIs, have entered the development market niche in which it operates and have depressed the

54/ Microsoft has an (Microsoft Authorised) Academic Training Program. Some universities in the US are linking up with IBM and Microsoft so as to bring their training programs in computer technology up to date.

market shares of CDB and other development banks in the Region. Accordingly, while there continues to be a niche for development banking, there is instability in that corner of the market as a result of the new entrants. The challenge now is to recognise that instability and to go about developing new market niches, a not impossible task, given the emerging opportunities identified below.

At the same time that the CDB has to make the necessary internal changes to address competitiveness issues, it has also to turn its attention towards helping the BMCs confront the challenges and seize the opportunities arising from globalisation. For example, through diverse strategies (competitive lending terms, timely appraisals and approvals, focus on technological development issues in project formulation etc.) CDB needs to ensure that it contributes to making regional producers competitive in whatever way possible. It needs to evaluate routinely the impact of its projects on the competitiveness of regional producers.

It will have, for example, from time to time, help the BMCs guard policy space that may be vital for their development in the face of the tendency towards policy homogeneity that is often imposed from outside through the IFIs. It will also have to help countries improve national institutions to ensure better economic management so as to protect against the excesses of globalisation and to take advantage of the opportunities available. An area of immediate concern and attention ought to be the institutional infrastructure as regards fiscal, debt and public sector investment management. CDB ought also to pay increased attention to strengthening the statistical function within the BMCs, given the importance of transparency in the current environment and also the need for a stronger statistical base on which to formulate and implement policy. CDB may want to help expand or strengthen data collection in some cases such as regards income distribution, poverty, labour market information systems and ICT development (ICT connectivity indicators of connectivity, for example, PCs per 1,000, Internet users per 1,000 etc.).

As indicated in the previous discussion, the BMCs need urgently to expand and upgrade the level of training as a matter of priority as part of a strategic response to globalisation and also to achieve the level of competitiveness which a successful CSME will require. CDB can contribute to the regional dialogue which must take place in order to help countries make the best choices as regard education reform. A regional summit to discuss issues of educational emphasis, content, relevance, teacher training, capital infrastructure and other issues is vital. Increased funding in the education sector will be vital. CDB can therefore target the sector as part of its strategy for continued growth. In order to be effective in this endeavour, however, CDB must have or have access to the necessary expertise to understand the changing requirements in the sector and to craft projects accordingly.

The current economic environment also suggests that substantial attention be paid to the development of e-commerce. In this regard, the CDB should embark on a study to determine the potential for e-commerce development within the Region. This can be followed by workshops on e-commerce development and also, where possible, the provision of seed capital. Such initiative should be targeted particularly at small and medium-sized enterprises which account for an estimated 80% of enterprises in the Region and are likely to lack the resources necessary for training. For example, in Mexico, small, medium and micro enterprises are receiving from Government substantial support as regards training in e-commerce development. Encouraging where possible the incorporation of e-commerce into CDB projects is also an option worthy of pursuit. For example, small amounts of funding can be included into lines of credit explicitly for the development of e-commerce.

An important part of CDB’s support for its BMCs in the current globalisation era should be its contribution to stimulation of ICT development within the Region, given its importance to increased productivity, efficiency, competitiveness and growth. As part of this initiative, CDB should help to promote the development of e-government. The Bank can also by way of seminars disseminate
information, stimulate discussion and hopefully growth initiatives. Where possible, CDB can also use opportunities to incorporate ICT development into its projects. Additionally, by use of best practices in its own operations, the Bank can help to disseminate the use of ICT technology throughout the Region. In fact, CDB as a development institution should attempt to be an ICT leader within the Region, setting the standards for others to follow.

A very important component of globalisation is trade liberalisation which is impacting significantly on Caribbean economies. As trading economies, the Caribbean will have to ensure that it has the required infrastructure to facilitate quick processing and delivery of imports and also take full advantage of its trading opportunities. In this regard trade and transport facilitation are very important to the Region. The current environment demands increased trade efficiency. CDB can help to upgrade port (modernisation of ports and port handling facilities) and inland transport infrastructure (roads, railways etc.) in the Region so as to help countries take advantage of trade opportunities. Internationally, an increasing share of inland cargo is being moved by rail. Given current trends in oil prices, this is an important countervailing strategy. In the present very competitive environment, there is need to lower transaction costs (cost of inland transport, cargo handling costs), uncertainties and delays. Port productivity through computerisation is also a key issue. In this regard Jamaica has set a good example. According to UNCTAD (2005), countries with inadequate trade infrastructure are unlikely to attract investment.

While the foregoing discussion has focused on transport facilitation, CDB in fact has a much larger role to play in terms of export development assistance. It can do so by helping the Region in the formulation of trade policy. It can help the Region expand capacity in critical export industries; support the restructuring of ailing export industries; and provide funding for the establishment of new export industries. It has been argued that, given the importance of trade to the Region, trade facilitation should be the heart of the poverty reduction process.

XII. Conclusion

The CSME is meant to help the Region respond to the challenges of globalisation. It is important therefore that the Region understand thoroughly the character and dynamics of globalisation so as to ensure an appropriate response. Globalisation is not a stagnant process. It will keep evolving and so must the Regional response. While therefore focused on the CSME, the Region cannot lose sight of what is happening abroad. In fact, it is possible that some of the forces of globalisation will be so strong as to overwhelm completely regional initiatives. Additionally, it is important to emphasise that while the CSME may be considered the flagship or main response, it cannot be the sole response to a phenomenon as multifaceted and all embracing as globalisation.

56/ CDB may want to explore the possibility of transport sector program loans, preceded, of course, by a sector study. This is an approach that IDB, for example, uses very effectively to develop its project pipeline.
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