

THE CHANGING GLOBAL ECONOMY: IMPLICATIONS FOR THE CARIBBEAN.

GEZA FEKETEKUTY

I AM DELIGHTED BY THIS OPPORTUNITY TO SHARE WITH YOU SOME OF MY THOUGHTS ON “THE CHANGING GLOBAL ECONOMY: IMPLICATIONS FOR THE CARIBBEAN.

I WILL EXPLORE THE TRENDS THAT ARE COMPLETELY TRANSFORMING THE GLOBAL ECONOMY, WHAT THOSE TRENDS MEAN FOR THE CARIBBEAN, AND HOW THE VARIOUS NEGOTIATIONS IN THE TRADE AREA COULD HELP YOU IN MAKING THE CARIBBEAN MORE COMPETITIVE IN THIS GLOBALIZED WORLD.

THE WORLD ECONOMY IS GOING THROUGH RAPID CHANGES AS A RESULT OF

- THE GLOBALIZATION AND AUTOMATION OF PRODUCTION,
- THE CONTINUING INNOVATION IN NEW TECHNOLOGIES,
- THE GROWING TRADE IN SERVICES,
- THE GROWING DEMAND FOR LEISURE AND OTHER CONSUMER SERVICES AS STANDARDS OF LIVING RISE,
- AND THE GROWING DEMAND FOR MEDICAL AND ASSISTED LIVING SERVICES AS POPULATIONS AGE.

WHAT COUNTRIES EXPORT AND IMPORT IS CONTINUALLY CHANGING

- AS GLOBALIZATION OF THE PRODUCTION PROCESS CONTINUES,
- AS COUNTRIES GAIN AND LOSE COMPETITIVENESS IN PARTICULAR INDUSTRIAL PROCESSES OR SERVICES ACTIVITIES,
- AND AS NEW COUNTRIES ENTER THE GLOBAL COMPETITION.

COMPETITION IN THIS NEW WORLD IS INCREASINGLY FOR

- THE PRODUCTION OF PARTICULAR PARTS AND COMPONENTS,

- INDUSTRIAL PROCESSES
- AND SERVICES INPUTS.

COMPETITION FOR GOODS AND SERVICES THAT REQUIRE A LARGE INPUT OF LOW SKILLED, LOW WAGE LABOR IS PARTICULARLY INTENSE, AND IS LARGELY A COMMODITY BUSINESS WITH LOW MARGINS.

TO OBTAIN LARGER ECONOMIC GAINS, AND TO ATTRACT THE HIGHER PAYING JOBS THAT WILL RAISE THE STANDARD OF LIVING TO HIGHER LEVELS, COUNTRIES HAVE TO ATTRACT

- CAPITAL INTENSIVE,
- TECHNOLOGY INTENSIVE,
- DESIGN INTENSIVE,
- OR PROFESSIONAL SERVICE INTENSIVE GOODS AND SERVICES,

WHERE MARGINS AND AGES ARE MUCH HIGHER.

THERE IS ROOM IN THIS GLOBAL ECONOMY FOR LARGE PLAYERS AND SMALL PLAYERS,

- LARGE COMPANIES THAT INTEGRATE THE PRODUCTION OF COMPONENTS AND INPUTS,
- AND MANY MORE SMALL COMPANIES THAT PROVIDE HIGHLY SPECIALIZED GOODS AND SERVICES.

IN FACT ONE OF THE FALLACIES IS THAT YOU HAVE TO BE BIG IN ORDER TO COMPETE IN THIS GLOBAL ECONOMY.

YOU HAVE TO BE LARGE

- TO ORGANIZE THE PRODUCTION OF COMPLEX GOODS LIKE AN AUTOMOBILE OR A JET AIRCRAFT THAT REQUIRE THOUSANDS OF INPUTS FROM DIFFERENT SOURCES,

- OR TO ENGAGE IN THE MASS MARKETING OF GOODS AND SERVICES LIKE A WALMART,

HOWEVER, MUCH OF THE NEW GLOBAL ECONOMY IS ACTUALLY DRIVEN BY HIGHLY COMPETITIVE SMALL COMPANIES THAT HAVE SUCCEEDED IN INTEGRATING THEMSELVES INTO THE GLOBAL NETWORKS.

IN FACT, IN SOME CASES RELATIVELY SMALL COMPANIES ARE IN CONTROL OF BOTH THE UPSTREAM AND DOWNSTREAM SUPPLY CHAIN.

IF YOU WERE TO TAKE A CLOSE LOOK AT

- WALL STREET,
- LONDON,
- SILICON VALLEY
- SINGAPORE
- OR HONG KONG,

YOU WOULD FIND A PREPONDERANCE OF SMALL COMPANIES, BOTH IN TERMS OF THE NUMBER OF FIRMS AND THE VALUE ADDED.

THE KEY TO SUCCESS IS TO BE CONNECTED TO THE GLOBAL SUPPLY CHAINS WITH A COMPETITIVE INPUT.

THE PROCESS OF GLOBALIZATION IS CONTINUING AT A RAPID PACE,

- PARTLY AS A RESULT OF THE INFORMATION REVOLUTION THAT HAS MADE IT POSSIBLE, AND
- PARTLY AS A RESULT OF THE PROGRESSIVE LIBERALIZATION OF TRADE BARRIERS AND THE SOMEWHAT SLOWER HARMONIZATION OR MUTUAL RECOGNITION OF REGULATORY AND COMMERCIAL STANDARDS.

COUNTRIES THAT HAVE PURSUED POLICIES FACILITATING THE INTEGRATION OF THEIR ECONOMIES ARE PROSPERING AND ACHIEVING HIGH GROWTH RATES,

OTHERS ARE FALLING BEHIND AS A RESULT OF

- POOR GOVERNANCE,
- ISOLATIONIST POLICIES, OR
- PROTECTIVE ECONOMIC REGIMES.

WHAT ARE THE KEY POLICY REQUIREMENTS FOR SUCCESSFUL INTEGRATION INTO THE WORLD ECONOMY?

WELL, FIRST OF ALL,

- GOOD AND EFFICIENT GOVERNMENT,
- SOUND MACROECONOMIC POLICIES, AND
- A BUSINESS FRIENDLY ECONOMIC ENVIRONMENT.

SECOND,

- POLICIES THAT SEEK TO MINIMIZE THE COST OF BUSINESS INPUTS AND
- OF INTERNATIONAL TRANSACTIONS,
- AND THAT MEANS REMOVING IMPORT TARIFFS ON ANY PRODUCT THAT SERVES AS AN INPUT INTO THE PRODUCTION OF GOODS AND SERVICES.

IT ALSO MEANS KEEPING TAXES AT INTERNATIONALLY COMPETITIVE LEVELS.

TARIFFS HAVE LARGELY LOST THEIR UTILITY IN A GLOBALIZED ECONOMY,

- PARTLY BECAUSE THE COMPETITION FOR THE PRODUCTION OF COMPONENT AND BUSINESS SERVICE INPUTS REQUIRES MINIMIZING THE COST OF ALL INPUTS, SO YOU CAN'T AFFORD INCREASING THOSE COSTS THROUGH TARIFFS OR DELAYS AT THE BORDER

- PARTLY BECAUSE ADVANCES IN PRODUCT AND PRODUCTION TECHNOLOGIES ARE TOO RAPID TO ALLOW ANY ONE TO CATCH UP ONCE THEY FALL BEHIND THE MARKET LEADERS.

THE ONLY RATIONALE FOR TARIFFS TODAY IS

- TO MANAGE THE ADJUSTMENT PROCESS,
- TO RAISE REVENUE IF ALTERNATIVE TAXES ARE NOT FEASIBLE, OR
- TO PRESERVE SOME LOCAL RESOURCES

PARADOXICALLY THE DISMANTLING OF TRADE BARRIERS IS HAPPENING FASTER THROUGH BILATERAL AND REGIONAL FREE TRADE NEGOTIATIONS THAN THROUGH THE MULTILATERAL TRADE NEGOTIATING PROCESS.

I SAY PARADOXICALLY, SINCE ONE WOULD THINK THAT WITH THE EMERGENCE OF A GLOBAL ECONOMY, GLOBALLY-ENGAGED BUSINESSES WOULD FAVOR A MULTILATERAL PROCESS.

THE REASON MANY COMPANIES STRONGLY SUPPORT BILATERAL AND REGIONAL NEGOTIATIONS IS BECAUSE THEY PROVIDE A MORE COMPREHENSIVE APPROACH TO ALL THE VARIOUS GOVERNMENT MEASURES THAT AFFECT THE ABILITY OF A COMPANY TO OPERATE ACROSS NATIONAL BOUNDARIES.

AS ONE TOP LOP LEVEL EXECUTIVE OF IBM TOLD ME,

WE NO LONGER MAKE DECISIONS TO EXPORT OR IMPORT PARTICULAR PRODUCTS, BUT RATHER WE MAKE DECISIONS TO LOCATE CERTAIN PRODUCTION ACTIVITIES IN PARTICULAR PLACES.

OUR DECISION TO LOCATE PRODUCTION OF A PARTICULAR PART OR COMPONENT OR SERVICE IN A PARTICULAR COUNTRY IS NOT BASED ON TARIFFS, BUT ON A WIDE RANGE OF OTHER GOVERNMENT POLICIES AS WELL AS ECONOMIC FACTORS.

EVERYTHING ELSE FLOWS FROM THAT.

WHAT DOES ALL THIS MEAN FOR THE CARIBBEAN, AND THE NEGOTIATIONS YOU ARE PURSUING IN DIFFERENT FORUMS?

FIRST, THE VARIOUS REGIONAL INTEGRATION NEGOTIATIONS ALLOW YOU TO REDUCE THE COST AND IMPROVE THE SERVICES PROVIDED BY GOVERNMENT.

TO MANAGE A MODERN ECONOMY REQUIRES THE MANAGEMENT OF COMPLEX REGULATORY SYSTEMS AND A DEPTH OF EXPERTISE IN A LARGE NUMBER OF AREAS,

THIS IS EXPENSIVE FOR SMALL ISLAND GOVERNMENTS AND DIFFICULT FOR SMALL GOVERNMENTS TO DO WELL SINCE YOU CANNOT AFFORD TO HAVE MANY HIGHLY SPECIALIZED EXPERTS DEDICATED TO A NARROW TOPIC.

MORE COOPERATION IN PROVISION OF GOVERNMENT SERVICES AND REGULATION COULD HELP REDUCE THE HIGH COSTS OF GOVERNMENT.

SECOND, THE PROCESS OF NEGOTIATION SHOULD ENABLE YOU TO TAKE ADVANTAGE AS A GROUP OF THE DIVERSITY THAT EXISTS IN THE CARIBBEAN, AND TO BUILD CARIBBEAN FIRMS THAT CAN TAKE ADVANTAGE OF THAT DIVERSITY.

THIRD, REGIONAL INTEGRATION WILL ENABLE TO INCREASE COMPETITION IN YOUR ECONOMIES.

ALL EMPIRICAL EVIDENCE FROM REGIONAL INTEGRATION POINTS TO GREATER COMPETITION AS THE MOST IMPORTANT ECONOMIC GAIN FROM REGIONAL INTEGRATION.

COMPETITION SPURS DOMESTIC FIRMS TO MAKE SIGNIFICANT EFFORTS TO BECOME MORE EFFICIENT AND INNOVATIVE

THE EU HAS DEMONSTRATED OVER AND OVER AGAIN.

FOURTH, THE PROCESS OF NEGOTIATION CAN LEAD YOU TO COMPARE POLICY APPROACHES ACROSS COUNTRIES, AND

EVALUATE WHAT WORKS AND WHAT DOES NOT WORK AS WELL,

AND GIVE YOU THE OPPORTUNITY TO ADOPT THE BEST PRACTICES IN THE CARIBBEAN.

THE NEGOTIATIONS WITH THE EU GIVE YOU AN OPPORTUNITY TO ACCELERATE THE PROCESS OF REGIONAL INTEGRATION AND NATIONAL ECONOMIC POLICY REFORMS.,

IF YOU CHOOSE TO GO DOWN THE RIGHT PATH, THE AGREEMENT WILL COMMIT THE EUROPEAN COMMUNITY TO SUPPORT YOUR INTEGRATION AND ECONOMIC POLICY REFORM EFFORTS

AND IN THE PROCESS IT WILL HELP YOU TO MAKE YOURSELF MORE COMPETITIVE IN THE GLOBAL ECONOMY.

I CAN SEE THAT THERE IS A STRONG TENDENCY TO APPROACH THESE NEGOTIATIONS IN A TRADITIONAL MERCANTILIST FRAMEWORK,

BY THAT I MEAN PURSUING THE NEGOTIATIONS WITH AN EXCLUSIVE FOCUS

ON GETTING AS MUCH MARKET ACCESS AND MONEY OUT OF THE EUROPEANS AS POSSIBLE,

AND KEEPING COMMITMENTS ON THE PART OF THE CARIBBEAN TO AN ABSOLUTE MINIMUM..

IT IS A MISTAKE TO APPROACH THESE NEGOTIATIONS AS A NUMBERS EXERCISE, FOCUSED EXCLUSIVELY ON HAGGLING OVER TRANSITION PERIODS AND MONEY.

THE EU IS PROPOSING A DIFFERENT KIND OF NEGOTIATION,

THE NEGOTIATION OF A PARTNERSHIP AIMED AT MAKING THE REGION MORE COMPETITIVE IN THE GLOBAL ECONOMY. AND HELPING THE REGION TO BETTER INTEGRATE ITSELF INTO THE GLOBAL ECONOMY.

SUCH AN AGREEMENT WILL REQUIRE COMMITMENTS ON YOUR PART,

IT WILL ALSO COMMIT THE EU MORE FIRMLY TO PROVIDE THE FINANCIAL AND POLICY SUPPORT YOU NEED IN IMPLEMENTING INTEGRATION AND POLICY REFORMS

YOU SHOULD TAKE ADVANTAGE OF IT.

LET ME NOW TURN TO SOME OBSERVATIONS ABOUT HOW YOU FIT INTO THE GLOBAL ECONOMY, AND THE KIND OF POLICY REFORMS YOU WILL NEED

- TO BECOME COMPETITIVE IN A GLOBALIZING WORLD, AND THUS
- TO RAISE THE LIVING STANDARD OF YOUR CITIZENS.

BEFORE MAKING SOME OBSERVATIONS ALONG THESE LINES, LET ME ACKNOWLEDGE UP FRONT THAT THERE ARE MAJOR DIFFERENCES AMONG THE COUNTRIES IN THE REGION,

- PARTLY AS A RESULT OF DIFFERENT RESOURCE ENDOWMENTS,
- PARTLY AS A RESULT OF DIFFERENCES IN HISTORY, AND
- PARTLY AS A RESULT OF DIFFERENCES IN POLICY.

VARIOUS OBSERVATIONS I WILL MAKE MAY NOT APPLY TO SOME COUNTRIES, AND APPLY TO OTHER COUNTRIES TO VARYING DEGREES. MOREOVER, I DO NOT CLAIM IN DEPTH EXPERTISE ON THE POLICIES OF INDIVIDUAL COUNTRIES.

THE CARIBBEAN HAS A NUMBER OF ADVANTAGES DUE TO

- ABUNDANT SUN, SAND AND GOOD WEATHER,
- ATTRACTIVE ART, MUSIC AND CULTURE
- EXCELLENT ACCESS TO THE SEA
- PROXIMITY TO THE UNITED STATES
- AND WITH RESPECT MOST OF YOUR COUNTRIES, GOOD EDUCATIONAL RESOURCES AND FLUENCY IN THE ENGLISH LANGUAGE, WHICH HAS BECOME THE LANGUAGE OF TRADE.

AS THE US POPULATION AGES, THERE WILL BE MANY OPPORTUNITIES IN THE AREA OF MEDICAL TOURISM AND ASSISTED LIVING.

THERE ARE ALSO MANY UNTAPPED OPPORTUNITIES FOR THE CARIBBEAN, ONCE AGAIN, TO SERVE AS A MAJOR ENTREPOT HUB FOR TRANSSHIPMENT, PACKAGING AND PROCESSING OF GOODS, MUCH AS

MANY ISLANDS SERVED THIS ROLE IN THE 18TH CENTURY AND MUCH AS SINGAPORE AND HONG KONG DO TODAY.

THE CARIBBEAN ALSO FACES CHALLENGES

MOST ISLANDS ARE TOO SMALL TO GAIN THE BENEFITS OF ECONOMY SCALE, PARTICULARLY WITH RESPECT TO INFRASTRUCTURE AND GOVERNMENT.

FOR WHATEVER REASONS, A NUMBER OF ISLANDS HAVE EXPERIENCED A LOSS OF PRODUCTIVITY AND COMPETITIVENESS IN MORE RECENT YEARS

INDEPENDENCE HAS RESULTED IN A RELUCTANCE TO GIVE UP THE TRAPPINGS OF SOVEREIGNTY, EVEN IF IT RESULTS IN LESS ECONOMIC INDEPENDENCE

A LAID BACK CULTURE ALSO TENDS TO LEAD TO A FLEXIBLE CONCEPT OF TIME.

A NUMBER OF STUDIES HAVE NOTED THAT MOST OF THE CARIBBEAN, WITH THE POSSIBLE EXCEPTION OF HAITI AND THE DOMINICAN REPUBLIC, DO NOT HAVE LARGE SUPPLIES OF CHEAP LABOR

THESE STUDIES CONCLUDE THAT THE CARIBBEAN THEREFORE IS UNLIKELY TO BECOME COMPETITIVE IN LOW COST, LABOR INTENSIVE MANUFACTURING.

IN PART, THIS IS AN INEVITABLE RESULT OF SUCCESS BY THE TOURISM INDUSTRY, WHICH TENDS TO BID UP PRICES OF LAND AND LABOR.

IN PART, IT IS ALSO THE RESULT OF THE LACK OF ECONOMIES OF SCALE IN THE PROVISION OF INFRASTRUCTURE SERVICES.

IN BOTH OF THESE AREAS, HOWEVER, THE IMPACT OF MARKET FORCES HAS BEEN EXAGGERATED THROUGH PUBLIC POLICIES – POLICIES DESIGNED TO MAXIMIZE THE RETURN FROM TOURISM AND POLICIES THAT LIMIT COMPETITION IN THE CASE OF INFRASTRUCTURE SERVICES.

ANOTHER FACTOR IS THE HIGH COST OF GOVERNMENT AND THE RESULTING HIGH TAXES, WHICH ARE THE RESULT OF

- DUPLICATION OF EFFORT AMONG THE ISLANDS,

- GOVERNMENT WAGES THAT HAVE OUTSTRIPPED PRIVATE SECTOR WAGES IN SOME COUNTRIES,
- EXCESSIVE STAFFING IN SOME AREAS, AND
- CORRUPTION IN OTHER CASES.

I KNOW THAT MANY OF YOUR GOVERNMENTS ARE TACKLING THESE ISSUES. YOU SHOULD APPROACH THE VARIOUS NEGOTIATIONS IN THE TRADE AREA AS EFFORTS DEIGNED TO HELP YOU TO ACHIEVE THOSE REFORMS MORE EFFECTIVELY.

IT ALSO SEEMS TO ME THAT CARIBBEAN GOVERNMENT HAVE NOT TAKEN FULL ADVANTAGE OF THE THEIR CITIZENS LIVING IN THE UNITED STATES AND EUROPE WHO HAVE SUCCESSFULLY INTEGRATED INTO THE WORLD ECONOMY.

IN NONE OF THE REPORTS I HAVE READ HAVE I SEEN AN EFFORT TO IDENTIFY WHAT IT WOULD TAKE TO ATTRACT MEMBERS OF THE DIASPORA AND THEIR SKILLS, CLIENTS AND CONNECTION TO THE GLOBAL NETWORKS BACK TO THE CARIBBEAN HOMELANDS.

I HAVE SEEN MANY REFERENCES TO THE EFFECT THAT THE CARIBBEAN WITH ITS HIGH WAGES NEEDS TO ATTRACT HIGH VALUE ADDED PROFESSIONAL AND OTHER BUSINESS SERVICES, BUT I HAVE NOT SEEN A PLAN FOR ACHIEVING IT.

IDENTIFYING WHAT IT WOULD TAKE TO ATTRACT EXPATRIATE BUSINESS MANAGERS AND PROFESSIONALS BACK TO THE CARIBBEAN WOULD BE A GOOD START.

IDENTIFYING SUCCESSFUL POLICIES ADOPTED BY OTHER GOVERNMENTS TO ATTRACT MAJOR INVESTMENTS IN HIGH VALUE ACTIVITIES, AND HOW THEY COULD BE ADAPTED TO CARIBBEAN REALITIES, WOULD BE ANOTHER USEFUL TACK.

I HAVE NO DOUBT THAT THE CARIBBEAN HAS THE POTENTIAL HUMAN AND NATURAL RESOURCES TO BECOME COMPETITIVE IN THE NEW GLOBAL ECONOMY, BUT IT WILL TAKE GREATER INTEGRATION IN THE REGION AND A CONCERTED EFFORT TO IMPROVE GOVERNMENT POLICIES IN A NUMBER OF AREAS.

THE UPCOMING TRADED NEGOTIATIONS GIVE YOU AN OPPORTUNITY TO OVERCOME THE POLITICAL INERTIA.

THINK OF HOW CHINA HAS USED AND IS CONTINUING TO USE ITS
ACCESSION TO THE WTO TO REMAKE ITSELF.