

Challenges and opportunities

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The countries of the Greater Caribbean are currently at a key economic and social juncture. In recent years, these nations have experienced volatility in their economic growth rates, and a simultaneous reshaping of their international insertion trajectory.

Any analysis of the Greater Caribbean's development should consider its economic and social processes in the context of the dynamic interaction between the structure of its productive flows, its income distribution profile and its external economic relations. This article seeks only to present some ideas that should be taken into account by Greater Caribbean nations in defining their policies and measures to face the challenges posed by greater openness and foreign trade integration.

Caribbean international economic insertion

It is widely known that the impact of the international situation on the social and economic dynamics of the Greater Caribbean's countries increases in proportion to the advancement of the process of "opening-up and integration into the global market" undertaken by those nations. This is evidenced by the fact that during the period 1990-2005 the region's economic activity experienced a marked slowdown for four years. At least three of those four economic downturns were the result of adverse processes that affected the international financial markets, or of the negative effects derived from the economic dynamics seen in industrialised countries or in the global trade system.

The factors characterising the volatile international insertion of the Greater Caribbean include:

- A marginal participation of those economies in trade and investment flows at the global level;
- Except for Mexico – and, to a certain extent, Costa Rica – the commercial specialisation profile of the Greater Caribbean is still focused on "non-dynamic" goods and services;
- The exports of goods and services have little positive impact on the region's economic growth. While exports have experienced high growth rates – with double digit averages from 1991 to 2005 – the productive sector has seen its lowest growth in the past few decades;
- Therefore, "productive linkages" between the export sector and the rest of the productive structures in the Greater Caribbean have been very weak;
- Institutions seem unable to handle the numerous

trade negotiation processes undertaken by these countries. Such multiplicity of commitments at different fora puts that weak institutional capacity to the test;

- As a consequence of the above, there has been a clear "fragmentation" in the "vision" of those countries regarding their integration into the global system.¹

This brief summary of the international insertion process of the Greater Caribbean countries would not be complete without considering the recent efforts towards regional economic integration. Over the past few years, this has been characterised by the following:

- Substantial progress as regards the integration "goals" and "commitments" of the two "imperfect customs unions" existing in the Greater Caribbean. In fact, the Central American Common Market (CACM) promoted agreements to ensure free trade by the mid-1990s, even though each of the participating countries maintained a number of safeguards and restrictions with respect to reciprocal trade. Similarly, CARICOM countries were able to liberalise most intra-regional trade by the mid-1990s. During the second half of the last decade, both sub-regional schemes reached agreements on programmes to reduce and rationalise their corresponding common external tariffs; however, as far as the most sensitive products are concerned, those agreements have not yet been fully implemented. In January 2003, the Mechanism for Trade Dispute Settlement came into force in Central America. For its part, CARICOM drafted the agreement on the Caribbean Single Market and Economy (CSME), and progress is encouraging.

- As a result of this "political will", the sub-region saw some growth in intra-regional investment and trade flows. Thus, the share of intra-sub regional trade in CARICOM grew from 12.3 per cent of total trade in 1990 to 17.5 per cent in 2004, whereas in the case of the CACM it increased from 16.0 per cent to 26.9 per cent of total trade during the same period;²

- In many cases, the weight of "manufactured goods" in trade among the Greater Caribbean countries is greater than the weight that those products have in the region's total external trade. Their greater technological contents and the productive linkages that characterise intra-regional trade flows prove that integration should, and can, become a mechanism to learn how to deal with external markets;

- There has been intense effort and commitment to promote "trade liberalisation" and integration among

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the countries of the region, and among these and other nations and extra-regional blocs.

Nevertheless, coordination within the Greater Caribbean with respect to the various negotiation fora is insufficient, and articulation and convergence between the two most important sub-regional schemes is a process that is still to be started. In addition, the main approach to achieve integration is still too “economicist” and is strongly characterised by the “commercial” expedient. Notwithstanding the above, there is weakness when it comes to moving from “trade preferences” to free trade and then on to building real “customs unions”. Thus, reciprocal relations are not yet a decisive factor for most of the countries of the Greater Caribbean, in spite of the advances made in intra-regional trade and investment. Moreover, more progress in labour force mobility is required. As evidenced by the experience of the European Union, labor mobility is of vital importance to ensure cohesion and to achieve convergence of the income and development levels of the economies of the various member countries.

Challenges facing Greater Caribbean countries

Generally speaking, the economies of Central America and the Caribbean, are “small” and face structural limitations, which could explain why they have difficulty in taking advantage of the theoretical benefits of globalisation and access to development. Among such difficulties are:

- The reduced size of their domestic markets creates obstacles to productive specialisation, because there are several activities – particularly industrial and service-related activities – that require a minimum operating scale to be profitable enough and to offset the investment costs.

- Most of the public services are characterised by their indivisibility, and in the case of “small countries” this entails a high per capita cost.

- Their strong dependence on imports and foreign capital leads these nations to rely heavily on exports for their own growth and development.

- Due to their relatively scarce resource endowment and economic assets, their exports are usually limited to a few goods and services with comparative advantages that are strong enough so as to compensate for size limitations.

- The concentration on one market or just a few markets is also the result of a small export base and the forced cost-savings in transport, which characterise small economies.

- Many ancillary activities related to external transactions – including infrastructure development, port services, transport and marketing services, insurance services, research and experimental development – are also subject to minimum scales and in many cases they

cannot be further reduced or eliminated by opening up the economy to foreign trade and investment.

- Size limitations also have consequences for human capital. Higher quality education and health services require a minimum operating scale. University studies and training of highly-skilled labour force are limited by the size of markets and this may lead some sectors with better professional qualifications to emigrate to more developed regions or countries.

- In addition, the limited financial and administrative resources in small economies affect their capacity to negotiate and implement international trade agreements.³

Under conditions of economic liberalisation, the limitations mentioned above could have a significant impact on the actual potential for many Greater Caribbean countries to make progress on the road towards sustainable development.

However, it is necessary to recognise that, according to orthodox economics, small economies would derive the greatest benefits from free trade. They argue that the disadvantages derived from size can be offset by regional integration and the internationalisation of productive activities. Nevertheless, the developments seen in growth theory and international trade since the 1980s have consistently proved that, instead of easing the convergence of productivity and income, trade between countries with disparities has led to the increase seen in the income gap at international level.⁴ It is very important to promote intra-regional trade and investment flows among Wider Caribbean economies. The Association of Caribbean States and the Business Forum of the Greater Caribbean is a crucial step toward that objective. **F**

¹ *If there is a forum in which those differing regional visions are clearly evident is in the negotiations to create the Free Trade Area of the Americas (FTAA). While some countries in the region (such as those of CARICOM and Venezuela) were reluctant to accept some of the conditions and principles at these negotiations, other nations have already signed and implemented free trade agreements (FTAs) with the United States or are at various stages of the negotiating process. At the same time, in the case of the multilateral trade negotiations, there are substantial differences among some Central American and CARICOM countries as regards special and differential treatment and preferences in the trade in agricultural goods.*

² ECLAC, 2005. *Panorama de la inserción internacional de América Latina y el Caribe. 2004-2005.*

³ See Kotschwar, B. (1999). “Small countries and the Free Trade Area of the Americas”. In Rodríguez, M; Low, P. and Kotschwar, B. (Ed.). *Trade Rules in the Making. Challenges in Regional and Multilateral Negotiations.* OAS-Brookings Institution Press, Washington; pp. 134 - 158.

⁴ See Ocampo (2002). *It should also be noted that being a small country does have certain advantages associated with improved communications and ethics, as well as to favouring improved social cohesion and facilitating relations between the State and its citizens.*