Agricultural Trade Dilemmas for the OECS

by

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A. Introduction

The countries of the Organization of Eastern Caribbean States (OECS) face a basic trade policy dilemma as they approach the new millennium. Do they embrace globalism and encourage free trade and investment, hoping to find lucrative niches in the world marketplace? Or do they request others to respect their small size and vulnerability and to allow them to maintain a trade policy built on domestic protection and preferences from abroad? The dilemma is particularly acute in the area of agriculture. The embrace of globalism probably implies some fairly major shifts of cropping pattern and a reduced level of agricultural output of traditional export crops. Maintaining preferences suggests continuing with the same staple exports as have been sold in the past. Though much of the Caribbean faces the same choice, the small size of the OECS economies makes the issue more acute. It has become seen as a “small island” problem.

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This paper is based on the simple premise that the problems faced by small economies and islands are sufficiently different from those encountered in larger economies to make it worthwhile to afford them special consideration. This does not imply that small economies have more problems or that they are in all respects disadvantaged. It certainly does not mean that they are always poor. But it does mean that standard economic policy recipes may have to be modified to take account of special circumstances arising from being “small” and surrounded by water. If so, then this has relevance for their current agricultural policy dilemma.

I am conscious of the fact that most economists and trade officials working in the Eastern Caribbean are well aware of the differences that being small entails. But I have not seen a systematic treatment of the implications of small size for trade policy in general and agricultural trade policy in particular. My aim is to pull together some fairly obvious observations on the economic implications of small size and insularity in a structured way in an attempt to shed light on current agricultural policy dilemmas facing the OECS. The basic question that I will pose is whether being a small, island economy changes the menu of trade policy choices and leads one to pick a different path to that normally recommended by development professionals.

The motivation behind such an inquiry is straightforward. The Eastern Caribbean region contains some of the world’s smallest states. The World Trade Organization (WTO) has already made its presence felt in the region, and not as a defender of the status quo for small islands. If a future Lomé agreement led eventually to free trade with Europe, these states would be competing directly with the economic might of the EU. The FTAA, if it

author would like to thank Professor Pan Yotopoulos for comments on an earlier draft of this paper and the participants at the Grenada workshop for several helpful suggestions.
materializes, would throw these states into a deep trade agreement with some of the largest economies such as the US and Brazil. Countries worry about disparities of size in regional trade blocs. Issues such as the unequal size of Mexico and Canada vis-à-vis the US within NAFTA, and the Andean countries vis-à-vis Brazil and Argentina in an expanded MERCOSUR crop up constantly. But these economies are arguably much more alike than, say, Canada is to Grenada or Venezuela is to St Lucia. Can Grenada and St Lucia swim in the same economic waters as Canada or Venezuela, let alone the US and Brazil?

The structure of the paper is as follows. The first section postulates some obvious but important impacts, both economic and from a policy perspective, of being a small island economy. This is followed by some implications for trade policy of this set of economic and political conditions. A third section relates this to the current trade issues of the OECS as regards such issues as the re-negotiation of Lomé, the FTAA, the deepening of CARICOM and the next WTO Round.

B. The Economics of being a small island economy

The word economy can be used to describe any group of activities involving production, exchange and consumption, tied together by common rules and operating intensively within the group. An economy does not have to be any particular size. At the one extreme are households, particularly in developing countries, which often resemble rudimentary economies. At the other extreme one can imagine an economy the size of North America

1 The Andean Pact was originally set up in large part because the countries of the Andean region felt that Brazil, Argentina and Mexico were gaining too much of the benefits from the Latin American Free Trade Area (LAFTA).
or Western Europe. But the size of the economy has certain implications that change its nature. At the risk of oversimplification, the main features of a small economy can be encapsulated as follows. A small economy has only limited scope for making use of economies of scale; possesses no large consumer market; is a very open economy, with trade being a high percentage of GDP; has relatively small impact on other countries markets; and is rather vulnerable to outside shocks of an economic, climatic or other nature.

In addition to these “size” features, the fact of being an island is also significant. Again, drawing with a very broad brush, islands have certain economic characteristics which adversely impact income, such as high transport costs, although this may be offset somewhat by the inherent benefits of a long coastline. Similarly, islands are often vulnerable to weather extremes but favored by isolation from disease and rarely short of water. Each of these characteristics will be discussed briefly below: the policy implications follow in a later section.

1. No economies of scale

The relative lack of economies of scale makes a substantial difference to the structure of the economy. Most economies have a wide variety of firms of different sizes. In the small economy, this luxury is not available. Instead, one of two patterns may emerge. Either the economy becomes very specialized relative to larger countries or the average size of enterprise remains small. In the former case, the economy is very vulnerable to demand swings. In the latter case the cost remain high relative to larger economies. This is the fundamental dilemma of policy makers in such economies: they cannot both diversify and achieve low costs.
2. No large consumer market

The lack of a large home market also has substantial implications for the economy. First, consumer choice is itself likely to be limited. The cost of keeping a full range of goods on the shelf will be prohibitive. Modern wholesaling and retailing themselves exhibit economies of scale. The same dilemma will therefore emerge as in the production sector. Small enterprises will perpetuate high costs: large firms are likely to be very risky. Secondly, the economy is likely to be in a difficult position when it comes to attracting outside investment, or even keeping local investment at home. Not that there may not be worthwhile investment opportunities, but the attraction of entering into a small market to an outsider is likely to be limited. The fixed costs are likely to be large relative to the scale of the investment. The small size of the market has at least two other implications of importance to trade policy. First, transport costs may be raised by the inability to buy in bulk. But secondly, on the other hand, bulk goods when they do come in can swamp the domestic market. Once again, the choice is between low cost and instability.

3. Very open economy

It goes without saying that the smaller economies are more open. A small closed economy could exist, but would be rather poor. Trade has more benefits to a small economy. The chance of being able to produce any particular good efficiently is more remote the smaller the economy. Most goods will be imported at considerably lower cost than they can be produced at home. The gains from trade will be a higher proportion of national income. The burden of protection is also likely to be substantial, as it reduces the benefits of trade. The high degree of openness in turn has a number of implications for

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2 Another way of expressing this is that the ratio of tradable to non-tradable goods is high for small economies. This has implications for financial management of the economy (see Yotopoulos, 1996)
policy, discussed below. But the main characteristics of extreme openness are the combination of high risks coupled with potentially high returns from entrepreneurship in the global marketplace.

4. Small impact on other economies

Not all the features of small economies are negative. Being small can at times be useful in international trade markets. For one thing, one is more likely to able to exploit a niche market without arising the fears of the domestic producers or alerting larger competitors. In general, being small players in other markets is probably advantageous, but it raises problems of achieving the volume needed to engage in advertising, and the difficulties of keeping up regular supplies. Moreover, small shifts in the large overseas market can have a magnified effect on the small supplier.

5. Vulnerable to external “events”

The other side of the coin to being “invisible” in foreign markets is that being small can magnify the impact of an external economic event, or a weather-related disaster which disturbs the economic resource base. World market price changes for the small range of goods that are produced can have a devastating impact. Loss of crops through flooding or wind damage can make a dent in GNP in a way not possible in larger countries.
6. High transport costs

The main feature of an island is also the most obvious: it is surrounded by water. Along with being surrounded by water comes the disadvantage of having no road access.³ Road and rail are usually the cheapest form of transportation for goods, though ocean transport can be cheaper for raw materials. In particular, road and rail are efficient ways of transporting small amounts of a good. Thus exporters face higher marketing costs and manufacturers and consumers face higher import costs. A higher share of GDP goes on “unproductive” transportation activities. On the other hand, certain services have low transport and communication costs and are not dependent on rail and road access. And goods (and people) travelling by air can get to an island as cheaply as if the air journey were the same distance over land.

7. High ratio of coast to population

Islands have certain assets that have significant economic value. One major advantage enjoyed by most of the countries in the region is the high ratio of accessible coastline to population. Combined with the equitable climate, the coast has enormous attraction for those that live most of the year a long way from the sea. The tourist industry is a reflection of the high demand for coastal vacations, whether experienced by sea or by land. The coast also is rich with fish, and the seabed sometimes yields mineral and oil deposits. The smaller the island the more each inhabitant, on average, “owns” of this prized asset the coastline.

³ Landlocked countries often face transportation difficulties as well, sometimes because they are in mountainous or otherwise inhospitable regions and sometimes because they have no access to port facilities.
8. Vulnerability to weather disturbances

The downside of being surrounded by water is that weather disturbances often develop over the oceans and hit the coastal areas of landmasses the hardest. Small islands are naturally most subject to major disaster from hurricanes and tropical storms, and their economies are likely to be proportionately badly hit. On the other hand, though it is small comfort, international help will normally be more effective the smaller the country.

9. Natural barriers against disease

Insularity provides a barrier to the spread of many pathogens. Whereas the movement of people and goods over the centuries has provided adequate vectors for pest infestation, small islands are still relatively more disease-free than large landmasses. This is increasingly important in a time of stringent sanitary and phytosanitary barriers and the availability of premia for organic crops.

10. Adequate water supplies

One resource that is rarely scarce on an island is water, though desalination costs often make sea water expensive to use. Some flat islands in the region suffer from periodic droughts, but most have enough elevation to attract clouds and fairly regular rainfall. This resource again should not be downplayed: coupled with warm temperatures, water availability gives the Caribbean an advantage over many parts of the world in the production of agricultural and horticultural crops.

C. The Politics of being a small island economy

In addition to the economic characteristics of being small, countries can also suffer from the politics of limited size. Focussing on those aspects of political life of particular
relevance to trade policies, one can identify five characteristics: the limited resource pool for the public service; the greater degree of clout in international organizations which do not weight votes by population; the improved access to political actors by individuals; the high number of administrators per capita; and the relative paucity of interest groups. The politics of island countries also have some features which set them apart: definable and more easily defended borders; easier identification of cultural roots; less interaction of politicians among islands; more parochialism in policies; and a greater tendency to use the border for administration. These factors will be discussed in turn, before drawing out the trade policy implications.

1. Limited human resource pool for administration

The smallness of a country of necessity implies a small pool from which to draw political and administrative personnel. This does not of course mean that excellent administrators and politicians do not emerge from small countries, but their numbers are likely to be roughly in proportion to population. The resources of a small country are much more likely to be strained by the demands for trade officials to take part in discussions than are those of a medium-sized or large country. Those individuals that excel are likely to be quickly promoted and removed from the trenches.

2. More weight per person in international organizations

Ironically, the importance of a country in international affairs does not always go with size. Small states have small weight in such institutions as the IMF and the World Bank, where contributions and capital underwriting matter. But in the UN agencies, and in the General Assembly, each country (nominally) carries the same weight. Thus a region of small countries potentially has a large bloc of votes which may be used to pursue its own agenda of be of interest to other countries which would welcome their support in
exchange for help in other areas. The WTO and other institutions that operate on consensus also by implication give higher weight to smaller countries.

3. Better access by individuals to politicians and administrators

Small economies have better access between the public and the business groups. This is in part a function of a smaller number of schools and universities to which both the business person and the administrator may have gone. But it also follows from the small number of firms which any particular minister has under her jurisdiction. Parliamentary constituencies are small, and anyone who wants to be active in a political party is likely to be welcomed.

4. More bureaucrats per person

Reinforcing that tendency for business to have easy access is the fact that there are likely to be a large number of bureaucrats per head of the population, reflecting the lack of economies in administering policies. This also implies a high administrative cost in small countries, which translates to a high burden on firms. This exacerbates the problems of attracting investment and running businesses in a way that is competitive with larger countries.

5. Fewer interest groups

Although each business person may have ready access to politicians, the politicians are likely to be confronted with fewer interest groups. If most of the products consumed are imported then the pressure from producers is not going to be so great as in larger countries. The lack of pressure groups does not mean a lack of pressure on politicians. In fact it may be easier to deal with lobby organizations than individuals who demand access to the minister’s ear.
6. Secure, definable borders

In addition to the above political features in small economies, islands have some features of their own. One is the ease of defining borders and the relative ease of defending them. Islands probably spend less time worrying about border disputes than other countries, and this can improve trade relations. Defense costs may be less in the sense that incursions are less likely, but cost per head of defending a long coastline could be high.

7. Cultural identity easier to define

The sociological parallel to a coastline defining a border is that islanders typically have a strong sense of identity, with somewhat less casual movement between countries and more loyalty to a particular nation. As with the ease of defending a sea border, the culture can be defended and preserved easier than in more itinerant populations. Of course, in the case of the Caribbean, with so much migration, voluntary and otherwise, this trait may be obscured.

8. Transport cost high for political interaction

The counterpart to high transport costs for goods is that the cost of travel will put a crimp in the ability of civil servants to travel abroad for meetings. This must act to increase the difficulty of collective discussions and decisions. However, technology is once again coming to the rescue, with cheaper ways of communication which in part will substitute for meetings.

9. Border provides convenient point of administration

A sea border can be useful for economic as well as defense monitoring. Islands typically use the border for raising taxes and for controlling markets. Collection of statistics is also often done at the border. This emphasis on the border goes directly against the trend to
de-emphasize borders between countries in a global (or regional) marketplace. This poses certain problems which will be discussed below.

10. Inward looking attitudes likely to be prevalent

At the risk of appearing critical of island politicians, there is a tendency for attitudes to be a little parochial. This is true of large islands, such as Japan or the UK. On the other hand, islands often have a global perspective on world affairs rather than continental perspective. This mixture of chauvinism and internationalism permeates the history of the region since the Sixteenth Century, when European families were at once trying to establish independent settlements and yet were pawns in the power games of Europe.

**D. Trade Characteristics of a small island economy**

A number of conclusions suggest themselves on the basis of these brief observations with respect to the pattern and type of trade. These tendencies are later linked to trade policy considerations.

1. Imports have natural protection

Islands have natural protection as a result of high transport cost. This could be enough to keep small import-competing enterprises competitive in an open trade system (i.e. without tariff protection as well). However, lack of economies of scale implies that the goods that are competitive are those that emphasize quality and timeliness rather than the mass produced “commodities” that larger countries are able to produce more cheaply.
2. Exports have additional costs

As suggested earlier, the additional transport costs associated with insularity impose a cost on the user of imported items, as well as on the seller of exports. The exchange rate cannot adjust to offset this cost item: the disincentive to imports tending to push the rate up and the barrier to exports pushing it down. The volume of trade is less than if transport costs were lower, even though it might still be higher than if the same sized economy were not an island. Exporters cannot avoid the extra cost when selling goods. Luckily, in the case of service exports, many consumers bear the transport cost themselves (tourists) sometimes even enjoying the experience of their shopping expedition (tour boats). This alone gives the economy a tilt toward service industries.

3. Limited range of goods both exported and imported

The range of goods produced in a small island economy is likely to be very limited. As mentioned, this is a reflection that there is likely to be a cost advantage in a small number of product lines. But the import range is also going to be limited as a result of small consumer markets and relatively homogeneous tastes. This limited range of traded goods can simplify trade policy considerably. This offsets some of the extra burden which small economies have when it comes to trade diplomacy. But it also is the main reason for the added vulnerability of the small economies.

4. Imported instability likely to be a problem

Unstable import prices can have a devastating impact on small economies for two reasons. First the narrow export base as a result of the limited number of commodities produced implies large swings in terms of trade when world prices fluctuate. This has in the past been offset by preferential trade agreements which have acted to fix the export price for major commodities. If the importing country moves away from such a policy,
unstable export prices will again become a major source of instability. Diversification may offset this a little, but at the expense of scale economies, as mentioned above.

Unstable import prices can also destabilize an economy, particularly when the import item (such as petroleum) is important in the costs of manufacturing.

5. More direct link between exports and imports

In a large economy it may be difficult to see the link between exports and imports: in a small economy the link is self-evident. A tax on imports raises prices, increases domestic factor costs, and lowers foreign exchange outlay which tends to strengthen the currency. The export sector is hurt by the higher prices for input items, competes for the same domestic factors, and suffers from reduced foreign demand as exports become more expensive. In a large economy these effects are real but indirect. In a small economy they are direct and visible. This puts an interesting light on trade policy, which typically separates import policy from export promotion decisions.

6. Comparative advantage in goods and services with low transport component

The high transport cost inherent in being cut off from overseas markets implies that the set of goods for which a small island economy has a comparative advantage will include those with low transport costs. This set will include services which are sold electronically and those where the consumer bears the transport cost. But it also includes goods which have a high value by weight. Many of the newer areas of trade policy, such as the liberalization of the services market, will have considerable relevance to the Eastern Caribbean region for this reason.
7. Comparative advantage in coastal goods

The most obvious place to look for cost advantages is in the use of abundant resources. This means the sea and the beach, together with the accommodation that affords access and views. The issue is not so much whether to develop the market in coastal services but how much and in what way. Competition among neighboring islands can keep down the profits: cooperation can prevent conflicting claims and exploit the possibility of multi-island vacations. Common policies to manage in a sustainable way the rewards from other coastal and offshore endowments are also likely to be mutually beneficial.

8. Export of cultural goods favored

If the proposition that island cultures are easier to preserve is accurate, one should expect to see a comparative advantage in goods with a cultural content. This should show up in musical and artistic exports, based on indigenous cultural roots, and could also involve inter-island cooperation. Cultural exports are also stimulated by the existence in overseas countries of emigrants from islands, a common phenomenon not unrelated to their small size and limited economic scope.

9. Domestic market not of interest to larger countries

The fact that the domestic market is not large has the side-effect that it is not likely to be of great interest to others. This has the negative implication that market-driven investment is likely to be less than for larger countries. Small islands are not so likely to be production points for the multinational company looking to sell into the local market: such firms will supply these small markets from other countries. What may be of interest to foreign firms is the regulations that apply to businesses. These may be in some cases designed to attract such overseas concerns, by allowing for instance for bank secrecy.
10. Tariff revenue larger part of government budget

The larger role in the border as a way to raise taxes implies that tariff revenue is usually going to be a larger part of government receipts than in other countries. This poses some problems for liberalization policy as tariff revenue has to be replaced with direct or indirect taxes. However, tariffs are not necessarily the most appropriate way of raising government funds. Moving to other forms of taxes may encounter political resistance, but make economic sense. Broad-based consumption taxes could replace tariffs as the main form of revenue,

**E. Trade Policy in a small Island Economy**

The combination of economic and political features listed above, along with the trade characteristics, should give the trade policy of small island economies a particular flavor. The following generalizations follow from the propositions above.

1. Trade policy is very important

If trade gains are more important to small island economies it is not surprising that trade policy is the lifeblood of political life and economic strategy. Every politician in the region is aware of such issues as the EU banana controversy and most businessmen would be well aware of the main trade links of their island. The same is decidedly not true in larger countries, where only recently have trade issues made front page news. The importance of trade policy has its drawbacks: casual remarks and deeds in other countries can have a disproportionate impact on a small island. But at a time when trade is expanding more rapidly than production in the world, having a business population that is actively engaged in trade must be advantageous.
2. Need for clearly-articulated trade philosophy

Along with the importance of trade policy comes the obligation to articulate trade goals and philosophies. When trade is so important to the daily life of the population, it can be important for the government to have the support and understanding of the public in matters of trade negotiations and relations with other countries. This poses problems, not least because trade policy should have a steady long-term component which allows investment and market development whereas the search for consensus in political life often requires flexibility.

3. Border controls more effective

Trade policy in a small island economy is domestic policy operated at the border. Each firm and household will feel the impact of trade policy. As a result, there will be more opportunities to regulate the domestic economy at the border. But ironically the closer links to the world market (i.e. the greater the proportion of traded to non-traded goods) the more important it is to go along with relative price signals from the world market. The cost of distortions in the real exchange rate could be much worse the smaller the economy. Operating at essentially world prices may prove the best way of ensuring that the economy is not distorted by a real exchange rate markedly out of line with that explicit in the market.

4. Administration of SPS easier

One significant advantage that island economies have is that they can maintain pest-free zones more easily than continental countries. With the growth of high quality trade in agricultural goods and foodstuffs the maintenance of credible domestic health controls is accentuated. Islands should exploit their relative lack of pest infestations.
5. Vulnerability to “events” abroad

The additional vulnerability of small island economies gives a particular twist to trade policy. It suggests that contingent protection in the form of safeguards and anti-dumping legislation is likely to be more important. This is exacerbated by the “one shipload” problem, where the quantities imported can easily swamp the domestic market. It is likely that trade policy in small economies should essentially concentrate on the short run and decline the role of longer run economic management. That way the price and investment signals that come through from the world market are not distorted either by short run noise or by long run bias.

6. Integration with other economies is more difficult

The absence of a land border with neighboring countries, together with the higher cost of interaction at the level of trade officials poses difficulties for economic integration. Natural trade partners may not be next door. Markets cannot practice some restraining arbitrage, and the consumer has less idea what market conditions are like in other countries. On the other hand the desire to cooperate may increase with a shared sense of isolation and vulnerability. Common language and heritage may also overcome the natural reluctance of islanders to cooperate with neighbors. The OECS stands as an example of successful integration at a level which exceeds that of CARICOM as a whole as well as most other regional agreements.

7. Trade policy cooperation is more necessary

Despite the additional difficulty in coordination, the benefits of economic integration are likely to be greater than in larger, continental countries. Ironically, the greater the gains from trade, the more trade creation there is likely to follow from regional integration. Unfortunately the possibility of trade diversion also increases. This suggests that low
external tariffs are essential to prevent high cost trade from starting up within the region. In general, the OECS and CARICOM tend to have fairly low tariffs. But in agriculture the CARICOM Common External Tariff, at 40 percent, is supporting highly un-economic trade flows and preventing countries from making full use of world markets.

8. Rules-based trade system advantageous

Small island economies stand to gain from trade rules that prevent larger countries from exercising their commercial muscle. Thus the advantage of the WTO is that the rules can be applied equally to the US and Europe as to Grenada and St Lucia. The dispute settlement process is neutral with respect to size. Of course, some members will always seem more equal than others, as a result of political clout. But a rule-based trade system moderates the impact of power to the advantage of the small.

9. Greater weight in UN-type or consensus agencies

The benefits of being small show up particularly in those institutions which are based on “one-country one-vote”, as mentioned above. This includes the WTO, which works on consensus. Even the Lomé convention has institutions that attempt to give small members an equal voice. The question is how to make use of this disproportionate influence without causing the larger countries to become disenchanted. Playing the right cards is important for small states, whether in CARICOM, the FTAA or indeed in the WTO. But on the right issue, there is no reason why an OECS country should not make its presence felt in an effective way in these negotiating fora.

10. Coordination of public and private sector trade policies easier

A major benefit for trade policy in small island economies should be the greater possibility of coordination between the public and the private sector. The combination of
limited resources in the public sector and intense interest by the private sector suggests that the private sector itself could play a major role in the preparation, if not the negotiating, stages of trade talks. Clearly the public sector has to establish the objectives, consistent with government policy, but the private sector could develop strategies and provide analysis. Such an approach by CARICOM countries could resonate in other parts of the trading world.

F. Implications for Eastern Caribbean Agricultural Trade Policy

1. Diversification is not a panacea

The standard remedy for economies with a narrow range of export commodities is diversification. The OECS has preached this strategy for years, and the EU has financed a number of diversification schemes. But the logic of the argument above is that diversification needs to be carefully interpreted in the case of the Eastern Caribbean. To move into crops where scale economies are important may not be wise. Diversification into small-scale agriculture could saddle the islands with high cost production. On the other hand switching, say, into another monoculture could be risky. Some of this risk could be handled by the public sector. Farmers may need to have some form of income insurance against poor crops. This may be better than self-insurance by within-farm diversification.

2. Trade remedy laws are very important

What seems beyond doubt is that vulnerability to sudden import surges, often in the form of one boat-load of produce, is a serious problem. This suggests that anti-dumping and safeguard policies are vital. These could usefully be coordinated, as the information
needed is similar in neighboring islands. A combined safeguard action by OECS, or CARICOM could have a more effective deterrent value than individual action by one state at a time.

3. Open markets are still best

Beyond the logic of safeguards and trade remedy laws, it is not easy to see why small island economies should retain tariff (and non-tariff) protection. Natural protection keeps the cost of imported materials high and makes it difficult to be competitive. Adding to the burden on exporters and consumers seems pointless. Indeed the wide range of exceptions that are allowed under the CARICOM CET for non-local goods suggests that this message has already been incorporated in policy. But the 40 percent CET on agricultural goods sticks out as an anomaly. The economic prospects for the region as a whole would be better with lower protection and more consistency in application.

4. Rule-based multilateral system is guard against aggressive regionalism

It is unfortunate that the WTO has received a bad press in the region, as a result of the banana dispute. A rule-based trade system is the best guarantee for small countries. For reasons given above, the influence of small countries is magnified by voting systems not based on population or size. Moreover, a strong multilateral system based on rules can counter the weight of regional blocs. Thus the OECS countries stand to benefit by strong rules which make the FTAA consistent with the WTO. It is even possible that in the longer run, obliging the EU to comply with the WTO in setting the terms of the revised Lomé Convention could benefit the OECS.
5. Service-based export economy inevitable

The islands of the Eastern Caribbean are rich in resources which can be used to provide services. Where those services can be transported cheaply, or where the consumer comes to the area to collect them, the transport cost disadvantage is minimized. This suggests that most of the countries in the region will need to exploit their comparative advantage in services, including but not limited to tourism, as a way of developing their income potential. Agriculture is not however inconsistent with service provision. Service activities do not in general compete for farmland, and good farming practice can be complementary to tourism. As the Europeans point out, in a somewhat different context, rural areas are multifunctional. The challenge for the region is to develop both agriculture and tourism, along with other service activities, in a way that provides lucrative markets for farmers and off-farm income sources in rural areas, and yet maintains the landscape as a public good.