

## **GLOBALIZATION AND INTERNATIONAL COMPETITIVENESS: THE CASE OF CARICOM**

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### **Abstract:**

The removal of artificial barriers and freeing up the international trade process are two aspects of globalisation that could potentially contribute positively to the economic growth and development of CARICOM countries. However, tremendous challenges remain. This research provides compelling evidence that the region has lost grounds in its efforts to create a true path to sustainable development. Our findings imply that the governments of these countries do not fully understand the importance of being competitive or the underlying challenges associated with a globalized environment. Consequently, policies to boost trade are not crafted in a holistic fashion, thus lacking focus in many areas. Hence, our research focuses on this key question: Can CARICOM countries maintain positive economic growth rates in an era of increasing globalization under the same modus operandi--without meaningful improvements in their international competitiveness? Evidence suggests that the region's trade receipts and, by extension, its wealth, continues to comparatively fall below the more developed nations. Persistent fiscal deterioration, high debt and rising arrears provide tenable support to this conclusion. Despite the openness resulting from globalisation, numerous facets of regional trade, both in products and services, of which CARICOM nations have now devoted significant resources to; have yet to reap expected benefits. The accompanying costs of globalisation have solidified the fundamental importance of efficiency and competitiveness for the survival of small developing nations. Our analysis of the region's state of affairs reveals concerns regarding the measurements and associated levels of competitiveness in trade, compelling swift action at the macro and micro levels to resolve this problem. Conclusively, the crafting of policies which enhance regional competitiveness to support increased global integration through trade and investment, should now become the primary role for governments as they embark on a new sustainable development model.

## 1. Introduction

Following the impact of the global financial crisis, the spotlight remains fixed on the vastly deteriorating economic conditions of the CARICOM economies. As the memories of the crisis drift further into the distance and economies across the globe slowly rebound to some signs of normalcy; reversing the structural gaps in the development of these small developing nations continue to weaver. The chosen policies of austerity or expansion through debt continue to fail. It would appear as if the global environment has made a choice regarding which nation should be left behind, i.e. globalization is eminent and countries should adapt accordingly or perish.

According to Morris (1967), the growth of meager nations is necessary for the growth of the richer, to make possible mutual trade and the exchange of raw materials and manufactured goods. This identifies well with the economic interest given to the general development of the underdeveloped economies, by the developed. Between the nineteenth and twentieth centuries, the rate of growth stood higher compared with any other period; improvements in nations' standard of living were at paces never again comparable to those of that era (Van Den Berg, 2001).

Robbins (1968 )described economic development as the growth in real income per head; where real income was classified as the flow of available goods and service which gives rise to satisfaction. Alternatively, it is the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area. Notably, there are varying definitions for the concept of economic development, however the general economist agrees that an increasing the capacity of the economy to satisfy the wants and needs of the inhabitants (Van Den Berg, 2001).

This research seeks to provide policy makers with detailed clarity on the concepts of globalization and international competitiveness, highlighting the significance to the development process, with special focus on CARICOM<sup>1</sup> countries. Thus, providing the necessary backdrop which ultimately addresses the key question: Can CARICOM countries maintain positive economic growth rates in an era of increasing globalization under the same modus operandi--without meaningful improvements in their international competitiveness?

Considering the above, the remaining aspects of this research proceeds as follows. Section 2 paints a descriptive picture of the region's development progress in recent years, first providing a brief comparison with past decades and to that of other nations similar in structure. In Section 3, our attention is drawn to the issue of globalization and its impact on developing countries, especially small states. Under this section the authors establishes a core definition of the concept and later draws from various literature to provide an accurate experience for developing member states. Section 4 continues with the theory of international trade competitiveness and the factors which has been empirically utilized as the drivers to it, thereby promoting growth and development. Section 5 analyzes competitiveness within the Caribbean context, in accordance with the overview described in section 4. Finally we conclude with a summary of current issues and addressing the

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<sup>1</sup> Mention of CARICOM relates to the English speaking nations of group; Antigua and Barbuda, The Bahamas, Belize, Barbados, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, Suriname, Trinidad and Tobago, and St. Vincent and the Grenadines.

initial question of the research. Targeted recommendation for governments and policy-makers are also discussed.

## **2. CARICOM Development**

Kathuria, et al. (2005) noted that during the preceding three decades, the pace of the region's member states' development lagged behind that of similarly small and comparable countries like Singapore, Ireland and Cyprus. Though not adequately fair to compare the islands of the region with Ireland and Cyprus due to their membership advantage with the European Union (EU), the fact remains that a trend exists where the average growth has slowed in each decade since the 1970s. Average per capita GDP growth in the region has declined from 4.3 percent in the 1970s, 2.1 percent in the 1980s, to 1.7 percent in the 1990s. According to the authors, in 1975, collectively the Caribbean's GDP per capita was in line with these nations; with Barbados' per capita income comfortably above all three.

By the turn of the century, Ireland and Singapore had surge ahead of the region with per capita incomes which practically doubled the region's highest per capita country – the Bahamas. Kathuria, et al. (2005) argue that the main reason for this is that while these countries based their economic strategy on improving competitiveness, the Caribbean continued decades of reliance on traditional markets, trade preferences primary products (sugar and bananas), and exploitation of natural resources in the case of Trinidad and Tobago. Clearly, the strategic approach to development taken by the region may not have been the best approach comparatively. Alternatively, how do members of CARICOM stack against more comparable developing nations- such like Costa Rica, Panama or closer independent nations of Latin America?

The results of such alternate comparison render the CARICOM member states in a similar light- lagging behind. Using a general analysis based on the Human Development Index (HDI) 2015, Chile ranked 35th, followed by Panama at position 50, and Costa Rica at 52, with the highest CARICOM countries - Bahamas and Barbados – taking the 55th and 57th positions, respectively. The remaining nations were substantially lower.

These results are not to paint the picture that the leaders in the region have not made continuous attempts to boost the development levels and pace for its citizens. In 1989, a decision was made to revise the original Treaty of Chaguaramas<sup>2</sup> and transform this group of countries into a single market and economy, which facilitates the free movement of factors between nations thereby bolstering the group's international competitiveness for goods produced and the provision of services. However, it took the region until 2000 to officially complete this amendment and launch, what is formally called, The Revised Treaty of Chaguaramas Establishing the Caribbean Community, including the CARICOM Single Market and Economy<sup>3</sup>.

Despite these notably efforts, which to mention were slow in development, it is worthy to note that the region's has since seen significant rises in poverty, unemployment and increasing crime levels in some countries, coupled with heavy debt burdens; no doubt

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<sup>2</sup> Treaty of Chaguaramas established the Caribbean Community, where the revised version included the CARICOM Single Market and Economy

<sup>3</sup> In the Revised Treaty, allowances were made for issues covering e-commerce, government procurement, trade in goods from free zones, free circulation of goods, and the rights contingent on the free movement of persons.

attributed in part the declining impacts of the strategic policies utilized over time. Ultimately reducing international export competitiveness.

### ***Performance in the 21<sup>st</sup> Century<sup>4</sup>***

The grouping of these nations remains small, relative to size and people. According to the World Bank's online data, collectively the English speaking CARICOM region only accounts for a mere 7.0 million people at the end of 2015; the largest being Jamaica followed by Trinidad and Tobago. These two economies account for approximately 58.0% of the total population. It should be highlighted that 57.8% of the population remain rural inhabitants; 11.5% of the labour force was unemployed; and recorded in some countries<sup>5</sup>, 19.9% of the population was identified as living in poverty. Together, these macroeconomic conditions amplify any potentially adverse impacts on the region's performance, thereby reducing the prospects for foreign investment and the overall welfare of citizens.

During the period 2000 to 2015, the region's gross domestic product (GPD), based on 2010 prices, expanded from USD\$45.4 billion to USD \$63.5 billion. Noticeably, the same growth in the region's wealth may have been lost to the impacts of the 2009 global financial meltdown, which have suppressed the collective GDP per capita to US\$9,004. It is highlighted that the distribution of wealth across the individual countries has varied significantly, both at the country level and at the micro level. Based on the 2015 data, GPD across countries was led by Trinidad and Tobago (USD \$22.1 billion) and Jamaica (USD \$13.6 billion). Yet, the wealthier citizens, on average, from across CARICOM are Bahamian with a per capita of US\$21,441. Falling among the poorest are the people of Guyana (USD \$3,663). Despite the efforts to unite countries in this region, economic indicators continue to deviate onto individual paths<sup>6</sup>. Previously, Williams (1984) theorized that these countries vary in size, per capita income, stage of development and in terms of their production structures. The question therefore remains: are the regional leaders adequately developing the appropriate competitive strategies that accommodate these differences?

From the turn of the century, the region's collective annual growth rate for economic wealth moved from 3.08% (2000) to 0.8% in 2015 (acknowledging the declines experienced in the two years immediately following the collapse of global finances<sup>7</sup>), with rates as high as 6.26% in 2006 and a low of -4.19% (2009). However, with these small states exhibiting declining performances prior to the crisis period, the current strategic method and policies are required to shoulder the responsibility, or part thereof.

Following 2009, the CARICOM nations continues to experience negative to weak growth, highlighting a fragile tolerance to external shocks, therefore an inability to compete in the global environment. The latest value for Gross capital formation for these small

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<sup>4</sup> Data in this section was taken from (World Bank, 2016), unless otherwise expressed.

<sup>5</sup> Recorded for Jamaica in 2012

<sup>6</sup> Despite being outside the scope of this research, but members of the larger CARIFORUM, attention can be drawn to the immense differences which exist between Haiti and The Dominican Republic, both of which share the same landmass.

<sup>7</sup> Coined in some spheres as the worst global crisis, the nations of the region were expectedly strained due primarily to their level of interdependence on the crisis source countries. This has since reenergized discussion for the member states to push an agenda of increase diversification in trade.

states stood USD \$15.4 billion as of 2014, with a net foreign direct investment inflow of 6.57% of GDP.

The structure of CARICOM member-states has long plagued its progress of development as the progression from labour intensive to a more capital intensive and high value-added community continues to be mixed across the group. In 2014, agriculture's value to GDP was 4.18%. Notwithstanding, Belize (15.52%), Dominica (15.93%), Guyana (18.61%), and to a lesser extent Suriname (10.12%) were significantly reliant on the proceeds generated in this sector. These rates however, continue to decline; between 2000 and 2014 Belize agriculture fell from 17.37%; Guyana 31.09%; and Suriname 11.16%. Dominica was the only country which shows improvements within the period, be it however marginal.

In a review of the service sectors, where CARICOM nations have made considerable efforts to become a high-valued service destination, the value of the services product within the region has remained relatively constant, both individually and collectively. Averaged across CARICOM, the services sector grew at a rate of 2.52%, in 2014, which accounted for an excess of 63.78% of the GDP; improving by 2.5 percentage points from 2000. Individually, contributions to GDP were highest in St. Lucia (83.70%), followed by Barbados (79.57%) and Grenada (78.64%). With a heavily weighted dependence of one sector (primarily tourism services with the North American continent) and its reduced performance, brings to the forefront a need for the region to urgently expand its diversity in targeted international markets. Notably, growth in this sector for CARICOM has slowed since the 1990s (World Bank, 2005). This reinforces the need for a set of more balanced and competitive trade strategies, if the region is to improve its current state of affairs.

The structure of the region's economies, along with its underdeveloped nature in various sectors and excessively high financing rates, have equated to undeviating fiscal deficits. Following the late 1990s, all member nations, excluding Trinidad and Tobago, ran constant current account deficits; with similar patterns seen for financial account, and capital deficits, with some minor fluctuation across some years. Displayed in the net trade balances of goods and services of all the member states, the value of imports continues to outpace the demand for the region's products. Inclusive of oil exports, the region's exports of goods and services worth 80.71% of its total import bill. With significant investment in the services sector, can the region reverse this trade imbalance?

The importance of the trade and trade competitiveness to the region cannot be overstated, yet, the sector continues to underperform. It is clear that the CARICOM is falling behind in its efforts to compete in the globalized market place; key underlying factors of competitiveness - productivity and innovation- are in need of greater attention. Thus, a boundary-less evaluation and reallocation of resources to the most effective areas of production is required with sincere urgency, if the region is to gain any form of competitive advantage in the global market. A noted recommendation espoused by Harker (Harker, 2010) was that the difficulties being experienced by CARICOM requires a solution aimed at increasing production and exports. Needless to say, given the drawbacks related to small size, the author was pushing an agenda of improved competitiveness. However, the phase of globalization has fundamentally altered the nature of competitiveness for economies (Hatzichronoglou, 1996). Therefore a first step will be to understand the nature of globalization and the associated benefits or costs; before appropriate strategies can be developed. From the evidence, above, leaders of this region may have missed or lacked the

full understanding of the globalization process as it relates to developing countries, especially small countries- e.g. CARICOM.

### **3. Impact of Globalization on Caribbean Economies**

#### ***i. What is Globalization?***

Hatzichronoglou (1996) noted that forces behind the deregulation of policies and the role of information and communication technologies in economic activities, during the 1980s, resulted in a new and more complex stage in the process of internationalization<sup>8</sup> – hence globalization. The term ‘globalisation’ is often described as a historical process that entails the increasing integration of, and interaction between countries as national borders become of lesser importance. O’Rourke and Williamson (2001) and Maddison (2001) postulated that the globalization process grounded in the latter period of the eighteenth century<sup>9</sup>. Globalisation entails economic, cultural, political and environmental integration<sup>10</sup> (Kendall, 2008), however through our discourse primary focus will be on economic aspect<sup>11</sup>, where competition is one of the major driving forces.

Pulling from the works of Kendall (2008), it is **a process of continuous creative destruction in which uncompetitive countries fall further and further behind at an increasing pace together with the unskilled and poor.**

Broadly, globalization has brought with it numerous benefits. It has led to the reduction of transportation and communication cost and the removal of artificial barriers in the exchange of goods, services, capital, and people across borders; ultimately greater integration of world nations. Freeing up the international trade process has helped many developed and developing countries grow faster than otherwise would have done. Statistics point to increased standards of living and extended life expectancy. However, in many parts of the world, globalization also has failed to bring the predicted economic improvements (Stiglitz, 2002).

Stiglitz (2002) argues that discontent with the process of globalization is on the rise particularly in developing countries, for which globalization has had adverse consequences. The author noted that more people lived in poverty in 2003 than at the beginning of the 1990’s, even though total world income has increased during the same period; neither has it led to improved economic stability, noting the crises in Latin America and Asia have shown. Further evidence still fresh in our minds is the more recent 2008 global financial crisis. The question therefore must be address; why have the developing economies

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<sup>8</sup> To provide adequate insight into the era of internationalization would be beyond the scope of this research; needless to say the authors will contend that internationalization was a phenomenon which subsumed the 1950s to a greater portion of the 1970s.

<sup>9</sup> See (O’Rourke & Williamson, 2001) and (Maddison, 2001)

<sup>10</sup> Hatzichronoglou (1996) provides a series of features which that summaries the concept of globalization. The author says to factors leading to the acceleration of the globalization process, liberalization of capital markets and financial flows, internationalization of production and distribution; location of production, i.e. the subcontracting of work in other countries, the technological, Information and Communication revolution, and the manipulation of trade agreements

<sup>11</sup> It is by no measure the intent of the authors to underscore the spiritual or cultural implications of globalization, which is beyond the scope of this research.

continue to perform poorly as the world approaches complete state global integration? What has been their experience?

**ii. *The experience of small developing economies***

Across the various literatures, they are varying experiences of small developing countries and the effects of globalization. This section will seek to draw on some of these works, both empirical and theoretical, in efforts to draw a conclusive assessment on the current and future implications for the CARICOM nations. We begin the review of work of Hualupmomi (2010).

In 2010, Hualupmomi assessed the question- “to what extent does globalization affect small island economies in the Pacific region?” In an evaluation of the Papua New Guinea’s (PNG) economy, the point was made that despite the potential gains that may result through globalization; a lot may be lost from enhanced integration. Location, technical knowledge and good infrastructural are key features to economic progress in a globalized environment. Learning from PNG experience, the inability to harness and exploit available advantages to attract favourable investments, can results in the manipulation of forced trading agreements where the interest is highly disproportioned in the larger partner’s favour- becoming the ‘yoyo of big boys’. This may be particularly true in small states constrained by fiscal space.

In an earlier study on the survival and sustainability of small economies in a globalized world, Mehmet and Tahiroglu (2003), theoretically and empirically argued that the relevance of size does not equate to the demise of an economy due to globalization. Noting the significant comparative advantages in trade shifted towards services such as tourism, financial and specialized education. Greater advantage was also noted for the small isolated islands in the oceans; using Cyprus as empirical<sup>12</sup> proof to demonstrate the potential advantage in export-oriented education; while acknowledging the unique and innovative approach to tourism and other services development taken by Singapore, through the promotion of social justice.

Mehmet and Tahiroglu (2003) in no way neglected the challenges that small states are likely to face, which may worsen over time. However, for these economies to identify and exploit the new dynamic comparative advantages available, requires the commitment by the population; thereby the role of the state remains critical- the need for economic and labor market policies that maximize growth while promoting greater income distribution and social. The backbone of development for small states requires total inclusion of the population, coupled with strong leadership.

The financial sector sits as a critical component to any country’s development progression which therefore requires significant consideration when evaluating the likely benefits (and associated risks) of freeing up the strings to the nation’s purse. Primary long term benefits relate to the development of domestic financial environment following a likely influx of capital due the reduced restrictions, and further attracting other sources of investment. Notably, the attainment of these benefits varies; however, many countries have yet to take full advantage.

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Rapid infection followed by sluggish recovery poses severe risk through contagion; greater severity is added based on limited diversity in investments sources. The recent financial crisis of 2008 provides an unforgettable experience for the small states regarding the volatility associated with globalization. Yet, no evidence currently suggests that increased financial volatility follows financial liberalization and therefore countries should take early advantage (Schmukler, 2004).

To reiterate, there are significant risks to face. For small developing countries managing risks can pose significant challenges. Therefore, consequences accrued for policy development. The integration of domestic regulation into the global economy requires changes at the policy level- regulatory instruments will be reduced, therefore less control requiring enhanced risk management procedures; and the appropriate exchange regime. A fixed rate can reduce cost and adds credibility to less independent monetary policy. Flexibility in currency allows for better responses to shocks theoretically safeguarding against a recession (see (Obstfeld & Taylor, 2003), (Schmukler, 2004)). The experience of Argentina should be noted. The system of globalization is well below perfection (Frankel, 2000), but the wheel continues to turn and there is commitment by many.

It is evident that benefits can result in the acceptance and integration into the global financial economy, however to mitigate the possible risks much is required for the smaller developing countries. Creativity without exclusivity must be high on the agenda for the smaller developing countries.

### ***CARICOM***

In Caribbean countries, the impact of globalization on trade and investment has been reflected in increased liberalization and market-opening policies; trade has now exceeded 100% of GDP for most counties; and cross border investment activity has increased. Expectedly, the process has brought with increased competition and challenges to the effectiveness of policy; making it imperative for businesses and governments to constantly adapt if they are to survive in the more efficient environment.

To repeat Singh (2004), the region can take pride in its current level of integration into the larger world economy. Aided by technological advances<sup>13</sup>, the region's tourist industry has stands out, reducing previous dependence on primary low valued commodities for trade. The region continues to be recognized as a destination for investment, both onshore and offshore. Exporting highly skilled labor to industrial countries, with the return on investment seen in the form remittances have helped raise incomes and living standards of the ones left behind. Being the world's largest recipient of remittances as a percent of GDP, many of the region's countries have lost more than 70 percent of their tertiary-educated labor force<sup>14</sup>—among the highest emigration rates in the

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<sup>13</sup> Reference is made regarding the rapid growth in telecommunications, telemarketing, and the computer and software industry, a consequence of the globalization process. Examples of ICT strides are acknowledged in firms', big and small, improved access to market intelligence, and ease of market entry. The Jamaican music industry makes use of such access to information to find international customers interested in recording Jamaican based music. Similarly, Trinidadian manufacturers were early innovators in recognizing the benefits of competing in a global market through detailed research on the wider market (World Bank , 2005).

<sup>14</sup> labor force with more than 12 years of completed schooling



world (Mishra, 2006). On the other hand, the net gains from the exportation of knowledge resources for the current levels of remittances have yet to be quantified.

The impact of global integration on CARICOM has been two fold, and never a win-win outcome- seeing its share of risks, and continuous challenges due to an evolving environment with few positives to highlight. According to Alabi (2010), the Caribbean's experience of globalization has largely been negative due to large scale migration, exploitation, and destruction of the area. There is no doubt that globalization has resulted in changes in the structure of production and trade to the CARICOM nations, however many pose significant concerns to the economies' sustainable development (ECLAC, 2002). Particular attention is given to the use of natural resources, the expansion of human settlements and development of poverty-alleviating and income policies, which are among the greater sustainable development issues confronting the Caribbean countries.

Despite an acceptance to global integration process, relatively strongly democratic political systems, the high quality of human capital and some natural resources, CARICOM income growth lagged behind many other developing countries or regions- below the rate needed to reduce poverty and unemployment (Singh, 2004). The region's entanglement with international capital markets has provided a pathway to enormous opportunities, at the same time amplified the exposure to increased vulnerabilities. Notably the CARICOM member states are among the most indebted. While having one the more developed financial services sector and a larger base of resources, Jamaica was ranked 4th among the countries with the highest relative public debt in the world for 2015. Four CARICOM nations were among the top 20<sup>15</sup>.

The new regulatory requirements have also left an imprint on the region's financial system, both on and off-shore. By 2014, many countries across the CARICOM jurisdiction have incurred significant losses, resulting from slow or zero compliance of the anti-money laundering and other increased financial regulatory rule. This resulted in many being placed onto a non-cooperative list imposed by international institutions<sup>16</sup>. Subsequent labelling as a high risk destination for financial services has brought additional pressure on the region's banking system by the region's largest trade partners and the loss of relationships (Zagaris, Berliner, & Rowe, 2016)<sup>17</sup>. The reluctance to undertake structural reforms and growing external competition has eroded much of the region's competitive edge in other services, in the more tourism-based economies.

Despite, current and impending challenges, the region remains committed (see (Worrell, 2010), (D'Acosta, Melgarejo, & Mercer-Blackman, 2013))<sup>18</sup>. All CARICOM countries have committed to the international certification process of the Financial Sector Assessment Program (FSAP) and the region has made commitments under the Foreign

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<sup>15</sup> IMF

<sup>16</sup> Financial Action Task Force (FATF), the OECD, and the Financial Stability Board

<sup>17</sup> In 2000, the FATF estimates that the scale of money-laundering transactions is substantial in several countries of the region. Individual CARICOM member countries received varying conclusions regarding efforts to combat money laundering and their use as clandestine tax havens. The Bahamas, plus four of the seven OECS sub-region — Dominica, Grenada, Saint Kitts and Nevis, and Saint Vincent and the Grenadines — were placed on the FATF blacklist.

<sup>18</sup> The Bahamas and Barbados now boast a strong infrastructure of professional and technical skills, in law, accounting, finance and related disciplines, and can provide those services to international financial institutions at highly competitive prices (Worrell, 2010)

Account Tax Compliance Act (FATCA). The process of de-risking<sup>19</sup>, which is expected to be costly for the region, has already affected local and foreign owned financial institutions- in all member nations (see CARICOM Central Bank Governors (2016)).

Discussed by ECLAC (2002), the process of globalization has been an essential component to the development of specific sectors, but has fail to offer a way for CARICOM countries to overcome the weaknesses of the traditional sectors. This has ultimately led to continuous balance-of-payments issues and a continued dependence on official aid; resulting in significant limitations to the fiscal space for stimulating growth. Additionally, the process of globalization, i.e. import liberalization, has led to significant revenue losses for those countries highly dependent on import revenues. In some of the Organization of Eastern Caribbean States (OECS) countries, a subgroup of CARICOM, taxes on international trade accounted for a high of 60% of government revenue, which forced these countries to reform existing tax policies; a process that would prove costly for many. To date, the debt situation remains unchanged.

### ***Implications***

Repeatedly, integration into the global economy has resulted in increases in trade and investments between countries, i.e. globalization has paved the way to significant long term gains for all countries. However various challenges are continuously encountered. The wheels are turning and countries must find all ways to adapt, despite the cost – and the list of cost factors to be incurred for CARICOM members appears to be long. From this perspective, developing holistic and dynamic strategies will require innovation and creativity from clear and committed governments, borrowers, investors and financial institutions, if they are to reverse the current trends in development.

For the region to realize its goal in becoming a fully integrated services destination, it must generate reliable source of revenue that builds upon its distinctly available resources and skill as small nations. The recent performances of small developing countries in this increasing globalized environment have necessitated that CARICOM members seek to maintain competitiveness through varying strategic approaches. Currently, CARICOM have yet to attain the level of sustainable competitiveness necessary for a fully integrated and liberalized environment. The inability to identify measure and monitor the possible elements that determine competitiveness has been a major obstacle in the development of sound strategies for increasing competitiveness. An evaluation on the region's current situation and perception of international competitiveness would be a fundamental starting point.

## **4. International Competitiveness**

*“International competitiveness is the degree to which a country can, under free and fair market conditions, meet the test of international markets, while simultaneously*

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<sup>19</sup> De-risking” is a term used to describe strategies adopted by international banks to reduce the overall risk exposure of their asset portfolio in response to tighter regulatory standards imposed by national and international regulatory bodies with respect to prudential risks, AML-CFT risks, tax information exchange risks, and risks of violating sanctions.

*maintaining and expanding the real incomes of its citizens. (Texas A&M University, 2016)”*

This definition was found to be fitting for the purpose of this research as special emphasis is given to the fair market conditions; one of the fundamental drivers to the globalization process. Yet, by most measures many of the smaller and/or resource challenged countries appears to be at a disadvantage for the entire process to-date.

Before prematurely drawing conclusion on the future of the CARICOM competitiveness capabilities, factors affecting the growth of competitiveness must be evaluated, with a review of the region to date. Texas A&M University (2016) maintained that a country’s competitive level depends primarily on keeping the rate of productivity growth greater than, or equal to its major competitors’. However, Delgado, Ketels, Porter and Stern (2012) states that productivity goes beyond normal expectations of productivity per employed worker<sup>20</sup>, positing that prosperity is ultimately grounded in abilities to achieve high productivity as well as the mobilization of a high share of the workforce. Productivity growth rate is directly related to the rate of investment on innovation (Texas A&M University, 2016).

Through the Global Competitiveness Index (GCR)<sup>21</sup> coupled with a review of related literature and the recent work of the Caribbean Export Development Agency, a measurement of CARICOM member countries’ competitiveness levels in the wider market, will be analyzed.

## **5. Competitiveness within the CARICOM context**

According to the (World Economic Forum, 2014), the Caribbean’s economy continues to decline with less than favorable prospects; adding that the region continues to suffer as a result of weak investments, a fall in exports and commodity prices, and stringent access to financing options. Essentially there is a lack of competitive vigor.

*“... the Caribbean region is at a development crossroads and its member nations must take significant and concrete steps to improve productivity and competitiveness and face up to more global competition if they are to accelerate or even maintain past growth. By taking such steps, they will reposition themselves strategically as an emerging trading bloc for goods and services; without such action, they risk growing economic marginalization and erosion of many of the social gains of the last three decades” (World Bank, 2005).*

Recent reports on CARICOM<sup>22</sup> nations provide further evidence that the region continues to lose competitiveness. In the 2014-2015 Global Competitiveness Report (GCR),

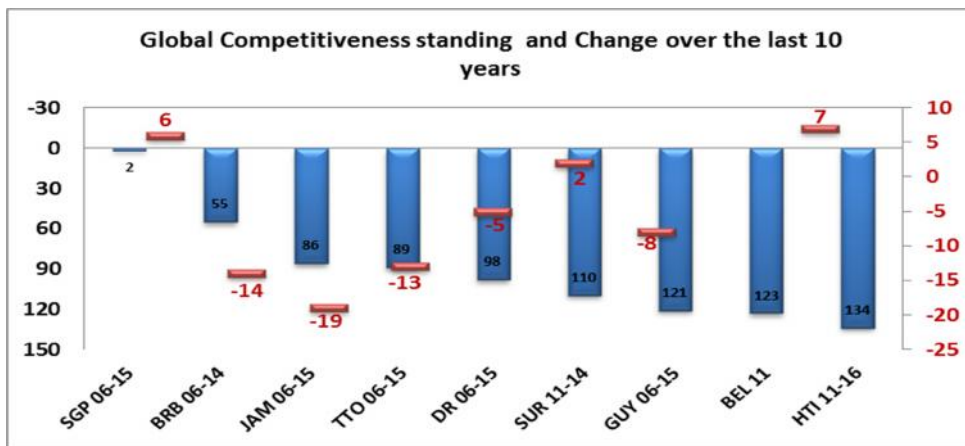
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<sup>20</sup> In reference to the ‘Kaldor paradox’ of 1978, Fagerberg (1988) initiated the argument that growth in unit labour costs determining international competitiveness is to simplistic.

<sup>21</sup> In 2004 the WEF published the inaugural Global Competitiveness Report, ranking over 140 countries based on their measured competitiveness index value. The report is built on a survey of over 13,000 executives, which measures 101 variables (macroeconomics, standard of living, quality of institutions, technology advancement, etc). It has since been the benchmark for countries to measure the overall competitiveness, both locally and international.

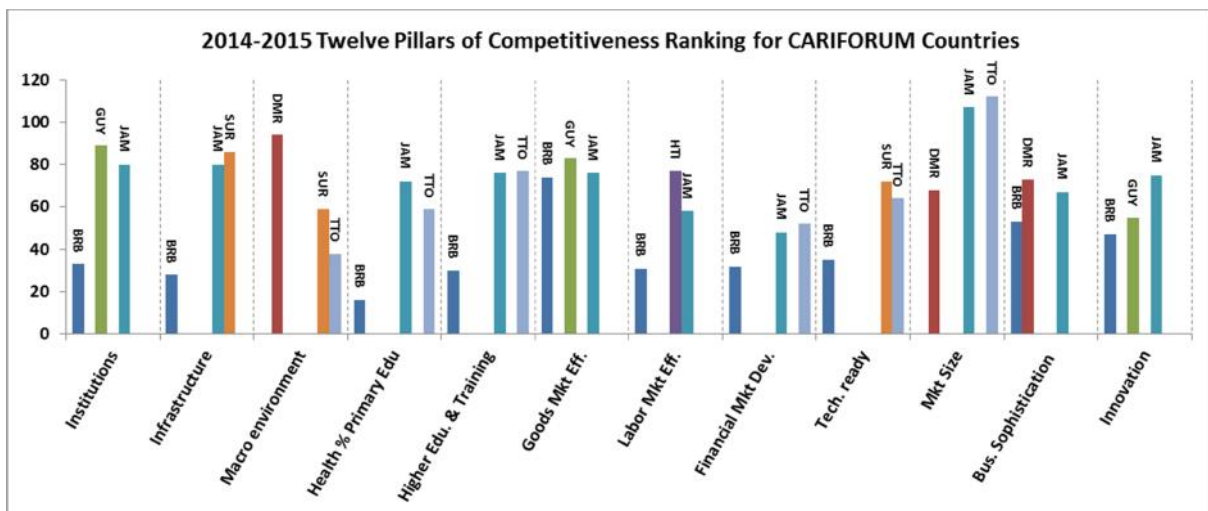
<sup>22</sup> Only 3 members of the English-speaking CARICOM countries were measured in the Global Competitiveness Report 2015-2016(World Economic Forum, 2016)

all captured member states<sup>23</sup> (excluding Suriname) fell below their initial positions dating back to 2006. Noticeably, significant contrast exists between the ranks of CARICOM countries and that of similar size and resource endowed Singapore. Reenergizing the region's competitiveness is not only imperative but requires urgent attention, to be able to reach the economic and social gains that many countries have experienced in past years. Highlighting that despite the comprehensive number of composite measures use in the GCR, the limited coverage of CARICOM nations imposes significant limitations in any fair assessment of competitiveness.



Source: Author's own calculations based on data from World Economic Forum online database

Across the twelve pillars of competitiveness, from amongst the member states listed, Barbados, Jamaica and Trinidad and Tobago are predominantly the top three performers.



Source: Author's own calculations based on data from World Economic Forum online database

<sup>23</sup> GCI values – Barbados - 4.35, Guyana - 3.65, Jamaica - 3.97, Suriname - 3.71 and Trinidad and Tobago - 3.95. Data for Belize was only recorded for 2011

Over the years, various literatures had noted the region's battled issues of competitiveness, both at the micro and macro levels with minimal success. Ramsaran and Roger (2008) provided strong evidence regarding the limited achievements for the group. The authors reasoned that the region had failed to create the expected intra-regional dynamics for trade and in its efforts to set an appropriate environment for a 'competitive and efficient' manufacturing sector that would access and exploit foreign market opportunities in what they coined '*an increasingly transparent global economy*'. Ramsaran and Roger (2008) later concluded that a strategy which focuses on a broader range of non-price factors is needed if the region was to truly reach greater levels of competitiveness. However, Buckley (2008) painted a more challenging vision where the future success of service trade hinges on its ability to find or create niches within the global environment.

Again in 2013, Worrell, Greenidge and Lowe (2013) evidenced the ineffective nature of price competitiveness for the Caribbean and Central American countries; empirically verifying that aggregate demand was the main driver for the region's export growth. This finding, cements the rationale offer by earlier researches; attempting to compete through prices would be futile for the Caribbean under the current conditions.

Within the last decade, various issues have been analysis regarding the regions competitiveness, in a wide range of sectors. Craigwell and Worrell (2008) undertook an empirical analysis of the price and income effects on competitive levels of the tourism sector within Caribbean countries, under a global context. Notably, the authors focus captured the views of the travelers from the U.S., U.K. and Canada; without coincidence the sector's largest partners<sup>24</sup>. Ultimately, the authors conjectured that with the minor exception of some countries the region collectively should pursue a strategy based on non-price competitiveness to increase market share of the major markets; positing that "non-price factors and market segmentation are the keys to competitiveness". However, the research failed to provide insight into the appropriate non-price factors or segment to promote the industry's competitiveness.

Following the general determination that service exports can now lead the charge for CARICOM's future development, Lorde, Alleyne and Francis (2015) sought to empirically qualify this broad rationalization by address the question of whether services can blankly fulfill the region's objective to be internationally export competitive. The analysis indicated a significant overlap between CARICOM countries' exports with a limited number<sup>25</sup> of these services being competitive. Additionally, it was proposed that the region<sup>26</sup>, based on present performances, should rethink an agenda of economic growth and development through the promotion of financial services as it is perceived as uncompetitive. Essentially, non-traditional services in CARICOM are uncompetitive and as countries increasingly switch their focus to services as the engine of growth, the advanced

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<sup>24</sup> Two year preceding the work of Craigwell and Worrell (2008), Lowe and Davis (2006) argued that despite lacking clarity on the concept of competitiveness, CARICOM member states during the period of analysis was uncompetitive in the US import market for a number of products. It was also rationalized that the limited number of competitive commodities was a result of the region's constraint regarding Porter's (1990) factor conditions; suggesting that the limited human, physical, and technological resources available are those critical to the enhancement competitiveness; recommending that limited resources be reallocated to high value-added areas.

<sup>25</sup> Travel Services, and to a much lesser extent, Insurance Services across all member states

<sup>26</sup> Particularly in countries of Barbados, Jamaica and Trinidad and Tobago

economies with well-developed services sectors are likely to force uncompetitive countries out of the global marketplace.

Prior analysis of the OECS argued that the regional members with uncompetitive industries are currently competing with the more highly specialized for the same market (Lorde, Francis, Iyare, Lacobiniere, & Alleyne, 2010). This further suggests a refocusing of efforts and resources for the region, if there is a sincere desire to increase levels of competitiveness. Highlighted was the financial and social cost to be endured as in many of the region's countries exist a dependence on the services sector for employment and foreign exchange.

Later, Lorde, Alleyne and Francis' (2015) recommended that with reference to improving the competitive levels, the region should swiftly act to develop skilled human resources; create of innovation policies for the desire economy; reform the labor market; and promote the use of information and communications technology (ICT).

There has been no shortage of discussion on the available macroeconomic factors which influence international competitiveness, or appropriate policy recommendations; many of which has been used in the GCR. In light of the number of CARICOM nations which have been omitted from the GCR, a series of alternate measures taken from the World Bank online database will be used to provide a preview of the region's standing. From among the wide range of noted variables, a current assessment of the real effective exchange rate (REER), ease of doing business and the labour market, are presented below. The analysis is limited by the availability of data for this subset of nations.

### ***REER***

The real exchange rate has been noted as an important determinant of price competitiveness. It has been frequently used to summarize a country's competitive position when compared with its trading partners. In 2015, the real effective exchange rate index<sup>27</sup> for all CARICOM countries, with the exception of St. Kitts and Nevis and Trinidad and Tobago, registered marginal declines between the periods 2000 and 2015<sup>28</sup>. Despite a dominantly appreciating trend, all members of the OECS were consistently in a better competitive position than was held in 2000. Appreciating values suggest a loss of competitiveness during the period. It should be noted that the region was advised against competing on price, see Worrell, Greenidge and Lowe (2013).

### ***Ease of Doing Business***

This measure provides another pillar of which to view a nation's competitiveness status from a macroeconomic perspective. The ease of doing business index provides key insight into the regulatory environment and process relevant to business operation for potential investors. In 2015, the ranking of CARICOM countries, across 189 economies, was led Jamaica at the 64th position, followed by St. Lucia (77th) and Trinidad and Tobago

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<sup>27</sup> Based =2010

<sup>28</sup> Missing from the dataset is Barbados – given it fixed rate policy, the REER is lightly to be relatively constant; and Jamaica, who's significant exchange rate changes a similar trend is expected

(88th) to round out the top three positions. Only four member countries were ranked above the mid-position. These results suggest the need for improve in all of the region's regulatory systems. The lowest ranked Suriname was held the 156<sup>th</sup> position.

### ***Labour Cost***

The labour market continues to be one of various data concerns for the region, creating additional obstacles for policymakers and research to adequately evaluate the progress of develop, or compare with partnering countries. However, the PROTEqIN<sup>29</sup> sampled firm-level data collected by the Inter-American Development Bank (IADB), provides a step in the right direction. The information gathered can provide some insight into the region's unit productivity cost, innovation practices, and labour concerns; all from the perception of the firm. Unfortunately, this data is not provided on an annual basis; the gap in data collection remains vast.

### ***Microeconomic factors***

A recent report commissioned by the Caribbean Export Development Agency, which seeks to identify and measure the key microeconomic factors that contribute to export competitiveness, argued that the current global index measures fail to adequately measure export competitiveness regionally. The constructed export competitiveness index (ECI) is an index of the best practices and costs of inputs relating to exporting from a micro perspective. This new and innovate approach taken with Caribbean focus, should be carefully followed, regarding its future application; facilitating more appropriately the region's unique practices and culture.

## **6. Concluding Remarks**

The goal of this research was to address the question: Can CARICOM countries maintain positive economic growth rates in an era of increasing globalization under the same modus operandi--without meaningful improvements in their international competitiveness? This required a review of the region's current and potential prospects from development in an increasingly globalized environment, which has resulted from many years of strategic planning at the policy level; possibly without a full comprehension of the need to be sustainably comprehensive.

The information presented provided a tenable argument that the region has placed noticeable effort in the development of these varying economies. However, as it continues to fall behind in an ever-increasing globalized environment, individual countries vary largely in their development stages and interdependence; evidence that CARICOM has yet to effectively display its intention to develop as one single community. With significant resources spend on the progression into a single market, governments should be mindful of the slow pace as it may distract from the wider development issue.

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<sup>29</sup> PROTEqIN is a comprehensive and internationally comparable firm level dataset covering 14 Caribbean territories. The dataset records firm level behavior related to a variety of aspects such as: sales, supplies, foreign trade and competition, innovation, conflict resolution, crime prevention, business environment and government relations, labour and skills, financing, performance, among others.

CARICOM countries have not explored or efficiently exploit their available unique resources- unique location, quality education, and known comparatively advantageous products or services- that may exist individually or as a collective. Reliance on traditional markets and preferences is no longer a pliable path to sustained development. Individually, the Caribbean economies needs to break down its barriers of division when it comes to the debate on international trade and competitiveness. Instead, the region collectively needs to give its fullest possible attentions of commitment regarding the following: focused areas of development with individual characteristics, within an increasing competitive and evolving global environment; coupled with reduced domestic policy protection, innovative and dynamic approaches. The identification and exploitation of niches, in a competitive nature, is critical to future progress; current or past modus operandi is ill-advised. The crafting of policies which enhance regional competitiveness to support increased global integration through trade and investment must now be a primary focus.

Numerous international measures exist both at the micro and macroeconomic level, yet a range of member nations are annually. However, the region's trade receipts and, by extension, its wealth, continues to comparatively fall below the more developed nations. All available data point to a declining competitive edge. Compounding this issue is that many of these have be debated upon regarding the inappropriateness for the region. Future development plans requires involvement at every level of these economies. The net benefits derived by other small developing countries stand as prove to the potential development attainable by CARICOM member countries; however, this requires a paradigm shift in strategy.



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