Chapter 11

The effects of globalization on CARICOM Caribbean economies

The recent globalization process poses significant challenges to small developing economies such as those in the Caribbean, which are already dealing with a number of issues in their pursuit of sustainable development. For Caribbean countries, the impact of globalization on trade has been reflected in increased liberalization and market-opening policies, especially during the latter part of the 1980s and the 1990s. Influenced by the paradigm shift in policies at the global level, Caribbean countries responded with a package of policies geared towards limiting the role of the State in the economy and reinvigorating stagnant production systems, which were reoriented towards export markets. Trade reforms were implemented and regional integration gained new impetus.

The reduction of trade barriers and the increasing openness of these economies have not led to a significant increase in intraregional trade or helped them to obtain a growing share of the extraregional export market; as a result, these countries' growth potential has been limited. Caribbean economies lack trade-product complementarity to foster intraregional trade and have not substantially changed the composition of their exports. In fact, they are dependent on preferential market access schemes granted by developed countries. In addition, Caribbean economies are characterized by differences in per capita income and stage of development that are hard to reconcile with deeper integration schemes.

Globalization has both fostered and brought to light a process of sectoral change in the composition of output in favour of the services sector and to the detriment of agriculture and manufacturing. This process accentuates the differences among Caribbean economies by creating a dual pattern of specialization, so that the countries are divided between service-based and goods-producing economies. It also highlights the dependence and vulnerability of these economies. While export growth has been subject to the vicissitudes of the agricultural and manufacturing sectors, import growth, driven mostly by consumer goods, has not receded. This has created a need to attract foreign capital to further stimulate the growth and development of sectors that have been successful under globalization. Trends in employment and migration have mimicked these changes in output and capital flows.

Within this scenario, in most countries macroeconomic policy has been geared towards maintaining macroeconomic stability by adhering to pegged or fixed exchange-rate regimes. The result is that inflation has been lowered to single-digit levels. In small open economies such as the Caribbean ones, which are constrained by their external sector, fiscal and monetary policy control absorption, which is the main adjustment lever. This strategy precludes the use of countercyclical fiscal policies. This may ultimately give rise to a tendency towards low growth levels and hinder the achievement of a full-employment potential level of output.

In this chapter, the impact of the globalization process on countries in the Caribbean community is discussed. The chapter comprises six sections. The first examines regional integration issues; the second focuses on structural change under globalization; and the third centres on the evolution of capital flows in the Caribbean. The fourth section deals with labour issues and migration; the fifth focuses on macroeconomic performance and policy; and the last section addresses sustainable development issue.

I. Caribbean integration as a positive response to globalization

During the 1990s, the trade regime in the Caribbean region underwent important changes, signaling a desire to move away from the inward-looking policies of the past towards a policy of open regionalism. This meant not only diversifying its trade links with extraregional trading partners,[1] but also, and most importantly, deepening and perfecting the current intraregional integration regime and institutions. As with other trade agreements that proliferated in the 1990s, the Caribbean response was aimed at guaranteeing and protecting regional access to markets in the face of a process of globalization which, in principle, was supposed to provide equal market access for all.

The subregion took steps to strengthen the Caribbean Community (CARICOM) integration grouping. In 1989, member States of the Community agreed "to advance beyond the Common Market[2] towards more comprehensive integration, recognizing that while it had achieved significant liberalization of the market for goods, the further development of the regional economy was constrained by restrictive Treaty provisions limiting the free movement of services and capital and skilled labour" (CARICOM, 2000a).

This was the genesis of the CARICOM Single Market and Economy (CSME). It was intended to achieve a much broader and deeper integration than had been possible under the existing treaty and, through the development of economies of scale, to increase the competitiveness of these countries in the global economy. The creation of CSME was also meant to enhance the

1 In the 1990s, CARICOM signed free trade agreements with Venezuela (1992), Colombia (1994) and the Dominican Republic (1998).

2 The treaty establishing CARICOM (1973) provided for the creation of two distinct entities: the Caribbean Community and the Common Market.

bargaining position of CARICOM countries in international negotiations such as those at the level of the World Trade Organization (WTO) and the future Free Trade Area of the Americas (FTAA).

Its objectives included the free movement of goods, services, capital and persons; more intensive coordination of macroeconomic policies and economic relations (see box 11.1); and the harmonization of laws governing trade and other economic activities within the common market area. It also provided for full application of the Common External Tariff (CET). This entailed simplifying the CET structure and reducing its level, with a view to diminishing its protectionist content. The structure of CET made a distinction between competing and non-competing imports, as well as between inputs, intermediate inputs and final goods, forming a hierarchy in which non-competing inputs bear the lowest tariff and competing goods the highest tariff.[3]

The CET structure comprised four tariff rates (0%, 5%, 10% and 15%) and a maximum tariff rate of 40% for primary agricultural products. The schedule for the phased reduction of the tariff was established in 1992 and provided for the reduction of tariff rates over a period of five years, with effect from January 1993 to June 1998. Tariff reform was also complemented by changes in quantitative measures.

Box 11.1

MACROECONOMIC CONVERGENCE IN CARICOM

At the regional level, CARICOM member States continue to strive to achieve macroeconomic convergence. Open regionalism, inspired largely by the European Union and the ECLAC model, has acted as a catalyst for macroeconomic surveillance. CARICOM has also put in place convergence criteria to facilitate macroeconomic coordination. These include advancing the Single Market and Economy, joint management of the adverse impacts of globalization and the creation of a monetary union (CARICOM 2000). The CARICOM criteria are modelled on those of the European Union. They aim to foster stability and consistency in policy making by targeting key macroeconomic variables. At a deeper level macroeconomic convergence is geared towards fiscal discipline, a favourable balance of payments, stable prices, stable and competitive exchange rates, and high levels of quality employment.

At present, the convergence criteria are based on the following performance indicators:

- A reserve-cover rule based on the maintenance of three months of import cover or 80% of demand liabilities, for a period of at least 12 months.
- An exchange-rate rule that stipulates the maintenance of a stable exchange rate within a band of 1.5% for a period of 36 months.
- An external-debt rule that requires members to maintain a debt-service ratio not exceeding 15%.

Given their persistent current imbalance, the exchange-rate rule has been the most difficult criterion for countries with flexible regimes to achieve. The Guyana dollar has been above the upper limit of the band since 1998, while the Jamaican dollar has met the band limits only once since 1995 (in 1997). Most countries have had more success with the other criteria. The average import cover surpassed the three-month target between 1995 and 1999, while the average debt-service ratio has stayed within the band of 15% of exports of goods and non-factor services.

A number of other variables, including growth rates, inflation, unemployment, fiscal balance ratios —overall fiscal balance as a percentage of GDP— and interest rates have also been monitored. The indicators show significant variability and volatility. Variability was highest in inflation rates, interest rates and growth rates. The high level of volatility and the different paces of structural adjustment indicate that the countries are unlikely to converge in the near future. Plans for monetary union may therefore have to be put on hold.

Source: CARICOM Secretariat (2001).

3 Competing goods are those in regard to which regional production satisfies 75% of regional demand.

Implementation of the CSME called for the creation of new institutions to manage the deepening of the integration process. The original treaty has therefore been amended by nine protocols affecting the structure of the organization, the movement of capital and labour, and policies regarding trade, agriculture and transport in the region.

The new integration framework maintains the recognition of differences in size and development contained in the treaty establishing the Caribbean Community (Treaty of Chaguaramas, 1973). The treaty's Common Market Annex differentiates between less developed countries (LDCs) and more developed countries (MDCs) (Barbados, Guyana, Jamaica and Trinidad and Tobago) among CARICOM members.

Its provisions consist of a special regime for LDCs so as to provide support and minimize the possible negative effects arising from the competition of MDCs. This takes the form of derogations from the obligations established by the original free trade agreement. These derogations include the right to apply duty and/or quota restrictions on certain products for a specified period and to maintain duties on specific goods for revenue purposes. They also allow for a longer period in which to comply with the implementation of CET and for lower value added requirements for certain products under the applicable rules of origin.

This renewed impetus to foster integration among Caribbean countries has not been totally successful. Progress towards regional integration has been slow and incomplete. Almost 10 years after the decision to implement the Common External Tariff, eight out of the 13 CARICOM members are in the final phase of implementation. Some non-tariff barriers, including the application of duties, licensing requirements and others, remain a pervasive feature of CARICOM. Quantitative restrictions and non-automatic licensing requirements on beverages and agricultural and food products have been also widely used. In addition, import quotas, import prohibitions, price controls, safeguards and countervailing measures are still in place.

Thus, CARICOM remains a fragile regional trade arrangement. Intraregional trade represents only 10% of total trade (see table 11.1), which is a lower share than in other regional trade agreements such as the Central American Common Market, the Andean Community or MERCOSUR. This underscores the fact that many economies produce a narrow range of commodities that are near-perfect substitutes and highlights the dependence of CARICOM on extraregional markets.

Intraregional trade is also highly concentrated. Trinidad and Tobago accounts for more than half of all intraregional imports, while other countries contribute a minimal amount to trade flows (see table 11.2). This ultimately means that the workings of an integration scheme depend on the willingness of a few members to maintain the existing arrangements.

In addition to a low degree of trade complementarity, part of the difficulty in fully implementing a single market and economy stems from the differences among CARICOM members. Caribbean countries exhibit disparities not only in terms of size, per capita income and stage of development, but also in terms of their production structures. Despite the fact that these differences are recognized in the Treaty of Chaguaramas and that the Caribbean countries support open integration schemes and market-oriented policies, the differences among them have not receded. These differences are a legacy of their history (Williams, 1984) and remain to this date a pervasive feature of their economies.

Table 11.1
CARICOM: EXPORTS AND MARKET SHARE, 1985-1999

Regional bloc	**CARICOM: Exports by regional trading bloc and market share**			
	1985	**1990**	**1995**	**1999**
NAFTA	47.4	48.1	50.1	47.4
Europe	18.8	17.4	16.6	16.3
CARICOM	7.7	7.9	9.1	9.7
Andean Community	5.9	6.7	6.2	8.7
MERCOSUR	2.3	3.9	2.4	1.9
CACM	1.1	0.7	0.8	1.1
Regional bloc	**CARICOM: Market share in other regional trading blocs**			
	1985	**1990**	**1995**	**1999**
NAFTA	0.71	0.43	0.32	0.26
Europe	0.15	0.13	0.12	0.10
Andean Community	0.40	0.96	0.41	0.30
MERCOSUR	0.30	0. 34	0.19	0.07
CACM	0.20	0.18	0.38	0.66

Source: ECLAC, *Competitive Analysis of Nations*, 2001 edition. Estimated on the basis of purchases of importing countries.

Table 11.2
CARICOM: DISTRIBUTION OF INTRAREGIONAL IMPORT MARKET SHARE, BY MEMBER COUNTRY, SELECTED YEARS BETWEEN 1985 AND 1999
(Percentages)

Country of origin	**1985**	**1990**	**1995**	**1999**
Trinidad and Tobago	2.81	4.08	5.32	5.49
Barbados	1.01	0.84	0.9	1.14
Suriname	0.06	0.14	0.42	0.81
Jamaica	1.3	1.15	0.79	0.7
Guyana	0.62	0.35	0.53	0.56
Saint Vincent and the Grenadines	0.73	0.35	0.3	0.27
Saint Lucia	0.26	0.27	0.21	0.19
Dominica	0.26	0.23	0.24	0.19
Belize	0.22	0.18	0.09	0.11
Grenada	0.13	0.13	0.09	0.1
Bahamas	0.13	0.14	0.09	0.04
Antigua and Barbuda	0.11	0.08	0.05	0.03
Saint Kitts and Nevis	0.07	0.04	0.03	0.01
Total	7.71	7.98	9.06	9.64

Source: ECLAC, *Competitive Analysis of Nations*, 2001 edition.

II. The process of structural change under globalization

The process of globalization has been a linchpin for the development of specific sectors but has not provided the means to overcome the weaknesses and stumbling blocks that have marked the development of some of the more traditional sectors. In this regard, it has reinforced a process of change in sectoral output and, in so doing, has made the existing disparities among CARICOM countries more visible and transparent.

During the 1990s, many Caribbean economies experienced a shift in the sectoral composition of output from agriculture and mining to the service sector, while the manufacturing sector remained stagnant. In terms of weighted averages, agriculture accounted for 13.5% of output in 1990 and 9.5% in 1999 (excluding Guyana).[4] For the same years, manufactures represented 12.7% and 11.6%. The service sector increased its contribution to output from 39.1% to 46.6% (see table 11.3).

In the case of the agricultural sector, this change in the composition of output has reflected a loss of competitiveness resulting from high production costs, external shocks and a heavy dependence on trade preferences granted by the European Union. High production costs impinge on profit margins, thereby reducing the incentive to expand production, while external shocks such as those caused by natural disasters have destroyed both infrastructure and crops in cultivated areas. Finally, Caribbean countries have remained dependent on preferential trade access schemes such as those granted by the Lomé Convention agreements and their successor, the Cotonou Agreement.[5] Preferential schemes that benefit traditional products —extended temporarily at the fourth WTO Ministerial Conference (9-13 November, 2001, Doha, Qatar)— may help to postpone an adjustment that is bound to occur under globalization.

The trends and performance of the banana sector during the 1990s illustrate some of the shortcomings affecting a traditional agricultural sector. Banana production and exports from Caribbean countries, particularly the Windward Islands (Dominica, Grenada, Saint Lucia, and Saint Vincent and the Grenadines), experienced a sharp decline.

At the beginning of the 1990s, banana production represented more than 12% of GDP for the Windward Islands; by 1999, the figure had decreased to 7%. In addition, between 1993 and 1999, the overall export volume declined by more than 50% (238,878 tons in 1993 and 130,419 tons in 1999). During the same period, the number of active growers declined from 24,111 to 11,665. The banana sector has also been affected by the WTO dispute concerning the legitimacy of the European Union import regime for bananas.[6]

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[4] The data on agriculture exclude Guyana. This country experienced a 300% increase in sugar cane production from 1990 to 2000, which, as shown in table 3, distorts the average for the region.

[5] The Lomé Convention provides the framework for trade and cooperation between the European Union and ACP (Asian, Caribbean and Pacific) States. The first Lomé Convention was signed in 1975 (with 45 ACP countries) following the accession of the United Kingdom to the European Community. Lomé II followed, in 1975 (with 58 ACP countries); Lomé III, in 1984 (with 65 ACP countries); and Lomé IV, in 1989 (with 68 countries in 1989 and 70 in 1995). Under Lomé IV, all CARICOM exports enter the European Union duty free, and the agreement also establishes special regimes for bananas, rum, beef and sugar. The Cotonou Agreement (Cotonou, Benin, 23 June 2000) replaces the Lomé Agreement and is valid for a period of 20 years, with periodic reviews every five years. The Cotonou Agreement overhauls trade relations between the European Community and ACP States.

[6] In 1997, Ecuador, Guatemala, Honduras, Mexico and the United States challenged the European Community regime for the import, sale and distribution of bananas that had been established in 1993. This regime consisted in the establishment of a tariff quota of 2 million tons allocated to Latin American countries and non-traditional ACP bananas. A solution was finally reached in 2001. The agreement provided for the adoption of a tariff-only regime by the European Union, to be implemented no later than 1 January 2006. In the interim, the regime to be applied consists of a two-phase quota scheme. At the fourth Ministerial Conference in Doha, WTO waivers were approved, permitting continued temporary tariff preferences for ACP imports. European Community Council Regulations No. 2587/2001 (19 December 2001); No. 896/2001 (May 2001). (WTO) WT/MIN(01)/15 and WT/MIN/(01)/15 (14 november, 2001).

Table 11.3
SECTORAL SHARE OF OUTPUT, 1990 AND 2000
(Percentages)

	Agriculture		**Mining**		**Manufacturing**		**Tourism**		**Financial services**		**Other services**	
	1990	**2000**	**1990**	**2000**	**1990**	**2000**	**1990**	**2000**	**1990**	**2000**	**1990**	**2000**
Antigua and Barbuda	4.2	4.9	2.0	2.2	3.4	2.8	14.4	14.4	7.2	11.2	18.9	25.1
Barbados	7.3	6.1	0.8	0.9	10.0	9.3	13.9	15.0	0.0	0.0	7.8	8.3
Belize	18.4	21.0	0.7	0.8	17.2	17.2	19.2	19.8	5.1	5.2	25.2	24.8
Dominica	25.0	18.2	0.8	0.8	7.1	7.2	2.1	2.4	11.3	13.2	16.2	20.9
Grenada	13.4	10.1	0.4	0.6	6.6	9.9	5.8	11.8	7.8	12.9	20.1	30.5
Guyana	23.6	35.4	9.5	10.9	11.1	11.7			6.0	5.7	8.7	8.5
Jamaica	6.2	7.1	8.7	9.1	21.1	15.8			9.2	14.9	9.4	16.9
Saint Kitts and Nevis	6.5	3.8	0.4	0.5	12.9	14.3	7.6	9.0	8.0	19.3	15.0	17.6
Saint Lucia	14.6	7.7	0.4	0.5	8.2	5.9	9.6	13.3	7.3	10.6	16.8	20.0
Saint Vincent and the Grenadines	21.1	12.0	0.3	0.3	8.5	5.8	2.2	2.5	7.6	9.6	20.5	25.2
Suriname	9.3	11.1	9.1	17.8	13.0	10.6	12.1	10.6	17.8	9.3	5.4	8.9
Trinidad and Tobago	1.9	1.8	57.7	56.5	4.5	6.0	5.7	7.3	5.0	4.7	5.9	6.2
Weighted average a/	17.2	18.6	39.4	36.8	12.7	11.6	39.1a/	46.6a/	.....	......	......	......
Weighted average for agriculture (excluding Guyana)	13.5	9.5	.....	.....	.....	......	......	.....	......	......	......	.....

Source: ECLAC, Selected statistical indicators of Caribbean countries, vol. 14 (LC/CAR/G.666), Port of Spain, ECLAC Subregional Headquarters for the Caribbean, November 2001.

Note: "Other services" includes communications and transport.

a/ The weighted average was estimated for agriculture, manufacturing and the service sector as a whole (including tourism, transport and Communications).

Other commodities, such as rice and sugar, have not been hit as hard as the banana sector. In the case of Guyana, sugar and rice have benefited from measures designed to improve the organization of production, infrastructure and access to better technology. In particular, sugar cane production increased its contribution to Guyana's GDP from 9% to 17% between 1990 and 2000.

In the 1990s, the manufacturing sector, with a few exceptions (Grenada and Saint Kitts and Nevis), declined or remained at a standstill (see table 11.3). This result is the outcome of the performance of its different components. In the Caribbean, the growth and development of manufacturing has been shaped by agricultural development (Guyana) and natural resource exploitation (Trinidad). It has also responded to the successes or failures of economic policies aimed at promoting inwardly or outwardly directed integration (Jamaica). Thus, the impact of globalization on the manufacturing sector is linked to its effect on agriculture, on natural resources or on the variables that determine the outcome of a given policy orientation.

While recent globalization has made the decline of agriculture and the associated manufacturing sectors visible, it has —given the quest for new sources of raw materials— favoured natural resource exploitation. Trinidad has traditionally benefited from the large amounts of foreign investment and resources that have been geared to the development and exploitation of its oil reserves. In the past five years, it has taken advantage of its market position and natural gas reserves to change the composition of its hydrocarbons sector. The production and utilization of natural gas has replaced that of crude oil. As a result of the growth and development of the natural resource industry, Trinidad has become a leading producer and exporter of methanol and ammonia. Guyana has attracted foreign direct investment (FDI) in timber production, as well as gold and diamond extraction. Although these activities have become significant foreign exchange earners, their value added content remains relatively low.

Besides agriculture- or natural-resource-based manufacturing, the 1990s witnessed the development of apparel manufacturing, albeit with declining success. A case in point is that of Jamaica. This country's manufacturing sector is the second-largest sector of economic activity following distribution. Manufacturing activities include the processing of sugar, beverages and tobacco, and the production of chemicals, metals and construction materials. Until the 1980s, the manufacturing sector had been promoted as an import-substituting sector. Under market-oriented structural adjustment programmes in the 1990s, Jamaica switched its trade orientation to focus on developing its textile, apparel and manufacturing and garment assembly industries. Most garment exports entered the United States market under the offshore assembly programme.

In spite of these efforts to change its trade orientation and the preferential access to the United States market granted by the Caribbean Basin Economic Recovery Act (CBERA, 1983), manufacturing has declined. In 1990, it represented 21% of GDP, but by 2000, it had fallen to 16%. This can be attributed partly to the North American Free Trade Agreement (NAFTA), which has given Mexico a competitive edge over the Caribbean countries.[7]

It is interesting to note that, unlike the Dominican Republic and several small Central American countries, CARICOM countries have not developed labour-intensive *maquila* industries on a large scale. This is so despite the fact that these countries benefit from the offshore assembly provisions of United States tariff code 9802, under which apparel exports assembled from fabric wholly made and cut in the United States enter that market at reduced duty. One major factor that may have contributed to the Dominican Republic's relative success in setting up *maquila* industries compared to the experience of CARICOM countries is the difference in factor (labour) endowment. The scarcity and relatively high cost of labour in many CARICOM countries as compared with the Dominican Republic may have made them less attractive destinations for efficiency-seeking FDI in the textile and apparel sectors. In addition, the tradition of strong labour unions in the CARICOM countries has deterred investment in labour-intensive industries, where low labour cost is critical to comparative advantage.

It has been argued that since the firms operating in the export processing zones (EPZs) are exempted from domestic laws, they tend to pay workers less than the minimum wage. This may have been the case in the past, particularly in the early 1980s, but the situation has changed with the passage of a new law requiring firms in the *maquila* sectors of EPZs to adhere to minimum wage laws. Indeed, evidence from Barbados, Dominica, Grenada, Saint Lucia, and Saint Vincent and the Grenadines indicates that wages in the EPZ apparel and textile segment have been relatively higher than in the rest of the industry.

Apart from variations in factor endowment and the cost of labour, the differences in how countries have responded to competition might also partly explain the differences among countries as regards their experience with EPZs. The Dominican Republic took strong measures to attract more foreign investment into the textile and apparel sectors by expanding its free trade zones, offering better tax incentives and providing manpower training programmes, as well as streamlining customs procedures. These measures have paid off in the form of a significant increase in apparel exports to the United States.

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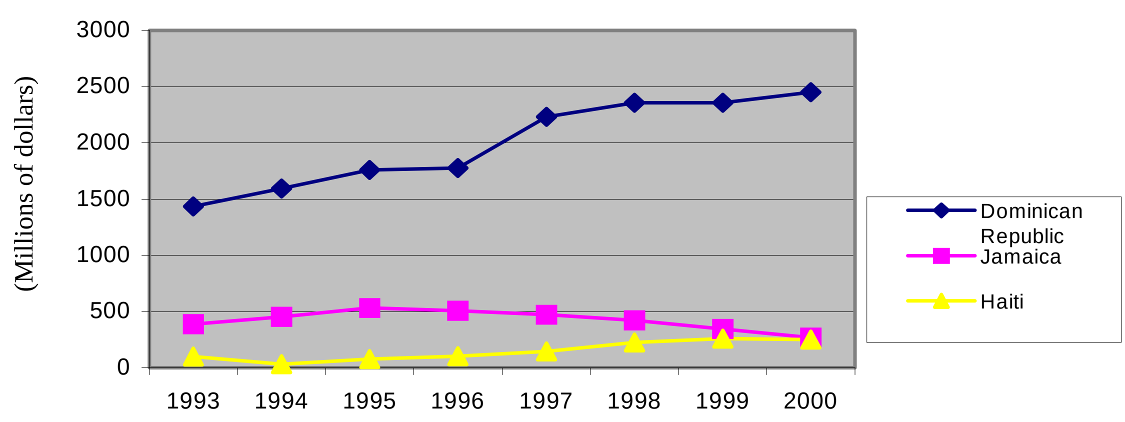
[7] For example, under NAFTA, Mexico's exports of apparel assembled from fabric wholly made and cut in the United States enjoy duty- and quota-free access to the United States. In contrast, although United States imports of apparel from the CBI countries made with United States-manufactured and cut fabric enjoy preferential quotas under guaranteed access levels (GALs), they are subject to duties on the value added. In addition to duty and quota preferences, Mexican apparel exporters also benefit from generous rules of origin.

As shown in figure 11.1, the Dominican Republic has been the Caribbean's largest exporter of textile and apparel products to the United States. Haiti's total apparel exports to the United States, although still a small percentage of total Caribbean apparel exports to that country, grew from US$ 98 million in 1993 to US$ 249 million in 2000. In contrast, Jamaica's apparel exports declined through the entire second half of the 1990s. After growing from US$ 388 million in 1993 to US$ 537 million in 1995, they began to fall, reaching a low of US$ 268 million in 2000.

Figure 11.1
UNITED STATES APPAREL IMPORTS FROM SELECTED CARIBBEAN COUNTRIES



Source: United States International Trade Commission (USITC), 2001.

The main destinations for Caribbean exports of goods are North America and Europe, with these markets accounting, in some cases, for more than 70% of total merchandise exports. Exports are concentrated in food products (20% of total merchandise exports), raw materials (17%), mineral fuels (17%), chemical products (12%), manufactured goods (8%) and beverages and tobacco (7%).[8] Owing to the difficulties faced by the agricultural and manufacturing sectors, the Caribbean Community's competitive edge in third markets was eroded during the 1990s. Its share of world exports of goods averaged 0.28% in 1985 and 0.13% in 1999. CARICOM lost market share in North America (from 0.71% in 1985 to 0.26% in 1999), Europe (from 0.15% in 1985 to 0.10% in 1999), the Andean Community (from 0.40% in 1985 to 0.30% in 1999) and MERCOSUR (from 0.30% in 1985 to 0.07% in 1999) (see table 11.1).

While agriculture declined and manufacturing remained stagnant, the service sector increased its relative contribution to GDP. In 2000, hotels and restaurants, which account for a portion of tourism services, represented, on average, 13% of GDP; financial services, 12%; and communications and transport, 17%.

Tourism services have become an increasingly important sector of the Caribbean economies. During 1990-2000, the subregion's number of visitors and total receipts from tourism increased, on average, by 71% and 59%, respectively. Visitor expenditures represent close to 35% of external earnings and 18% of GDP. Moreover, the Caribbean is the most important destination in the world for cruise ships, as it accounts for 50% of world cruise ship passengers (see table 11.4).

8 Estimates based on ECLAC, *Competitive Analysis of Nations*, 2001 edition.

Table 11.4
TOURIST ARRIVALS AND RECEIPTS IN SELECTED CARIBBEAN COUNTRIES, 1980-1998

Country	Number of tourist arrivals (1000)			Tourism receipts Millions (United States dollars)			Tourism earnings as % of total export earnings		
	1985	1990	1999	1985	1990	1999	1985	1990	1999
OECS countries									
Antigua and Barbuda	149	197	232	133	298	291	74.3	86.4	...
Dominica	21	45	74	9	20	49	18.1	19.4	27.5
Grenada	52	76	125	26	38	63	48.1	36	35.8
Montserrat	…	13	19	...	7	3			
Saint Kitts and Nevis	48	73	84	31	63	70	69.5	61.2	52.3
Saint Lucia	95	141	261	56	154	311	46.1	51.1	75.4
Saint Vincent and the Grenadines	42	54	68	23	56	77	27.8	37.7	45.1
Non-OECS CARICOM countries									
Bahamas	1,368	1,562	1,577	995	1,324	1,503	66	87.9	74.3
Barbados	359	432	515	309	494	677	38.9	59.1	50
Belize	93	88	300 a/	12	51	99 a/	7.9	19	28.1
Guyana	46	64	76 a/	18	27	60 a/	6.9	10.7	8.6
Jamaica	572	841	1,248	407	740	1,333	30	30.1	28.5
Suriname	32	28	55 a/	9	1	45 a/	2.5	0.2	...
Trinidad and Tobago	187	195	336	97	95	210	3.7	4.1	6.6

Source: World Tourism Organization (WTO), *Yearbook of Tourism Statistics, 2000 and 2001,* Madrid; ECLAC, *World Development Finance,* Santiago, Chile, 2000.

Note: "…" means no data are available.

a/ Data available for 1998.

Its importance notwithstanding, the tourism sector has not followed a balanced pattern of development, as its growth has not been homogeneous throughout the region. In particular, it has not opened up any major opportunities in the goods-producing economies (Guyana, Belize, Dominica and Trinidad and Tobago). Also, in the 1990s a combination of factors, including weakening competitiveness of Caribbean tourism, reluctance to undertake structural reforms and increasing external competition, eroded the comparative advantage of some of the tourism-based economies. This was particularly so in the smaller and more vulnerable countries of the Organization of Eastern Caribbean States (OECS), where the tourism industry has become somewhat saturated.

Some Caribbean countries have also sought to develop other service activities, particularly offshore banking and new enterprises in the field of information and communications technologies (ICT). Offshore banking has run into difficulties in recent years owing to money laundering and other illegal practices, and this has made a major restructuring effort necessary.[9] Barbados and Jamaica have had some success in ICT sectors, but they have also encountered difficulties because of the monopolistic provision of telecommunications services in the subregion and the recent worldwide volatility of the industry (see box 11.2).

[9] Money laundering and other illegal practices have recently dominated offshore banking issues. The Financial Action Task Force (FATF) estimates that the scale of money-laundering transactions is substantial in several countries of the region. Individual Caribbean countries continue to face mixed perceptions with respect to their efforts to combat money laundering and their use as clandestine tax havens. Currently, four countries in the subregion —Dominica, Grenada, Saint Kitts and Nevis, and Saint Vincent and the Grenadines— are still on the FATF blacklist; all of them belong to the Organization of Eastern Caribbean States (OECS). Meanwhile, Bahamas and the Cayman Islands were removed from the list after undertaking required reforms. In spite of the fact that some of its members are listed, the Caribbean Financial Action Task Force (CFATF) continues to work to upgrade supervision, regulation and disclosure requirements in its subregional jurisdictions.

Box 11.2
THE NEW TECHNOLOGIES IN THE CARIBBEAN

Countries in the region have been actively pursuing policies to attract investment to develop the ICT sector. Jamaica and Barbados are the leaders in this endeavour. Jamaica has developed a national strategic plan for information technology, which has as its main objectives the creation of a knowledge-based society and the development of IT firms. The government provides office facilities and infrastructure for IT firms, loans from a venture capital loan fund for ICT projects and telecommunications infrastructure, among other things. What it gains in return are jobs, skills training and rental income. Loans from the technology fund helped to establish three call centres in 2000. One of them, NetServ, collapsed in December 2001 (six months after it had started operations) after having received loans of about US$ 4 million from the government. The company has since been placed in receivership. The collapse of this call centre has raised the issue of the viability of the IT sector, which is associated with high risks and volatility.

The main constraints in developing high-value-added segments of the IT industry are the shortage of workers skilled in specific areas, such as software and data conversion; the shortage of workers that are multi-skilled in information and communications technologies; and the monopoly provision and resulting high cost of telecommunications services. The latter is particularly important because of the significant role that telecommunications infrastructure plays in facilitating economic development.

Telecommunications services in the region have been provided by monopolies, in particular Cable and Wireless (C&W). Caribbean governments entered into negotiations with this company to liberalize the telecommunications market. Jamaica concluded an agreement in 1999 which opened up value-added services to some competition while allowing the company to retain a monopoly in voice telephony for a fixed period. Cellular telephone services have expanded rapidly thanks to the competition allowed. The number of Internet service providers has also increased, but the majority of the population does not have access to the service because of relatively high rates. Access is provided on the basis of a monthly payment for a fixed number of hours of access rather than at a flat rate. Rates vary across the subregion but are generally beyond the reach of low-income earners, who make up the bulk of the population. In addition, the authorities do not regulate Internet access rates, although they do require the service providers to be licensed or registered.

Internet access is also constrained by the control exercised by telecommunications monopolies such as Cable & Wireless over connectivity and broadband access. Broadband has become necessary for data-intensive communications in which large data files have to be uploaded as well as downloaded by businesses. It is particularly important for firms engaged in e-commerce and those using CAD/CAM applications. E-commerce is an infant service industry in the Caribbean. There is evidence of business-to-consumer (B2C) service in the airline industry, for example, where electronic tickets are purchased online. Little information is available on business-to-business (B2B) e-commerce. However, monopoly provision of broadband access by C&W does not facilitate cheaper transaction costs through B2B commerce.

The OECS countries secured an agreement with C&W early in 2001 for the rapid liberalization of the telecommunications market. Liberalization will be phased in from April 2001 to October 2003, when full liberation is to be achieved. To win this concession, OECS governments had to agree to prevent bypassing of C&W network and to allow rebalancing of telephone rates to reflect the true cost of local calls. C&W will still provide the same networks and services in each country where it operates at present, albeit under non-exclusive licenses. Full competition is still at least a couple of years away, which means that development of high-value IT services will not be realized in the short or medium term.

The development of services has reinforced a pattern of dual trade specialization in the Caribbean economies consisting of goods-producing and service-based economies. The two types of economies have reacted differently to globalization. Generally, the service-based economies (including Antigua and Barbuda, the Bahamas, Barbados, Jamaica, Saint Lucia and Saint Kitts and Nevis) have shown a more robust response to globalization. This is reflected in the fact that, on average, their trade and growth performances have surpassed those of the goods-producing economies, with the exception of Trinidad and Tobago. The difference in performance is related to the international product cycle and the elasticity of demand for tourism services. Tourism services have remained on the upswing of the global product cycle for a longer time. In addition, tourism demand is income elastic, which allows countries to earn more relative to traditional commodities. On the other hand, the poor performance of agriculture and manufacturing has impacted negatively on export growth in several goods-producing economies.

At the same time, the patterns that determine the composition and level of imports have not changed. Imports are driven by consumer spending. In most countries, consumer goods account for more than 40% of total imports. Also, manufacturing and agriculture have a high import content.

This scenario has created not only a perpetual tendency towards balance-of-payments constraints but also a constant need to attract foreign capital and a continued dependence on official aid. This limits the manoeuvring capacity of the authorities while stimulating the growth of those activities that require foreign capital. In turn, this reinforces the present pattern of structural change and trade specialization.

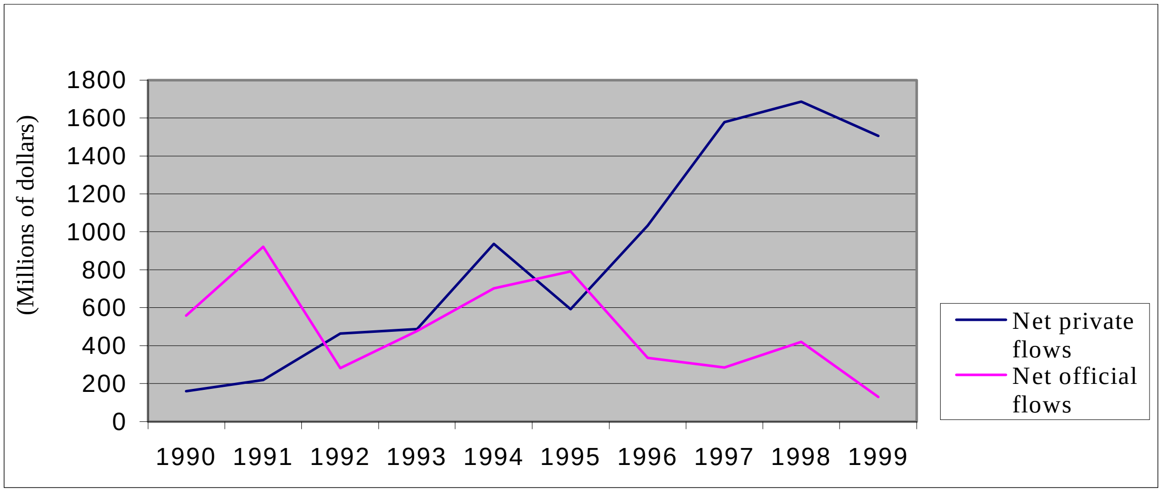
III. Capital flows

Structural reforms facilitated a significant increase in private capital flows to the Caribbean countries during the last decade, albeit at a slower pace than in the case of other developing countries. Total net financial flows to the Caribbean grew from US$ 722.7 million in 1990 to US$ 1.635 billion in 1998. A breakdown of financial flows into private and official flows shows two contrasting trends. The less developed countries in the subregion have had relatively little access to private international financial markets and have therefore tended to rely more on official and multilateral flows. However, the volume of these types of flows diminished considerably during the 1990s. Net official flows of resources, including grants, declined from US$ 561 million in 1990 to US$ 130.2 million in 1999.

There has been a greater reliance on private capital flows to finance development projects. Such flows increased fivefold, from US$ 161.6 million in 1990 to US$ 1.505 billion in 1999 (see figure 11.2). In terms of relative importance, private capital flows outpace official flows by a wide margin. This constitutes a remarkable shift, since in 1990 official flows were more than twice the size of private flows. The least developed countries, such as Haiti and Suriname and some smaller OECS countries, most notably Antigua and Barbuda and Dominica, have been unable to attract significant amounts of private flows because of their small size and limited resources (the OECS countries) or political instability (Haiti and Suriname). The combined effect of declining official flows and limited access to private international financial markets has affected the ability of smaller islands to finance viable development projects. It therefore seems reasonable to conclude that the benefits of financial globalization have been sharply skewed in favour of the larger, resource-based economies as well as those that are relatively more developed.

FDI is the main component of private capital flows in the Caribbean, but the subregion managed to attract only 3.7% of the total FDI received by the Latin American and Caribbean region. This is partly due to the high cost of doing business in the subregion, especially in relation to telecommunications and insurance (see table 11.5).

Figure 11.2
CAPITAL FLOWS TO THE CARIBBEAN, 1990-1999



Source: World Bank, *Global Development Finance,* Washington, D.C., various issues.

Table 11.5
NET INFLOWS OF FOREIGN DIRECT INVESTMENT, 1990–1999

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Antigua and Barbuda	61	55	20	15	25	31	19	28	26	12
Bahamas	-17	-1	40	11	22	10	11	17	147	145
Barbados	11	7	14	9	13	12	22	18	16	15
Belize	17	14	16	9	15	21	17	12	18	-7
Dominica	13	15	21	13	23	54	18	20	11	13
Grenada	13	15	23	20	19	20	18	22	51	43
Guyana	8	13	147	70	107	74	81	90	47	48
Haiti		-2	-2	-2	-3	7	4	5	11	30
Jamaica	138	133	142	78	170	245	273	137	369	524
Saint Kitts and Nevis	49	21	13	14	15	20	17	25	34	77
Saint Lucia	45	58	41	34	32	30	23	45	84	87
Saint Vincent and the Grenadines	8	9	15	31	47	31	18	42	28	25
Suriname	-77	19	-54	-47	-30	-21	7	-9	9	5
Trinidad and Tobago	109	169	178	379	516	299	320	1,000	730	633
Total	378	525	614	634	971	833	848	1,452	1,581	1,650

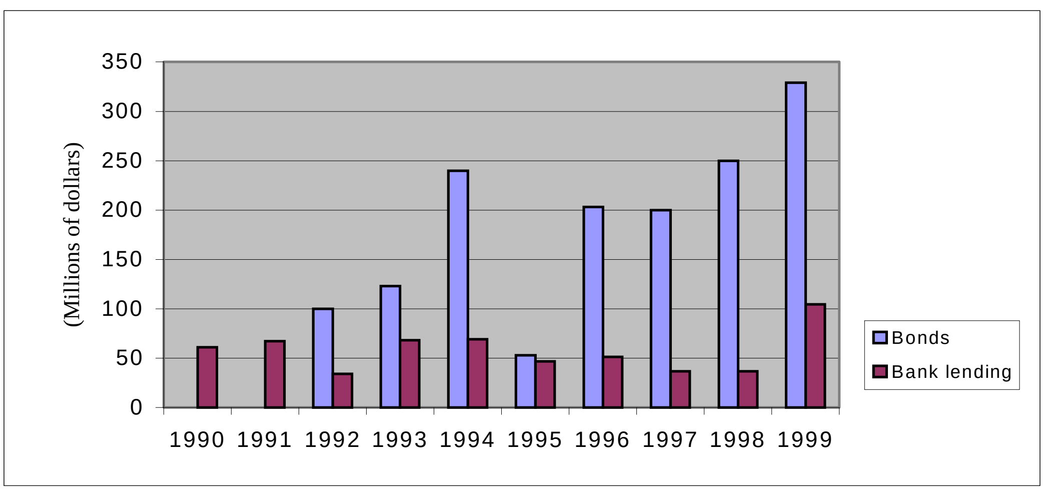
Source: ECLAC, *Foreign Investment in Latin America and the Caribbean*, Santiago, Chile, various years.

During the 1990s, net FDI in the subregion grew significantly, from U$ 378 million in 1990 to US$ 1.65 billion in 1999. However, these aggregate figures mask significant variations among countries. The bulk of FDI went to Trinidad and Tobago and to Jamaica, with these two countries accounting for nearly 69% of total FDI flows. The lion's share of FDI received by Trinidad and Tobago has been channelled into the petroleum industry (exploration, production and refining facilities and petrochemical firms) (ECLAC, 1998d and 1999a). Transnational corporations such as BP Amoco, British Gas, Enron and the Spanish firm Repsol have become more active in the natural gas industry in Trinidad and Tobago (ECLAC, 2001h). FDI flows to Jamaica have been channelled into light manufacturing activities such as textiles and apparel and, more recently, into the tourism industry. FDI flows to Guyana have also picked up considerably since 1992. The smaller, service-oriented OECS economies have also attracted significant amounts of FDI relative to their size. Between them, they accounted for an average of 18% of FDI flows to the subregion during the 1990s.

Other components of private flows (equity portfolios, bonds and commercial bank lending) have been of less significance to the Caribbean countries. However, in recent years there has been a greater reliance on bonds to finance development projects. Since 1992, a number of Caribbean countries, notably Trinidad and Tobago, Jamaica and Barbados, have issued international bonds either for the first time or after having returned to the bond market after many years' absence. One of the factors that helped make this possible was the improved credit ratings of these countries issued by international agencies such as Standard & Poor and Moody's Investor Services.

Commercial bank lending has not been a significant component of capital flows to the Caribbean since the debt crisis of the 1980s. These flows have exhibited erratic patterns, rising from US$ 61.2 million in 1990 to US$ 69.3 million in 1994, falling to US$ 51.5 million in 1995 and rising again to US$ 104.5 million in 1999 (see figure 11.3). The trend in bank lending has also been concentrated in a very few markets, most notably Jamaica, Belize and, to a lesser extent, Barbados and Trinidad and Tobago.

Figure 11.3
INTERNATIONAL BOND ISSUES AND BANK LENDING



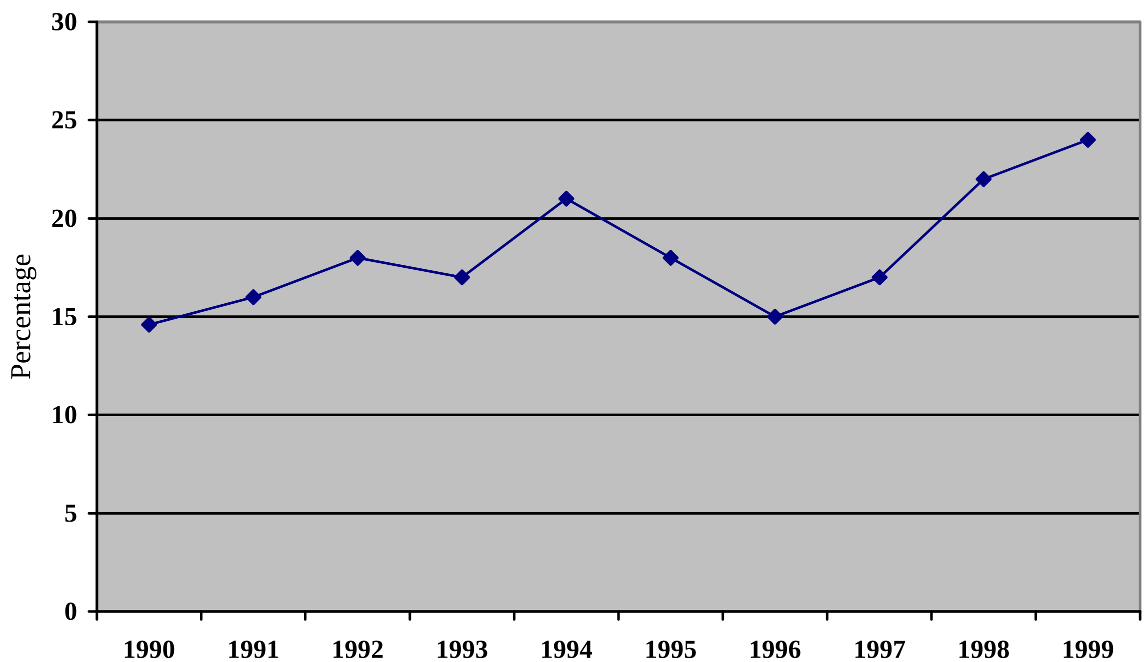
Source: World Bank, *Global Development Finance*, Washington, D.C., various issues.

The shallowness of capital and equity markets in the smaller countries, which have few functioning stock exchanges, may have precluded the use of bonds and equity flows to finance private investment. To address this problem, Caribbean countries have undertaken a number of initiatives aimed at developing and deepening capital markets. One such initiative was the introduction of cross-listing and trading of securities, especially among the stock exchanges of Barbados, Jamaica, and Trinidad and Tobago. However, this is still at an early stage of development.

The effect of capital flows, especially of FDI, on the Caribbean economies has varied, depending on the mode of investment (mergers and acquisitions or greenfield projects) and, more importantly, on the differences in how countries have managed their integration into international financial markets. Greenfield investment has been the dominant mode of FDI in the Caribbean. However, acquisitions have become significant since the early 1990s owing to the privatization of State-owned entities in areas such as banking and finance, public utilities, transportation, and manufacturing industries such as sugar and cement.

One of the most important contributions made by capital flows, particularly FDI, has been in the financing of domestic investment. Caribbean economies have traditionally relied on foreign capital flows to close both foreign-exchange and savings-investment gaps. The importance of FDI in domestic investment, as measured by the ratio of FDI to gross fixed capital formation, increased significantly during the 1990s (see figure 11.4).

Figure 11.4
FDI AS A PERCENTAGE OF GROSS DOMESTIC FIXED CAPITAL FORMATION FOR THE CARIBBEAN, 1990-1999
(Averages)

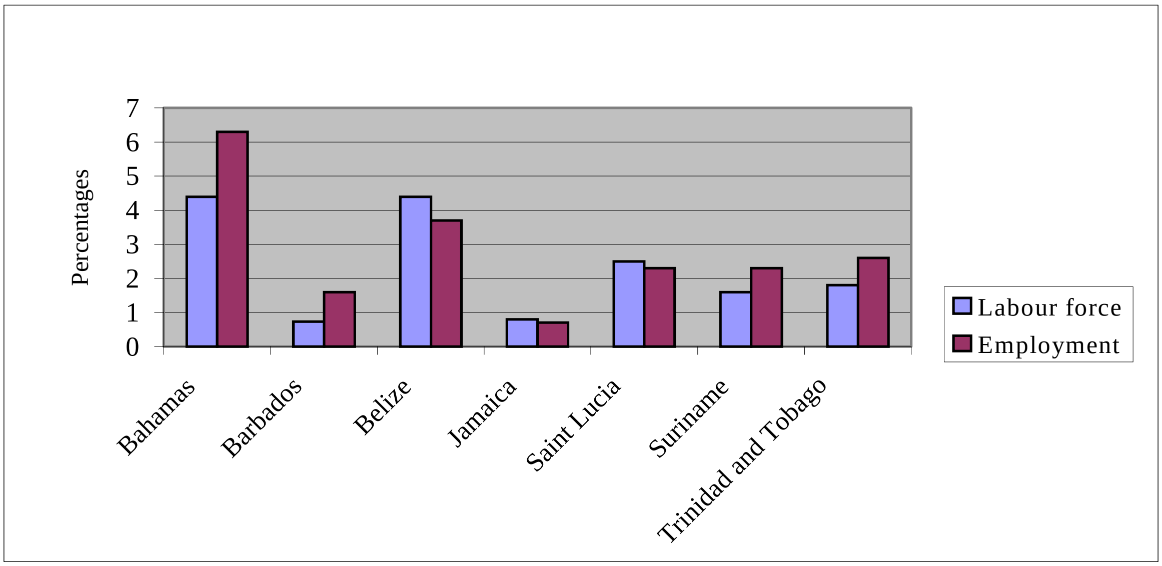


Source: ECLAC on the basis of national data.

IV. Labour issues and migration

In general terms, during the 1990s unemployment rates remained high, although they did fall slightly, from an average of 15% to 12% (see figure 11.5). At a sectoral level, the effects of globalization on employment have stemmed from changes in the composition of output and trends in intra- and extraregional investment flows.

Figure 11.5
EMPLOYMENT AND LABOUR FORCE GROWTH
(Averages, 1991-1997)



Source: ILO Caribbean Office, *Caribbean Statistical Digest,* various issues.

Employment in agriculture has decreased. The uncertainties surrounding the European Union banana regime have also been felt in the banana-producing countries of the Organization of Eastern Caribbean States (OECS). The statistics point to significant job losses. For example, in the Windward Islands, employment in the banana industry declined from 56,428 workers in 1990 to 35,796 workers in 1998 (Sandiford, 2000). The anticipated erosion of trade preferences as a result of the implementation of the Cotonou Agreement and the opening up of the European Union banana market to other countries on a first-come, first-served basis could adversely affect growth and employment in the banana-exporting countries.

The absolute share of the manufacturing sector in employment has declined in virtually all the countries except Belize and Grenada (see table 11.6). In Barbados, Jamaica, and Trinidad and Tobago, this sector bore the brunt of import competition, since these countries' industries developed on the basis of import-substituting industrialization and were unable to compete with cheaper imported manufactured products. The sector experienced negative growth, contraction of employment and a decline in its contribution to overall employment and national output. Of the three countries, the impact seems to have been more pronounced in Jamaica, where average annual growth in employment contracted by 2.4%. The impact of globalization on the manufacturing sector was aggravated by NAFTA, which has eroded the competitive position of the Caribbean countries vis-à-vis Mexico.

Table 11.6
GROWTH OF MANUFACTURING EMPLOYMENT, 1992-1997

Country	Percentage change in share of sector, 1992-1997	Average annual growth, 1992-1997	Shift in percentage of total employment, 1997
Antigua and Barbuda	….	….	….
Barbados	-8.6	0.2	-0.1
Belize	1.7	4.4	1.5
Dominica	….	….	….
Grenada	7.8	0.0	3.1
Guyana	….	….	….
Jamaica	-16.5	-2.4	-1.4
Saint Kitts and Nevis	….	….	….
Saint Lucia	-3.1	0.0	-0.4
Saint Vincent and the Grenadines	….	….	….
Suriname	-21.4	-4.0	-1.6
Trinidad and Tobago	-2.1	2.2	1.0

Source: ILO Caribbean Office, *Globalisation and Employment in the Caribbean: A Review of Labour Market Policies and Development in the 1990s in Light of the Commitments of the World Summit for Social Development*, August 1999.

Note: "…" means no *data* are available. Data for Trinidad and Tobago exclude sugar and oil refining.

FDI in the services sectors in Barbados, Jamaica and the OECS countries has contributed to job creation. The tourism industry has emerged as one of the largest employers in many Caribbean countries. However, the positive contribution of FDI to job creation may have been offset by job losses in the manufacturing sector, especially in Jamaica, owing to trade liberalization. As noted earlier, manufactured exports, particularly garments, have been declining since the entry into force of NAFTA. The impact of NAFTA on manufactured exports from Jamaica is clearly illustrated by the fact that employment in EPZs in Jamaica rose from a mere 960 workers in 1983, when the free zones were established, to 14,220 in 1992.

However, total employment has been declining since then, and it is estimated that the total had fallen to around 6,000 workers by 1998 (UNCTAD, 1999a; Willmore, 1993). The garment industry has been hit the hardest by NAFTA. The number of workers employed in the industry grew from 6,191 in 1982 to 28,700 in 1992 but fell sharply, to less than 6,000, in 1997-1998.

To mitigate the impact of liberalization on labour, Caribbean countries have introduced educational and skills-training programmes to enable workers to meet the demands of the constantly changing economic environment. In addition, technical and vocational institutions have been restructured to make them more relevant to the needs of labour markets. Some countries, notably Barbados, have expanded the curricula at the secondary level to offer a wide range of courses in business studies, information technology, clothing and textiles, and industrial arts.

In recognition of the important role that small and medium-sized enterprises play in creating jobs, many countries have, in partnership with international and multilateral institutions, introduced a myriad of programmes and mechanisms, including tax breaks and subsidized credit, aimed at promoting the development of these enterprises. Some countries have also introduced measures to increase labour-market flexibility.

At the CARICOM level, many countries have also signed Protocol II to the Treaty of Chaguaramas, which seeks to establish free movement of labour, capital and businesses. Some CARICOM businesses have been establishing a presence in other CARICOM countries as well. For example, the Jamaican hotel chain, Sandals Resorts, has opened hotels in a several other

CARICOM countries. However, labour movements are still limited because many countries still have trepidations about allowing the free movement of people within the subregion.[10]

Intraregional labour flows have, nonetheless, been growing within the last decade, although there is limited information on their volume. Migrant labour tends to flow from lower-income to higher-income countries (for example, from Haiti to the Bahamas and the Dominican Republic and from Guyana to Trinidad and Tobago). Migrant workers are mainly unskilled agricultural workers or workers in construction and service industries. Although they can have a positive impact on countries experiencing economic booms, such as Trinidad and Tobago, they pose economic as well as political problems for small and fragile economies such as Antigua and Barbuda, where about 30% of the labour force is made up of citizens of other Caribbean countries.

Extraregional migration flows have been motivated by other considerations and comprise a larger share of skilled workers. These flows are determined by push factors in individual Caribbean countries, such as economic decline, political instability and increasing crime levels, and by pull factors in developed countries, particularly increased demand for skilled labour. The pull factors in developed countries are largely generated by the ageing of the workforce and shortages of skilled workers, such as teachers and nurses, and by the rapid growth of information technology (IT) industries, as well as by the use of new technologies in the so-called “old-economy industries”. Developed countries, such as Canada, the United Kingdom and the United States, have embarked on recruitment drives in response to the shortage of skilled workers in those countries. For example, it is estimated that the United States will need about 2 million teachers by the end of the present decade. The United Kingdom is currently in need of about 26,000 teachers; hence the active recruitment of teachers abroad. Teachers in the Caribbean, especially in Jamaica and in Trinidad and Tobago, have been taking advantage of this opening for prospective migrants, giving rise to fears of adverse impacts on the education system. Similar concerns have been raised in relation to the recruitment of nurses from the region. Jamaica, however, has responded to the situation by undertaking its own recruitment of nurses and teachers from developing countries such as Cuba.

The corollary to intraregional and extraregional flows is return migration, which has been fostered by the information and communications revolution. So far, however, there is only anecdotal evidence of such flows. Professionals, in particular IT specialists who studied abroad and joined the labour force in their host countries, have been returning to the Caribbean either to take up jobs with transnational corporations or to establish their own businesses. Returning migrants have also established consultancies, in some cases in partnership with residents, to cater to the growing needs of business as well as government for high-value services. This is perhaps truer of the service-based economies, such as those in the OECS and the Bahamas, as well as Jamaica, where the services industry, especially telecommunications, has been growing significantly since the early 1990s. Other Caribbean nationals who have completed their working life abroad are also returning to set up businesses or retire in the region.

Return migration is not peculiar to this phase of globalization. It was encouraged in the 1970s by the Governments of Jamaica and Guyana, which provided incentives to entice qualified nationals to return to their home countries to fill vacancies in the public sector. The difference now is that the market is providing the incentives, and the return migrants are pursuing job opportunities in the private sector. Be that as it may, governments are facilitating return migration, through legislation, as in Saint Kitts and Nevis, and through community projects, as in Jamaica.

[10] Few countries have enforced the provision allowing for exemption of work-permit requirements for graduates of tertiary institutions in the region. The Bahamas, which is not a member of the Caribbean Common Market, is reluctant to join the CARICOM Single Market and Economy because of the implications that free movement of labour would have for its economy. A similar concern would also be applicable to the small countries in the Eastern Caribbean.

A major effect of labour migration has been the growing role of remittances. These flows have been significant in Haiti, Jamaica and the OECS countries, with the exception of Antigua and Barbuda. This has been facilitated by the development of better and more efficient intermediation channels, such as electronic funds transfers. Remittances have grown in both absolute and relative terms. By 1999, such flows represented 17% of Haiti's GDP and 11.7% of Jamaica's. Remittances have also been significant in Grenada and in Saint Kitts and Nevis (ECLAC, 1998f). Although remittances tend to be used largely for consumption purposes, there is evidence that they are also being used to finance housing and small businesses (ECLAC, 2000i).

V. Globalization and macroeconomic policy and performance

Sharp macroeconomic imbalances and, in particular, balance-of-payments difficulties and declining output growth rates led the larger Caribbean countries (Barbados, Guyana, Jamaica and Trinidad and Tobago)[11] to undertake market-oriented reforms in the 1990s. These included fiscal and monetary policy measures aimed at scaling back the role of government in economic activity and giving greater recognition to the role of prices in a freer market.

Reform-oriented Caribbean countries implemented fiscal policy reforms designed to reduce expenditures and increase revenues. At first, the decline in expenditure was mainly achieved through a decrease in capital investment, but it later took the form of a freeze on the wages of public employees, job cuts in the public sector and a reduction in government transfers to public enterprises, including public utilities. Economic reforms also included a tightening of monetary policies, mainly through decreases in public-sector credit, the abolition of controls on interest rates and the phasing out of interest-rate subsidies. Exchange-rate policies were also part of the announced reform programmes; they were generally liberalized *de jure*, and exchange controls were phased out. Other aspects of these economic reform programmes included policies designed to facilitate FDI. Trade reforms included tariff reductions and the elimination of quantitative restrictions.

Smaller Caribbean countries (Antigua and Barbuda, Dominica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Anguilla and Montserrat) continued to apply the policies agreed upon at the time of the formation of the Eastern Caribbean Currency Union and the parallel creation of the Eastern Caribbean Central Bank (1983).

Growth rates were lower in the 1990s than in the previous two decades, with average growth in real per capita GDP declining from 1.6% in the 1980s to 1.4% in the 1990s. Average growth fell in eight of the 13 countries for which comparative data were available (table 11.7).

The Bahamas and Barbados were able to maintain their lead in growth performance within the region. In contrast, the decline was particularly evident in the OECS countries (a relative success story of the 1980s),[12] with only Dominica managing to achieve a higher growth rate in the 1990s. Among the other OECS countries, growth was down sharply in Antigua and Barbuda, Saint Lucia, and Saint Kitts and Nevis.

The growth performance of the larger economies was mixed. Guyana and Trinidad and Tobago and, to a lesser extent, Barbados recorded an important upturn in growth. On the other hand, growth slowed in Jamaica and, more slightly, in Belize. The reduction in GDP growth was accompanied by an increase in its volatility and divergences among Caribbean countries. As measured by the standard deviation, volatility increased from 3.1 in the 1980s to 3.3 in the 1990s.

[11] See Hilaire (2000).

[12] OECS countries had posted significant income growth in the 1980s as a result of sound macroeconomic management, favourable commodity export flows and prices, and foreign capital inflows.

Table 11.7
CARIBBEAN COUNTRIES: GROWTH IN REAL GDP, 1991-2000

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1981-1990	1991-2000
Anguilla	-3.6	7.1	7.5	7.1	-4.2	3.5	9.2	5.2	8.7	-0.7	…	4.0
Antigua and Barbuda	2.7	0.8	5.1	6.2	-5.0	6.1	5.6	3.9	4.6	3.1	6.1	3.3
Aruba	5.0	4.0	5.0	5.9	5.7	3.9	4.2	2.8			…	4.6
Bahamas	-4.0	-2.0	1.7	0.9	0.3	4.2	3.3	3.0	6.0	4.9	…	1.8
Barbados	-4.1	-5.7	1.0	3.8	2.9	4.1	2.6	4.8	2.4	3.7	1.1	1.6
Belize	3.1	9.5	4.3	1.5	3.9	1.5	4.0	1.3	6.4	8.2	4.5	4.4
Dominica	2.2	2.7	1.8	2.2	1.6	3.0	2.2	2.3	0.9	0.2	4.4	1.9
Grenada	3.6	1.1	-1.3	3.3	3.2	2.9	4.2	7.3	7.5	6.4	3.5	3.8
Guyana	6.0	7.8	8.2	8.5	5.0	7.9	6.2	-1.7	3.0	3.0	-2.9	5.4
Haiti	0.3	-13.2	-2.4	-8.3	4.4	2.7	1.4	3.1	2.3	1.0	-0.5	-0.9
Jamaica	0.7	1.5	1.5	1.0	0.7	-1.4	-2.1	-0.7	-0.4	0.8	2.2	0.2
Montserrat	-20.9	2.7	2.5	0.9	-7.6	-21.5	-20.0	-8.6	-12.8	-1.9	…	-8.7
Saint Kitts and Nevis	2.3	3.1	5.4	5.4	3.5	5.9	7.3	1.0	3.7	7.5	5.8	4.5
Saint Lucia	0.0	7.4	-1.6	4.6	1.7	1.4	0.6	2.7	3.5	0.7	6.8	2.1
Saint Vincent and the Grenadines	1.4	6.9	1.8	-2.9	8.3	1.2	3.1	5.7	4.2	2.1	6.5	3.2
Suriname	3.2	-1.8	-11.6	-0.7	0.7	13.0	5.7	10.7	-4.1	-5.5	0.5	1.0
Trinidad and Tobago	2.7	-1.6	-1.5	3.6	4.0	3.8	3.1	4.4	5.1	4.0	-2.6	2.8

Source: ECLAC, based on national data.

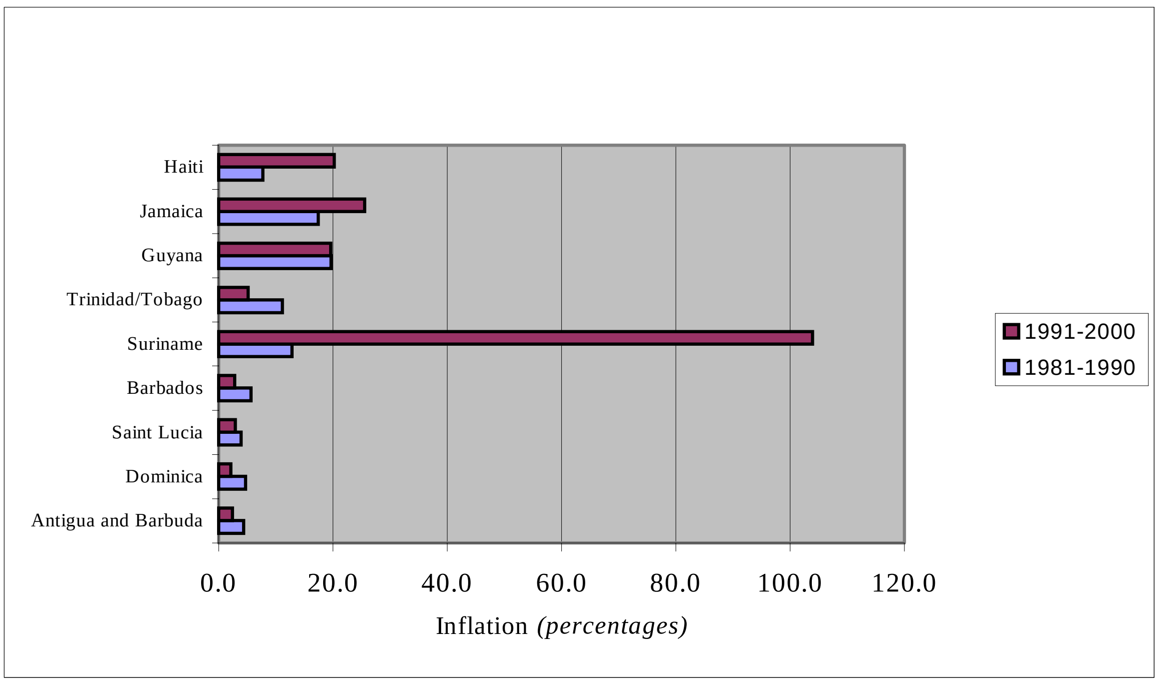
Macroeconomic stabilization and structural adjustment were not associated with any significant improvement in saving on investment in the region. Between 1990 and 1999, the region's persistent external current-account deficit was reflected in a saving-investment gap of about 10% of GDP. Saving averaged 19% of GDP, while investment averaged 29%. The savings ratio declined in Jamaica in the late 1990s, partly as a result of the crisis in the financial sector, but it remained relatively stable in most of the other countries. Investment rebounded strongly in Trinidad and Tobago in the late 1990s thanks to major projects in the petrochemicals sector. In spite of the financial difficulties experienced in the latter part of the decade, investment remained vibrant in Jamaica, reflecting outlays mainly in tourism and enclave manufacturing. Investment ratios remained relatively strong in Barbados, Guyana and the OECS countries. The recovery of investment in Guyana, in particular, was linked to adjustment and reform efforts and the renewed confidence of foreign investors. Gross domestic investment in Guyana increased from 22% of GDP in 1989 to 28.7% in 1998.

Financial liberalization and deregulation in the presence of weak financial regulation and supervision proved dangerous in many developing countries. In the case of the Caribbean, Jamaica's financial crisis during the second half of the 1990s illustrates this danger. As a result of the raped liberalization and deregulation of the domestic economy, financial institutions proliferated. Taking advantage of lax supervisory and regulatory standards, financial institutions started to offer high interest rates to attract deposits, using the proceeds to expand lending and engage in risk activities. Poor planning, improper risk assessment, mismatching of assets and liabilities, and non-transparent lending to interconnected entities contributed to weak loan portfolios. This, coupled with high interest rates, meant that many financial institutions faced a high percentage of non-performing loans and ultimately a liquidity crisis. This prompted the Jamaican Government to set up a financial adjustment company (FINSAC) to examine and address solvency and liquidity problems in the financial sector. The economic and social cost of the financial crisis has been significant. However, the lessons learned should go a long way towards helping to guard against a recurrence of such crises.

In contrast to their weak growth performance, the economies of the region have exhibited, for the most part, a stable price environment. To a large extent, in most economies price stability is the outcome of a commitment to fixed exchange rates[13] which, in conjunction with a favourable external environment, have allowed the Caribbean economies to reduce inflation rates to single-digit levels.

Average inflation fell in most countries during the 1990s. The main exceptions were Suriname, which had high inflation rates in the mid-1990s, and Jamaica, where inflation was relatively high until 1997. Many countries, having had painful experiences with fiscal deficits and the monetization of those deficits, strengthened their fiscal and monetary management in an effort to squeeze inflation out of the system. Average inflation declined by almost half in the OECS countries, to 2.6%, while for the other countries, with the exception of Suriname (see figure 11.6), average inflation had contracted from 11.1% during the 1980s to 9.5% in 1999.

Figure 11.6
AVERAGE INFLATION RATES FOR SELECTED CARIBBEAN COUNTRIES, 1981-2000



Source: ECLAC on the basis of national data.

[13] There are four exchange-rate regimes in the Caribbean. The first consists of a monetary union with a fixed exchange rate against the dollar. This exchange-rate regime was adopted by the small economies in the Caribbean (Antigua and Barbuda, Dominica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Anguilla and Montserrat), following the formation of the Eastern Caribbean Currency Union and the parallel creation of the Eastern Caribbean Central Bank (1983). The second exchange-rate regime, applied by Bahamas, Barbados and Belize, consists of a nationally determined exchange rate peg to the United States dollar. The third type of exchange-rate regime is a floating exchange rate, which is in force in Guyana, Jamaica, and Trinidad and Tobago. The fourth type is a dual exchange-rate regime, which is applied, for example, by Suriname. However, in practice, most countries peg their exchange rates, given the negligible variability of their nominal exchange rates.

While the commitment to fixed or pegged exchange rates has resulted in price stability, it has also led to real currency appreciation. Combined with poor export growth and a strong import performance, this has resulted in persistent balance-of-payments problems, underscoring the need for high interest rates and foreign capital inflows.

In addition, the small size of these economies and the nature of their exchange-rate regimes do not provide any scope for price variations, thus placing the weight of adjustment on income effects. This has important implications for fiscal policy, employment and growth. In particular, a macroeconomic framework such as this precludes a countercyclical use of fiscal policy.

In the long run, it also curbs the growth potential of these economies. Simply put, this is because this fiscal stance, combined with high interest rates and consumption-driven imports, limits the extent to which Caribbean economies can develop human and physical infrastructure.

Import liberalization has strong fiscal effects for those countries that are highly dependent on import revenues. In some of the OECS countries, taxes on international trade account for up to 60% of government revenue. Tax reform would pose a major challenge in countries such as Antigua and Barbuda and Saint Kitts and Nevis, where personal income tax was abolished several years ago. Undoubtedly, countries that are heavily dependent on trade taxes will have to adopt alternative measures, at least in the medium term. A value added tax (VAT) or some combination of alternative taxes would have to be considered, although such measures might be politically difficult to implement. In Antigua and Barbuda, recent attempts to introduce a relatively low sales tax met with major public opposition.

The larger countries have also resorted to the introduction of alternative tax structures to compensate for the loss of revenues from international trade taxes. Jamaica and Trinidad and Tobago are cases in point.

VI. Sustainable development issues

Globalization has affected the use of natural resources, the expansion of human settlements and development policies aimed at addressing poverty and income inequality, which are among the most serious sustainable development issues confronted by the Caribbean countries.

The region is vulnerable on several counts. High population density is a major problem in the islands, with the exception of Bahamas. Barbados, for example, has a density of 625 persons per square kilometre. Population pressure on the land, as well as on agricultural practices and the pattern of specialization, has had an adverse impact on the environment.

Shifting patterns of specialization have also had an effect on sustainable development. Specialization in natural-resource-based activities in countries such as Guyana, Jamaica, Suriname, and Trinidad and Tobago —which enjoy comparative advantages in aluminium ores and oxides, timber, gold, diamonds and petroleum— poses an important challenge in managing the rate of depletion of non-renewable resources. This is especially true in the case of bauxite in Jamaica and gold in Guyana. For example, Guyana has one of the largest open-pit gold mines in South America, and its reserves have been declining as a result of increased production by foreign investors. The value added associated with specialization in this field of production is limited and can only contribute to increased foreign-exchange earnings through intensification of exploitation, which would lead to a rapid depletion of this natural resource. Moreover, the production process has to be managed so as to minimize any negative impact on the environment but, as is well known, transnational corporations will weigh the costs and benefits of environmentally positive approaches to natural resource development. Governments may then have to trade off positive environmental practices to attract and maintain foreign investment in these sectors.

Diversification into highly polluting capital- and energy-intensive industries has adversely affected the environment in countries such as Jamaica, Trinidad and Tobago and Suriname. This has resulted in significant levels of pollution, measured as CO_2 emissions (see figure 11.7). The natural land ecosystems that normally absorb CO_2 have been under threat from the type of activities pursued in countries such as Jamaica and Trinidad and Tobago (cutting of firewood, establishment of squatter settlements, hillside farming, intensive farming and poor agricultural management). Intensive farming aimed at increasing yield from existing hectarage has been affecting soil and water quality through reliance on significant amounts of chemical fertilizers, fungicides, pesticides and herbicides that contribute to excess nitrogen emissions (ECLAC, 2001g).

The increasing development of tourism has also adversely affected the environment owing to the erosion of beaches and coastline and the destruction of coral reefs. Illegal sand mining has also contributed to erosion. The significant increase in tourism and, in particular, cruise-ship arrivals over the years has put pressure on the natural (and built) environment because of the increase in demand for water and in waste production.

Although cruise and yacht tourism has contributed to value added and foreign-exchange earnings, the potential for growth is constrained by the carrying capacity of the islands. The fact is that small countries in the region have quite limited space and infrastructure facilities to cater to fairly large-scale cruise tourism.

Population pressure and high poverty rates have resulted in practices, such as those mentioned above, which have contributed significantly to deforestation in the Caribbean, especially in Haiti, Jamaica and Saint Lucia. Jamaica has the highest rate of deforestation (7%) in the region and the second highest in the world (after Lebanon) (ECLAC/UNEP, 2001). Deforestation has resulted in flooding, degradation of watershed areas and pollution of groundwater. Jamaica experienced significant flooding and agricultural sector-losses of about US$ 12 million during the latter half of 2001.

Figure 11.7
CARBON DIOXIDE EMISSIONS (CO_2) FOR SELECTED CARIBBEAN ECONOMIES