

# Globalisation and the economic impact on small island states: caribbean

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Globalisation and the Economic impact on small island states: Caribbean This paper conducts an analysis of Small Island States of the Caribbean, the Economic effects of Globalisation and addresses both the macroeconomic and microeconomic issues. The paper will begin by defining globalization from a generic perspective and then focus more specifically on Caribbean. In addition, the paper will briefly describe the present Caribbean Economic Environment highlighting historical reasons for the economic dilemma it finds itself, and will also show the effects of international trade policy on the Caribbean Economic Environment.

It will address the issues surrounding the removal of economic barriers and the potential loss of sovereignty of the small island states. Critical analysis will be directed towards a specific Market within a Small Island State in the Caribbean illustrating the potential effects of globalization on this market with the use of demand and supply curves. Globalisation There are countless theories, definitions, and interpretations that surround the term Globalization, however, there is one view that is commonly shared, which is the inevitability of some effect and impact this phenomenon will have on every country or nation-state. Globalization is a multi-dimensional process, which is transforming at a rapid rate and in a profound way all aspects of national and global activities and interaction (Peretz 2001). This process of globalization encompasses the eradication of barriers that prevent the free movement of capital, goods, technology and labour across international borders.

Society has benefited in many respects from globalization, for example, an increase in market efficiency resulting in greater availability and lower costs

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of information, a larger diversification and competition among goods and services resulting in reduced costs, greater mobilization of assets to increase profit or wealth, and the movement of labour to regions that offer better opportunities within any professional context.

However, in contrast globalization has also brought its share of problems, for example, the monitoring of borders have become increasingly difficult due to a significant rise in imports and exports internationally, free movement of labour and outsourcing has caused significant wage cuts and job loss, the reduction in tariffs and trade blocs have resulted in loss of business and revenue to local businesses due to global competition, and economies and environments are now at greater risk to external forces such as unethical firms with an objective of only profit and environmentally unsafe materials imported which can harm and destroy the economic and physical environments, through the overexposure to fraud, financial risks and environmental hazards. In the broadest sense globalization--the construction of an international capitalist order embracing all the regions of the world -- has been under way for the past 500 years.

However in current usage we understand the term to refer to a project of the postCold War era and the decade of the 1990s, whose aim is to transform the world into a single economic space along the principles of neo-liberalism. These principles mean that national barriers to the movement of goods, services, investment capital and money must be done away with; and government intervention in economic life must be kept to a minimum (Girvan 1999). Through liberalization of environments some governments have capitulated to the capitalist ideology of the “ market” over government

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intercession. The Caribbean Economic Environment The Caribbean Economic Environment has also felt the effects of globalization through trade liberalization. The early business and economic landscape of the Caribbean was contrived and consisted mainly of a plantation culture.

From colonial times the Caribbean economies consisted of plantations designed to produce crops that met the demands of their colonial European parent countries and even after post-colonialism most of these islands still received concessional and external grants along with preferential arrangements to maintain a level of economic development and survival, these small and fragile economies were highly dependent on these relationships. These preferential arrangements gave Caribbean countries the primary source of their income and a contributed significantly to the social fabric of the society, through the provision of employment and economic growth. Market forces played a very restricted role in the dynamics of the Caribbean Business Environment which was largely due to these foreign preferential arrangements (e. g. England purchasing sugar from Barbados at premium price even though the same sugar can be sourced from another supplier considerably cheaper).

However, organizations such as World Trade Organisation (WTO) have lobbied in favor of the removal of these trading arrangements, sighting that these forms of intervention prevent the law of demand and supply from efficiently allocating resources and result in market failure. Therefore Today's Caribbean economic environment has had to evolve rapidly to meet the increasing global demand for high productivity at low cost as a result of global competitive forces.

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Economic Barrier Removal and Its Impact The traditional roles of the sovereign territorial state compasses the responsibility for governance over the society, the implementation and caretaking of social services, the protection of the nation state from externalities (e. g. competition and outside influences creating inefficient market structures) that could potentially disrupt the ethos of the social, cultural, political and economic environments by means of policy.

However, due to the continued evolution and the impact of globalization, the role of the state has been subjected to continuous marginalization, where tools such as taxes, tariffs and trade blocs have been under enormous pressure to be reduced. “ Governments under globalisation are considered to be ‘ in retreat’, and powerless to prevent the relentless erosion of their traditional functions, (Thomas 2007)”. Economic Barriers in the form of taxes, tariffs and trade blocs are used to encourage or discourage consumption or production and limit free trade.

Economic environments like Barbados used these methods to protect indigenous businesses from global competitive forces, for example, a oligopolistic environment exists in the production of tee shirts in Barbados and, because of the small size and relatively high factors of production costs, is primarily for local consumption, economic barriers prevent foreign entities who are considerably larger and can take advantage of economies of scale from infiltrating this particular market and restrict the determinants of demand.

The below diagrams illustrates the effects of demand and supply on local tee shirts if foreign entities are allowed to infiltrate the market with lower prices.  
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Figure 1): P2 and Q2 represent the price and quantity demanded for local tee shirts; P1 and Q1 represent the price offered by foreign tee shirt producers and quantity demanded at that lower price. Figure 2): shows the effect on demand for local tee shirt producers if foreign producers are allowed into the local market, which cause the demand for local tee shirts fall and the demand curve to shift.

High input costs of raw materials and high wages would limit local tee shirt producers from competing on price; alternatively if they were able to achieve some level of product differentiation the demand curve would become more inelastic and less susceptible to price changes. Figure 3): shows that a shift in demand for local tee shirts causes a shift along the supply curve and a reduction in price resulting in a new point of equilibrium. Because the local producers outsource all raw materials for the production of tee shirts from foreign markets and they are relatively small they have no power over suppliers, in order to lower prices the alternative would be a wage reduction and job loss. Even though the increased competition benefits the consumer with greater choice at lower prices, unemployment would increase as a result of decreased demand for local tee shirts.

In addition small businesses and microenterprises, upon analysis of the available to date, have shown significant contributions within the Caribbean Economic Environment (CEE) to the reduction of unemployment and considerable contribution to Gross Domestic Product (GDP), accounting for up to 40% of total employment and up to 45% of GDP (Wenner and Chalmers 2001). Figure 1 (Chaaya 2009) Figure 2 (Tutor2U Economics 2002) Figure 3 ( The Economist 2007) Competition Competition is viewed generally by <https://assignbuster.com/globalisation-and-the-economic-impact-on-small-island-states-caribbean/>

economists as an important element in achieving economic growth, according to Stephen J. Nickell 1996, “ a competitive economy generates an efficient allocation of resources, it is the belief that competition exerts downward pressure on costs, reduces slack, provides incentive for the efficient organization of production, and even drives innovation forward.

However, countries like Mexico, Peru, Brazil in Latin America and Japan in Asia, all employed economic barriers to protect their economies from externalities during their development stages and still maintained high levels of economic growth. Therefore should the small island states of the Caribbean be allowed to develop with their protectionist policies? According to Aghion and Griffith (2008), “ Developed or middle-income countries, growth relies heavily upon factor accumulation (investment in physical capital, labor, and human capital oreducation) and upon imitating or adapting technologies from more advanced countries.

Both factor accumulation and imitation can prosper under limited competition and entry (this relates to the well-known infant-industry argument). This emphasizes that even though the competitive structure of a market is important for achieving economic growth when it came to less developed economies other factors such as; labor and human capital are equally critical and need to be allocated efficiently by governments in less develop economies to prevent market failure.

Conclusion Globalization, which has been promoted by a global system of regimes (IMF, WTO, World Bank), clearly and philosophically has impacted and affected the global economic and social environments. This impacted has resulted in both the developed and underdeveloped states of the world  
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rethinking the role of governance as a means of preserving social life. More importantly the nequality of the world's economies, the volatility of markets and the global recession cause and effect, has resulted in the governments of the world directly intervening in order to correct these economic failures.

Therefore, under the assumption, the larger and more efficient the economy and market (semi-strong form and strong form) the less government intervention required, why would smaller, lesser develop and efficient economies(weak form) be subjected follow the same economic rules and regulations for government intervention, as much larger states who still require government corrective measures. “ International cooperation has increasingly been directed towards the deregulation of trade, investment and finance in the name of ‘ competition’.

Anti-globalisationists must instead argue for internationally agreed re-regulation in order to protect weak economies through controls on Trade, FDI and Financial flows (Thomas 2007). ” The high levels of indebtedness and trade dependency that exists within the confines of the Caribbean business environment, largely due to the effects of colonialism, failed plantation economies, weak bilateral and multilateral trading agreements, resource poor territories, weak decision-making capacity, failed state enterprises and an asymmetric global environment, have seen governments in the Caribbean under overwhelming pressure to conceptualize new and innovative ideas for the sustainability of their countries economic survival.

However in the Caribbean the average country has been an independent state for less than fifty years and in an economic environment as young as this, a solid identity is yet to be fashioned. Economist may find that it takes <https://assignbuster.com/globalisation-and-the-economic-impact-on-small-island-states-caribbean/>



several more generations of dreams and ideas to reshape these small island states. In addition, because the Caribbean is presently in a state of enormous social, cultural, political and economic transitions, as a result of globalization, which in some cases is a direct contradiction to the preferred focus of the government; and given the impact of the Caribbean as an economic significance globally, it is safe to assume that change is inevitable and it is therefore necessary for the Caribbean Economic Environment to adopt and evolve to the changing times.