

# The Smaller Economies of the Americas: Making a Case for Hemispheric Integration

## EXECUTIVE SUMMARY

As smaller economies seek to integrate themselves in the world economy, their concerns will have to be taken into account by governments worldwide, and in particular in the Americas, where these countries represent three quarters of the countries involved. Most of these are in Central America and the Caribbean. While larger countries of the Americas find it challenging enough to adapt to the new realities of globalization, smaller economies of the region are facing the need to make a quantum leap. Formerly, a combination of aid and differential treatment allowed them to adopt slower pace of reforms. Now, smaller states must play by the same rules that apply to all other states.

The enthusiasm of smaller economies for sub-regional integration agreements has noticeably faded in the past few years. Close links with larger developed countries — the U.S. and Europe in the case of the Caribbean and Central America — seem to offer better protection against financial crises, by securing access to large, stable economies and by increasing the attractiveness of these countries to international investors. When assessing the needs of smaller states, policy makers of both small and large economies in the Americas should take into consideration the links between a number of political and trade issues, including transnational crime, good governance, education, aid through trade, and security and financial flows.

A deeper policy dialogue between small and large countries of the hemisphere is needed to help smaller economies integrate regionally and globally. A dialogue is also needed among smaller economies to help them pool their resources and work together. Although larger economies of the hemisphere would like to be able to apply a common set of policy initiatives for all smaller economies of the Americas, the diversity of the countries involved makes this unlikely. The wisest strategy for governments of larger countries of the hemisphere would be to bring coherence to their overall approach toward smaller economies. Being generous with technical assistance and even aid is one part of the solution. Negotiating reciprocal, bilateral trade agreements can also help smaller economies integrate into the global economy. Smaller economies want to level the playing field with larger countries. They understand that this will not occur by a massive transfer of resources, but by having a clearer picture of their own economies and of the potential entry points into global production, financial and knowledge networks. This will allow them to make their own decisions as to the development strategy most appropriate to help their societies make the transition to a brighter future.

## RÉSUMÉ

À mesure que les économies de petite taille s'efforcent de trouver leur place dans l'économie mondiale, leurs problèmes particuliers vont devoir être pris en considération par l'ensemble des gouvernements, et notamment par les gouvernements des Amériques où ces économies représentent les trois-quarts des pays

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**FOCAL**

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concernés. La plupart d'entre eux se trouvent en Amérique centrale et dans les Caraïbes. Si déjà les grands pays des Amériques éprouvent de difficultés certaines à emboîter le pas à la mondialisation, que dire des économies de petite taille dans la région qui, elles, sont obligées de progresser à pas de géant. Autrefois, une combinaison d'aide et de traitements préférentiels leur permettait d'adopter un rythme plus lent dans les réformes engagées; aujourd'hui toutefois, les petits États n'ont pas d'autre choix que de jouer avec les mêmes règles du jeu que celles de tous les autres pays.

Au cours des dernières années, l'enthousiasme manifesté par les économies de petite taille pour les accords d'intégration sous-régionaux a beaucoup faibli. Le rapprochement avec des pays développés plus importants – comme les É.-U. et l'Europe dans le cas des Caraïbes et de l'Amérique centrale – offre une meilleure protection contre les crises financières en leur ouvrant d'importants marchés stables et en rendant ces pays plus intéressants pour les investisseurs internationaux. En évaluant les besoins des économies de petite taille, les décideurs politiques des grands et petits pays des Amériques gagneraient à prendre en considération les rapports qui existent entre plusieurs questions politiques et commerciales, notamment la criminalité internationale, la bonne gouvernance, l'éducation, l'aide par le commerce, la sécurité et les mouvements de capitaux.

Il importe d'approfondir le dialogue politique entre petits et grands pays de l'hémisphère pour aider les économies de petite taille à s'intégrer dans leur région et dans le monde. Les petites économies doivent également dialoguer entre elles afin de mettre en commun leurs ressources et de travailler ensemble. Bien que les grandes économies de l'hémisphère souhaiteraient appliquer un ensemble d'initiatives politiques communes à toutes les économies de petite taille des Amériques, la diversité même de ces pays rend la chose très improbable. La stratégie la plus indiquée pour les gouvernements des grands pays de l'hémisphère serait d'adopter une approche cohérente dans leurs façons de traiter les économies de petite taille. Faire preuve de générosité au niveau de l'assistance technique et même de l'aide fait partie de la solution. La négociation d'accords commerciaux bilatéraux et réciproques peut également aider les économies de petite taille à s'intégrer dans l'économie mondiale. En effet, ces dernières veulent les mêmes avantages que ceux dont bénéficient les grands pays. Elles comprennent bien que ce n'est pas un transfert massif de ressources qui le permettra mais plutôt une idée bien claire de leurs propres potentiels et de leurs éventuelles portes d'entrée dans la production mondiale, ainsi que dans les réseaux de finance et de savoir. Cela leur permettra de décider elles-mêmes des stratégies de développement les plus appropriées pour aider leurs sociétés à s'engager dans un avenir plus prometteur.

## **RESUMEN**

Los gobiernos de todo el mundo deberán prestar atención a las inquietudes de los países de economías más pequeñas al tiempo que estos tratan de integrarse en la economía mundial, especialmente los gobiernos de las Américas, donde estos países constituyen tres cuartas partes de las naciones de la región, ubicados mayormente en América Central y el Caribe. Si observamos que muchos países más grandes de las Américas tienen dificultades para adaptarse a las nuevas realidades de la globalización, podemos entender que para los países más pequeños esto significa un reto inmenso. En el pasado, las pequeñas economías recibían ayuda y trato diferenciado lo cual les permitía realizar reajustes más pausadamente. Sin embargo, en la actualidad están sometidas a las mismas reglas de juego que los demás países.

El entusiasmo de las pequeñas economías para crear acuerdos subregionales de integración ha ido desapareciendo en los últimos años. En el caso particular de los países de América Central y el Caribe, el establecimiento de vínculos más estrechos con naciones más grandes y desarrolladas (E.E. U.U. y diferentes naciones europeas) parece ofrecer mayor seguridad ante las crisis financieras ya que les brinda acceso a economías más grandes y estables y eleva el interés de los inversionistas extranjeros. A la hora de evaluar las necesidades de las economías más pequeñas, los encargados de formular políticas, tanto de las naciones más pequeñas como de las grandes, deberán tomar en cuenta el vínculo que existe entre una serie de

cuestiones tanto políticas como económicas, dentro de las que se encuentran el delito a escala transnacional, el buen gobierno, la educación, la cooperación mediante el comercio, la seguridad, y los flujos financieros.

Los países grandes y más pequeños del hemisferio deberán entablar un diálogo más profundo que coadyuve a la integración regional y global de los últimos. También es necesario que los propios países más pequeños establezcan un diálogo entre sí que les permita aunar esfuerzos y actuar juntos. A pesar de que los países de economías más grandes del hemisferio preferirían aplicar un grupo de medidas comunes para todos los más pequeños de la región, esta variante no sería viable dada la diversidad de naciones implicadas. La estrategia más sensata que podrían adoptar las naciones más grandes sería asumir una postura congruente en sus relaciones con las economías más pequeñas. La ayuda y la asistencia técnica son una parte de la solución. La negociación de acuerdos comerciales bilaterales y recíprocos podría igualmente contribuir a la inserción de las economías más pequeñas en la economía mundial. Los países más pequeños desean estar al mismo nivel que los más grandes. Pero saben que esto no ocurrirá por obra de una transferencia enorme de recursos, sino mediante una mejor comprensión de sus propias economías y de las posibles oportunidades que puedan encontrar para insertarse en las redes globales de producción, financieras y de conocimientos. Esto les permitirá tomar sus propias decisiones en cuanto a la estrategia de desarrollo más apropiada a seguir en aras de ofrecer a sus pueblos un futuro más grato.

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## A CRITICAL JUNCTURE FOR SMALLER ECONOMIES

26 of the 34 countries that participate in the Summit of the Americas process are smaller economies. The vast majority of these countries are in Central America and the Caribbean (see the **Primer** page 4). Until recently, these smaller economies were reluctant to use their combined political power. In return, countries of the Americas with larger economies paid little attention to their concerns. This lack of assertiveness on the part of smaller economies may be about to change. Last November, during the Free Trade of the Americas (FTAA) Trade Ministerial Meeting in Toronto, a surprisingly high number of references to smaller economies were made in the final declaration. One month later, at the Seattle World Trade Organization (WTO) Ministerial meeting, the voice of smaller economies resonated even more strongly. Reports point to the strong stance taken by smaller economies, and in particular, by Caribbean countries, as one of the reasons why no consensus was reached in Seattle.

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In the end, it became clear that the backroom deals negotiated by the Quad group (made up of the US, Canada, the European Union and Japan) could not be imposed as usual on smaller developing nations.

If smaller economies are to integrate themselves in the world economy, their concerns will have to be taken into account by governments worldwide, and in particular in the Americas, where they represent three quarters of the countries involved. Nonetheless, smaller developing economies use their leverage in multilateral organizations carefully. They know that they cannot

dictate their preferred course of action to larger countries, or they risk seeing real negotiations take place in other fora. Smaller economies are sometimes forced to abide by decisions taken as the result of negotiations in which they did not take part. For example, the Organization for Economic Cooperation and Development (OECD) can dictate the reforms that countries with off-shore banking sectors (many of them located in the Caribbean)

## SMALLER ECONOMIES: A PRIMER

There is, as yet, no accepted definition of what a small economy is. We can, however, attempt to define economies in relative terms to each other, and therefore talk about smaller economies. Two broad categories are often used to help define smaller economies. The first category is **structural** and includes indicators of size such as population, land area and gross domestic product. Of the 35 countries of the Americas, nine countries account for nearly 90 percent of the hemisphere's population. As for economic output, all the countries of the Caribbean and Central America put together account for only 0.58 percent of the hemisphere's GDP. The ten largest countries account for over 95 percent of the region's landmass. Canada, the largest country, is more than 30,000 times larger than the fifteen smallest countries put together.

The second broad category of indicators that help us to define this group of countries is their **characteristics**. These are generally **policy-related**, and include indicators such as a high degree of openness, a lack of export diversification or a dependence on trade taxes. In the Americas, larger countries such as the United States, Brazil and Argentina, (with the notable exception of Canada and Mexico because of their heavy trade with the United States), are least dependant on trade, with some of the lowest ratios of trade/GDP. In contrast, the smaller economies of Central America and the Caribbean have generally the highest trade/GDP ratios in the hemisphere, often exceeding 100 percent. The exports of smaller economies are limited to two or three products, often made up of primary agricultural commodities. In some cases, one product will be responsible for over half of a country's exports, as is the case with bananas in St. Lucia, St. Vincent and Dominica.

Taking these indicators into account, **26 of the 34 countries** taking part in the Free Trade Area of the Americas (FTAA) negotiations can be considered as smaller economies:

Antigua & Barbuda	Bolivia	Ecuador
Bahamas	Costa Rica	Grenada
Barbados	Dominica	Guatemala
Belize	El Salvador	Guyana

must put into place in order to fight money-laundering and tax evasion, or face sanctions from the world's most powerful countries.

Smaller and larger countries should engage in a true political dialogue in the coming months, especially in the lead-up to the third Summit of the Americas that will take place in Canada in April 2001, if gridlock in global and regional negotiations on trade and political issues is to be avoided. Smaller economies, with the help of larger countries, need to identify those sectors of their economies that require temporary protection and those that would benefit from a faster pace of liberalization. Furthermore, particular attention needs to be given to some of the poorest countries of the hemisphere, such as Haiti, Nicaragua or Honduras. These countries need large amounts of aid and debt relief, since trade liberalization alone will not be a

sufficient solution for populations facing extreme poverty. Larger countries also have to recognize the extreme vulnerability of the smaller states of the Caribbean and Central America to natural disasters, such as hurricanes, that can have a devastating impact on those countries' economies and infrastructures.

The highly sensitive issue of sovereignty also creates problems. In today's world, border disputes should be a thing of the past, particularly in the Americas. If they do surface, they should quickly be settled through mediation and legal means, not by threats to use force. Smaller countries also have to face the reality that, with the current pace of globalization, they must place the interests of their citizens first, and accept a mutually respectful sharing of sovereignty. The goal of this process is not necessarily to create a political union, but rather to

Haití  
Honduras  
Jamaica  
Montserrat  
Nicaragua  
Panama

Paraguay  
Dominican  
Republic  
St. Lucia  
St. Kitts & Nevis  
St. Vincent &

Grenadines  
Surinam  
Trinidad &  
Tobago  
Uruguay

To deal with the particular concerns of the smaller economies in the Free Trade Area of the Americas (FTAA) process, a Working Group on Smaller Economies was created at the 1995 FTAA Denver Trade Ministerial. This working group became the **Consultative Group on Smaller Economies (CGSE)** following the March 1998 San José Trade Ministerial. The CGSE was given **two mandates** for the FTAA negotiations:

- “To follow the FTAA process, keeping under review the concerns and interests of the smaller economies.”
- “To bring to the attention of the Trade Negotiations Committee (TNC) the issues of concern to the smaller economies and make recommendations to address these issues.”

More information on the CGSE is available on the Internet at: [www.ftaa-alca.org/spcomm/commse\\_e.asp](http://www.ftaa-alca.org/spcomm/commse_e.asp)

Additional links to organizations related to smaller economies of the Americas:

- The Caribbean Community (CARICOM): [www.caricom.org](http://www.caricom.org)
- The Association of Caribbean States (ACS): [www.acs-aec.org](http://www.acs-aec.org)
- The Central American Integration System (SICA): [www.sicanet.org.sv](http://www.sicanet.org.sv)
- The Organization of Eastern Caribbean States (OECS): [www.oecs.org](http://www.oecs.org)

solve concrete problems, from market access to drug interdiction efforts.

## A QUANTUM LEAP

Even larger countries of the Americas find it challenging to adapt to the new realities of globalization. Smaller economies of the region are facing the need to make a quantum leap. Formerly, a combination of aid and differential treatment allowed them to adopt somewhat slower pace of reforms. Now, smaller states must play by the same rules that apply to all other states. Their dependence on the outside world will force them to be more agile than their larger counterparts if they wish to occupy strategic positions in the networks reshaping the international system.

Trying to design uniform solutions for all smaller economies of the hemisphere when the problems faced by individual countries are so diverse is bound

to fail. Indeed, the disillusion of those hoping for consensus and unity among smaller economies of the hemisphere probably will only deepen in the coming years. Not only is there a lack of consensus between Central America and the Caribbean, but consensus within these sub-regions themselves is sometimes even harder to come by.

Governments can turn to two levels of strategic alliance as they try to maximize the gains and minimize the risks of integration into global networks. At the sub-regional level, integration processes such as the Central American Common Market (CACM) and the Caribbean Community (CARICOM) can be used to quicken the pace of domestic reforms, and to pool resources and gain leverage in international negotiations. Second, on the hemispheric level, strategies can also be designed on cross-cutting issues such as regional and global trade negotiations, drugs and

transnational crime, good governance, education, aid and poverty reduction, and financial security.

## **THE DYNAMICS OF SUB-REGIONAL INTEGRATION**

The enthusiasm of the early 1990s for sub-regional integration agreements in Central America and the Caribbean has noticeably faded in the past few years. Repeated financial crises in the second half of the decade have shown that little economic and financial security can be achieved by sub-regional arrangements made up of even relatively large developing economies such as MERCOSUR. Close links with larger developed countries — the U.S. and Europe in the case of the Caribbean and Central America — seem to offer better protection against financial crises, by securing access to large, stable economies and by increasing the attractiveness of these countries to international investors. It is often forgotten that while the Asian and Brazilian financial crises brought severe recessions for most South American economies in 1999, the majority of Central American and Caribbean countries experienced moderate or, in the case of the Dominican Republic and Costa Rica, exceptional growth rates of over 8 percent. A major factor in this phenomenon is the increasing trade and investment links between those smaller economies and the booming U.S. economy.

The acceleration of trade negotiations at the hemispheric and global level is another external factor contributing to the continued weakness of the CACM and the CARICOM. The completion of the Uruguay Round in 1994 and the launching of the process leading to negotiations for the FTAA that same year introduced the prospect that closer integration could be achieved at the regional or global level than at the sub-regional level. Furthermore, these sub-regional arrangements are sometimes undercut from below with bilateral deals. The most recent example is that of the bilateral agreements signed, or about to be signed, with Mexico by Central American countries (individually or as part of the Northern Triangle group of countries comprising Guatemala, El Salvador and Honduras). These NAFTA-like agreements mean that all Central American countries have now agreed to a stricter set of disciplines in liberalizing trade with a third party than they have amongst themselves.

While proponents of Central American or Caribbean sub-regional integration may be critical of bilateral agreements, such arrangements could help to spread a common set of rules and disciplines that would serve as building-blocks and facilitate consensus for wider integration schemes, such as the FTAA. In the long run, bilateral deals may prove to be beneficial for the CACM and CARICOM, as they will force an «upgrading» of these agreements from below.

If external financial and economic forces partly explain the continued weakness of Central American and Caribbean integration processes, these could still be overcome if a true political will for integration existed. At the moment, it is difficult to envisage serious talk on political integration in Central America when the region is embroiled in a series of long-standing and unresolved border disputes (such as those between Honduras and Nicaragua or Guatemala and Belize). Now that armed conflicts have been avoided, primarily because of the mediation efforts of the Organisation of American States (OAS), there seems to be little political will from Central American governments to seriously address the fundamental causes of the disputes in order to arrive at a long-lasting solution. Grand declarations coming out of isthmus-wide Presidential Summits on projects to embark upon European-style deep political and economic integration will remain just that, as successive Costa Rican presidents quickly reminded their worried citizens upon their return home. The lack of consensus among Central American states on the speed and direction of sub-regional integration was demonstrated once more in May 2000 when Guatemala, El Salvador and Nicaragua signed an integration pact without telling their counterparts (Costa Rica, Honduras and Panama) in the Central American Integration System (SICA).

In the Caribbean, political tensions are not so severe, but differences in culture, size, economic output and geographical distance have also hindered closer integration. For example, Trinidad and Tobago, Barbados, and Jamaica together produce about 80 percent of CARICOM's total GDP. Countries of the Caribbean are integrating at different speeds into the global economy, with competitive services industries developing in the

Bahamas and Barbados while countries of the Organization of Eastern Caribbean States (OECS) are still struggling to reduce their dependence on their traditional banana exports. Even in the smallest states, political elites jealously guard their prerogatives and impede further political integration with the rest of the Caribbean. While CARICOM's openings toward non-English speaking states, such as the Dominican Republic and Haiti, are commendable, they could also slow down the process of deep integration.

In the cases of both Central America and the Caribbean, sub-regional integration efforts have also been hindered by a mismatch of economies often producing the same competing products. This partly explains why intra-regional trade has grown only marginally in recent years. Even those figures obscure the reality that such trade is often the result of the weight of a single country, such as Trinidad and Tobago, which accounts for almost 70 percent of CARICOM's intra-regional trade.

Trade is also minimal between Central America and the Caribbean. In some cases competing products can lead to serious trade disputes that affect the overall relationship between these sub-regions. The most obvious case is the dispute over preferential access to the European market for bananas coming from former European colonies in the Caribbean, a case that has been taken to the WTO by the U.S. on behalf of U.S. multinationals operating mostly from Central America.

#### **HEMISPHERIC INTEGRATION: THE FREE TRADE AREA OF THE AMERICAS (FTAA)**

The concept of smaller economies emerged mainly as a result of the need for global and regional trade negotiations to address the particular circumstances of this category of less developed countries (LDC). At the global level, the idea of giving unilateral, preferential access to smaller economies is gradually being abandoned in favour of reciprocal commitments. Smaller economies are being granted

longer deadlines to carry out their commitments, coupled with technical assistance to help them to negotiate and implement increasingly complex trade agreements.

The same process is at work in the Americas, where the Consultative Group on Smaller Economies (CGSE) was created at the 1998 Santiago Summit of the Americas as part of the launch of negotiations for the FTAA. However, the FTAA negotiations have so far given little consideration to the particular needs of smaller economies. Observers and even participants in this process are unsure if these concerns will be integrated into the process itself, or if they will only be brought to the attention of the

Trade Negotiating Committee (TNC) at the end of the negotiations. If the latter occurs, it will already be too late to make substantial changes to the agreement. There is hope that this worst-case scenario will be avoided: the unexpectedly numerous references to smaller economies in last year's FTAA Trade Ministerial in Toronto point to a greater recognition of their special needs by larger countries of the hemisphere. There also seems to be renewed activism on the part of participants in the

CGSE to ensure that their concerns will be included in the work of each negotiating committee and negotiating session.

One difficulty is that the abilities of smaller economies to fund various trade negotiations have been stretched to the limit by the FTAA process. The positive side is that these negotiations have also served as a useful forum for negotiators to familiarize themselves with the increasingly complex set of issues that characterize today's trade agreements. The regular meetings of hemispheric trade negotiators also provide a unique opportunity for smaller economies to forge alliances or explore the possibilities of trade deals at different levels.

#### **LEAPING TOGETHER**

The links between political and trade issues for the smaller states of the Americas cannot be neglected.

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Some of the cross-cutting issues that must be taken into consideration by policy makers of both small and large economies when assessing the needs of smaller states are described below.

*Transnational Crime:* Criminal organizations are probably those which have best understood the lessons of globalization by integrating their production processes across frontiers, spreading their financial networks across the globe and using new communications technologies to their full potential. Smaller states, particularly in the Caribbean, are especially vulnerable to the activities of such organizations. Some observers assert that large drug cartels could essentially buy some of the smaller island states. Caribbean countries are especially worried that as anti-drug efforts intensify in the Andean region, they will be hit by a wave of drug-related activities, which they have few resources to combat. Increasing trade liberalization could compound the problem since the private sector needs a quick turnaround at customs. This is often negotiated as part of business facilitation measures in trade negotiations, in order to better integrate their operations and stay competitive. Deregulation of financial institutions and the promotion of off-shore banking activities can also quickly transform these smaller countries into havens for money-launderers and endanger an otherwise worthwhile attempt to develop their financial service industries.

Since drugs are easy to grow in the region, smaller states are particularly vulnerable to the illegal drug trade, especially when disasters destroy other crops or when traditional harvests, such as bananas, are sideswiped by universal trade rules. Illicit drugs are also increasingly available in local markets as cartels often use cocaine as payment. As a consequence, smaller nations are facing a growing percentage of addicts, making the cost of fighting domestic drug consumption and maintaining drug interdiction proportionately higher than in larger countries. The paradox is that smaller economies may have little incentive to stop drug production as the threat of illegal drugs brings ever larger

amounts of U.S. and European aid, as has happened in Bolivia. Some trade preferences are actually aimed at reducing illegal drug production in those countries. For example, between 1990 and 1994, the European Union (EU) gave trade preferences to coca-cocaine producing countries such as Bolivia.

*Good Governance:* It is clear that stable, democratic governments and highly trained public officials are important for smaller countries. The integration of these countries into global networks may help to improve governance, while at the same time creating new pitfalls that could be exploited by self-serving officials. Integration should raise the awareness of the needs for transparency in the political process and a clear legal framework for the functioning of all sectors of the economy. These are required to attract foreign investment, and they should in theory reduce the opportunities for corruption. However, liberalization in the private sector may mean that inefficient state monopolies will be turned into even worse privately-run monopolies. These will generally be acquired by people close to governing parties, who will often use the small size of the domestic market as an argument to maintain their monopolies.

*Education:* Since the rewards for better education become greater every day as countries move into the new knowledge economy, it is critical that smaller economies improve their educational levels. In seeking to diversify their trade away from traditional exports, (often comprised of one or two agricultural crops), toward higher value-added products and services, the small pool of qualified workers in any given field of economic activity will quickly top the list of negative concerns of potential investors. However, the possibilities offered by new information technologies, especially in their application to areas such as distance education, may help smaller states compensate for their lack of resources to build world-class educational facilities.

Smaller economies may be a perfect match for high technologies industries, for which location is less

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important. Small enterprises are able to thrive globally from any point on the planet. Even large multinational companies can be lured to smaller economies. Costa Rica was able to turn its small size to advantage in attracting INTEL, the computer chip manufacturer, in the face of competition from large countries such as Mexico and Brazil. This investment accounted for half of the country's growth last year. From one year to the next, Costa Rica's main export went from bananas to microchips. In a detailed analysis of this case by the World Bank, INTEL stated that the main reasons for its decision were: political stability, good governance, a relatively high level of education in the general population, and the ability of the government to respond to the company's concerns. This is a clear example of how an integrated strategy of using the political, social and economic strengths of a smaller economy can give concrete results and position it strategically in one of the most important networks of the new economy.

*Aid through Trade – Lomé and CBI:* Although preferential trade arrangements face eroding support in multilateral trade forums, they are still an essential part of the development strategies for many smaller economies. Preferential treatment is also an important element in the attempt by governments to lift some of the neediest sectors of their societies out of poverty. A new, post-Lomé, Partnership Agreement (PA) between the European Community (EC) and the African, Caribbean and Pacific (ACP) States came into effect on March 1, 2000. Over the next eight years, this agreement aims to gradually take the smaller economies of the Caribbean from preferential access to the European market to new trading arrangements in full accordance with their WTO obligations.

For its part, the Caribbean Basin Initiative (CBI) enhancement bill recently approved in the U.S. Congress gives the smaller economies of the Americas parity with NAFTA in the textiles and garment industry. Again, the aim is to phase out

this preferential arrangement when, and if, the FTAA comes into place. This point should be emphasized to the governments and populations of smaller economies who are still thinking in terms of eventual NAFTA accession (a possibility more remote every day because of the current political climate in the U.S.), rather than focusing on the FTAA negotiations actually taking place. Several years ago the bills around the CBI process referred to NAFTA accession. These references have now been replaced in the current bill by references to the FTAA. This point still does not seem to have been grasped by several governments from smaller economies.

The importance of these trade preferences vary widely for smaller economies of the Americas: for example, the CBI preferences have little importance for Costa Rica, but the post-Lomé PA is crucial to the political and economic stability of the countries of the Windward Islands. These Caribbean micro-states often depend on Lomé conditions for access to the European banana market, their main source of exports. Smaller economies have to use these fading preferential arrangements as temporary tools to give them the resources to facilitate the transition to higher value-added sectors of the economy. However, they should not view them as an excuse

to put off inevitable changes to their domestic economies. These changes, far from being limited to market access issues, will involve major restructuring of the economy and will require wide-ranging political dialogue between all segments of society.

*Security and Financial Flows:* While traditional thinking on security would point to building walls and severely controlling capital flows to avoid being caught in the turmoil of regional or worldwide financial crises, this is not an option for a smaller economy trying to integrate into global financial networks. Financial flows are necessary for a country's economic development, particularly in the case of smaller economies with a very small

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pool of domestic savings. An important element of a country's strategy to avoid financial crises is its exchange rate policy. Here again, there is no standard solution to the dilemma of trying to maximize the gains of financial flows while trying to minimize the risks. Smaller economies of Central America and the Caribbean have experimented with a wide variety of exchange rate policies, from a common currency for the OECS countries (the Eastern Caribbean Dollar) to a long standing system of controlled mini-devaluations for others. Some, such as El Salvador, are actively considering full dollarization. The debate over dollarization will have to be put into context for smaller economies and analyzed on a case-by-case basis. However, it is clear that dollarization is no substitute for sound fiscal and macroeconomic policies, which should be implemented before moving to full dollarization and not after, as is presently the case in Ecuador.

**THE NEED FOR POLICY DIALOGUE**

A deeper policy dialogue between small and large countries of the hemisphere is needed to help smaller economies integrate regionally and globally. A dialogue is also needed among smaller economies to help them pool their resources and work together. Leaders of those countries will need to demonstrate the political will to deal with sovereignty issues. If formal integration processes continue to face difficulties in the near future, informal integration can be promoted through integrated infrastructures (roads, electricity grids, etc.), integration of financial markets, cooperation in the fields of education and in the providing of social services. Smaller economies will also have to deal with the difficult question of common trade positions in international trade negotiations, where the advantages gained by joint positions should not be undermined by a perceived need to proceed at the pace of the slowest member of the group. The political parties and elites of smaller economies will also have to build citizen support and engage

their civil society organizations to deliver the necessary political and economic changes. While formal democratization and trade liberalization were a necessary first step, they are clearly not enough. These processes must be deepened and adjusted to answer the pressing needs of the citizens of these smaller economies.

Although larger economies of the hemisphere would like to be able to apply a common set of policy initiatives for all smaller economies of the Americas, the diversity of the countries involved makes this unlikely. Smaller economies focus their efforts on the need for technical assistance, most often through training of public officials. Such assistance is already given by the OAS Trade Unit, the Inter-American Development Bank (IDB) and the Economic Commission for Latin America and the Caribbean (ECLAC), but much more needs to be done.

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The wisest strategy for governments of larger countries of the hemisphere would be to bring coherence to their overall approach toward smaller economies. Being generous with technical assistance and even aid is one part of the solution. Negotiating reciprocal, bilateral trade agreements can also help smaller economies integrate into the global economy. This is a conclusion that the Canadian

government seems to have come to recently, as it is exploring the possibility of negotiating a NAFTA-like bilateral agreement with Costa Rica. While a "docking clause" would eventually allow other Central American countries to join this bilateral FTA, Canada's policy should be to actively promote sub-regional integration through the inclusion of all of Central American countries to this agreement.

Still, more can be done. On wider governance and security matters, governments of larger countries need to promote rule of law issues for smaller states and help them to deal with their security problems through sharing the responsibility, and not through the threat of unilateral sanctions.

Larger countries could allow countries of the Organization of Eastern Caribbean States (OECS) to become members of the Inter-American Development Bank (IDB) by making shares in the bank available for them. This would allow these countries to have direct access to the IDB's resources, and not indirectly through the Caribbean Development Bank.

As for technical assistance, negotiators from smaller economies have expressed the wish to go beyond the short-term training programs provided by highly paid consultants. These negotiators should be given hands-on training by working for a year in the trade ministries of larger countries. Larger countries should also help smaller economies take advantage of new developments in information technologies, both for their population at large, and for their public officials.

While asking for improved databases and help in training their negotiators may not sound very appealing to those looking for grand initiatives in regard to smaller economies, these requests reflect a much more fundamental goal. Smaller economies want to level the playing field with larger countries. They understand that this will not occur by a massive transfer of resources, but by an ability to do what larger countries take for granted: analyze their own economies, understand what is at stake in today's trade negotiations, and be able to defend effectively their interest in those negotiations. Having a clearer picture of their own economies and of the potential entry points into global production, financial and knowledge networks will then allow them to make their own decisions as to the development strategy most appropriate to help their societies make the transition to a brighter future.

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