

## GLOBAL FRAMEWORK FOR POLICY REFORM: HOW DO WE USE IT TO MANAGE DEVELOPMENT

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### I. INTRODUCTION

If a swimmer wishes to cross a river he had better know the direction of flow. This simple advice is well applied to Caribbean countries as they seek to manage developments in the new global environment. Islands are by their nature insular. Regrettably, this circumstance is not related to geography only. Every Caribbean island feels itself to be the central hub of some trade route, unique paradise on earth or home of the third brightest intellect on earth. These attitudes, open or implied, shape our view of the external reality, causing us to deny reality in the first instance, and then to be painfully slow in responding to the rapid-fire and monumental changes sweeping the Globe.

In the course of this paper, I propose first to make a reality check on the 'global framework' as it affects the Caribbean. Then, I will emphasize the importance of a widespread program of public education to address the implications of this reality. Subsequently, I deal briefly with the results of the "structural adjustment" policy prescriptions in the Caribbean. And finally, I will offer some suggestions to further development prospects using a wider regional framework.

Globalization is a description of the phenomenon of a complex set of factors at work in today's world. Primary among these factors is the permeability of borders for information, capital and labor which is making the political structures of nation-states increasingly obsolescent. The fact that internal political structures continue to cleave to outmoded principles for organizing and channeling, globalization is having the most revolutionary influence on our lives, businesses, governments and societies. Because the Caribbean has been enmeshed in the global trading system for so long with its monocultural exports, it is even more vulnerable to the strong currents of globalization.

Globalization is not, however, an altogether recent phenomenon. Certainly, we in the Caribbean, can recall our history of being buoyed up and then let down by the world markets for sugar, cocoa, bananas, oil and

bauxite. Then, since World War II, we have seen the establishment of a number of global institutions: the UN, IMF, and World Bank and the growth of the global corporations. Names such as Tate & Lyle, Amoco, Hilton, Alcoa, McDonald's and Geest have become household words in the Caribbean. But globalization is not only about economics and politics. It is about the instant capacity of CNN and BBC to share the latest information with the whole world as readily as gossip travels in Trinidad. It is also about the adoption of a world urban culture symbolized by Coke, McDonald's and Nike.

The truly modern impetus to globalization has been the capacity of technological innovation to accelerate its spread at exponential rates. People, goods, capital and ideas are subject to almost instantaneous diffusion. Technology now permits the massing, manipulation and transmission of information around the globe at the speed of an electron. Production, consumption, trade, finance, environmental problems, social concerns, are all globalizing at an astonishing pace. An oil spill or a drought in one place no longer has an isolated effect but can precipitate world price changes and new migration patterns. All this has fundamentally changed the ways of doing business.

When we talk about the global framework for policy reform there are several components which are identifiable. Below, are some examples of the new global architecture with strong relevance to the Caribbean.

## II. GLOBAL COMPETITIVENESS

A Darwinian ethic of the fittest should survive now rules among nations and among global corporations. Nations compete for development projects, for capital inflows, and for jobs. Corporations compete to be the global low cost producer, for dominance of the global market and to maximize shareholder value through global expansion. Nations and corporations have become positioned along a spectrum of winners and losers. The head of Yale's School of Management, Dean Jeff Garten notes: "Over the next ten years, should emerge ten new economic powerhouses: China, Taiwan, Korea, Malaysia, Thailand, Indonesia, India, South Africa, Mexico, and Brazil". The Caribbean along with most of Africa are among the losers.

Indeed, exacerbated inequality of outcome has become a hallmark of the new globalization. Winners and losers among nations; winners and losers among corporations; Chiquita banana vs. Wind-ward Island bananas where the winner takes *all* the spoils; and widening income inequality among citizens within nations. Everywhere social strain is evident.

### III. GLOBAL CAPITAL MARKETS

There has developed a vast fast-fluid world private capital market headquartered in New York, London and Tokyo. This is perhaps the most significant aspect of globalization for emerging markets including the Caribbean. Yet, the Caribbean is grossly unsophisticated in accessing the global capital markets. In real terms, aid flows to developing countries have been static or dwindling. On the other hand, private capital flows have been increasing. Between 1990 and 1996, for example, foreign direct investment increased from US\$ 24.5 billion to US\$ 110 billion or by more than four times. Portfolio flows increased from US\$ 5.5 billion to US\$ 92 billion over the same period. The Mexican peso crisis, however, has shown that the latter can be dangerously unstable.

With respect to the recipients, China is by far the largest beneficiary. Sheer size coupled with 8-10% growth rate does make a difference in terms of bargaining power! Mexico is second which is a reflection of the huge investment inflows concomitant with NAFTA membership. Some of the Mexican investment is at the expense of the Caribbean, especially Jamaica (trade and investment diversion). Note, however, that Trinidad and Tobago has been a major recipient of foreign direct investment in recent years, particularly in the oil and gas sector. Inflows which averaged US\$ 57 million per year between 1985 and 1990 has averaged US\$ 310 million per year since.

How countries shape their policies to win direct foreign investment and access the private capital markets in support of corporate and infrastructural development requirements is now a matter of major importance. Too many Caribbean countries have a public service and Central bank infrastructure geared to accessing capital from the Washington multilaterals and foreign aid, and are totally innocent in their dealings with the capital markets. Trinidad and Tobago though has a better record than others in this respect.

### IV. GLOBAL LABOUR MARKETS

The corollary of the globalization of the capital markets has been the development of a universal market for labor (de facto) driven by business response to the requirement to be globally competitive. Acting in conjunction with freer trade, capital has been moving in unprecedented amounts to the developing countries of the Pacific Rim where it combines with cheaper skilled labor to produce an ever larger share of the world's manufactures. This fact has gutted trade unions' capacity to act in the developed countries to extract better wages. It explains the sour view that

the U.S. labor movement has of free trade, and of NAFTA in particular. Labor has sold the U.S. Congress the notion that globalization, free trade, and NAFTA have led to the impoverishment of the American worker. The present American mood is one of short-term political gain maximization (the euphemism is triangulation). Because of this surly Congressional mood, I am pessimistic about the prospects of NAFTA expansion, NAFTA parity or CBI extension despite whatever private assurances President Clinton might have given Caribbean leaders.

## V. OPEN RECIPROCAL TRADING ARRANGEMENTS

Progressive market openings have now culminated in the watch-dog World Trade Organization. It was a ruling of this organization that denied long-term preferential access for Caribbean bananas to Europe. It is ironic, if not hypocritical, that the U.S. in particular continues to urge smaller countries to jump on the free trade bandwagon while continuing its agricultural subsidies and keeping its markets closed to products that can be viably exported from those countries. Far from taking comfort in this apparent hypocrisy, we in the Caribbean must recognize, as I said earlier, that the conflict between globalization and parochial national imperatives is a drama for every country. We must join with other developing countries and continue to put pressure to reduce subsidies and other trading inequalities but we must not pretend that we have the same power to resist. Remember what I said about inequality of outcome. I think people call this "Realpolitik".

## VI. REGIONAL GROUPINGS

Working simultaneously as a subset of globalism is 'regionalism'. Large trading blocks such as NAFTA, EEC, Mercosur, and APEC are now pursuing inter-block trade, following growth in trade within each block. The jury is still out as to whether intra-block trade is trade diversionary or not, and whether regionalism is ultimately a threat to globalism. Jamaica is an example of a Caribbean country that has suffered from diversion. That country's rapid expansion in garment contracting has been stalled at least in part on account of diversion to Mexico, a NAFTA member.

Like it or not, this is the poignant reality of the new global architecture. It is efficient; it generates huge amounts of wealth; its output is inequitable; and its spread is irreversible.

If we are to take that global framework and use it to our advantage, our first task is political. Every citizen and Caribbean institution must become aware of the reality and the detailed implications flowing therefrom. For too long we have lived in denial. Denial that the preferential

trading system would come to an abrupt end; that our governments could keep our markets closed for another decade; that increasingly the new sources for development had become foreign direct investment and the world capital markets. We should note that there has been considerable criticism of the efficacy of World Bank lending and concerted pressure to move that institution away from direct lending and more into strengthening its 'guarantee programs'. Denial of reality has caused us to lose valuable time in preparing our societies for the inevitable. According to *Euromoney Magazine*, Barbados gets zero out of ten for its handling of its debt image, and zero out of five for its positioning to access the international private capital markets. As further evidence of our ill preparedness, respected international relations specialist, Henry Gill, has stated unequivocally that not one CARICOM country has assembled the full time expertise to negotiate trade agreements.

Deregulation and structural adjustment programs have been the first line policy response for equipping our societies to cope with the demands of globalization. In large measure, these programs contribute to macroeconomic stability which is a necessary but insufficient condition for sustainable development. Our Caribbean management of these programs has been uneven. Trinidad and Tobago is probably at the most advanced stage having achieved a large measure of stability. The major unfinished business in Trinidad and Tobago is public sector reform and national pensions. Barbados has kept a pegged exchange rate and achieved stability by taking the adjustment in its labor market. Guyana is making good progress, but must now make payments on its huge debt after Paris Club writedowns. The OECS are entering an age of great difficulties. Antigua and Grenada have no income taxes or VAT and are therefore unduly dependent on customs revenues in an era of market openings. Grenada, Dominica, St. Vincent and St. Lucia are just beginning to feel the effects of the banana debacle. Until 1995, Jamaica had been making solid progress. Since then, however, major problems have developed in the indigenous financial sector and the Jamaican government's decision to back-stop the sector has already cost a three per cent budget deficit in 1996 and threatens to be much wider in 1997, thereby risking Jamaica to yet another round of inflation, devaluation, and capital flight, hardly the conditions to attract the favorable attention of the capital markets and direct foreign investment.

When we inquire why so many countries fail, its because so many of them never get to the starting gate. But let us assume that we have got there; that we have come to grips with global reality; that we have met most of the precursor conditions: an open competitive economy, macroeconomic and sociopolitical stability and investor friendliness. How

from there do we use the global architecture to build for sustainable development?

This I believe to be a matter of vision and leadership based on a proper and pragmatic understanding of our island situations, and how their potential best fits in the global economy.

Barbadian leadership is clear on this issue. Barbados shall be a world class service economy primarily driven by tourism and offshore financial services, attaining developed country status in 25 years.

In Trinidad and Tobago we have a globally competitive gas economy. But it suffers the disadvantage of being extremely capital intensive and by itself incapable of drawing a sufficiently large part of the rest of the economy – especially the unemployed – into its modernizing hub. An additional motor is required.

Tourism has been so proposed. After consistent effort by the last three governments, the tourist economy still sputters. Recognizing that a paradigm is still required, the present government is proposing to seed hotel construction with the proceeds from privatization as well as spurring development by granting casino licenses. Casinos may not be the draw that they once were however, because of the large number of new outlets on Indian reservations in the US as well as Cruise ship gambling. The fact that our competition in casinos is not internal but offshore again highlights the effects of globalism and the need for us to keep a wide angled lens on our development paths.

We have no choice but to persevere with tourism. But I strongly suggest that we look to our manufacturing sector within a wider regional context. There are two examples of successful outcomes to the regional approach that I briefly draw attention to: Ireland and Mexico. Ireland won independence from Britain as late as 1922. Until recently it was backward, insular and drained by emigration of its best talent as we have been. But Irish leadership seized on its membership of the European Community and sold its citizens the concept that they were first citizens of a wider Europe. Secure in this vision, Ireland grabbed every European subsidy to upgrade its human resources and manufacturing plant. Its major cities were put through major face-lifts to reinforce the image that despair has done and a bright future lay ahead. At present, it is not only that Ireland has one of the fastest growing and lowest unemployment economies in Europe; but Irish art and culture thrives. Advertisements in the New York Times appeal for Irish talent to return home. The spirit of Ireland lives.

Since becoming a NAFTA member, Mexico's foreign direct investment is running at approximately US\$ 7.2 billion per year, second only to China. Annual exports from the *Maquilladora* factories on the U.S.

border are US\$ 36 billion. One border town, Tijuana increased its employment by 118,000 in 1996 alone!

To me, these examples suggest that in the global economy, countries can no longer afford to assume that competitive sustainable economies can be achieved within narrow sovereign boundaries. Consistent large trade surpluses with our CARICOM partners are attracting barriers to Trinidad's manufacturers even within the relatively small CARICOM "home" market. We must make the logical next few advances in regionalism.

The first step requires Trinidad and Tobago to use all its diplomatic skills to bring the Dominican Republic and Haiti into full CARICOM membership within 18 months and Cuba as soon as possible thereafter. These countries have a combined population of 26 million persons and GDP of US\$ 27 million. Success in these markets could keep our existing manufacturers healthy for another five years.

It will take more, however, to encourage a wave of new investments and new employment creation. Even now we must advance the next wave of regionalism. Trinidad and Tobago has a strong incipient manufacturing sector. And it was the potential to become a mini Maquilladora that caused this country to seek early NAFTA membership. Because that process is now so clouded, we must look south instead. Brazil has a land area greater than the continental USA, and a population of 162 million. With its large and well developed agricultural, mining, manufacturing, and service sectors, Brazil has South America's largest GDP by far and has the potential to become a major player in the world economy. In addition to light consumables like footwear, Trinidad imports increasingly large amounts of Brazilian iron ore. North East Brazil is potentially a huge market for our gas and fertilizers. This might just be the start we need to leverage our manufacturing sector – especially steel and potentially aluminum – to become an efficient sub component of Brazil's, based on an efficient regional infrastructure and our attractively priced energy. To realize such a vision, Trinidad and Tobago must again draw an expanded CARICOM into the regional integrative processes taking place in South America. At the political level, we should explore associate membership in Mercosur as Chile has done. And thereafter actively promote Caribbean integration into the regional energy, telecommunication and transport infrastructure now being planned and constructed in South America. The expectation is that by becoming part of such a regional infrastructure our industry will realize wider synergies which, combined with our existing advantages, especially our energy and human resource skills, will generate maximum value added in service of the South American and ultimately

global markets. Only then, would our long apprenticeship in infant industry and minuscule CARICOM have ended.

The early policy reforms in response to the global framework – the structural adjustment agenda, were hard on the population but relatively straightforward in execution. This next phase in policy reform will demand the highest leadership and international diplomatic skills if it is to be successfully executed. The social strains already self evident in our societies demand no less bold an agenda.