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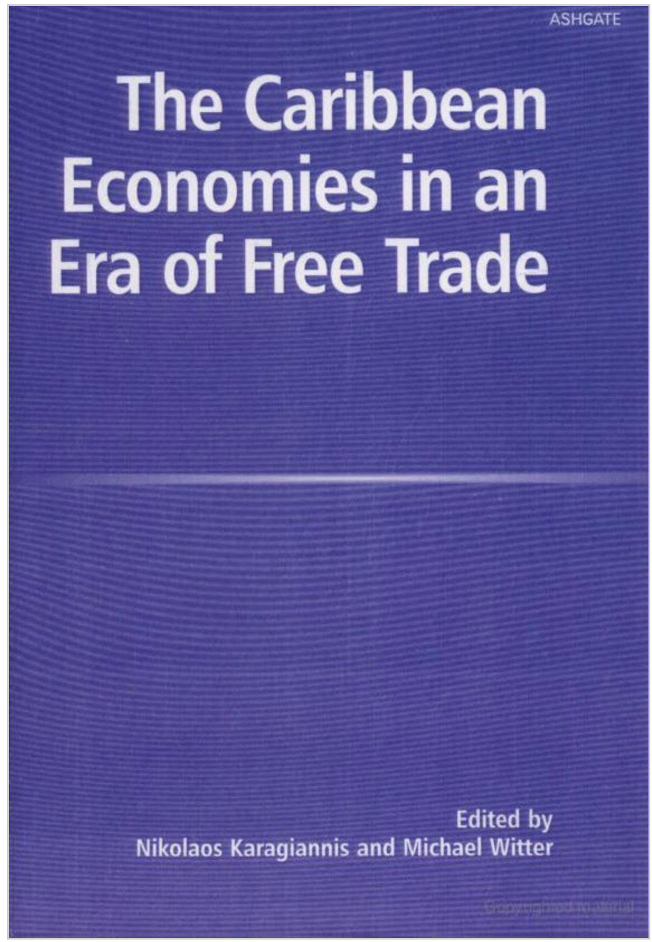
The Caribbean Economies in an Era of Free Trade

The Caribbean Economies in an Era of Free Trade. Edited by Nikolaos Karagiannis and Michael Witter (The University of the West Indies, Jamaica), Ashgate Publishing Limited, Burlington, VT, 2004, 203 pp., $130.00/paperback.



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This book, a collection of 10 articles addressing the issue of economic free trade in the Caribbean economies, is divided into three sections.

Section I. Theoretical issues

In "*Dependence, cumulative causation and the Caribbean*," Nikolaos Karagiannis, coeditor of the book, posits that wealthier countries have been taking advantage of poorer countries in the international markets for some time now. As he points out, in the three decades prior to 2004, the wealthiest 20 percent of the world's population increased its share of income from 70 percent to 85 percent at the same time that the poorest 20 percent's share fell from 2.3 percent to 1.4 percent. Thus, in his view, globalization has actually worked to expand, rather than contract, the worldwide dispersion of wealth, income, consumption, power, technological capabilities, and access (to trade, labor, and finance).

After examining various economics-related topics, policy, and industrial strategies, Karagiannis concludes that the Caribbean economies will have to do a better job of meeting both quality and price expectations in order to compete in the global market. Actions will need to be taken to create an atmosphere conducive to local socioeconomic development and the effective enforcement of production-oriented policies. According to Karagiannis, Caribbean government structures cannot, and should not, depend on "favoritism" and "clientelism." The author's perspective on the Caribbean countries is well taken. Conveniently, he also introduces neoclassical and radical theories in this article that are mentioned in various articles later in the book.

In “*Are there any limits to ‘globalization’? International trade, capital flows and borders*,” Grahame Thompson investigates the question set forth in the title. Based on his analysis of international trade, foreign direct investments, foreign stocks in equity portfolio, and cross-border European interbank activities, Thompson’s conclusion is that there are indeed limits. In his view, cross-border financial activities in the 1990s clearly did not grow at the same rate they did in the 1980s and this trend will continue. The point is borne out in an excellent chart he includes showing world exports from 1978 to 1999. Although Thompson projects the slowdown in exports to continue, he also states his belief that there is little hint of a downturn in the growth of world GDP. It would be interesting to compare and contrast his conclusions, based on 1978–1999 data, with conclusions based on today’s data and using the same methodology.

In contrast to the other authors in this collection, Robert Read, in “*The political economy of international integration: small states in the Caribbean and the Free Trade Area of the Americas (FTAA),”* focuses on the FTAA from a regional economy perspective rather than a national one; in particular, he looks at how small states would be affected by the FTAA and at economic integration dealing with constraints in the Caribbean.

Read identifies a number of sectoral issues. One is that there are “fallacy of composition” problems, in which too many Caribbean countries specialize in identical or similar business services, types of tourism, and agricultural products that compete with each other for limited regional markets. Although the author notes that some states in the Caribbean have been somewhat successful in improving growth rates and living standards, his opinion is that economic policymaking in general needs to be revamped.

Anthony Clayton’s article, “*Globalization, technology, trade and development*,” analyzes why some undeveloped countries succeed in developing their economies while others fail. Clayton then suggests that developing countries implement strategies relating to competitive advantage and knowledge. He believes that competitive advantage requires a concentration of human capital, the dissemination of technology, a better managerial capacity, improvement in knowledge networks and business groups, the resolution of recurring new problems, and the ability to capitalize on opportunities. Regarding knowledge, he cites *dependency theory,* which recognizes knowledge not as a constant commodity, but rather as a vital combination of management information, technology, skills, and infrastructure necessary to keep up with changing demand. Adopting the measures promoted by that theory, he suggests, would allow Caribbean countries to manage their economies better and engage in trade more effectively.

Clayton also presents a number of interesting facts about the relationship between the global economy and what he calls “Gross World Product.” He believes that globalization both accelerates technological adjustment and breaks down barriers to international trade. Interestingly, the author correctly states that China surpassed both Germany and Japan in 2004 to become the world’s largest industrial economy, but incorrectly states that China was the largest exporter to the United States that year. According to the U.S. Census Bureau, Canada was the top exporter to America at the time Clayton authored this article.

Section II. Policy issues

"*Monetary policies for small island economies*," by Carlos J. Rodríguez-Fuentes, is among the clearest and easiest-to-read pieces in the book. In it, the author provides a good introduction to Keynesian and monetary theories and how they apply to small-island economies. He includes a table that illustrates how monetary policy affects the development of banks, puts limitations on investment, and influences lending reserves in small-island economies such as those in the Caribbean.

Most other literature on the topic suggests that monetary policy in small Caribbean island countries tends to be ineffective, partially because of the necessary political and economic reliance on other countries. In contrast, Rodríguez-Fuentes argues that monetary policy can enhance economic growth by encouraging proper investments (in banking and financial development) and improvements in productive capacity.

In "*Development policy options for CARICOM in an era of free trade*," Marie Freckleton and Nikolaos Karagiannis analyze policy options for the nations of the Caribbean community (CARICOM) regarding trade agreements. Their view is that neoliberal economic policies in the Caribbean countries have proven ineffective in the competitive world economy. As proof, they provide a table comparing manufacturing and agricultural sector GDP data among the Caribbean countries with analogous data from the rest of the world. It would be interesting to compare current data with those from 11 years ago, when the table was created.

Freckleton and Karagiannis conclude that the CARICOM countries will be unable to compete in the international economy so long as they harbor an insufficient technological infrastructure and low levels of human capital; until those conditions change, the CARICOM countries will continue primarily to assume their role as supplier of such commodities as "sun and sea" and cheap, unskilled labor. The authors offer some different strategies and options, including, for starters, the need to improve those countries' basic infrastructure (roads, irrigation, etc.). The Caribbean governments also need to locate competent development planners and technocrats to carry out legitimate national strategies and reduce "pork barrel" policies. Planning should be democratic, allowing for collaboration and cooperation among state representatives, business leaders, and civil society in order to realize the CARICOM countries' transformation to a developed economy.

What do the Caribbean nations stand to gain or lose by joining the Free Trade Areas of America agreement? In "*Caribbean tourism and the FTAA*," Ian Boxill, Diaram Ramjee Singh, and Marjorie D. Segree find that most Caribbean businesses would suffer by competing directly with the other North American countries. The authors believe that only resource-based industries, such as methanol in Trinidad and bauxite in Jamaica and Guyana, would likely succeed. Consequently, the focus of their article is the tourism industry, which they feel offers the Caribbean economies a competitive advantage.

Unfortunately, their conclusion is that joining the FTAA would likely lead to excessive dependence on the tourism sector alone, increasing the vulnerability of local economies and aggravating their dependence on imports. Although some economists argue that FTAA membership would reduce the cost of imports of consumer goods by decreasing tariffs, others maintain that lowering tariffs would diminish government revenues and lead to increased levels of capital outflow; in a number of Caribbean countries, trade taxes amount to 50 percent of the budget. Implementation of the FTAA, some believe, would merely force these countries to find alternative ways to raise revenues.

To their credit, the authors post their forecasts of the top job-creating countries in the Caribbean from 2002 to 2012. After factoring in the declining revenue to the travel and tourism industries as a result of the terrorist attacks of 9/11, Cuba and the Dominican Republic are seen to finish first and second, respectively, by double-digit margins. The forecasts, however, do not factor in how natural disasters, such as the Haitian earthquake, might have affected job creation.

Section III: Country-studies

In "*The Bahamian economy in the era of the FTAA*," authors Nikolaos Karagiannis and Christos D. Salvaris provide a guide to a productive fiscal policy in the Bahamas given the constrained budget situation facing that nation. Financial markets in the Bahamas, the authors believe, are currently designed to encourage risky projects emphasizing short-term gains. Too often, this situation leads to a "dysfunctional business culture," stemming from insider trading, conflict of interest, corruption, and insufficient governmental oversight. The authors opine that investment in the necessary technological innovation and training to support critical sectors of the Bahamian economy could yield significantly higher rates of growth, wages, and productivity, although funding such an investment could be a problem.

I agree with the authors that the Bahamian government needs to focus more on long-term objectives. As they put it, a good first step would be for the business elites and the socially well connected to network better with government officials responsible for planning. Ideally, the developmental planning would be sufficiently democratic to allow for participation at all levels of Bahamian society.

Coeditor Michael Witter opens "*Prospects for Jamaica's economic development in the era of the FTAA*" by expressing his concern that future international geopolitical events and situations, such as religious wars, social conflicts, and other tensions, could easily affect his analysis of the Jamaican economy. His position is that Jamaica (and the rest of the Caribbean countries, for that matter) has become more, rather than less, economically dependent than in the 1960s, when it achieved independence from the United Kingdom. His excellent presentation of the history of Jamaica enables the reader to understand how much of an impact past events have had on the present.

In theory, according to Witter, Jamaica should compete well in tourism, services, cultural products such as exotic food and drinks, music and other forms of entertainment, and aluminum production by joining the FTAA. The challenge is to find better ways to allocate the country's resources, a task that might require establishing legitimate social partnerships among the Jamaican government, foreign and local investors, and civil society, in order to compete more favorably internationally. Although it is the author's position that the United States assumed the supreme role in what he terms the "unipolar world in the 1980s," I would contend that it was more of a bipolar world, dominated by the Cold War struggle between the United States and the Soviet Union.

"*The Demand for imports in Jamaica: 1972–2000*," by Dillon Alleyne, includes much discussion about econometric models. The author contends that utilizing domestic factors of production in lieu of importing is an essential step in improving Jamaica's economic policies. He believes that doing so can simultaneously assist in conserving foreign exchange without constraining endogenous growth.

I recommend Karagiannis and Witter's *The Caribbean Economies in an Era of Free Trade* to anyone with a strong interest in the Caribbean economies and free-trade agreements who has some knowledge of technology and economics. Combining 10 articles on the Caribbean countries into a single volume is a strength because it provides a number of different economic perspectives and analyses. My only criticism of the book is that I think it should have provided better references so that readers would know exactly when each article was written and where to find other information on the topic.