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## **LIBERALIZATION OF TRADE IN SERVICES AND DIVERSIFICATION OF CARICOM EXPORTS\***

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### **ABSTRACT**

The stagnation of traditional merchandise exports and the erosion of preferential arrangements make it imperative for CARICOM countries to diversify their exports. This article examines the prospects for expansion and diversification of CARICOM's exports in the context of global liberalization of trade in services. It argues that significant policy changes must be implemented to position CARICOM countries to exploit the emerging trade opportunities in services.

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\* The author is grateful for the comments of an anonymous reviewer.

# **LIBERALIZATION OF TRADE IN SERVICES AND DIVERSIFICATION OF CARICOM EXPORTS<sup>1</sup>**

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## **1. Introduction**

The world economy has witnessed an increasing trend towards trade liberalization over the last two decades. A major factor underlying this trend is the global integration of production, which has increased pressures for a more open international trading system. These pressures have manifested themselves in multilateral trade negotiations which have sought to intensify the process of trade liberalization. The Uruguay Round of multilateral trading agreement that took effect on January 1, 1995 extended the process of liberalization beyond trade in goods, which was traditionally covered by the Gen

The General Agreement on Trade in Services (GATS) provides a framework for the progressive liberalization of trade in services and extends multilateral rules similar to those governing trade in goods to trade in services.<sup>2</sup> Unconditional most favored nation (MFN) treatment is a general obligation of all contracting parties to the agreement. However, obligations with respect to market access and national treatment are limited to commitments negotiated by each member country (GATT, 1994a). The actual liberalization of trade in the short-run is likely to be limited as most member states have restricted their commitments to the existing level of access (GATT, 1994b). Nevertheless, the liberalization of trade in services can be expected to accelerate in the medium-term, given the provision in the GATS to continue the negotiations.

The move towards the liberalization of trade in services is partly driven by the increasing importance of services in international trade.<sup>3</sup> Exports of commercial services grew by an annual average of 8 percent during 1990-97 and accounted for 19.3 percent of world exports in 1996 (World Trade Organization, 1998, p. 2). The World Trade Organization (WTO) defines commercial services as those service transactions recorded in the current account of the balance of payments minus government services. Commercial services, therefore, include travel, transportation, communication services, construction services, insurance services, financial services, computer and information services, royalties and license fees, personal cultural and recreational services, and other business services (WTO, 1998, p. 188).

The growth in trade in services is being propelled by technological advances and the international diffusion of technology, developments which are changing the nature of global production and intensifying global competition. The increased international diffusion of technology has reduced the opportunities for the monopolization of technology by individual corporations, thereby strengthening global competition. Heightened competitive pressures have resulted in constant innovation—with increased emphasis on product innovation and a simultaneous shift to process innovation—as corporations seek to reap the benefits of both economies of scale and scope. Continual innovation is increasing the service intensity of industrial production particularly in the case of high technology products that require significant inputs of knowledge intensive services (United Nations, 1992, p. 253).

Another significant factor driving the growth in trade in services is the information technology revolution that is producing unparalleled changes in the delivery of services as well as in industrial production. First, innovations in information technology are increasing trade in services. It is now feasible for services to be delivered across national borders using satellites and electronic networks. Consequently, production of some services can now be done in locations far removed from the place of consumption. This is opening new opportunities for exports of services from developing countries as transnational corporations (TNCs) seek to reduce their costs by pursuing global production strategies for services. Second, the widespread application of information technology is increasing the interdependence of industrial and service sectors, largely through its effects on the service content of industrial production. Finally, the reduction in economic distance engendered by the convergence of communications and computer technologies is facilitating the global integration of industrial production, which in turn is increasing the demand for cross-border transfer of services required to maintain links between the geographically dispersed units of global production networks (Primo Braga, 1996).

The liberalization of trade in services offers both challenges and opportunities for developing countries. There is the possibility of the marginalization of uncompetitive producers of services in these countries as more efficient TNCs penetrate their markets. Developing countries also risk losing control over those domestic policies which affect trade in services, and such policies must be modified to satisfy their obligations under the GATS. On the other hand, access to more efficient imported services can enhance the efficiency and international competitiveness of domestic producers (Primo Braga, 1996). Finally, even though TNCs and the industrialized countries are likely to be the main beneficiaries of the liberalization of trade in services, opportunities are being created for developing countries to expand their existing exports of services as well as developing new exports.

The expansion and diversification of exports are critical to the economic growth of CARICOM countries. The traditional merchandise exports of the region are dominated by primary products and labor intensive manufactures that are dependent on preferential trading arrangements. Despite the existence of preferential markets, export growth has been sluggish due to inefficient production, low income elasticity of demand, and structural changes in the demand for some exports. The problems facing merchandise exports are likely to be aggravated by the erosion of preferential margins. Under the Uruguay Round Agreement, the trade weighted average tariff on imports of industrial products into industrialized countries was reduced from 6.2 percent to 3.7 percent (GATT, 1994b, p. 82). In addition, two of the region's major exports, apparel and bananas, are likely to be seriously affected by other changes in trade policy resulting from the Uruguay Round Agreement. In the case of the apparel industry, the agreement to phase out the Multifiber Arrangement (MFA) by January 1, 2005 will increase competitive pressures from lower cost producers. This will compound the problems facing the regional apparel industry which is already under pressure from the North American Free Trade (NAFTA) agreement that places CARICOM producers at a disadvantage relative to Mexico. The banana industry, which is the main commodity export for Eastern Caribbean islands, such as Dominica and St. Vincent, also faces increased competition due to the revision of the European Union's banana regime for African, Caribbean and Pacific (ACP) countries following a World Trade Organization (WTO) ruling that the regime was discriminatory.<sup>4</sup>

The new trade order ushered in by the Uruguay Round Agreement is based upon a reciprocal trade liberalization. Hence, continued dependence on preferential markets is not a viable export strategy for CARICOM. It is, therefore, imperative for these countries to diversify their export sectors in order to avoid economic marginalization. CARICOM countries must seize all opportunities offered by the liberalization of trade in services to expand their exports of services.

The remainder of this article examines the potential for the expansion and diversification of Caribbean exports offered by the liberalization of trade in services. An attempt is also made to examine the policy issues which governments of the region must address to successfully promote exports of services.

## **2. Post-Independence Development Strategies**

Following independence, the main objective of Caribbean governments was to accelerate the pace of economic development. The initial efforts at economic transformation relied on import substitution industrialization (ISI), which was intended to promote industrialization and reduce dependence on primary commodities exports. Specialization in the export of primary products based on comparative advantages derived from factor

endowments had generated growth, but it failed to foster economic development. Import substitution industrialization achieved limited success; protection of the domestic market promoted inefficiency and import duty concessions encouraged import dependence which aggravated balance of payments problems. Furthermore, industrial expansion was constrained by the small sizes of the domestic markets. Caribbean governments turned to regional economic integration as a means of surmounting the limitations of domestic market size. The formation of the Caribbean Free Trade Area (CARIFTA) in 1968 and the subsequent establishment of CARICOM in 1973 initially provided a larger protected market for manufacturing industries. Intra-regional trade increased from 5 percent of the region's total trade in 1970 to approximately 10 percent in 1981 (CARICOM Secretariat, 1984). However, there was a limited scope for further expansion. After more than twenty years of integration, intra-regional trade averaged approximately 12 percent of the region's total trade during 1990-1994 (IADB, 1996, p. 107). Integration failed to effectively promote industrialization of the region due to the binding constraint imposed by the small size of the regional market.

By the beginning of the 1980s, persistent balance of payments deficits, worsening external debt problems, and declining economic growth compelled a number of Caribbean countries to adopt structural adjustment programs (SAPS) which were supported by the multilateral financial institutions. The conditions imposed by these institutions emphasized neoliberal economic reforms which were designed to achieve economic liberalization and a reduction in the role of the state in the economy. Privatization, deregulation, and trade liberalization were recommended as the best means of promoting economic efficiency and growth. Structural adjustment programs stymied the development prospects of the region. The diminution of the role of the state in the economy left the indigenous capitalist class to function as the engine of growth and development. This was an inappropriate strategy, given the inadequacies of the region's capitalist class. Caribbean governments assumed the lead role in their economies because the capitalist class could not be relied upon to promote economic transformation. As noted by Watson (1994, p. 2), "the dominant form of capital in the Caribbean is merchant capital which lacks a tradition in technological innovation and industrial production." The development strategies promoted by SAPs also relegated Caribbean countries to the role of suppliers of cheap labor to the global economy, effectively denying the region opportunities for economic transformation.

A key component of SAPs was a shift away from the inward-looking policy of ISI to an export-led growth strategy. Export promotion centered on the establishment of export processing zones (EPZs) and the expansion of tourism. Incentives for the development of EPZs, for the assembly of garments and electronic components, were provided by the Caribbean Basin Initiative (CBI). The CBI provided duty free access to the U.S. market for specified imports from designated Caribbean countries. The strategy of off-shore assembly production integrates Caribbean economies into the

global economy as suppliers of cheap low skilled labor, but it offers limited potential for economic development. The technological advancement and development of human capital required for economic transformation are not promoted by low technology assembly manufacturing.

The promotion of tourism allowed the region to exploit its comparative advantage based on natural endowments of sun, sand, sea, and unskilled labor. With increasing competition in the international tourism industry, there has also been some shifts toward competitive advantage with some Caribbean hotel chains introducing innovations such as the "all-inclusive" vacation concept designed to maintain competitiveness (Poon, 1993). While tourism is a significant source of foreign exchange, dependence on this industry is not a sustainable development strategy for the region. Apart from being highly volatile, tourism, like labor intensive manufacturing, offers restricted opportunities for the development of the region's human capital and technological capacity.

The development strategies pursued since independence have failed to achieve structural transformation. Consequently, Caribbean economies are not positioned to compete effectively in the global economy. There are wide disparities between the production and trade structures of the region and the requirements of the global economy. The region's production is concentrated in labor intensive and low technology industries while industrial production is being reorganized to concentrate on high technology, knowledge intensive industries. The region is, therefore, unable to penetrate the most dynamic markets in the global economy. Similarly, the region's dependence on trade preferences is incompatible with the ongoing process of global trade liberalization.

Given the small sizes of Caribbean economies, an export led growth strategy is critical to economic transformation. The regional market is too small to allow for any significant economies of scale. Small size also means a high degree of import dependence, which implies that economic growth is contingent upon the availability of export earnings to finance imports. The failure to generate adequate export earnings is at the root of the region's balance of payments and debt problems. The traditional agricultural exports are uncompetitive. Moreover, technological innovations have resulted in the development of substitutes and structural changes in the demand for products such as sugar and bauxite. In the case of manufacturing, labor intensive production is becoming increasingly uncompetitive in the face of cheaper labor available in countries such as Mexico.

The application of modern technology offers some possibilities for Caribbean countries to overcome the limitations of size and develop their competitiveness in new industries. The information revolution offers some possibilities for the diversification of the region's export base through the development of new service exports. Promotion of tradable services should, therefore, become an integral part of the region's export strategy. The overall export strategy should also focus on employing modern technology to improve the competitiveness of the traditional export sectors.

The application of technology can play a vital role in improving the competitiveness of agriculture, manufacturing, and tourism. Biotechnology has the potential to enhance agricultural production while flexible manufacturing systems can be applied to increase productivity in manufacturing. Technological innovations can also be applied to shift the manufacturing sector from exporting simple labor-intensive products to higher value-added manufacturing. Information technology can be employed to improve efficiency in manufacturing, agriculture, and tourism. In the case of the agricultural sector, information technology can be used to improve the delivery of extension services as well as the efficiency of production and marketing.<sup>5</sup> Manufacturing efficiency can be enhanced through the application of information technology to activities such as product design, quality control, inventory management, and distribution. Information technology also offers opportunities to improve the efficiency of service delivery in the tourism industry, for example, using the internet for online reservations.

### **3. CARICOM Exports of Services**

It is necessary to note the limitations of the data on trade in services before proceeding to examine CARICOM's exports of services. The data on trade in commercial services used in this study are published by the WTO. These data are derived from the International Monetary Fund (IMF) *Balance of Payments Statistics*. The WTO (1998, p. 188) points out that the data on trade in services are prone to serious distortions for the following reasons: (i) some countries fail to collect statistics for certain services; (ii) some service transactions are not recorded, for example, intra-firm transactions; (iii) net rather than gross figures may be recorded due to the effects of compensation agreements that exist in sectors such as communications; (iv) data for countries that are not members of the IMF do not necessarily conform to the definition of services used by the IMF.

Another issue that must be addressed is the classification of the types of services traded internationally. For this study, the classification used in the General Agreement on Trade in Services is employed because it now forms the basis for multilateral negotiations on trade in services. The GATS classifies commercial services into eleven sectors: (1) business services including professional and computing services; (2) communication services; (3) construction and related engineering services; (4) distribution services; (5) educational services; (6) environmental services; (7) financial services (insurance and banking); (8) health related and social services; (9) tourism and travel related services; (10) recreational, cultural and sporting services; and (11) transport services.<sup>6</sup>

Table 1: Exports of Commercial Services as Percentage of Total Exports of Goods and Services

	1990	1994	1995	1996
Antigua & Barbuda	90.3	89.8	89.5	88.0
Bahamas	58.2	46.7	52.1	52.7
Barbados	74.9	80.8	78.9	76.9
Belize	43.5	45.8	45.0	--
Dominica	37.5	53.0	54.5	54.1
Grenada	70.3	82.8	81.0	83.3
Guyana	--	21.0	21.8	--
Jamaica	46.2	50.7	48.6	49.9
St Kitts & Nevis	65.9	75.2	--	--
St Vincent & the Grenadines	33.1	47.4	61.3	66.7
Suriname	3.7	18.4	17.3	--
Trinidad & Tobago	13.4	13.9	11.8	--

Source: compiled from World Trade Organization Annual Report 1998, p.144 and 152.

Note: data for Montserrat is not available.



Table 2: Estimates of Visitor Expenditure (US\$ Millions)

	1992	1993	1994	1995	1996	1997
Antigua & Barbuda	242.5	264.0	293.4	246.7	257.0	238.6
Bahamas	1243.5	1304.0	1332.6	1346.2	1450.0	--
Barbados	462.5	528.0	597.6	661.8	684.9	700.0
Belize	64.7	70.0	71.4	77.6	75.4	78.4
Dominica	26.6	28.9	31.4	33.5	36.1	39.4
Grenada	42.3	48.3	58.8	57.7	59.7	59.4
Guyana	31.2	44.5	47.0	46.5	38.4	--
Jamaica	858.0	942.0	919.0	1069.0	1092.0	1140.0
Montserrat	13.7	17.0	18.5	15.5	7.6	4.4
St. Kitts & Nevis	67.4	69.8	76.9	65.1	66.7	71.9
St. Lucia	207.9	221.0	224.1	267.8	268.5	228.8
St. Vincent & the Grenadines	41.1	44.0	44.0	52.9	64.0	70.5
Trinidad & Tobago	109.2	82.0	85.4	78.1	104.5	126.8
Total	3411.0	3663.5	3800.1	4018.4	4204.8	--

Source: Caribbean Development Bank (1999) Social and Economic Indicators 1997, p. 108.

**Table 3: Balance of Trade Goods (US\$ Millions)**

	1993	1994	1995	1996	1997
Antigua & Barbuda	(229.3)	(243.7)	--	--	--
Bahamas	(715.3)	(805.4)	(910.7)	--	--
Barbados	(389.5)	(431.5)	(531.7)	(550.2)	(712.6)
Belize	(149.7)	(117.0)	(96.8)	(97.6)	(148.3)
Dominica	(46.7)	(51.9)	(72.2)	(78.8)	--
Grenada	(104.0)	(94.8)	(106.0)	(131.3)	(141.7)
Guyana	(59.6)	(44.7)	(34.2)	(14.2)	--
Jamaica	(1082.2)	(1001.4)	(1395.0)	(1529.5)	(1718.3)
Montserrat	(22.0)	(27.0)	--	--	--
St. Kitts & Nevis	(57.1)	(97.3)	(113.5)	(124.5)	(106.1)
St. Lucia	(178.3)	(182.2)	(197.0)	(234.0)	(270.9)
St. Vincent & the Grenadines	(76.6)	(79.0)	(89.9)	(50.4)	(136.0)
Trinidad & Tobago	244.0	761.3	542.7	(347.1)	(493.0)

Source: Caribbean Development Bank (1999) Social and Economic Indicators 1997, p. 109. Brackets indicate deficits.

With tourism being dominant, the range of services exported by CARICOM is narrow. The other services exported are financial services, recreational services (music), and business services (mainly information processing). Nevertheless, exports of services are assuming an increasing importance in CARICOM, and they exceed exports of goods in some member states. Table 1 shows that in Antigua and Barbuda, Barbados, Grenada, and St. Lucia services accounted for more than two-thirds of total exports of goods and services in 1996. The main service export, tourism, generated an estimated US\$4,204.8 million in foreign exchange earnings for the region in 1996 (Table 2). Services account for less than 25 percent of total exports only in those countries where tourism is still relatively underdeveloped—Guyana, Suriname, and Trinidad and Tobago. The increasing share of services in CARICOM exports is the result of attempts since the beginning of the 1980s to address balance of payments difficulties and economic stagnation. Given the poor performance of merchandise exports, the expansion of tourism and the development of new service exports were the main alternatives for increasing export earnings.

The strategy of diversifying into service exports has concentrated on those services that utilize the abundant low skilled labor available in the region. Hence the emphasis has been on tourism and on data entry services, which constitute the most labor intensive and low skilled segment of the information processing industry. Services that require workers with a substantial knowledge base are exported from the region on a relatively small-scale. The Bahamas and Barbados are the only significant exporters of financial services, while exports of other knowledge intensive services such as professional services, educational services, and information technology services remain undeveloped.

Despite the narrow range of services exported by the region, export earnings from services are an increasingly important source of foreign exchange, given the need to offset increasing deficits on trade in goods. Table 3 shows that except for the oil exporting nation of Trinidad and Tobago, exports of goods have been insufficient to cover imports, resulting in widening deficits on merchandise trade. CARICOM countries are becoming increasingly dependent on tourism, which is now the main source of foreign exchange earnings for countries such as Antigua and Barbuda, Barbados, and Jamaica. However, excessive dependence on tourism put countries at risk of continued balance of payments instability. The diversification of service exports is, therefore, critical to promoting balance of payments stability and the economic viability of CARICOM states.

#### **4. Potential for Expansion of Exports of Services**

Given the shortage of human capital, the best short-term prospects for expansion of CARICOM exports of services are in those services which do not rely heavily on a highly skilled workforce. There is a good potential for the expansion of Caribbean tourism, given the increased world demand

for tourism and the region's favorable climate and natural beauty. The total visitor arrivals to the CARICOM states in 1997 was 4.7 million. This was less than one percent of the 610 million tourist arrivals worldwide.<sup>7</sup> To increase their share of the world tourism market, CARICOM countries should be price competitive, and they will also need to diversify the product to meet the changing demands of tourists.

The Caribbean tourism product has been largely limited to sun, sand, and sea. However, there is now increasing demand in the international tourism market for products such as eco-tourism and heritage tourism. Countries such as Belize, Guyana, and Suriname have natural advantages for the development of eco-tourism. The diversification of markets to increase arrivals from regions other than the traditional North American and West European markets also offers opportunities for increasing market share. Another possibility is the linking of tourism to the export of other services; for example, health care services and entertainment (Poon, 1993). However, improved marketing strategies will not be sufficient to capture a larger share of the international tourism market. Existing constraints on the expansion of tourism such as inadequate supporting infrastructure and environmental degradation must also be addressed.

Caribbean countries should be able to expand exports of data entry services—given the existence of modern telecommunications infrastructure, a fair degree of literacy, and the use of the English language. However, new developments in data entry technology, such as electronic scanning, are displacing low skilled workers and increasing the demand for workers with a higher knowledge base. Upgrading the labor force is, therefore, a necessary condition for maintaining competitiveness in the provision of this service.

Jamaica and Trinidad and Tobago, with their established music industries, are exporters of entertainment services. International market trends suggest that the scope for the expansion of such exports as Caribbean music is gaining popularity internationally. While total sales figures for the region are not available, it has been estimated that in the 1992-1993 period 27 million units of Jamaican music recordings were sold in the United States (Government of Jamaica, 1997, p. 127). Successful exploitation of the export potential of the region's music industry will depend on the elimination of constraints limiting its growth. In the case of Jamaica, for example, the development of the music industry is being stymied by several problems including inadequate training, weak copyright laws, and poor production technology (Government of Jamaica, 1997, p. 127).

While seeking to expand exports of labor-intensive services in the short-run, CARICOM countries must also position themselves to develop new knowledge intensive services. There is an increasing demand in the global economy for more knowledge intensive services, and this trend is likely to continue as technological advances reduce the demand for low skilled labor. CARICOM countries will, therefore, place themselves at a disadvantage in the international market for services if they continue to

specialize in the export of services requiring low skilled labor. A sustainable export strategy must include diversification into knowledge intensive services which generate higher value-added and have more growth potential. The dilemma facing CARICOM countries is that their ability to quickly develop knowledge intensive services is constrained by an inadequate human resource base. The development strategies which emphasized the exploitation of cheap labor resulted in the underdevelopment of the region's human resources. The countries of the region are now at a competitive disadvantage in a changing global economy where the trade opportunities are technology driven and knowledge intensive.

## **5. Policy Challenges**

### **5. 1. Liberalization of Intra-CARICOM Trade in Services**

The service sector within the region consists of small, inefficient firms that are serving the domestic markets. Such firms are internationally uncompetitive and unable to take advantage of export opportunities or even to compete against TNCs in the domestic market. Improved competitiveness is, therefore, critical if CARICOM firms are to be able to exploit export opportunities. A major factor contributing to the inefficiency is the small sizes of the domestic markets. Despite the establishment of a common market in 1973, there is no free trade in services within the region. The liberalization of intra-CARICOM trade in services is essential in improving the region's competitiveness. The larger market will increase competition, stimulate efficiency, and allow for the dynamic benefits of economies of scale. The Treaty of Chaguaramas establishing the Caribbean community restricts movement of labor and capital, both of which are prerequisites for cross-border trade in services. Moreover, there are no provisions for the granting of national treatment to regional firms or for the harmonization of the recognition requirements for professionals engaged in the provision of services. Tentative steps have been taken toward the free movement of labor. The CARICOM Heads of Government conference agreed to allow free movement of CARICOM nationals, who are graduates of regional institutions as of January 1996.<sup>8</sup> This decision does not go far enough, as it excludes the free movement of members of the labor force who are not graduates of approved institutions.

The GATS makes provisions for preferential agreements on trade in services among members of economic integration schemes. CARICOM governments need to use this opportunity to liberalize intra-regional trade in services; thereby stimulating efficiency and allowing regional firms to prepare for global competition.

### **5. 2. Human Resource Development**

Opportunities for the development of new service exports are concentrated in knowledge intensive industries where strong growth is being

facilitated by technological innovations. The competitive advantage in the provision of these services will be gained by those countries which have available a supply of skilled labor with the knowledge to employ modern technologies. CARICOM countries are at a relative disadvantage in developing knowledge intensive exports, given the inadequate supply of human resources within the region.

A World Bank study of education in the Caribbean Community identified serious deficiencies at all levels of the educational system (World Bank, 1993). At the primary level, the number of trained teachers was found to be inadequate particularly in the Eastern Caribbean islands where the proportion of trained primary school teachers in 1990 ranged from 28 percent in St. Vincent to 74 percent in Antigua (World Bank, 1993, p. 71). Access to secondary education was found to be relatively low except in the cases of Barbados, St. Kitts-Nevis, and Trinidad and Tobago. In the other countries, the probability of entering secondary school ranged from 23 percent in St. Lucia to 55 percent in Antigua (World Bank, 1993 p. 45).<sup>9</sup> Average enrollment ratio in tertiary and higher education in the region was 7.8 percent in 1990, substantially below the 14 percent average for middle income countries (World Bank, 1993, p. 116).<sup>10</sup> Another critical weakness of the educational system is the low output of graduates in science and technology. Data from the University of the West Indies, which serves CARICOM, indicate that for the 1996-1997 academic year the proportion of University of the West Indies graduates in science and technology was 11.6 percent while the proportion in engineering was 5 percent.<sup>11</sup> The problem is even more serious than it appears when account is taken of the persistent brain drain from the region.

The deficiencies in the educational system have resulted in a shortage of workers with the technical skills required to develop new service exports. In the case of Jamaica, for example, it has been estimated that 3500-4000 jobs in the informatics industry have been lost to other countries due to a shortage of trained labor (Schware and Hume, 1996, p. 34). The challenge for CARICOM governments is to undertake the investment necessary to achieve substantial upgrading of the region's human resources.

### **5. 3. Regulatory Reform**

Regulatory reform for the services sector must be an essential component of policies designed to stimulate exports of services (World Bank, 1995). Effective regulation is necessary to promote efficiency and competitiveness in the provision of services. However, in the case of CARICOM, the strengthening of regulatory mechanisms has lagged behind the process of economic liberalization. Consequently, the technical and institutional capabilities to regulate the services sector remain weak and underdeveloped.

Regulations designed to stimulate and maintain effective competition are not common in the region. Jamaica is the only CARICOM country with a Fair Competition Act.<sup>12</sup> Moreover, the regulation of monopolies is weak and ineffective. The telecommunications sector which is vital to the

development of long distance services exports is dominated by poorly regulated monopolies, most of which are owned by the transnational firm Cable and Wireless. Schware and Hume (1996, p. 30) note that telecommunications licenses in most countries of the region "generally favor Cable and Wireless' position vis-a-vis the host government, providing Cable and Wireless with virtual self-regulation and control of the telecommunications system." Ineffective regulation of the telecommunications sector creates the possibility of monopolistic pricing and anti-competitive behavior which will reduce opportunities for the development of new service exports. The availability of cheap, reliable telecommunications services is a key determinant of the competitiveness of services exports. CARICOM governments, therefore, need to reform the regulatory framework for telecommunications monopolies to restrain the abuse of monopoly power. It is also necessary to ensure that interconnection policies conform to the GATS requirement for non-discriminatory access to telecommunications services.

In the case of the financial sector, effective, prudential regulation is needed to protect investors, foster stability, and facilitate the development of financial services exports. Mechanisms for protection of intellectual property rights also need to be strengthened. The protection of intellectual property rights is essential for the maintenance of competitive advantage in knowledge-based services. Inadequate protection of intellectual property rights, therefore, places CARICOM countries at a disadvantage in competing for foreign investment in the more dynamic segments of the services sector.

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#### **5. 4. Facilitating Foreign Investment**

CARICOM countries should attract increased inflows of foreign direct investment to increase their exports of services. The shortage of capital and the absence of a dynamic, innovative, indigenous entrepreneurial class make foreign investment an absolute necessity. The challenge for CARICOM governments is to attract increased inflows of foreign investment in the face of stiff global competition.

Economic liberalization and globalization of production have increased the options available to TNCs, resulting in intensified competition for foreign investment. Meeting this competition will require the creation of attractive investment conditions. Investment policies in the region have traditionally emphasized fiscal incentives. However, fiscal incentives by themselves are not sufficient to encourage foreign direct investment in services. Protection of intellectual property rights, access to telecommunications networks, and an adequate supply of labor with appropriate skills are all critical determinants of competitiveness in services. These factors, therefore, play an important role in influencing the location of foreign direct investment. CARICOM countries which do not take the necessary steps to satisfy these conditions are, therefore, likely to lose out in the global competition for foreign investment.

#### **6. Conclusions**

The challenge for the Caribbean Community is to take advantage of the liberalization of trade in services in order to transform exports and stimulate economic growth. Governments within the region need to act quickly to implement the policy changes that will allow for competitiveness in the provision of services and attract increased foreign investment in the services sector. The emphasis should be on human resource development as human capital is the key to developing competitive advantage in the emerging technology intensive services. Prospects for continued de-



pendence on trade preferences are not good. CARICOM countries risk economic marginalization if they fail to exploit the opportunities offered by the liberalization of trade in services.

## ENDNOTES

1. The member states of the Caribbean Community (CARICOM) are Antigua and Barbuda, The Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.
2. For further details of the GATS see GATT Secretariat (1994a) *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts* (Geneva: GATT Secretariat), pp. 325-364.
3. UNCTAD (1994 p. 145) is of the view that the United States which was the main advocate of the liberalization of trade in services was motivated by three main factors: the growing importance of services in U.S. exports, pressures from TNCs, and a desire to strengthen the free trade lobby to offset the political power of protectionist interests.
4. The amended regime which provides duty free entry for up to 857,000 tonnes of ACP bananas per year is still being challenged by the United States, *The Business Observer*, July 29, 1998, Kingston Jamaica.
5. For further discussion see Zijp, Willem (1994).
6. The eleven sectors are further subdivided into 155 sub-sectors. For a full listing see GATT Secretariat (1994c).
7. World Tourism Organization cited in Planning Institute of Jamaica 1999, p. 13.
8. This decision is yet to be implemented by all member states of CARICOM.
9. The probabilities are based on each 100 entrants into grade one of primary school (World Bank, 1993, p. 45).
10. Enrollment ratio is the number enrolled in national and regional institutions as a percentage of the 20-24-year age group in the population. Students studying overseas are excluded (World Bank, 1993, p. 116).
11. Calculated from University of the West Indies 1997, Table 33, p. 77.
12. A competition Act is under consideration in Trinidad and Tobago.

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