Re-articulating Responses to Shrinking Policy Space: Caribbean Trade and Development Challenges in the 21st Century

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Setting The Stage

With the rise of neoliberalism, concerns for justice have lost salience in international trade negotiations. Whereas trade talks explicitly included appeals to justice and equity in the 1960s, these issues seem marginal in contemporary deliberations where the primary objective is the continued liberalizing of world trade. This is particularly problematic from the perspective of states in the Caribbean, and especially so in the post-Banana War era. They are scheduled to lose non-reciprocal preferences and aid from the European Union by 2008 and will be treated as equal players in the neo-liberal trading system. But vulnerabilities associated with size, location, history and governance circumscribe the way in which these states can participate: They are not equal players – they are different. In recognition of this, policy makers, scholars, and practitioners of international trade law alike have called for continued empirical exploration of the experience of small developing states in the international trading system and the development of a formula for trade negotiations that is sensitive to their different situation due to size, location, history and governance.

This is a crucial period in the history of the WTO. Developing countries agreed to enter into a new round of trade negotiations on the condition that development be front-and-centre in its considerations; their insistence on this position arises from their lack of real gains from a development perspective in the Uruguay Round. The so-called Doha Development Round has stalled because of the chasm and, indeed, deadlock between developing countries and the developed world. It is widely accepted that how the most powerful members of the WTO address the legitimate concerns of the developing
countries in this Round will significantly impact economic and human development in its poorest members. The debate rages on as to whether full-fledged free trade and the removal of special and differential treatment for small developing states at the urging of the larger and more powerful states will be of benefit to these small states. My work will shed new light on these debates. Current critiques of WTO negotiations predominantly are from a political economy perspective and tend to be grounded in development and institutional economics – whether they emerge from within the Caribbean region, or from without and are situated in the wider global context. In contrast, this work re-focuses attention from global economic structures to the injustice of the rules produced in international trade negotiations when viewed from a perspective sensitive to difference as evidenced by the location, size, history and governance of small island developing states. In so doing, it brings to bear legal and normative theory on an issue area of profound moral significance – that it, the question of the global distribution of wealth.

Specifically, I ask: how can justice in international trade be conceptualized to account for the different position of small developing states such as those in the Caribbean? In this critical re-conceptualization of justice in international trade, I refocus the place of small states in the international trading system and seek recognition of particularity versus the universalism of neoliberal trade. I contend that by so doing, policy spaces for small developing countries will be opened up, thus allowing for the proliferation of pertinent national development strategies.
This work is situated at the intersection of international political economy, normative international relations theory, international economic law, and public international law. It combines empirical and normative inquiry to engage and challenge mainstream international and comparative political economy and recast understandings of justice to take into account the significance of difference in the context of international trade. I draw on Iris Marion Young’s framework which focuses on the achievement of social justice through acknowledging social differences such as those based on age, race, and gender.¹ I propose to adapt her framework to the economic environment of trade and the social setting in which trade negotiations take place, in order to provide a critique of the universalism which is implicit in neo-liberal globalization.

¹ See Young, 1999.
The State of the Field

Mainstream international and comparative political economy theories tend to hold that international institutions are, in general, beneficial for their member states. They suggest that institutions constrain the behavior of the most powerful countries and provide information and monitoring capacities that enable states to cooperate.\(^2\) Keohane has argued that institutions lower transaction costs and provide information to facilitate multilateral cooperation in an anarchic world.\(^3\) Regime theory suggests that international institutions also facilitate reciprocity strategies among countries in an anarchic environment. Bagwell and Staiger have argued that if countries are sizeable actors in the international economy, they can use trade policy to manipulate their terms of trade and gain advantages over their trading partners.\(^4\) Thus reciprocity enhanced by the WTO’s rules and monitoring can provide a context in which big countries can achieve efficient and cooperative outcomes. Milner specifically has suggested that multilateralism is well suited to give developing countries a better outcome than would bilateral negotiations.\(^5\)

Yet theories about the value of reciprocity in trade depend on the assumption that the country is a large trader and can thus affect prices – for the majority of developing countries (being small), this is certainly not the case.\(^6\) Thus, some scholars assert that the trade rounds have allowed developed countries to exploit developing countries by engaging them in unfair agreements\(^7\) “in the shadow of power”, rather than by following

\(^2\) See, for example, Keohane, 1984.
\(^3\) See Keohane, 1984: 97.
\(^4\) See Bagwell and Staiger, 2002.
\(^5\) See Milner, 2005: 838.
\(^7\) See Stiglitz, 2005.
the terms of the laws.\textsuperscript{8} This resonates with the suggestion of Realists that these institutions were created by and for the interests of the large, powerful, rich countries, and that this is another source of the problem with them in relation to developing countries.\textsuperscript{9} In a related manner, economists have argued that the mission of the WTO, as well as that of the International Monetary Fund (“IMF”) and the World Bank, have become more dominated by the interests of private producers and investors. Stiglitz claims that financial interests have dominated the thinking at the IMF, and commercial interests have had an equally dominant role at the WTO.\textsuperscript{10} Although Bhagwati defends globalization, he has acknowledged that “the multinationals have, through their interest-driven lobbying, helped set the rules in the world trading, intellectual property, aid and other regimes that are occasionally harmful to the interests of the poor countries.”\textsuperscript{11}

Caribbean scholars have similarly argued as to the inadequacy of these institutions in addressing the situation of small states. Ramsaran has pointed out that not all economies respond in the same way to a given set of measures. “The assumption that a given set of policies can be applicable to all countries at all times flies in the face of existing evidence.”\textsuperscript{12} Ramsaran asserts that responses to measures are conditioned by experience, as well as by existing and future economic and political developments. Thus, assuming “a pure economic response”\textsuperscript{13} to a new policy or measure is to misunderstand the nature of developing societies. He goes on to note that whatever may take place in the international economy, there are certain constraints that will have to continue to inform

\textsuperscript{8} See Steinberg, 2002 and Barton et al, 2006.
\textsuperscript{9} See Milner, 2005.
\textsuperscript{10} See Stiglitz, 2002: 216.
\textsuperscript{11} See Bhagwati, 2004: 182.
\textsuperscript{12} See ibid at 13.
\textsuperscript{13} See ibid.
development planning in the region, such as small physical size, small population, a skewed resource base, and open economies.\textsuperscript{14} Similarly, Lewis has noted the “…limitations of scale of small economies, different levels of development, the destructive effects on small state physical infrastructure of unanticipated natural hazards and the similarly destructive effects on small state economies of price fluctuations and erratic access to markets within which they have limited bargaining powers”.\textsuperscript{15} Girvan has called for an approach which challenges the universalism implicit in neo-liberal globalization,\textsuperscript{16} noting that according to neo-liberalism, all economies will obey certain universal laws of economics, and so the policies that lead to economic success will be essentially the same in every region. He calls for an appreciation that economic processes are a part of specific social, societal and regional contexts. Thus the functioning of markets and the appropriate ways to respond to, and manage, them vary from country to country and, naturally, from region to region.\textsuperscript{17}

Critical writers have thus identified the fallacies associated with negotiations but have largely resorted to political economy and structural theories of the global economy to explain outcomes. I suggest that theories of justice may provide an inroad to studying negotiations and the process by which unjust trade rules emerge.

Normative theory in international trade negotiations can be grouped into two significant bodies of literature which appear to have been speaking past each other. The

\textsuperscript{14} See ibid at 38.  
\textsuperscript{15} See Lewis, 2002: 41.  
\textsuperscript{16} See Girvan, 2000: 70-71.  
\textsuperscript{17} See ibid.
one emerges from political theory and develops frameworks of social justice; the other is situated in international relations and probes the rational choices of negotiators. Odell’s work exemplifies the latter approach. It suggests that actors in trade negotiations make decisions based on bounded rationality: “Agents lack not only complete information but also the ability to perform the computations needed to optimize.”

The focus is on efficiency in the process of negotiation, rather than on the nature of the negotiation itself.

In contrast to the focus on efficiency in international trade theories, political theorists are concerned with justice. Most consider justice to be an issue of distribution. Jones notes that “distributive justice has to do with the proper distribution of benefits and burdens among persons. A just distribution is one where each person receives what is his or her due.” Similarly, Rawls defines a conception of justice as “providing in the first instance a standard whereby the distributive aspects of the basic structure of society are to be addressed”. Justice is also conceived in a procedural manner as impartiality. Barry and Scanlon suggest that justice is what can be freely agreed on by parties who are equally well-placed, particularly in the sense of being able to reject and veto an argument. It can be defended on impartial grounds, and cannot reasonably be rejected by an outside observer or a party looking beyond narrow self-interests. Albin, who reviews justice in the Uruguay Round negotiations, conceptualizes justice as the balanced settlement of competing claims. Drawing on Barry she characterizes justice as exercising

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19 See Jones, 1999: 3-4.
a “measure of impartiality, balancing different principles and interests, and complying with freely negotiated agreements.”

But these broad approaches tend to ignore the particular characteristics of specific situations – the historical, political, institutional, societal and locational contexts that should properly be used to help determine whether justice has been done. Young’s conceptualization of social justice as including an acknowledgment of difference serves as an important corrective to these approaches. She argues that by assuming a homogenous public, democratic theorists fail to consider institutional arrangements for including people not culturally identified with white European male norms of reason and respectability. She urges that normative theory and public policy should undermine group-based oppression by affirming rather than suppressing social group difference. I propose to use Young’s framework, then, which focuses on the achievement of social justice in the context of acknowledging social differences such as age, race, and gender. This overrides the principle of equal treatment and the universalism implicit in neoliberalism with the principle that group differences should be acknowledged in policy-making and in the policies and procedures of international economic institutions, such as the WTO.

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22 See ibid at 19.
23 See Young, 1990.
Small Developing States in the Multilateral Trading Regime

There is a consensus among policy-makers, scholars, trade representatives and negotiators, and practitioners of international trade law that existing and proposed rules for the global economy are restricting policy spaces for development in developing nations in general, and in small developing states in particular. Several developed country WTO proponents argue that increasing free trade and investment under the auspices of the WTO will automatically lead to economic growth, economic development, and human development. These arguments may be based on economic theory and the workings of the “invisible hand of the market”, but they are based on numerous assumptions that do not hold true in the developing world; they certainly do not hold true for small developing states in general, and small island developing states (“SIDS”) in particular.

To say that small developing states present particular challenges in the context of the multilateral trade regime is an understatement. There is a well-known list of inherent characteristics attached to small developing states generally, and especially to SIDS, which together lead to their inability to adapt to global market change. Horscroft has usefully summarized these in the following categories: size; vulnerability to external shocks and natural disasters; and problematic governance capacities.24 She demonstrates, firstly, that small size is integrally related to remoteness and insularity; thus a small state that is remote and insular and facing high transportation costs may be small economically. Further, when transaction costs impede trade, small economies tend to

have limited opportunities to benefit from global markets.\textsuperscript{25} Winters and Martin argue that in such cases, comparative advantage may not be enough - small states do have comparative advantages; however even if they specialize in these areas, trade transaction costs and the inherent inefficiencies of small size may prevent trade from being remunerative. Without such remunerative returns to capital, small states are unable to attract investment. Without remunerative returns to labour, human development is impeded.\textsuperscript{26} Grynberg argues that the types of economic opportunities which these small states can exploit are in markets where forms of rent exist or can be created for exploitation – such rents being necessary to cover inherently high operating costs.\textsuperscript{27} Examples include niche-market rents from location-specific factors such as tropical beaches for tourism in the Caribbean and branding as in the cases of Fiji water and Jamaican rum. Encontre, however, goes on to note that rents can be short-lived. He “appraises small economies’ experience with niche markets as being typically unsuccessful, characterized by commercial ventures with very short life-spans”.\textsuperscript{28}

There are also several characteristics of small economies which make them extremely vulnerable to external shocks and consequent adverse effects. Briguglio has noted that the limited production possibilities of their domestic economies make them highly dependent on trade.\textsuperscript{29} Their exports are highly concentrated in a very small number of products.\textsuperscript{30} Further, their exports are directed to a very limited number of

\textsuperscript{25} See ibid at 232.  
\textsuperscript{26} See Winters and Martins, 2004: 119-20.  
\textsuperscript{27} See Grynberg, 2001: 291-3.  
\textsuperscript{29} See Briguglio, 1995: 1616.  
\textsuperscript{30} See Horscroft, 2006: 236.
markets.³¹ We may note, too, that for SIDS, the average ratio of agricultural trade to GDP is the highest of all country groupings.³² Last, but also very significantly, small economies are not likely to have the capacity necessary to mitigate the negative effects of external economic shocks.³³ Indeed, the World Bank has argued that small economies have a “smaller pool of human and institutional resources to draw on to help predict, mitigate, and manage the effects of shocks.”³⁴ Logically, then, Read argues that small states’ vulnerability to external economic shocks will only increase with globalisation and their greater integration into the global market.³⁵

Vulnerability to natural disasters needs no expounding on for this audience. Suffice it to emphasize the following: (1.) The size of small states usually means that natural disasters devastate the entire country – thus aggregate effects are quite marked relative to large states where these are mitigated by regional variations in the impact on economic activity.³⁶ (2.) Dependence on agriculture for export and to meet local demand increases the economic damage flowing from natural disasters. (3.) This ties into the narrow resource bases of small economies which, along with undiversified economic activities, concentrate risk.³⁷ (4.) Inefficient, incomplete, or absent insurance markets reduce the scope for managing risk.³⁸ The consequences of natural disasters for small states are evident in both the short term and beyond. In a non-exhaustive list, we may note that Horscroft has pointed out that such disasters are associated with immediate

³⁵ See Read, 2004: 372.
sharp contractions in output and GDP growth, which are, in turn, exacerbated by the share of agriculture in economic activity.\textsuperscript{39} External trade balances, as a consequence, worsen significantly from the shocks to exports. Public accounts also worsen, from higher expenditure needs and a reduced revenue base. Furthermore, any possible increases in foreign aid are usually insufficient to offset these fiscal impacts.\textsuperscript{40} If there is foreign borrowing to offset these losses, then external debt to GDP ratios increase. Damage to educational and healthcare infrastructure reduces human capital formation; this impedes future economic growth. Finally, we may observe that vulnerability to natural disasters is correlated to income and consumption volatility, with corresponding welfare effects.\textsuperscript{41}

Horscroft also argues that there are costs associated with certain areas of governance in small states which are prohibitive: policy capacity and best practices. For instance, the high costs of implementing international trade agreements are a huge concern for small states, limited as they are in their human and financial resources which seem even more sparse when one considers the complex array of international trade disciplines with which they must work. Furthermore, with the migration of skilled professionals, there is a constant problem in the recruitment of qualified officials for public institutions; those who are there are severely overworked. The Caribbean is all too familiar with this.

\textsuperscript{39} See Horscroft, 2006: 241.
\textsuperscript{40} See ibid.
\textsuperscript{41} See World Bank, 2002: 45.
To further emphasize the constraints associated with small size, if we consider that these three characteristics (size, vulnerability to external shocks and natural disasters, and governance issues) usually are present in combination, it is clear that the problems are compounded. So, as Horscroft points out, “cross-country econometrics analyses regressing economic growth on any one characteristic - distances to major markets, population sizes, numbers of natural disasters, and so forth – may not yield significant results…Because it is combinations of characteristics that engender disadvantages, it is erroneous to treat these characteristics as being separable for analytical purposes…Instead, since it is the combination of many characteristics of small economies that yields the significant economic costs that undermine their trade prospects, states exhibiting those multiple characteristics have a strong case for special consideration.”

None of the foregoing is an argument against globalisation; it is an exposition regarding the disadvantaged position of small developing states, and especially SIDS, in the global economy. This necessarily leads to the conclusion that small economies are not well-positioned to take advantage of opportunities presented by globalisation. And it leads to the observation that these characteristics which together place SIDS in this position are not necessarily ones that can be changed. To compound the problem, it is clear that if current multilateral trade rules evolve as anticipated, this can only cause further damage to the economic welfare of these small developing states.

Caribbean scholars and policy makers have long compellingly argued that the dependence of small island developing states in the Caribbean on trade preferences for

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the feasibility of their key exports to major markets in developed countries makes them vulnerable to the global trade regime as it now stands. Additionally, in recent work Horscroft is at pains to demonstrate that preferential access to markets in developed countries has been “vital” to the economic performance of small states, that these states are vulnerable to preference erosion and extinction, and that there are grave consequences looming from their loss of preferences, including, but not limited to, the shrinking of policy space.

43 See, for instance, Benn and Hall, 2000; Girvan, 2000; Bernal, 2000; Ramsaran, 2002; Lewis, 2002; Sutton, 2002; Eugene, 2002; and Gonzales, 2002. See also Grynberg, 2001: 274-9; Horscroft, 2006: 252-266.

The World Trade Organization, the Caribbean, and the Shrinking of Policy Space

Economic evidence suggests that trade liberalization has been problematic for many developing countries. From 1980 to 2002, several developing countries which are WTO members experienced either a decrease or stagnation in their human development indexes, which include economic growth plus other indicators such as access to clean water, education, and healthcare. Furthermore, the United Nations Development Program (“UNDP”) 2003 Human Development Report noted that “roughly half of the countries in Latin America and the Caribbean recorded either a decline or stagnation in income during the 1990’s”. Indeed, economic analysis has demonstrated that the impact of trade openness on economic growth can be positive but also insignificant or negative. In the case of the Caribbean, in spite of the WTO, access to markets in the developed world has long been dependent upon the ideological stance taken by each country and security interests. This, together with rising import prices and increased protectionism on the part of the developed countries especially with agricultural subsidies, have contributed to negligible benefits for the region from the WTO.

SIDS in the Caribbean presently enjoy a considerable degree of preferential access to markets of former colonial and major regional powers, especially for the tropical commodities that colonial rule structured as their comparative advantages. It is undeniable that the value of these preferences to the countries in the region has been

46 See ibid.
substantial, flowing through greater export volumes and values, terms-of-trade gains, higher GDP, increased employment, higher household revenues, and increased government revenues.\textsuperscript{48} Also, Alexandraki and Lankes argue that preferences have enhanced market access relative to the counter-factual of no preferences, encouraged export-driven economic development, and provided valuable transfers to small economies.\textsuperscript{49} Additionally, UNCTAD argues that preferential margins have been sufficient to compensate for the inherent lack of competitiveness of the exports of SIDS.\textsuperscript{50} Alexandraki and Lankes conclude that preference erosion is a significant source of vulnerability for states with major preferential access to developed country markets, an undiversified export base concentrated in commodities enjoying preferential access, and high export concentration in those markets where loss of such preferences is anticipated.\textsuperscript{51} UNCTAD demonstrates that under all feasible scenarios for agricultural liberalization in the Doha Round, SIDS will suffer absolute welfare losses.\textsuperscript{52} “Only if general agricultural liberalisation is augmented by providing SIDs with tariff-free access for \textit{all} of their commodity exports to \textit{all} major developed country markets will they be better off.”\textsuperscript{53}

It seems safe to say, then, that small economies generally rely on trade to enhance their development prospects beyond the constraints associated with size, location, and history; yet they face extreme limitations in terms of their ability to compete in world

\textsuperscript{48} See UNCTAD, 2003: 18 re substantial benefits; Subramanian, 2003: 2 on terms-of-trade and export gains; Romalis, 2003: 10-12 for discussion of the large, significant growth benefits of preferential access; and Horscroft, 2006; 252-3 for discussion on all.
\textsuperscript{49} See Alexandraki and Lankes, 2004: 6-7.
\textsuperscript{50} See UNCTAD, 2003: 7.
\textsuperscript{51} See Alexandraki and Lankes, 2004: 5-6, 11.
\textsuperscript{52} See UNCTAD, 2003: 16-18, 32.
\textsuperscript{53} See Horscroft, 2006: 259.
markets. There are several situations engendered by the current multilateral trading regime under the auspices of the WTO which impact the development possibilities of the Caribbean, and shrink its policy space for development policies, that is, the extent to which there is capacity and policy autonomy of these states in meeting their developmental needs and potential through trade.

We may first note the failure on the part of the European Union and the United States to follow through on their commitments to improve market access for developing countries by opening up their own economies more. For instance, although these commitments were made in the Uruguay Round and remain in the Doha Round, the United States has raised its agricultural and steel subsidies since the Doha Round began, and seems set to raise trade barriers for textiles and garments, footwear, and several farm products. The European Union has in place about as much protection as the United States does, and has failed to commit to a timetable for reducing its subsidies. At the same time, however, developed countries, led by the United States and the European Union, are pushing for a general opening-up of international markets in the context of bilateral treaties and multilateral economic organizations. Also, in general, developed country tariff escalation in sectors of interest to small developing states, especially agriculture, limits their economic growth and their move up the value chain.

Secondly, the rules in multilateral and bilateral trade agreements specifically prevent developing states from pursuing the types of industrial and technology policies adopted by older developed countries when they were developing, such policies as those

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54 See Wade, 2005: 100.
aimed at the acceleration of the internal articulation of the economy. Strategic Trade Policies are now frowned upon.

Thirdly, and very significantly, the Agreement on Trade-Related Investment Measures ("TRIMS") which had its genesis in the Uruguay Round, is based on the Most Favored Nation ("MFN") principle of the GATT. Wade points out that this agreement bans performance requirements related to local content, trade balancing, export requirements, and bans requirements on public agencies to procure goods from local suppliers. Those who defend the TRIMS tend to refer to the special and differential treatment afforded developing countries, but refuse to apply this to time needed to nurture infant industries, for example. Additionally, these provisions are, generally speaking, voluntary and not legally binding. Rather, they are in the nature of "best endeavour" clauses.

Fourthly, small states are especially disadvantaged in their capacity to challenge the abuse of trade rules by other states, from financial and human resource perspectives. Also, certain elements of agreed multilateral trade rules constrain the policy space available to small states to improve their development prospects by, for example, proscriptions preventing small states, whether from their own resources or from international sources, from offering investment incentives to export industries or subsidizing transport services.55

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55 See World Bank, 2002: 3.
Additionally, “...[L]ow and stagnant growth rates, an inadequate inflow of investment and the slow pace of globalisation of regional firms, accompanied by a declining share of world trade, particularly in key markets such as the European Union (EU) and North America, have led many observers to suggest that the Caribbean is being marginalized by globalisation. Such trends have...reinforced the view that smallness is an inhibiting factor in global adjustment and raised questions about the optimal mix of unilateral, regional, hemispheric and multilateral integration...It is against this background that this paper has been conceptualized...It is based on the assumption that globalisation of the world economy has led to increased competition and liberalisation of trade and investment. It has forced Caribbean countries to integrate faster into the world economy and make significant policy changes at the macroeconomic and structural levels in order to reap benefits from the liberalisation of trade through the reduction or elimination of trade barriers (tariffs and non-tariffs) either at the multilateral and/or national or regional level; ...deal with trade and divestment diversions stemming from the formation of trade blocs and the extension of Free Trade Areas (FTAs) to neighbouring competitors by the EU and North America...”

I have considered it valuable to quote Gonzales at some length, as his words provide an excellent formulation of the position of the state in the Caribbean in the context of contemporary economic globalisation. Indeed, the precursor to contemporary economic globalisation in the region, that is, the structural adjustment programmes of the 1970s and 1980s, together with contemporary economic globalisation itself, have led to the necessity for a manifestly different approach to both the conceptualization and

practice of statehood in the region. Governments of these SIDS have been compelled, by different factors, to join the globalisation bandwagon. But what are these different factors? And how might they be conceptualized?

I refer to the concept of the “disciplined state”, as postulated by Cameron and Palan. They note that the “disciplining process” comes in two main forms. The first one hails from capital itself, in the form of the ever-present threat that whatever investments, employment and income a certain state has managed to attract into its open market, might well be withdrawn at any time. This threat is considered to be quite plausible in the region, particularly in light of the shift in focus from the region’s Export Processing Zones to Mexico once NAFTA was up-and-running.

There is a second source of “disciplining”: it emanates from the international economic institutions that exist to regulate the world economy, in particular the World Bank, the IMF and the WTO. It is well known that the World Bank and the IMF imposed neo-liberal disciplines on the state in the region, and indeed on several developing states – this in the form of Structural Adjustment Programmes (“SAPs”) with their various welfare austerity measures imposed by both organizations, and the forcing open of the markets of “developing economies to the rigours of the world market.” More significantly for our purposes, added to this are the activities of the WTO. Its one-time Director General, Peter Sutherland, “specifically used the threat of being ‘left behind’ by

57 See Cameron and Palan, 2004: 123.
58 See ibid.
59 See ibid at 124.
globalisation to bring recalcitrant states into line behind the new organization." Note, too, that the WTO has the enforcement power to “discipline” states breaking its rules by raising tariff barriers above established limits. Thus is the concept of the “disciplined state”, made manifest not just in the Caribbean, but in the developing world at large. This is, without a doubt, yet another source of the shrinking policy space for the Caribbean.

\(^{60}\) See ibid.
The World Trade Organization and the Shrinking of Policy Space:

Normative Responses

Thus far, I have considered empirical assessments of the extent to which the multilateral trading system in its current form hinders the human and economic development of small developing states. I have provided a rationale within economic models of comparative advantage for special and differential treatment for these states. I have noted that in this context, these states do not have the policy autonomy to choose strategies which best respond to their development needs – and this in spite of the international relations literature that tends to take a rather benign view of international organizations such as the WTO, viewing them as instruments for facilitating cooperation and making efficient agreements. But, as Barnett and Finnemore note, “…IOs often produce undesirable and even self-defeating outcomes repeatedly, without punishment and without dismantlement…”61 Does it matter, though? Empirically, we have amply demonstrated how and why all this does matter, but I will suggest that building upon that empirical evidence, there is yet another perspective from which this concern may be approached: a normative perspective. The questions now become, can there be justice that is responsive to the different characteristics and experience of small developing states? What is the nature of a just international trading order for small developing states, and how may such justice be achieved?

In terms of considering what the nature of a just international trading order for small developing states might be, we must first consider whether or not we may

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conceptualise *global justice*. This debate revolves around the issue of how far the moral obligations of the rich ought to extend, and thus is the core of what is commonly referred to as the cosmopolitan/communitarian divide.

The cosmopolitan view holds that we owe obligations of justice to each other as a function of our moral status as human beings, regardless of the nature or extent of social bonds between us.\(^{62}\) Communitarianism, on the other hand, speaks to concepts of justice based upon the prior existence of social relationships, which create obligations of justice by defining its principles, subjects, and objects. Thus communitarians speak of the absence of *community* at the global level.\(^{63}\) The divide then suggests that universal cosmopolitan justice is seen as being in conflict with the communitarian aim of maintaining cultural diversity and justice in the politics of difference. Indeed, communitarians contend that the categories, the sense and the authority of any ethical discourse are situated within a specific community or tradition, and that attempts to apply such reasoning across the boundaries of the states or societies detach it from the forms of life and thought upon which it depends.

Rawls as an opponent of the cosmopolitan view, has argued that distributive justice does not apply globally, but it only extends domestically to “well-ordered societies.”\(^{64}\) In rejecting Rawls and other so-called nationalist theories, global justice theorists argue that no logical argument can be sustained that limits justice to the domestic sphere. Barry’s conceptualization of justice as impartiality is a chief foundation

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\(^{62}\) For this very accessible formulation, see Garcia, 2005.

\(^{63}\) See Miller, 1999, and Waltzer, 1983.

\(^{64}\) See Rawls, 1999.
for this view. Pogge, also, strongly speaks to a moral universalism. He notes that “Rawls runs afoul of moral universalism…[since] he fails to meet the burden of showing that his applying different moral principles to national and global institutional schemes does not amount to arbitrary discrimination in favor of affluent societies and against the global poor.” These are theoretical formulations; however, other theorists rely more heavily upon factual claims to make their arguments. For instance, Garcia notes that globalization itself creates the need for a global theory of justice. And as O’Neill has pointed out, international economic justice would be unthinkable if the boundaries between states were “total and impervious”. This, however, is the very respect in which the modern world is different from its predecessors, or more accurately, from its imagined predecessors. “It is not a world of closed communities with mutually impenetrable ways of thought, self-sufficient economies and ideally sovereign states.” Indeed, states are no longer “separate, self-contained units that can implement autonomously their own principles of justice; their internal situation is affected by international factors.” Pogge, too, speaking as a citizen of the developed world, compellingly picks this up when he speaks of the moral duty we have to protect persons from great harms and risks if one can do so at little costs; he is worth quoting at length: “… we are not “bystanders who find ourselves confronted with foreign deprivations whose origins are wholly unconnected to ourselves…there are at least three morally significant connections between us and the global poor. First, their social starting positions and ours have emerged from a single historical process that was pervaded by

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65 See Barry, 1995.
69 See ibid.
70 See Milner, 2005: 845.
massive grievous wrongs. The same historical injustices, including genocide, colonialism, and slavery, play a role in explaining both their poverty and our affluence. Second, they and we depend on a single natural resource base, from the benefits of which they are largely, and without compensation, excluded. The affluent countries and the elites of the developing world divide these resources on mutually agreeable terms without leaving ‘enough and as good’ for the remaining majority of mankind. Third, they and we coexist within a single global economic order that has a strong tendency to perpetuate and even aggravate global economic inequality.”

For both theoretical and empirical reasons, then, justice must be cosmopolitan in scope, and the role of international institutions, particularly the WTO, must be considered from such a moral perspective. But in the context of shrinking policy space for small developing states and international trade, what form is justice to take?

As noted above (in the State of the Field), contemporary philosophical theories of justice, and the practical application thereof, do not conceive justice very broadly; instead, they tend to be limited to the morally proper distribution of benefits and burdens among society’s members – whether this is on a national scale, as such theories traditionally have been, or an international scale, or to notions of “impartiality”, or as being mutually advantageous. Additionally, there is Albin’s procedural notion of justice as the balanced settlement of competing claims, which appears to cross-over some of the other, particularly that of impartiality. But these broad approaches tend to ignore the fundamental characteristics of each situation – the historical, political, institutional,

societal and locational contexts – that should properly be used to help determine the occurrence of justice or otherwise.

As has been empirically established above, “difference” plays a huge role in the experience of the developing countries – difference in terms of the said historical, institutional, political, societal and locational contexts referred to above. This hearkens back to Young’s framework for social justice as acknowledgment of difference and responses commensurate therewith, in which Young critiques impartialist theorists of distributive justice. The problem that Young addresses is one of an inclusive participatory framework. She argues that by assuming a homogenous public, democratic theorists fail to consider institutional arrangements for including people not culturally identified with white European male norms of reason and respectability. She urges that normative theory and public policy should undermine group-based oppression by affirming rather than suppressing social group difference. But let us acknowledge here that Young’s approach is not without its critics. Harvey notes that there are “chinks in the armor of Young’s idealist conception of a just society” found in her assertions that the danger in affirming difference is that the implementation of group-conscious policies will reinstate stigma and exclusion. A democratic cultural pluralism thus requires a dual system of rights – a more general system of rights which are the same for all, and a more specific system of group-conscious policies and rights. Harvey critiques Young on this basis, suggesting that what she fails to address/clarify is the universality in a dialectical relation to particularity, positionality, and group difference. He goes on to note, though, that she ties

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72 See Young, 1990.
73 See Harvey, 1996.
the universality criteria she deploys to the idea that similarity is never sameness. Thus, difference can never be characterized as absolute otherness, a complete absence of relationship or shared attribute. For Harvey, “the similarity deployed to measure difference and otherness requires, then, just as close an examination (theoretically as well as politically) as does the production of otherness and difference itself. Neither can be established without the other.”

Of note is Harvey’s next move – his assertion that in today’s world, similarity rests largely in that realm of political-economic action, for it is in terms of commodities, money, market exchange, capital accumulation and so on that we find ourselves sharing a world of similarity increasingly characterized by homogeneity and sameness. Thus, he argues, it is “…only through critical re-engagement with political-economy, with our situatedness in relation to capital accumulation, can we hope to re-establish a conception of social justice as something to be fought for as a key value within an ethics of political solidarity built across different places.” Now it is this very point that Perrons alludes to when she notes that with the universality associated with neo-liberal globalisation, people in different places are increasingly connected, but their life chances vary profoundly and divisions between the richest and poorest countries are growing. There are both universality and difference within the same experience of the ‘market’, and the current neo-liberal model of globalisation has reinforced geographically uneven patterns of development.

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74 See ibid at 360.
75 See ibid.
76 See Perrons, 2006.
The standard neo-liberal answer is that equal access to world markets will, in
time, increase economic growth, and also development; but by itself, equal access is
hardly likely to reverse uneven development. For instance, the Caribbean may, in theory,
have equal access to world markets, but as the UN’s Human Development Reports from
1992 too 2002 have shown, there has been either stagnation in human development in the
region at best during the 1990s, and regression in some areas. Where, then, do we go
from here? I suggest that acknowledging the differing capacities of different regions to
make use of the equal access they may have to world markets is of crucial import. This
acknowledgement of difference does not deny our universal situatedness in relation to
capital accumulation and the ‘market’; indeed, it acknowledges this and it seeks to
express political solidarity built across different places that may have similar experiences.
Thus, within the context of the universalism implicit in neo-liberal globalisation, I
contemplate ‘difference’ not in the sense of creating or facilitating exclusion (for those
who are differently situated in the capitalist-dominated, neo-liberal globalised world by
virtue of different historical experiences, different physical sizes, different capacities for
production, are already excluded by virtue of their having equal access to global markets
in theory, but in actuality not having the ability to use that market access as other
countries are) but in the sense of creating and facilitating inclusion. That is, so as to
enable those who are less powerful because of their difference and inability to participate
in the ‘market’, we acknowledge their differing circumstances and needs and respond to
those so as to lead to their actual (versus theoretical) inclusion in the ‘market’. So
‘difference’ in this sense would not lead to “geographies of exclusion” at different spatial
scales, but to geographies of inclusion,\(^77\) albeit at different political-power scales.

\(^77\) See Sibley, 1995.
With regard to the Caribbean, then, in the search for economic justice in international trade relations, this concept of ‘difference’ is limited to the specific geographical, historical, size, and capacity differences experienced by the SIDS therein and the consequences thereof. Again, as so compellingly put by Lewis, these derive from limitations of scale of small economies, different levels of development, the destructive effects on small state physical infrastructure of unanticipated natural hazards and the similarly destructive effects on small state economies of price fluctuations and erratic access to markets within which they have limited bargaining powers.\textsuperscript{78}

I propose to use Young’s framework, then, which focuses on the achievement of social justice in the context of acknowledging social differences such as age, race, and gender. Young challenges the prevailing philosophical reduction of social justice to distributive justice. She argues, as noted above, that by assuming a homogenous public, contemporary theorists fail to consider institutional arrangements for including people not culturally identified with white European male norms of reason and respectability. For our purposes, we may specifically note Young’s point that the principle of equal treatment originally arose as a formal guarantee of just, inclusive treatment. This rather mechanical interpretation of justice, however, also suppresses difference. The politics of difference sometimes implies overriding a principle of equal treatment with the principle that group differences should be acknowledged in policy-making and in the policies and procedures of international economic institutions, such as the WTO. Taking Young’s framework, then, I apply it to the universalism which is implicit in neo-liberal globalization. I thus argue for the critical re-conceptualization of the concept of justice, in

\textsuperscript{78} See Lewis, 2002.
the critical tradition, to take into account the differences in the needs of countries and regions, and thus provide responses commensurate therewith.\textsuperscript{79}

I have brought together empirical evidence that small developing states face tremendous challenges in the context of competitive participation in world markets; they cannot change fixed characteristics such as small size, frequent natural disasters, inherited historical disadvantages, and large distance to markets. Thus my contention that these small states require more favourable treatment if they are to “avoid the imminent prospect of marginalization.”\textsuperscript{80} Based on this, I have attempted the task of conceiving an international economic community in which considerations of justice are both relevant and necessary in the context of international institutions in general and the WTO in particular, and one in which justice is achieved when the outcomes of trade negotiations are demonstrably sensitive to the different position of small island developing states constrained as they are by inherited cost disadvantages, small size, and geographical location.

To translate this “justice” into practicality, derogations from WTO rules will be required, as it is the present WTO-incompatibility of this “necessary discrimination among developing countries that has enabled larger or more competitive developing countries to challenge successfully the existing preferences accorded to small

\textsuperscript{79} Critical tradition should not be confused with ‘critical theory’. The term critical tradition is usually reserved for those studies that take a critical view of the status quo and explicitly seek to replace the predominant power structures (such as capitalism or the prevailing gender and race power relationships) with what they see as more just and equitable social arrangements. On the other hand, critical theory is the Frankfurt School tradition of Marxist thought.

\textsuperscript{80} See Grynberg and Razzaque, 2003: 1 and Horscroft, 2006: 263.
economies.” Such derogations must provide all-embracing recognition of these special circumstances of small developing states, which are permanent; put differently, specific derogations from particular rules to address the needs of these states is what must be effected. This is as opposed to ad-hoc concessions that do not have the capability to effectively address the matter comprehensively and across-the-board. Otherwise, too, these states will continue to face opposition in specific negotiating groups. Not only is there ample precedent for the incorporation of specific derogations from particular rules, there is a mechanism in international law to effect same: corrective equity.

82 See Grynberg, 2001 in general, for examples of such derogations.
“The way is equity, the end is justice”

The concept of *equity*, as opposed to the concept of *justice* which we have reviewed, is, indeed, the way to justice. There are relationships between law and equity and justice which are of relevance here, in the context of the WTO Treaty and modifications of same.

Equity has a distinguished pedigree, coming as it does from Aristotle’s work in *Nichomachean Ethics*. He explicitly conceives equity as a corrective to the written law, in circumstances in which the application of general principles of law to specific cases would render an injustice. This conceptualization of equity was further refined in the Roman period; here, equity was considered not so much a source of law as an interpretive aid, and so when recourse was had to it, it tended to be from the perspective of fairness. Justinian, in his two codifications of the Roman Law, spoke to equity almost in terms of how we use the term “distributive justice” today – that each was to receive his/her due. Thus far, we may observe that notions of equity and justice are being used interchangeably - there is almost a blurring of the lines between the two.

In the 17th Century, in England, there was some clarification: equity was administered by the Courts of Chancery, which could offer relief even against a judgment at law. This was, then equity as the supreme branch of the English law. Subsequent to this, however, there was Pufendorf’s formulation of equity, in which equity was used as a

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83 See Aristotle/Oswald, 1962.
84 See Rossi, 1993.
85 See ibid.
86 See ibid.
correction of a defect in the law due to the universality of the law;\textsuperscript{87} one is compelled to observe the Aristotelian nature of this formulation.

As time went on, there was the side-by-side development of law, equity and justice, and the emergence of three classical senses of equity: \textit{equity infra legem}, which refers to equity in the context of choosing between several different interpretations of the law, or adapting the law to particular circumstances; \textit{equity praetor legem}, which is equity filling in the gaps in the law; and \textit{equity contra legem}, in which case we see equity as a reason for not applying unjust laws.

Franck, in his survey of this matter, refers to a note by Professor Daniel Bardonnet to the effect that he sees the use of equity as an invitation to introduce elements both of reasonableness and of the international community’s common ethic.\textsuperscript{88} Bardonnet also notes its use in individualizing and particularizing a case.\textsuperscript{89} What has become clear over time is that the courts wish to be able to refer to notions of equity as they see fit. I myself wish to subscribe to the Aristotelian notion of equity. In so doing, I refer to what Franck describes as “corrective equity”.\textsuperscript{90} Franck notes that in this “model” of equity, equity occupies the “important but peripheral role of tempering the gross unfairness which sometimes results from the application of strict law.”\textsuperscript{91} He notes, too, that the broadest application of this may be found in two contexts – preferential trading arrangements for developing countries in the context of GATT, and continental shelf

\textsuperscript{87} See ibid.  
\textsuperscript{88} See Franck, 1995: 57.  
\textsuperscript{89} See ibid.  
\textsuperscript{90} See Franck, 1995: 57-8.  
\textsuperscript{91} See ibid.
allocations. But, I submit, he does not go far enough to address the peculiar circumstances of small developing countries, some of which circumstances they are unable to change, such as size, geographical location and the hazards of weather associated with same, and a history of colonialism which affects the operation of production to the present time. Furthermore, Franck does not base his position on justice to difference, as I do, and in fact he does not distinguish between justice and equity, but uses the terms interchangeably – thus muddying the waters.

The conceptualization and formulation of a framework that achieves justice to difference in the context of international trade so as to promote development in small developing countries, via corrective equity, is vital at this critical juncture of international trade negotiations. Otherwise, these states will be certain to lose more than they already have from the greater liberalisation of markets for their key exports. What remains unsure, however, is whether or not the major powers may be persuaded to facilitate same.

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92 See ibid.
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The 21st century, like the previous one does not seem capable of breaking from the paradigm of the complex and the uncertain. Some of these challenges have been identified in the 2010 edition of the International Social Sciences Council’s World Social Sciences Report, as major challenges of the 21st century. The effects of the slave trade, colonization and neo-colonialism that Africa has suffered from are still being felt, as they have each and together resulted in the suppression of freedoms, the violation of human rights and dignity of the peoples of the continent, as well as the looting of human, natural and intellectual resources and led to what the pan-Africanist historian. Walter Rodney called the “underdevelopment” of Africa. Managing 21st-Century Political Risk. Today’s threats are more complicated, but the remedies don’t have to be. Companies today operate in the most complicated international political environment in modern history. During the Cold War, superpower rivalry between the United States and the Soviet Union set relatively clear dividing lines between adversaries and allies. Trade politics and security politics were sharply delineated, too. The world was largely split between Western capitalist markets and the command economies of the Soviet bloc. Arms control treaties involved the Soviets, but global trade negotiations did not. FIGURES 1. Developments in the Caribbean 5 2. Caribbean: Low Productivity and High Costs 12 3. Caribbean: Public Debt Composition 19. We summarize the debt challenges and fiscal policy issues and conclude with a possible work program for tackling issues of low growth and high debt. Caribbean small states. Figure 1. Developments in the Caribbean. Caribbean has been getting poorer over recent decades. Growth has been elusive in no-commodity producing states.