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Political Perspective on Globalization: Implications for Small Economies

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**POLITICAL PERSPECTIVES ON GLOBALIZATION:
IMPLICATIONS FOR SMALL ECONOMIES**

**Address given by
the Honourable Prime Minister of St. Lucia
Dr. Kenny D. Anthony**

**GEORGETOWN UNIVERSITY
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PREFACE

The address that Dr. Kenny Anthony, Prime Minister of St. Lucia, offered at Georgetown University early in November of 1999 deserves a wide audience and careful consideration. While Dr. Anthony's title emphasizes the implications of globalization for small economies, the text of his talk makes it clear that we *all* live in local contexts, small societies involved in large historic processes. In its struggles to promote human well-being in the context of rapid globalization, St. Lucia experiences what much of the world experiences—struggles to prosper, to maintain families and communities, amidst globalizing economic forces beyond local control. Prime Minister Anthony emphasizes that St. Lucia is different because it is small. If so, St. Lucia is a small nation with a clear advantage—a state with a leader committed to its people.

Dr. Anthony recognizes the economic promise of globalization. Production and exchange move toward unimagined heights. He also asks fundamental questions about the social and cultural ramifications of the global economic miracle. What are the costs and consequences of governments' cutting back on spending for education and health services in order to reduce taxes and attract investment? Might the economy prosper while society suffers? What are the costs and consequences of lowering wages paid to people already poor in order to attract businesses with low labor costs? Will business boom while families suffer?

The answers are not simple, as Dr. Anthony emphasizes. The issues demand careful consideration. Those who promote and prosper with globalization repeatedly assert its essential benefit—demonstrated by soaring production, trade, and profit. Difficulties are dismissed as short term dislocations or unfortunate distortions. As Prime Minister of an island nation the size of a small city, Dr. Anthony knows his citizens. He knows that profits earned (and often exported) in exchange for low taxes will not educate the next generation of St. Lucians. He knows that goods produced in exchange for starvation wages (and often exported)—however competitive in world markets—will not sustain St. Lucian families.

Dr. Anthony asks us to think carefully and creatively about how the productive powers of globalization can serve the needs of individual people and struggling families in small economies, regional societies, urban neighborhoods, and rural communities—the places most of us live.

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Dr. Kenny D. Anthony*

Presented by the Georgetown University Caribbean Project

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BETWEEN CHOICE AND GOOD FORTUNE

There are few images more inspiring, or more humbling, than a satellite picture of planet earth suspended in the studded blackness of the known universe: a blue marble of intermittent continents and seamless oceans beneath a single swirling atmosphere. If we are still capable of humility, that image should remind us of how finite our planetary options really are.

It should also impress on us the fragility of human existence and in that context, the irrelevance of singularity. If we are sensible at all, we could be so inspired by the ingenuity of our species to assume a collective responsibility for defining a global future. But if we are addicted to the awesome technology that makes the blue image possible, then we will merely savour delusions of omnipotence.

As with many of the innovations of this century, what Globalisation offers is more choice. For all its inconsistencies and mixed fortunes, this is perhaps its most fundamental attribute. A world of integrated production systems offers increased options to producers, consumers and policy makers. In exercising those options, we can be consumed in the relentless accumulation of more wealth for the few, or challenged to deploy the surpluses of innovation to create a more equitable world. This is my theme: the dilemma of choice and the relative power of various actors to access those options offered by Globalisation.

A TIMELY RETROSPECTIVE

There was a time when global domination might have actually made sense; at least for the few. In those heady days, deserted now by history, the vanquished accepted their fate. The

disenfranchised and the dispossessed kept their distance. The scourges of human poverty and environmental degradation did not spill across borders into the lives of ordinary people half a world away.

Mercifully, thanks also to the very technology driving Globalisation, that time has passed. In today's world the sciences of economics, commerce, and communication have merged to an extent where isolation is virtually impossible. Human rights issues inform trade policy; even if selectively so. Environmental issues reform consumer behaviour. Political issues influence capital flows. Information has become a traded commodity – then again it always has been.

In the same vein, capital is not just a factor of production anymore. It is a commodity in its own right. For better or for worse, financial markets around the world are irrevocably married. Both information and capital are instantaneously mobile and they move at will across intermittent continents and seamless oceans, beneath a single swirling atmosphere. This is one face of Globalisation.

WHAT LIGHT BREAKS...

Beyond the relentless march of capitalism and democracy, Globalisation is also a multi-dimensional, people-driven process. It belongs in varying degrees, to everyone whom it touches. It has placed the Internet in our homes and put the world on our desktops. It has also created an avenue for a whole new generation of small producers to market highly specialised products to the world at large.

At its worst, Globalisation is a sword of Damocles threatening the small, the weak, the irresolute and the inefficient. At its best, it provides us with a global marketplace, which we must access with acute consciousness of an interdependent world and the promise of new enlightenment. As there are doomsayers enough in the world, I would choose in these few minutes to offer a political perspective on the positive implications and vast possibilities that Globalisation offers and dwell on the need to make those possibilities more accessible to small economies.

COMING TO TERMS

We brandish it about, this term *Globalisation*, as if it were a generic thing; an inevitable

evolution overtaking every facet of production. I beg to differ. On the external side, it is true that global pressures are forcing efficiency reforms upon us all. But that is a matter of timing, not ideology. As small states, we need efficiency for our own purposes and must see this as an opportunity for welfare maximization. Inefficiency, duplication and waste delay welfare maximization in any society. We do not need global competition to acquire this truth.

On the other hand we need not be all pessimistic and fatalist. Some markets are global some are not. Some firms are global, most are not. Societies with the lowest wages and the lowest tax rates will not necessarily inherit the earth. Societies with social stability, and a strong sense of identity and community are also magnets for investment. More importantly, they are havens for the highly mobile owners of intellectual property. Societies with crime-free streets and quality education are just as likely to prosper in the brave new world.

Responding to Globalisation should therefore be concerned not only with naked efficiency and higher profits, but also with generating savings for investment in critical social assets, in community, in our humanity. This is true at national as well as international level. If we allow it, Globalisation will become a faceless phenomenon. It could march on relentlessly, trampling the sensitivities of tradition, culture, and social welfare. Then what would we go home to when the marketplace is closed?

THE POOR AMONG US

Globalisation need not be a creature unto itself without direction, without design. On the ground, Globalisation is driven by companies, by governments, by individuals. It is driven by all of us in our relentless search for more: more income, more convenience, more immediacy. These we assume will be derived from more technology, increased productivity and greater competition. In theory, this should drive prices down, push output up, boost global sales and expand international trade. Yes, it can be all this, but at what price?

Consider if you will, that there will always be a cheaper way to produce a widget. Technology will see to that. To be more precise there will always be a way to shift costs of production off the income statement of multinational companies. That is not to say that these costs disappear. In many instances they are simply shifted to workers and their families, to the

degraded environment, to the law courts, or prisons or to governments.

The point is if we fail to adopt some vision of global equity in our blind pursuit of consumerism, there will always be another starving mother of six who needs another rupee, another peso. There will always be orphaned street kids and immigrants fleeing persecution. There will always be prison labour. And, if they must, they will all work for less than a respectable wage. If it sounds vaguely Dickensian, then we ought to question just how far humanity has really progressed since Charles Dickens chronicled the injustices of his era.

Charles Handy, another British thinker of more recent vintage, and author of *The Age of Unreason*, offers the following comment:

The pressures of technology are inexorable. It knows no boundaries. Increasingly what the British can do, somebody else can do cheaper, not only in Southeast Asia but also now in Eastern Europe... We cannot rely on doing the same old things. We have to change what we do and perform better and quicker in order to earn our way in the world... There will be good, expensive, productive jobs but there will be many fewer of them... That creates a problem not only for individuals but for society as a whole.¹

THE REALITIES OF SIZE

If we accept that this is true of Globalisation in Britain, imagine the daunting implications for smaller economies. While the criteria mix for small economies will be debated for some time yet, typical indicators include population, land space, GDP and trade dependency. These indicators relate to the absolute and relative magnitude of an economy in terms of its fundamental resources: human, land, and capital. Size then is a determinant of competitiveness in more ways than one and the economies of the Caribbean qualify as small in both absolute and relative terms.

The primary characteristic of our small economies is that both the pace and scope of their responsiveness to Globalisation is limited. The reasons for this vary from country to country, but several commonalities are obvious. Small economies generally share a high degree of openness, limited diversity in economic activity, export-concentration on a few products, dependency on trade related taxes, and the small size of firms. Because of limited land area and small

¹ *What Needs to Change - New Visions for Britain*, Giles Radice, Ed., Harper Collins: 1996

populations, our economies also have real constraints on their material and labour inputs. These are manifested in quantum, quality and variety. Moreover, we cannot simply purchase relevant inputs on the open market because their cost cannot be spread over the current scale of output.

Let me here commend to your reading a recent paper by Richard L. Bernal, entitled *The Integration of Small Economies in the Free Trade Area of the Americas*.² I should also acknowledge his work as a valuable contribution in the quest for a better understanding of the characteristics of small states. Very briefly, he confirms that relative to their larger counterparts, small economies tend to have a narrower range of domestic and export production possibilities. This is directly related to the small size of their markets and a limited range of resources.

He also maintains as do many of his peers, that the attainment of economies of scale for a wide range of products is limited, and this leads to high unit costs of production. Small market size is also associated with high costs because of a lack of competition. In fact, in many instances the market can only support a single producer, that is a monopoly.

Openness, coupled with a concentration on a few export products, particularly primary products, make small economies vulnerable to external economic events and real shocks of an intensity unparalleled in larger countries. The reality of this fact is often reflected in a proneness to natural disasters dictated merely by geographic location. The relevance of this fact lies both in the pervasiveness of destruction as well as in the limited availability of surplus resources for reconstruction. A small island can have its primary agriculture, its tourism plant and its communications infrastructure wiped out in a single hurricane. By contrast, a large country is unlikely to have its entire land space affected by any single natural event.

OUR CAPACITY FOR CHANGE

We forget sometimes that trade takes place between firms, not countries. We forget that small firms in small economies, are disadvantaged as compared to large firms in diversified economies. This is because both internal and external economies of scale are constrained. Consider also that opportunities for vertical and horizontal relationships are limited. Clusters of firms working symbiotically to become sustainable industries are not common even across

² *Policy Papers on the Americas Volume IX Study 1: Centre for Strategic and International Studies.*

firms working symbiotically to become sustainable industries are not common even across regions.

Suffice it to say that while exposure to global competition may produce efficiencies it also requires small firms to invest heavily just to survive in their national markets; more so, if they hope to export. Several Caribbean Economists who have lived with the reality of under-development will maintain that small economies inevitably pay more for most goods and services. Transportation is one inescapable example. Due to smaller cargo volumes and small cargo units, our economies pay an average of 10 percent of the value of merchandise exports as freight costs. Compare this with a 4.5 percent worldwide average and an 8.3 percent average for developing countries as a group. This has inescapable implications for the viability of manufacturing.

For these reasons, the Government of St. Lucia has adopted a landmark private sector development strategy. Designed specifically for our economy, this strategy recognises international competitiveness and economic diversification as high priorities. It also recognises the lead role of the private sector in accelerating investment and employment, and the facilitating role which government must play. The strategy has attracted the attention, approval and support from the European Union. For the first time, a sustained quantum of real resources is being targeted directly at emerging and export-ready private sector firms, and institutions.

In all this, it is inevitable that our public sectors will account for a relatively larger share of GDP than obtains in more established economies. This is not unrelated to a certain indivisibility of public administration and public infrastructure. When for example, we are expected to cut government spending, the most visible targets are in the social sectors like health and education. These are the very sectors that support growth. For small states hoping to develop human capital, these recurrent expenses are really investments.

Even as our small economies strive to reduce export instability by shifting to services, such as tourism and financial services, we are buffeted by opposition from the very economies with which we seek to compete. It is no secret for example that the Caribbean attempts to diversify into international financial services has provoked sweeping allegations from jurisdictions which have over-taxed and overspent their way into debt and fiscal instability. Yet, there is no such reaction when political and macroeconomic instability prompts capital flight out

of developing countries into industrial economies.

THE PACE OF ADJUSTMENT

In considering small country adjustment to Globalisation then, it must be accepted that small, relatively undiversified economies will find the process more difficult and of necessity slower. Let us not forget our earlier premise that the process has a human dimension. Quite apart from reorienting productive workers, the question facing our governments is what to do with that portion of the labour force made redundant by the so-called efficiencies of globalised production.

For our own sake therefore, our Government has initiated a series of remedial programmes that seek to redress several years of social policy ambivalence. In the first instance, we are designing and supporting youth employment programmes. To prepare for increased labour market competition, we are establishing human resource development centres, training young people for the world of work and matching their skill attributes to employers' requirements.

Small economies do not have the same invisible hand stirring the adjustment process to absorb displaced labour. Nor do we have formal welfare systems designed to disguise unemployment. The cost of displacement is borne directly by families, communities and governments. The results of displacement are immediate. They militate against the social stability required for future investment and growth.

David Marquand, Professor of Politics, British MP and author of The Unprincipled Society, offers an opinion on an evolving British economy:

The hallmarks of the restless, voracious global capitalism of today, with its downsizing, delayering, and casualization, its repeated restructurings and its spreading atomisation, are discontinuity, instability and insecurity.

For us in the Caribbean, the picture is all too familiar. Indeed, we recognize the danger signs in our own fragile communities, which continue to evolve while searching for a relevant development paradigm. As fledgling economies, the Caribbean has danced to the shifting beat of foreign and homegrown political expediency. We have imported instability and mixed results but in general, our significant growth has come at a high social price.

societies: crime, pockets of chronic poverty, unemployment, and social disintegration. Until recently, we have tended to accept these ills as inevitable spin-offs of our store-bought prosperity. Now, laden with those ills, the clamor for reform requires that we recapture a middle ground. It requires us to seek an economic and political ideology that is neither pure *laissez-faire* nor leftist; an ideology that is just but pragmatic; that produces economic growth with a social conscience. I commend this lesson to the shapers of global fortunes.

GOVERNMENT AND THE HOLY GRAIL

Our search for solutions must bridge the pitfalls of our history. Certainly at national level, the role of government must be radically rethought. We are not alone in this thinking. Indeed, we are relieved that there appears to be some quarter for this approach even within the erstwhile impregnable thinking of the IMF. We are coming slowly the realisation that to function well, market economies need governments that are efficient and even-handed in establishing and enforcing essential rules for promoting widely shared social objectives.

The view is shared by Saleh Nsouli, Deputy Director of the IMF Institute, who writes the following about transition and developing countries:

*Severe income inequalities have to be tackled. Over time, institutional change and increased competition should help reduce economic rents and income inequalities. This process will take time, however and Governments will need to put in place well-targeted safety nets for the most vulnerable.*³

Imagine then that this logic could be applied to the global economy; imagine that small states could be considered the vulnerable sectors of the global economy. It could then be accepted that safety nets for countries are as valid a concept as safety nets for exceptional sectors of a domestic population. Several institutions of what may be deemed “international government” are reluctantly concurring. The day of universal agreement on this approach may be coming but it seems still a long way off when one considers the continental conflict over banana markets.

³ *A decade of Transition – An Overview of the Achievements and Challenges, Saleh M. Nsouli: Finance & Development, IMF. June 1999.*

banana markets.

THE FRUITS OF LABOUR

For us in the Caribbean, more specifically the four Windward Islands, - Dominica, St. Lucia, St. Vincent and Grenada - this is the litmus test of those aspects of Globalisation driven by powerful multi-nationals. By mutual acquiescence agricultural subsidies and protectionist regimes remain in place for domestic agriculture in most industrial economies. Yet, a major trade war rages over the issue of access for Windward fruit. For us it remains mystifying that the United States has chosen this issue of bananas to manifest its trade differences with the European Union.

The strategic importance of this industry to the economic security of our region seems of little interest to the proponents of this particular aspect of free-marketism. Yet, the instability and uncertainty associated with the U.S. opposition to preferential access has accelerated attrition within the industry on the ground. We are nevertheless struggling to recapture previous production levels with new technology, improved husbandry, and post-production restructuring.

These adjustments are critical but they are also expensive and take time to implement. Their costs cannot be spread painlessly over just 4% of world output. Their imposition will therefore further reduce net gains to the industry. We are hopeful however, that the great American tradition of justice and fairness will prevail, and, with the help of our E.U. partners, we continue to seek compromises. In this regard we are confident that the emerging consensus on a new tariff rate quota system will help restore stability to this vital sector.

Yet, the production realities in the Windwards clearly indicate an inability to match the scale and scope of major US-based producers. Here the question also arises as to the validity of open competition if in fact, it is likely to undo the only competitive element in the existing market. After all, the Windward Islands account for just 4% of global banana production. Competition that produces the distortions of oligarchy hardly seems worth pursuing.

Our experience with the WTO has also been a painful lesson; one which highlights the inequity of access to the processes of suit and appeal. This issue goes beyond free trade to issues of fair trade, and the need to establish the safety nets mentioned earlier. If indeed, banana

should this be considered a dispensable luxury in the pursuit of open competition?

If we take a global view, we might well ask whether we should all be reduced to the plight of the hungry mother of six willing to work another hour for another peso. And what indeed, is an acceptable wage and should it vary by country, reflecting for example, the inescapable costs of living in a small island economy. If we drive prices and wages constantly to the margin, whatever the human cost, then the sword of Damocles hangs over us all.

Charles Handy writes this of Anglo- American free marketism:

There is a hole in the heart of our capitalism... Communism had something we do not have. It had a cause without an effective mechanism: Capitalism has an effective mechanism – the market – but [it has] no cause... In my view markets only work well in the 1990s when they are balanced with a proper concern for others.⁴

This concern needs to be translated for application to the global market place. While international competitiveness demands maximum efficiency and minimum price, the local economy which is smaller and service based, need not be subject to all the same rules. Some of the world's largest economies have trade to GDP ratios below 10% and maintain high domestic prices within closed domestic markets. These are regulated not by the laws of international trade, but by local demand and supply economies, according to local circumstances.

The result is higher wages and higher standards of living for their constituents than would be possible in a global market of goods and services. Small economies must not therefore be deluded into abandoning their important social functions in the name of Globalisation. These remain necessary for social stability and welfare maximisation. Employment generation and the provision of social goods will always be critical functions of governments even as they devolve traditional responsibilities to emerging private sectors.

Similarly, public sectors searching for new relevance and internal efficiencies cannot become slaves to market forces. Here the emphasis must be on quality maximisation not just "least cost", for it is this sector which produces better students, healthy citizens, devoted policemen, and the public goods required by civil society.

Regarding governance and civil society, we in St. Lucia are exploring some home grown

⁴ *What Needs to Change - New Visions for Britain, Giles Radice, Ed., Harper Collins: 1996*

Regarding governance and civil society, we in St. Lucia are exploring some home grown alternatives. Besides the restoration of local government to communities island-wide, our government is also empowering communities to develop, implement and manage community projects and resources. Quite apart from the cost-sharing benefits of this approach, significant employment spin-offs have been created as well as opportunities for self-determination.

Our islands have a proud and extraordinarily peaceful tradition of democratic government. We are coming to value that fact once again. By energising and empowering the private sector, labour unions, community groups and community-based organisations, we are rebuilding a trust between central government and civil society. As Government does not have all the answers to all the radical revisions ushered by globalisation, we believe this will improve the viability of local economies and their responsiveness to change.

FINDING GLOBAL EQUIVALENTS

The same logic might profitably apply at international level. All market situations cannot be governed by the same set of rules, universally applied by a single supranational entity. To repeat an earlier assertion, it is companies that trade; and companies can be run for the benefit of shareholders as well as the employees who generate output.

If we accept the image of the blue marble it might be possible to make the leap from justifying equity at national level to justifying equity at global level. We might recognise that no single set of rules can deliver justice and equity across a diverse global economy. All the more so when the majority of the world's countries have not meaningfully participated in defining those parameters. It is critical therefore that mechanisms be designed to support small states through the processes of globalisation. This applies equally to their meaningful participation in the design of international trading regimes like the FTAA and the WTO.

ON THE HOME FRONT

In the meantime, St. Lucia is transforming and modernising all the major development platforms at its disposal. Our banana industry has been fully and democratically privatised. It is now a model for our partner governments in the Windward Islands. In anticipation of the

information age, we are liberalising and modernising our telecommunications sector, building new capacity for economic diversification and creating economic space for new investment.

Within a supportive policy environment, St. Lucia's tourism and related services are maintaining their international competitiveness. Forward planning and macro-economic stability are paying significant dividends in this sector with the rate of investment in tourism plant being among the most favourable in the Caribbean. Our impasse with American Airlines notwithstanding, we expect robust growth in this sector to continue our economic transformation toward a service-based economy.

CONCLUSIONS

Finally, we return to our first premise of taking responsibility for determining the circumstances of our own development. It cannot be denied that small economies in particular, must manage scarce, finite resources prudently, efficiently and effectively. This logic presents itself not just because global trends demand conformity, but because small economies enjoy fewer internal and external safety nets. There are fewer options for shifting costs and disguising problems. As such, we must face the need to generate surpluses to fund our own development in the manner we see fit.

In some respects, St. Lucia is venturing into unknown waters in the search for a new development paradigm. In so doing, we are accepting global challenges in the international arena and revalidating those social assets that have served us well. We understand, that in responding to globalisation, there is no single prescription, as there can be no single set of rules.

We recognize moreover, that in these periods of transition, the specific circumstances of smaller states warrant more attention from the international community. We are determined that meaningful processes of dialogue, understanding and accommodation should continue. Small states may always need trade and capital inflows to buttress our efforts, but our ability to generate and access resources on our own terms will be substantially improved if we create an environment where we leave ourselves some options.

I am honoured by your attention and thank you sincerely for this brief opportunity of sharing these perspectives with you.