



GLOBALIZATION'S CHALLENGES FOR THE CARIBBEAN: THE CASE OF DOMINICA

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ABSTRACT

Caribbean countries have always been unique due to their geography and history. And both have played an important role in shaping their economies that have always depended on international trade for survival and prosperity. Therefore, globalization is not really new to them. Yet globalization of the rest of the world has changed the market place in a dramatic manner and created unique challenges of competition for the Caribbean countries. This paper presents the case of Dominica, a small island country located between the Caribbean and the North Atlantic, half way between Puerto Rico and Trinidad and Tobago. With its small and uncomplicated economy so typical of many Caribbean countries, Dominica is an ideal country to examine the effects of globalization on this part of the world and its struggle to survive under the changed circumstances.

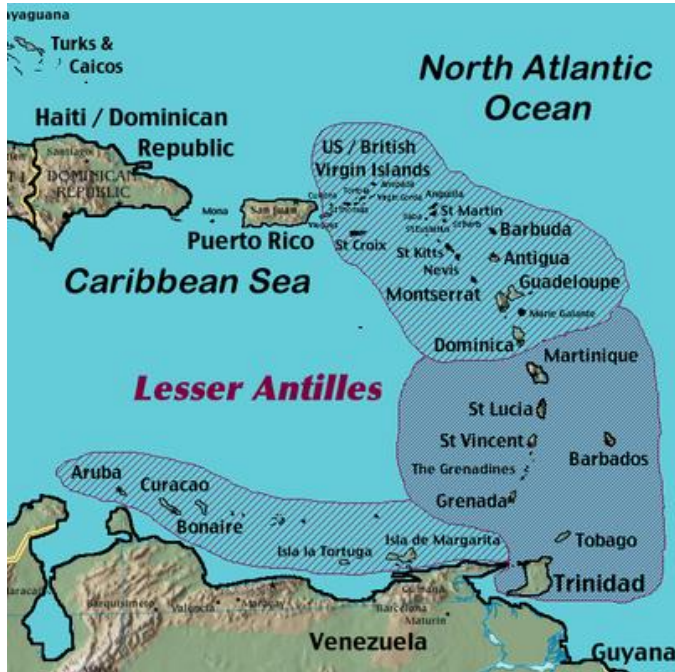
INTRODUCTION

During the last two decades of the 20th Century, the world economies opened themselves to free trade at an accelerated pace; and as a result, economic globalization became a reality (Kahler 2004). The complete freedom of movement for the factors of production—goods, services, capital, and labor—across national borders under globalization through elimination of various trade and investment barriers, and the resultant acceleration in global interdependence, homogenization of needs and resources, and universalization of business strategies brought about a complete transformation of the marketplace. In a sense, these changes leveled the playing field and affected countries that were a part of the change, as well as those who were not—as was the case with many Caribbean countries.

Free trade was never new to Caribbean economies. However, with the rest of the world joining in and competing for free trade, the Caribbean economies' survival and prosperity were seriously threatened. This paper analyzes the challenges of



globalization for the Caribbean countries and their struggle to deal with as illustrated by the special case of Dominica.



Map of the Caribbean (Wikipedia: Dominica Accessed July 31, 2011)



Map of the Dominica (Wikipedia: Dominica Accessed July 31, 2011)



CARIBBEAN GEOGRAPHY AND HISTORY

Located in the tropics, the Caribbean countries are subject to both blessings and hardships bestowed upon them by nature. While year round warm weather, rich soil, and abundant water supply make them little heavens of natural beauty on earth, annual tropical storms bring life-threatening challenges to them as well with uncanny regularity. Most of these countries are either small islands in the Caribbean sea, or small countries on the Caribbean rim on the edges of North, Central, and South America. All have limited quantities and variety of natural resources, small populations, and were colonized by the Europeans. Their history of colonization has created their unique cultural, economic, and political ties with Europe. Yet geographically, Europe is rather far away from them while they must live with their more proximate large neighbors in the North and South America.

CARIBBEAN ECONOMIES

As a result of their geography and history, the Caribbean economies have always had several unique characteristics. Due to their limited resources and their close ties with Europe, they are not new to the principles of specialization and free trade—the twin foundations of globalization. They have always depended on international trade for life's necessities. They are heavily dependent on imports for manufactured products. Their small local manufacturing industry is primarily geared toward maintaining the infrastructure and imported capital goods. In return they have two main products to offer for trade—both created by the blessings of nature. First is their natural beauty plus warm climate, and sunny beaches. Tourism is one of their biggest foreign exchange earner. The second is exports primarily of tropical agricultural products and natural minerals. Traditionally, Europe has been their major trade partner as well as their primary source of foreign investment.

GLOBALIZATION AND THE CARIBBEAN

Thus, the study of globalization's challenges for the Caribbean economies involves not how these economies have fared upon entering the globalized world for the first time,



but how they have adapted to the new marketplace created by the recent globalization of world's other major economies. The realities of the new market place for them can be summarized thusly:

- The rapid opening of other world markets
- The entry of new and major competitors
- The increasing enforcement of free competition principles through the World Trade Organization that has consistently eroded the special treatment the Caribbean countries have received from their European partners in the past

How the Caribbean countries have dealt with these challenges is best illustrated by examining how they have affected Dominica, and in turn, what the country has done to survive the new reality and hold on to its derived relative prosperity.

THE COUNTRY OF DOMINICA

Dominica is a small island country located between the Caribbean and the North Atlantic, half way between Puerto Rico and Trinidad and Tobago. With an area of 751 Sq Km, it is slightly more than 4 times the size of Washington DC. It has tropical climate, moderated by northeast trade winds, and a heavy rainfall. Its terrain is marked by rugged mountains of volcanic origin, with its highest point Morne Diablotins rising at 1,447 meters from sea level. Its natural resources include timber, hydropower, and arable land about 6.67% of the total land mass. Natural hazards include destructive hurricanes during late summer months and flash floods round the year. It is popularly known as the "Nature Island of the Caribbean" due to its spectacular, lush, and varied flora and fauna. It is the most mountainous of the Lesser Antilles. Its volcanic peaks are cones of lava craters and include Boiling Lake, the second largest thermally active lake in the world. (CIA: The World Factbook, 2011)

Dominica has a resident population of 72,969 as of July 2011 estimate. About 15.62 births, 8.06 deaths, and -5.43 migration, result into a net increase of 2.13 per 1000 a year.



Dominica's literacy rate is 94%. Its nominal per capita GDP in 2010 was \$5,167 which on Purchasing Power Parity basis equaled \$10, 415. In other words, its currency is undervalued in the international markets at approximately 50% of its true buying power within the country.

It had a labor force of 25,000 (2000 estimate) with an unemployment rate of 23%. 30% of its population lived below poverty line (2002 estimate).

GLOBALIZATION'S CHALLENGES FOR DOMINICA'S BANANA EXPORTS

Prior to 2006, African, Caribbean, and Pacific (ACP) countries enjoyed traditional preferential access to the European Union market. They also received compensatory aid from Europe to make their banana plantations more competitive.

Latin American banana exporting countries filed a dispute in the WTO against the European protectionism. As a result, beginning January, 2006, the EU introduced a tariff-only regime for Latin American imports removing all other restrictions. While this did have a negative impact on the Banana trade from Dominica, the ACP countries continued to have tariff-free quota and a new aid program to help them compete effectively with the new threat of Latin American imports.

However, this arrangement did not resolve the dispute completely and the Latin American countries continued to pursue the case before WTO. In response, in December 2008, EU agreed to reduce its tariff further over a 7-9 years period. ACP countries continued to have duty-free, quota-free access to the EU market and a new aid program to increase their competitiveness. (EU Banana Trade Policy, TCD 2011)

It was estimated that, as a result of these changes, there would be a 17% increase in Latin American imports into the EU with corresponding 14% decline in ACP imports. However, the ACP countries must reduce costs and compete on price if they were to survive the competition in the long-run. Further, it was known that the decline in banana exports will not be uniform across all ACP countries. Dominica happened to be one of the worst victims of this new global competition.



Unable to reduce its costs and compete effectively with the new wave of imports from Latin America, Dominica's exports dropped precipitously between 1992 and 2007. Grenada was another country similarly affected. At that rate, it was expected that Dominica's banana exports would be virtually wiped out within a few years. (CTA 2010)

DOMONICA'S TOURISM BUSINESS

Historically, Dominica's tourism was the most underdeveloped compared to other Caribbean countries. Geographically, Dominica is a volcanic island and has few beaches—the main attraction for tourism. Consequently tourism developed rather slowly there. Of the 22 Caribbean islands tracked, Dominica had the fewest visitors in 2008—just 55,800 or 0.3% of the total. (Caribbean Tourism Org 2011)

The USA and French West Indies contributed the bulk of the tourists in these numbers. (CARICOM 2011, Caribbean Tourism Org 2011)

Thus, its banana exports threatened with extinction, and tourist trade almost nonexistent, Dominica had to take urgent steps for its survival in the globalized world.

DOMINICA' RESPONSE TO THE THREATS OF GLOBALIZATION

(CIA: The World Factbook, 2011)

Loss of the banana exports has been the hardest to recover from for Dominica. Having found it difficult to compete in the banana market, Dominica has turned its attention to exploring export markets for manufactured products based on agriculture. Its initial success in this direction has been with soap.

Dominica is also taking a second look at the tourism business keeping in view its unique geography. Dominica's high, rugged mountains, rainforests, freshwater lakes, hot springs, waterfalls, and diving spots make it an attractive for eco-tourism enthusiasts. Therefore, Dominican government is making special efforts to promote the country as the foremost "Ecotourism" destination.



At the same time, the government is developing modern docking and waterfront facilities in Roseau, the capital of Dominica to attract tourist traffic in general.

Dominica's other actions to adapt to the globalized world include the following:

1. Development of geothermal energy resources in collaboration with the EU
2. Development of an offshore financial sector
3. A comprehensive restructuring of the economy

Following an economic and financial crisis, the government began in 2003 a comprehensive restructuring of the economy. The changes included elimination of price controls, privatization of the state banana company, and tax increases - to both address the crisis and to meet IMF requirements for its much needed loans.

As a result, Dominica's economy grew by 3.5% in 2005 and 4.0% in 2006, following a decade of poor performance.

Growth in 2006 was attributed to gains in tourism, construction, offshore and other services, and some sub-sectors of the banana industry. The International Monetary Fund (IMF) praised the Government of Dominica for its successful macroeconomic reforms. The IMF also pointed out remaining challenges, including the need for further reductions in public debt, increased financial sector regulation, and market diversification.

Hurricane Dean struck the island in August 2007 causing damages equivalent to 20% of its GDP. In 2009, growth slowed as a result of the global recession; it picked up only slightly in 2010.



CONCLUSION

Globalization has changed the fortunes of many poor countries in the world for the better. It has leveled the playing field and created equal opportunity for all. But it is only an opportunity for new prosperity—not a guarantee. To take advantage of this opportunity, a country must specialize and produce something that is unique in the world. Only then will it be able to exchange its surplus production to buy from others, necessities and luxuries it needs. The case of Dominica illustrates the challenges of globalization for countries with limited natural resources, and limited technological and human capabilities to prosper in a free market—a situation typical of many Caribbean countries.

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