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Beyond Tourism: The Future of the Services Industry in the Caribbean

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Addressing International Governance Challenges

Abstract

The small economies of the Caribbean have entered a period of extraordinary economic uncertainty driven by the impact of new trade rules on the region's agricultural sector, dramatic advances in technology that have lowered barriers to entry, and fierce global competition from large, low-wage countries in Asia. Furthermore, the Caribbean nations' ability to sustain a high level of social well-being is suffering due to the effects of broader economic change that has left the region in a reactive position. Against this backdrop, the services sector in the Caribbean may serve as an important source of economic growth, but only if the region begins to move beyond tourism to take advantage of emerging opportunities in the areas of banking and financial services, call centres and information and communication technology, off-shore education and health services, and transportation. This essay assesses the future prospects for the Caribbean to create a thriving service-based economy and offers ideas to help the region to both build on and transcend its reliance on tourism to carve a more profitable and sustainable niche in the global economy.

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This paper is published jointly with the Caribbean Policy Research Institute (CaPRI), a Caribbean-wide think tank that is contributing research and policy expertise to CIGI's Caribbean Economic Governance project.

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Letter from the Executive Director

It is my pleasure to introduce *The Caribbean Papers*, a product of our major research project on Caribbean Economic Governance. CIGI is an independent, nonpartisan think tank that addresses international governance challenges. Led by a group of experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debates, builds capacity, and generates ideas for multilateral governance improvements.

This project convenes researchers and leaders within the private and public sectors to examine and provide substantive answers and policy prescription to current economic governance challenges facing the Caribbean region. The papers were initially presented at CIGI workshops, where their authors benefited from extensive comments and discussion on their work. Through this series, we hope to present and discuss policy issues pertaining to trade, investment, human capital, the fiscal outlook, and public sector management practices, among other issues relevant to the Caribbean region's economic future.

We encourage your commentary on these papers and welcome your thoughts. Please visit us online at www.cigionline.org to learn more about the Caribbean Economic Governance Project and CIGI's research programme.

Thank you,

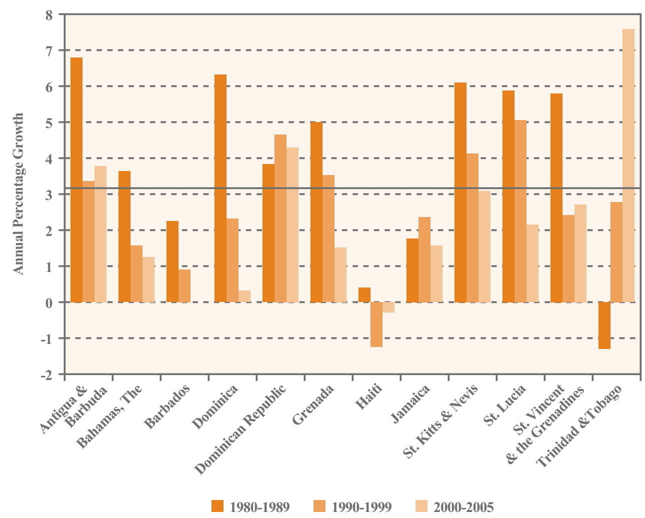
John English
Executive Director

Introduction

In recent years, the small economies of the Caribbean[1] have entered a time of extraordinary economic uncertainty, as traditional industries face new challenges amid a fiercely competitive global environment. The process of globalization over the past few decades has had a profound effect on developing countries worldwide, and the Caribbean has been no exception. Dramatic advancements in technology have lowered barriers to entry, minimized transportation costs, and maximized specialization so that production of goods and services increasingly takes place across borders. Large developing countries, such as China and India, have used their economies of scale to dominate certain manufacturing and service sectors, achieving a sustained period of double-digit growth in the process. With an abundance of labour, these countries have benefited from a cycle of investment and spending that has catapulted large numbers of once impoverished people out of dire poverty. However, not all countries have been lifted up by globalization. The small nation-states of the Caribbean have struggled to achieve economic growth and are paid scant attention by larger global powers. On average, the Caribbean has underperformed most developing countries worldwide with average annual GDP growth of just 3 percent during the period from 1990 to 2005 (see Figure 1), compared to 9 percent for China. The economic development of the Caribbean has not kept pace with rapid changes in the global trading system.

In the last quarter-century world trade has expanded and become more diverse. In 1980, trade in agriculture, food, minerals, and oil accounted for almost 80 percent of globally traded items. By 2005, this amount fell to less than 40 percent due to the expansion of trade in chemicals, textiles, and light manufacturing (World Bank, 2007). Technology is more rapidly diffused than in the past, a fact that has spurred internal debates within the World Trade Organization (WTO) involving intellectual property rights and other issues of technology sharing. The process of trade liberalization over the past 25 years has been accompanied by major shifts in global production. Trade in services has increased relative to trade in commodities, and countries that have learned to harness the growing demand for services have fared better than most.

Figure 1. Average Annual GDP Growth



Note: The line denotes the long-run world average growth rate of 3%.
Source: World Development Indicators.

[1] Unless otherwise noted, the Caribbean refers to the following sovereign nations: Antigua & Barbuda, the Bahamas, Barbados, Belize, Cuba, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, and Trinidad & Tobago.

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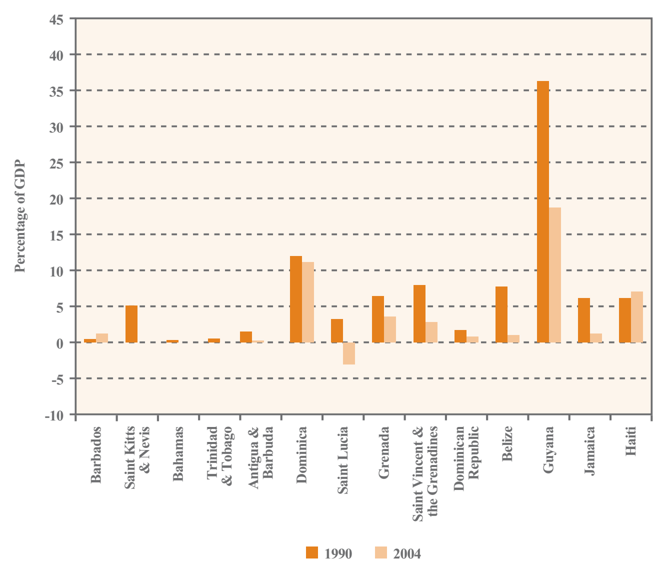
Once globally coveted for its agricultural bounty, the Caribbean countries have for the most part lost preferential access to European and North American markets. This has dramatically reduced the region's possibilities for producing agriculture for export. The sugar and banana industries that once demanded high world prices are now undercut by larger countries with economies of scale. The increase in world supply of these goods was accompanied by the general lowering of trade protections for these industries. European Union (EU) sugar prices, which were fixed until 2006, will be cut by 36 percent by 2010, eliminating the preferential access for the Caribbean sugar market (Economist Intelligence Unit, 2007b). Following this announcement, St. Kitts and Nevis ceased sugar exports altogether, leaving 10 percent of the nation's labour force unemployed. Remaining sugar producers Guyana, Belize, Barbados, and Jamaica are expected to push for ambitious investment programs that incorporate ethanol production in the hope of a spike in the world price for sugar. Banana producers in the Caribbean have had a similar experience. Exports of bananas in the Eastern Caribbean Currency Union[2] (ECCU) have decreased 90 percent since 1990, and agriculture now represents just 6.5 percent of GDP for these small states (Sahay, Robinson, and Cashin, 2006). This dramatic change illustrates how dependent the Caribbean was on preferential agreements.

Trade preferences for the Caribbean originated with the Lomé Convention with the EU, which was replaced by the Cotonou Convention in 2000. The latter convention aims to reduce poverty and promote sustainable development among the poorest countries in the Caribbean as well as in Africa and the Pacific Islands. Through the Cotonou Convention, the EU offers non-reciprocal reductions in trade barriers. The trade partnership with the United States (known as the Caribbean Basin Initiative) is a similar agreement that gives Caribbean producers preferential access to US markets. These agreements have become less effective at promoting trade with the Caribbean as new reductions in trade barriers have been instituted for all countries. Although several trade negotiations are underway for the region, the progress has been slow and the potential benefit of these asymmetric agreements is expected to be small. The Caribbean is currently engaged in a wide range of negotiations, including an expanded economic partnership agreement with the EU, discussions of a trade agreement with the USA, a renewed Caribbean-Canada Trade Agreement (CARIBCAN), and the World Trade Organization (WTO) negotiations that have suffered from a prolonged deadlock between developed and developing countries on a range of sensitive issues including agricultural subsidies. The lack of economies of scale and limited structural reforms in Caribbean countries will continue to hinder potential benefits from these accords.

To fill the void left by the no-longer-profitable agricultural sector, Caribbean nations have been surviving on the hard currency generated through tourism and external remittances. Of these, tourism most clearly utilizes the Caribbean's abundant assets – sand and sea. From 1995 to 2001, tourism contributed significantly to regional GDP growth as the Caribbean share of tourist arrivals and tourist receipts increased. However, reduced travel following the attacks of 11 September 2001 in the United States caused a contraction in the tourist market for the first time since 1990. Tourism has since recovered. It represents a shift to the service sector, which economists hail as necessary in the new world system, but tourism remains dependent on foreign preferences and the natural environment. Nonetheless, the tourist industry will certainly continue to play a significant role in the Caribbean economy. Remittances from the Caribbean diaspora have played an increasingly important role in Caribbean development. Official development assistance (ODA) to the Caribbean has fallen dramatically in recent years, as the European development industry has shifted attention to the poorest nations of Africa while the USA has made Iraq and the wider Middle East its top foreign policy priority. Because

Figure 2. Official Development Assistance (as a % of GDP)

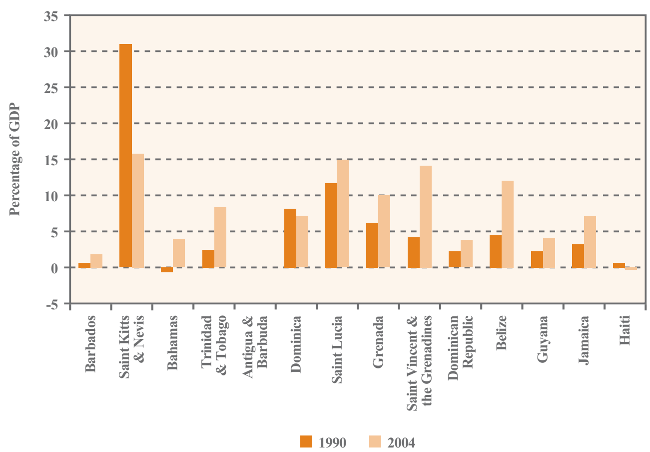


Source: Human Development Indicators, UNDP.

[2] The ECCU includes Antigua and Barbuda, Grenada, St. Kitts and Nevis, Dominica, St. Lucia, St. Vincent and the Grenadines, and two UK overseas territories: Anguilla and Montserrat.

development aid has been declining in the Caribbean (see Figure 2), external remittances are even more important. Worker remittances now total almost 20 percent of regional GDP in the Caribbean (Sahay et al., 2006). In response to aid cuts, many Caribbean countries have also taken on large, potentially unsustainable public debt to finance the gap. However, some of the funding gap has also been made up by new foreign direct investment in the region (see Figure 3).

Figure 3. Foreign Direct Investment (as a % of GDP)



Source: Human Development Indicators, UNDP.

In addition to facing new global economic forces, the economies of Caribbean countries are extremely vulnerable to exogenous natural disasters because of their dependence on tourism and what remains of the agricultural sector. These two sectors require infrastructure that is highly vulnerable to hurricanes, volcanic eruptions, and earthquakes. The damage caused by natural disasters is amplified by the small size of most Caribbean countries. In an index published by the International Monetary Fund (IMF) of the most disaster-prone regions, the ECCU ranks fifth of 75. In 2004, Hurricane Ivan struck the Caribbean, dealing massive destruction to Grenada and significantly damaging Jamaica and the Cayman Islands. The National Hurricane Centre estimated that over 60,000 homes were destroyed in Grenada and Jamaica, and the Caribbean Development Bank estimated that total damages from Ivan in the Caribbean amounted to $3 billion, an amount slightly less than Grenada's entire GDP in that year (National Weather Service, 2004). The 2007 hurricane season began with two powerful storms, Hurricanes Dean and Felix, highlighting again how exposed the Caribbean region is to powerful climatic events beyond its control.

In addition to risks from natural disasters, dependence on oil is another external factor that makes the Caribbean vulnerable. Not only do high oil prices impact domestic consumption, they also have a negative effect on travel and tourism. Trinidad and Tobago, the only significant oil exporter in the region, has tried to mitigate this burden through a Petroleum Fund. Venezuela's regional energy initiative Petro-Caribe has also stepped in to partially fill the gap, but high oil prices continue to squeeze the majority of Caribbean economies.

While economic development presents an ongoing challenge, Caribbean nations have managed to sustain a reasonably high level of social well-being since independence (see Table 1). Life expectancy is well into the seventies, illiteracy is in single digits for the most part, and the preponderance of stable democracies in the region, setting aside Cuba and Haiti, has set the stage for modest growth (Sahay et al., 2006). The islands also have functional institutions of governance, despite lingering problems. Since independence, democracy has been a bulwark of society in the Caribbean, and judicial and legislative traditions are stronger than in much of the hemisphere.

The movement toward regional integration is another positive sign. The Caribbean Community (CARICOM) has made solid efforts on trade liberalization through the Caribbean Single Market and is working incrementally toward the Caribbean Single Market and Economy. Free

Table 1. Human Development Indicators in 2004

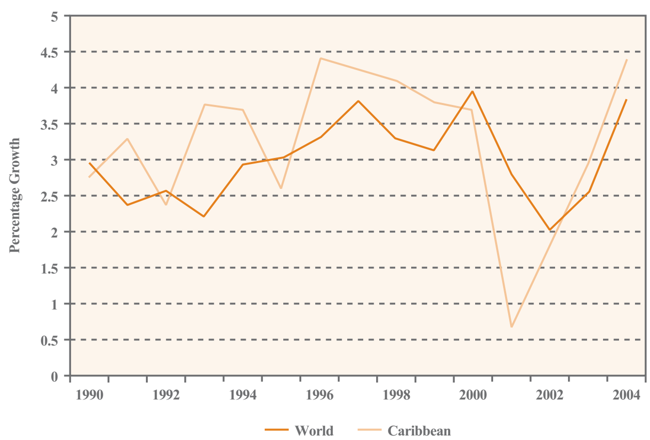
Country	Rank	HDI	Life Expectancy at Birth	Adult Literary 2005	Gross Enrollment Ratio for All Levels	GDP per Capita
High Human Development:						
Barbados	31	0.879	75.3	97.0%	89%	$15,720
Cuba	50	0.826	77.6	99.8%	80%	NA
Saint Kitts and Nevis	51	0.825	70.0	97.8%	80%	$12,702
Trinidad and Tobago	57	0.809	69.8	NA	67%	$12,182
Antigua and Barbuda	59	0.808	73.9	85.8%	69%	$12,586
Medium Human Development:						
Dominica	68	0.793	75.6	88.0%	83%	$5,643
Saint Lucia	71	0.790	72.6	94.8%	76%	$6,324
Grenada	85	0.762	65.3	96.0%	73%	$8,021
Saint Vincent and the Grenadines	88	0.759	71.3	88.1%	68%	$6,398
Suriname	89	0.759	69.3	89.6%	72%	NA
Dominican Republic	94	0.751	67.5	87.0%	74%	$7,449
Belize	95	0.751	71.8	75.1%	81%	$6,747
Guyana	103	0.725	63.6	96.5%	76%	$4,439
Jamaica	104	0.724	70.7	79.9%	77%	$4,163
Low Human Development:						
Haiti	154	0.482	52.0	NA	NA	$1,892

Source: Human Development Indicators.

trade in goods and services, as well as expanded mobility for labour and capital, will contribute to a more dynamic and competitive region. However, the potential impact of intra-regional trade is still relatively limited.

Due to their small size, however, Caribbean nations find that they are hard-pressed to shape global economic change and instead are left in a reactive position. Their size and scope, even when taken as a single unit, cannot drive global markets; they can only hope to utilize global trends to their benefit. Despite differences among Caribbean countries in terms of culture, natural resource endowment, and levels of economic development, these nations face the common challenge of repositioning themselves to take advantage of new opportunities in the global economy.

Figure 4. Annual Percentage Growth in Services



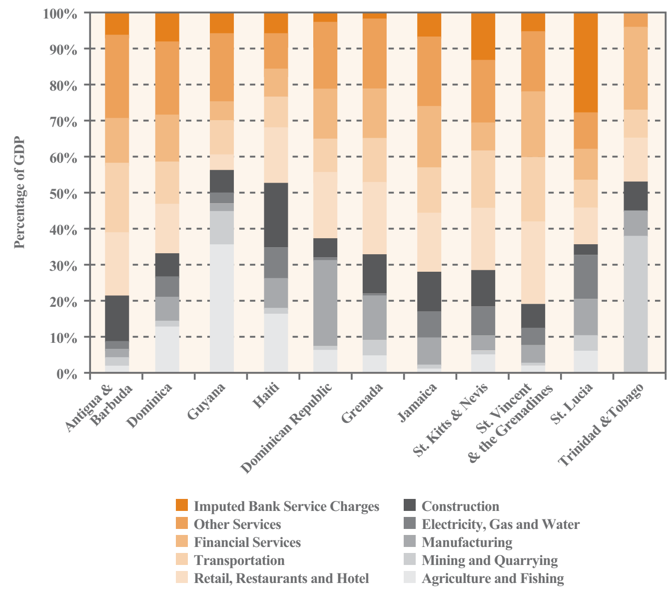
Source: World Development Indicators.

The Service Industry in Context

In the sometimes hostile economic environment facing the Caribbean, the service sector has been an important source of economic growth. The service industry represented 47 percent of GDP on average for Caribbean countries in 2005, amounting to more than US$13.6 billion (World Development Indicators). The Dominican Republic alone, however, earned US$3.9 billion of this total. For the countries and territories of the Organization of Eastern Caribbean States (OECS),[3] services have been on a long-term upward trend (see Figure 4), increasing from 53 percent of GDP in the 1980s to 64 percent in the period 2000-2003 (OECS, 2005). However, the current composition of the services industry is heavily weighted toward travel and tourism throughout the Caribbean. In fact, without travel and tourism, the balance of services would be negative.

Although the service industry is already an important and growing sector, it has not approached its full potential for stimulating economic development in the region. The traditional model of economic development prescribes a transition from agriculture to manufacturing and then

Figure 5. Composition of GDP by Sector
for Selected Caribbean Countries



Source: Economic Commission for Latin America and the Caribbean.

to services, but as the recent pattern of globalization indicates (see Figure 5), some countries have bypassed this intermediate step. The Caribbean already has a small manufacturing sector, but this is unlikely to be an area of future growth, given the ability of China and other relatively large countries with low wages to compete successfully in this sphere. Manufacturing is a relatively small and declining part of the Caribbean economy because it is difficult for island countries to achieve the necessary scale to succeed in this sector, and wages are relatively high compared to competitors in Central America and Asia. In 2004, manufacturing accounted for just 9.8 percent of GDP for the Caribbean (World Development Indicators). While manufacturing is unlikely to be the engine of economic growth, there are still some opportunities for niche manufacturing, particularly in high-skilled production of items such as medical devices, which are already being produced in Trinidad and Tobago. Manufacturing will

[3] The OECS includes Antigua & Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines and the territories of Anguilla, the British Virgin Islands, and Montserrat.

continue to be one component of economic development, but given its disadvantages, the Caribbean must look beyond manufacturing.

Exporting natural resources has been another common strategy for development, but this is another area where the Caribbean is at a disadvantage. It is no longer competitive in its traditional agricultural exports of bananas and sugar. Trinidad and Tobago is the only country that possesses significant oil and natural gas reserves. With rising oil prices, Trinidad and Tobago has experienced an economic boom, but the profits primarily benefit a concentrated group. The mining of bauxite is an important industry in Jamaica and Guyana, but many Caribbean countries do not have significant mineral deposits. Raw materials prices have been rising in recent years, but historically they are volatile. Although oil and bauxite are relatively plentiful now, they are not renewable resources. Therefore, the mining and fuel sectors, which will remain important in the medium term, will eventually be depleted in the long term. The challenge facing countries rich in natural resources is how to avoid "Dutch Disease" – in which high levels of inflation and the diversion of investment to a single sector eventually cause an economic crisis – and instead develop an economy that will continue to grow into the future.

Given the inherent disadvantages faced by the region, future economic development must be based on industries that do not require a comparative advantage in land, resources, or labour. This leaves few options. However, one area in which the Caribbean may be able to compete successfully is the service sector and, more broadly, knowledge-intensive industries. The educational system in the Caribbean is comparable to many in the developed world, although tertiary enrollment rates vary dramatically within the region (see Table 2). The Caribbean is the only developing region in the Americas that is largely fluent in English, the chief language spoken in the United States, the world's largest economy, and in Canada. Although technology is reducing the importance of geographical location, there is still a strategic advantage to being located a short flight away from the USA, one of the centres of demand for services. Besides proximity, the Caribbean has a strong cultural affiliation with the United States and a large Caribbean diaspora community there. The cultural exchange flows in both directions, as musicians, writers, and other artists influence the US market. Given these advantages, the Caribbean is well positioned to be an important contributor to the knowledge economy by deepening its linkages with the United States and Canada.

The Caribbean has a number of disadvantages, particularly the lack of land, susceptibility to external shocks, and high levels of out-migration. However, many island countries have successfully adapted to the demands of globalization despite these obstacles. Ireland is an oft-cited example of how an economy can be turned around by the service sector. Large investments in science education and technology have over time contributed to the successful service sector there, and Ireland now enjoys a standard of living equivalent to that of the USA and other developed countries. Models like Ireland show the potential of services for the economies of the Caribbean.

Table 2. Tertiary School Enrollment 2004 (Gross%)

Region/Country	Enrollment
Middle Income Countries	26.1%
World	23.7%
Caribbean:	
Aruba	28.6%
Barbados*	37.7%
Cuba	53.6%
Dominican Republic	32.9%
Honduras	16.4%
Jamaica**	19.0%
St. Lucia	14.4%
Trinidad and Tobago	11.9%

Source: World Development Indicators.
*Data is from 2001. **Data is from 2003.

The Advantages and Limits of Tourism

The Caribbean is the most tourism-intensive region in the world and tourism is the leading source of foreign exchange for most Caribbean nations. Some countries are more dependent on tourism than others. For example, in Antigua and Barbuda, travel and tourism account for more than 75 percent of the economy. In 2004, the tourism industry in the Caribbean directly supported over 800,000 jobs and generated US$8.7 billion, which is the equivalent of 4.5 percent of GDP. However, the economic impact of tourism is felt throughout the economy. Expanding the analysis to both the direct and indirect economic impacts of tourism, the sector contributed 15.5 percent of overall employment and 14.8 percent of GDP, in the Caribbean (World Travel and Tourism Council, 2004). Although the region has a comparative advantage in tourism with its pleasant climate, natural beauty, and proximity to the United States, the industry is already relatively mature and presents limited growth opportunities.

Tourism has been a driver of economic development in many areas (see Table 3). The hotel industry is a major consumer of finished goods such as buildings, appliances, furniture, food, and beverages. A recent survey sponsored by the Caribbean Hotel Association reports that 84 percent of all services used by hotels are purchased locally, which include information technology, transportation, maintenance, and security (Tourism Global, 2005). The services that are more often provided abroad are marketing and interior design.

Table 3. Tourist Stop-over Arrivals (in thousands)

Country	2001	2002	2003	2004	2005	2006
Antigua & Barbuda	215	218	182	246	245	254
Bahamas	1538	1513	1429	1450	1515	1492
Barbados	513	498	531	552	548	563
Dominica	66	69	73	80	79	84
Dominican Republic	2882	NA	3268	3443	3691	3965
Grenada	121	121	142	134	98	118
Haiti	142	NA	NA	96	112	60
Jamaica	1277	1179	1350	1415	1479	1679
St. Kitts & Nevis	71	69	91	118	127	NA
St. Lucia	250	254	277	298	318	303
St. Vincent & the Grenadines	71	78	79	87	96	97
Trinidad & Tobago	359	384	335	443	460	233

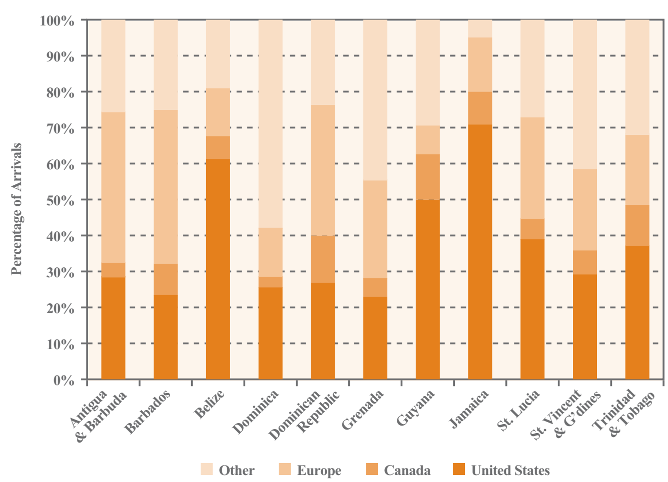
Source: Caribbean Tourism Organization.

Caribbean countries are struggling to attract more tourists than their competitors, but not all tourists are equally desirable. Some islands have created a niche among high-end travellers by providing lavish resorts and yachting ports, while others appeal more to the budget traveller. The number of tourists travelling on cruise ships has increased in recent years, but cruise arrivals have a much smaller economic impact than stay-over visits because food and accommodation are provided by the cruise company, which is generally foreign-owned. After several mergers, the cruise industry is becoming increasingly dominated by a few players. Carnival and Royal Caribbean now represent 75 percent of total capacity (World Travel & Tourism Council, 2004). Some Caribbean countries considered introducing fees on cruise arrivals, but this idea was later rejected because countries feared they would be dropped from cruise routes altogether. As cruise arrivals replace stay-over visits, tourism becomes increasingly less profitable and has a smaller impact on the rest of the economy.

Tourism is also a volatile industry that fluctuates with external factors such as oil prices, natural disasters, and customer preferences. The slow-down in tourism following the attacks of 11 September 2001 in the United States demonstrated this clearly, as tourism revenues fell sharply in 2001 and 2002. The Caribbean tourism industry has recovered since 2001 and is again a popular destination for US travellers, who see it as relatively safe, easy to get to, and welcoming toward Americans (see Figure 6). Meanwhile, travel from the EU has been increasing as the Euro appreciates against the US dollar, which provides a peg for most Caribbean currencies. The outlook for travel from the USA and Europe, the two primary sources of tourists, will be mixed for the next two years as the US economy experiences a slowdown, decreasing US demand but making travel more affordable for European visitors (Economist Intelligence Unit, 2007b).

While the threat of terrorism is a concern for tourists, the security measures to prevent it may also have an adverse effect on the tourism industry in the Caribbean. In 2004, the US Congress passed the Western Hemisphere Travel Initiative, which requires that all US citizens travelling to the Caribbean present a passport upon re-entry. The deadline for implementation was extended to October 2007 because of delays in passport application process-ing (US Department of State, 2007). The Department of Homeland Security estimates that 75 percent of US travellers to the Caribbean already have passports. However, the initiative has created concerns in the Caribbean tourism industry because it adds an additional cost for US travellers and may prevent spontaneous trips because of the processing time. Caribbean countries are so concerned that some have considered offering to pay for passport processing for visitors. Jamaica and the Bahamas are the most likely to be affected, because more than 70 percent of arrivals in those countries originate in the US (Economist Intelligence Unit, 2007b).

Figure 6. Tourist Arrivals in 2006 by Origin



Source: Economic Commission for Latin America and the Caribbean.

With improvements in the quality and speed of transportation and high prices compared to many relatively unexplored destinations, Caribbean countries have good reasons to be concerned about competition. The region currently hosts more than 30 million stay-over and cruise visitors with an annual growth rate of 2.9 percent, which is slower than the world growth rate of 3.7 percent (World Bank, 2005). Countries in the Caribbean compete with their neighbours as well as other "sand and sea" destinations, especially in Asia. The recent slowdown in stopover arrivals in the Caribbean can mostly be attributed to the recovery of Mexican resorts in Cancun and Cozumel after hurricane damage in 2005. And there are new threats on the horizon; in 2006, more than 2.2 million tourists visited Cuba. Many fear Cuba will present serious competition if the US drops its ban on tourist travel to the island, although this probably will not happen anytime soon (Caribbean Tourism Organization, 2006).

The environmental impact of tourism is already a concern for many nations. New efforts have been launched to establish ecotourism and sustainable practices within the industry. Several countries have received technical assistance to promote environmentally sustainable tourism from the Organization of American States (OAS). Jamaica, Barbados, and Aruba have been leaders in sustainable tourism, and almost 40 percent of eco-certificates from Green Globe, a UK-based non-profit organization that promotes ecotourism, have been awarded to the Caribbean region (Economist Intelligence Unit, 2007b).

One challenge that Caribbean countries need to confront is the high crime rate that damages the region's reputation as a safe and pleasant travel destination. Jamaica in particular has seen spiralling rates of violence, with a murder rate of over 50 per 100,000 people in 2006 (ibid). While most crime occurs in poor inner-city areas away from tourist destinations, headlines still affect tourist decisions. According to a recent World Bank/UN report, Jamaica could increase its GDP growth by 5 percent if crime rates were to drop down to the levels of Costa Rica (UNODC and World Bank, 2007). Despite renewed efforts by the police to target organized crime and narco-trafficking, the murder rate continued to rise in the first quarter of 2007 (Economist Intelligence Unit, 2007b).

Despite its convenient location, there has been a relative shortage of airline service within the Caribbean. The region is at a disadvantage for activities like airlines that involve significant fixed costs and economies of scale. American Airlines is the largest airline operator in the Caribbean. Currently, the intra-Caribbean market makes up less than 7 percent of all stay-over arrivals, but these numbers could be higher with improved air transport (World Travel and Tourism Council, 2004). CARICOM members agreed that nationals should be allowed to travel within the member states without passports, a measure intended to foster intra-regional tourism as well as a sense of community (CARICOM Secretariat, 2005). However, implementation was more difficult than anticipated, and CARICOM is still working to achieve uniformity in embarkation and disembarkation cards and to establish common lines for CARICOM nationals at all ports of entry.

In 2007, the Caribbean hosted the Cricket World Cup, an event that required large infrastructure investments and came with high expectations for travel and tourism income. The cost of hosting was estimated at around US$870 million. Following the event, there was widespread criticism that local fans were priced out of the tournament while many matches were played in half-empty stadiums (Economist Intelligence Unit, 2007b). Hotel bookings were lower than expected. In Barbados, for example, hotels were booked at slightly below the seasonal average of 69 percent of capacity. Bookings in Kingston, Jamaica, which normally caters primarily to business travellers, were higher at 80 percent of capacity (ibid). This event delivered mixed results, but fell short of the most optimistic expectations that it would showcase the Caribbean and provide an economic boost.

While an "if you build it, they will come" philosophy will not be enough, infrastructure development and improvements are one aspect of attracting tourism. Growth in the industry will require even more new investment. Although the tourism sector will continue to be an important part of the Caribbean economy, over-dependence on this sector presents a serious threat for stability in the region given its volatility.

Services Beyond Tourism

Expanding the competitiveness of the Caribbean services sector beyond tourism is a way to draw on the strengths of the Caribbean while creating more sustainable economic growth. The service sector offers the opportunity to create employment for a range of skill levels, from entry-level data processors to managers, while forging new linkages with the knowledge economy. Developing a range of services that are competitive in the global economy is one way to retain high-skilled workers who currently leave the region in droves looking for higher wages and better opportunities elsewhere. While tourism is already an important part of the Caribbean service economy, diversification in the service industry is important to mitigate the risk of external shocks.

Many Caribbean countries have recognized the need for a more diversified services sector for years, and there have been attempts to replicate successful development models from other countries. Some results have been lackluster, while others are more promising. The call centres and cyber-parks that pushed India into the knowledge economy did not have the same success in the Caribbean. Despite some misguided attempts, the Caribbean has emerged as a leading destination for several service niches including offshore financial services and international medical schools. Other service areas have potential despite being underdeveloped at present.

Although the Caribbean has advantages that will facilitate a service industry, there are still many obstacles to overcome. The shortage of professionals due to out-migration and low levels of tertiary enrollment mean there are fewer high-skilled workers in the labour force. Growing concerns about crime and inequality that could cause social instability may keep some investors away. The development of infrastructure, particularly in the telecommunications sector, is important to succeed in the knowledge economy, but is still substandard in many areas of the Caribbean.

The table below shows the relative position of several Caribbean countries on a Knowledge Economy Index produced by the World Bank. It measures economic incentives, innovation, education, and information and communications technology. Even with these limited data, it is clear that there is room for improvement in all of these areas among even the top knowledge economies of the Caribbean.

Table 4. Knowledge Economy Index for Selected Countries

Rank	Country	KEI	Economic	Innovation	Education	ICT
1	Sweden	9.26	8.59	9.72	8.98	9.76
2	Denmark	9.22	8.97	9.43	9.22	9.25
10	United States	8.80	8.45	9.44	8.35	8.95
14	Ireland	8.56	8.54	8.92	8.62	8.16
20	France	8.36	8.02	8.59	8.52	8.31
30	Cyprus	7.63	8.04	7.64	6.61	8.22
37	Barbados	7.17	5.48	7.48	7.94	7.79
40	Malaysia	6.23	6.50	6.74	4.45	7.23
44	Dominica	6.06	7.11	3.69	6.47	6.99
45	Costa Rica	6.02	6.62	6.26	4.82	6.38
50	South Africa	5.64	5.87	6.97	4.43	5.31
60	Trinidad & Tobago	5.33	5.77	4.67	5.21	5.65
64	Mauritius	5.08	6.44	3.11	4.33	6.43
65	Jamaica	5.04	4.00	5.36	4.22	6.59
70	Moldova	4.64	4.68	4.34	5.71	3.84
80	Guyana	4.21	2.52	3.77	5.79	4.78
88	Dominican Republic	3.62	3.71	3.12	4.26	3.40
90	Morocco	3.30	3.22	3.88	2.02	4.08
101	India	3.00	3.49	3.93	2.22	2.37
130	Bangladesh	1.14	0.79	1.27	1.48	1.01
140	Haiti	n/a	2.58	0.07	n/a	2.25
	Regional Average					
	Latin America	5.06	4.49	5.99	4.56	5.20

Source: The World Bank Knowledge for Development Program 2007.

In the instances where service industries have failed in the Caribbean, competition based primarily on low wages has been a key contributor to the failure. The success stories involve the development of human capital, an enabling policy environment, and the leveraging of the comparative advantages of the Caribbean. A prudent strategy will use the recent successes and failures in the services industry along with a careful analysis of the market to chart a realistic path for diversification and growth.

Banking and Financial Services

The banking and financial services industry presents both opportunities and challenges for the Caribbean. The Caribbean has been a centre for the Offshore Financial Services (OFS) industry, which in its simplest form involves setting up "shell" companies to take advantage of tax benefits. OFS has generally been limited to a few leading destinations including Barbados, the Bahamas, and the UK territories in the Caribbean. Offshore financial activities have developed rapidly since the early 1990s and now account for roughly 15 percent of GDP in the Bahamas (IMF, 2005). However, some smaller islands have recently opened up to OFS. For example, the British territory of Anguilla has a small and growing international finance sector, which specializes in trust and company registration, with over 3,000 offshore companies (Economist Intelligence Unit, 2007c). However, the growth of this industry is largely a result of international forces. Popular OFS centres have increasingly come under scrutiny from the US and Europe, which are concerned about the potential for money-laundering and terrorism financing. Besides OFS, there is a growing market for outsourcing business processes from banking and financial firms based in developed countries. Given the expertise that has already been acquired in financial services, this type of outsourcing would seem like a logical extension for the industry.

Caribbean[4] offshore financial centres account for 49 percent of all bank claims in offshore centres, according to the Bank for International Settlements, making it a US$2 trillion industry for the region (Von Peter, Stever, and Upper,

[4] The Bank for International Settlements defines the Caribbean offshore financial centres as the Bahamas, Bermuda, Cayman Islands, the Netherlands Antilles, and Panama in its report.

2007). The primary market for Caribbean OFS is North America, with 80 percent of credit going to the Western Hemisphere (ibid). However, the Cayman Islands dominate the industry. The Cayman Islands alone accounted for over 80 percent of the $189 billion rise in claims during the second quarter of 2007 (ibid). Other UK territories, including the British Virgin Islands and Turks and Caicos, also have strong offshore financial sectors, buoyed by the political stability of the UK.

Aside from these territories, Barbados and the Bahamas have been the main OFS success stories in the Caribbean. Barbados has benefited from political stability and leveraged its low-cost, well-educated labour supply to attract financial business (Scott, 1996). It offers confidentiality and low tax rates along with a growing tax treaty network. However, even this relatively successful approach has made only a moderate contribution to economic growth in the country. In the Bahamas the financial sector is a major component of GDP. The OFS industry employs over 4,000 people, about 3 percent of the labour force. Earnings from offshore companies spending in the domestic economy totaled US$134 million in 2004 (Economist Intelligence Unit, 2007a). The Bahamas operates an International Securities Exchange, which lists 19 companies. However, trading volumes are low and the future of the stock exchange is in question. The success of OFS in the Bahamas and Barbados has come after years of fostering the development of the industry, in which reputation is especially important. While the OFS industry is strong in these locations, new growth and innovation are challenges.

The OFS industry is fundamentally about providing financial services to foreign users, which somewhat limits its impact on the domestic economy. The local financial sector and the government receive foreign exchange earnings, but activities are limited to foreign markets, thereby excluding transactions with the local market. The government plays an important role in establishing a regulatory environment that is conducive to OFS by providing favourable tax laws and confidentiality or secrecy about the holding and trading of assets. Favourable tax laws generate little revenue for the government, so only a large-scale OFS sector can provide substantial income through wages. Aside from shell companies, a few offshore companies have limited or sometimes more substantial local operations, usually as banks, insurance companies, or mutual funds.

Increased concern over money-laundering and the financing of terrorist activities has brought renewed scrutiny of OFS in the Caribbean and elsewhere. A number of Caribbean countries were designated non-cooperative jurisdictions by the Financial Action Task Force (FATF), including the Bahamas, Barbados, the Cayman Islands, Dominica, Grenada, and St. Kitts and Nevis (Economist Intelligence Unit, 2007c). After extensive reforms to improve oversight and regulation, all Caribbean countries have been removed from the list. For example, reforms in the Bahamas included the closure by mid-2004 of all banks without a meaningful physical presence, anti-money-laundering legislation, legislation prohibiting the financing of terrorism, and an ongoing study of how best to consolidate regulatory functions (IMF, 2005). All of the countries and territories on the FATF list are still subject to close monitoring. The outlook for OFS has the best prospects in the most-established countries with a reputation for consistent regulation. The increased desire for regulation by OECD countries will limit the success of smaller, less established OFS industries (Economist Intelligence Unit, 2007c).

Competition both within the Caribbean and among OFS centres around the world is another obstacle for the further development of this sector. The OFS industry has relatively few barriers to entry, because simple changes in legislation can open the doors to OFS as long as the political will exists. For example, recent changes in tax policy for large corporations and wealthy individuals in the Netherlands elicited a harsh reaction in Barbados (Best, 2007). However, reputation is a significant barrier to entry. Therefore, differentiation based on other factors such as political stability and local expertise is even more important, and is an area of concern for some Caribbean countries.

Beyond international finance, some countries have been focusing on local and regional financial sectors. For instance, the domestic and regional sectors are doing well in Trinidad and Tobago, Barbados, and the Bahamas. While this has been in some ways a positive development, Trinidad and Tobago has already seen the downside. Several institutions there held significant assets in Belize, where they took a large loss after debt restructuring (Economist Intelligence Unit, 2007c).

Given the potential concerns with OFS, another aspect of financial services the Caribbean could focus on is the growing outsourcing industry fueled by firms in the US and Europe seeking to cut costs. The number of financial jobs going overseas has increased dramatically, with 75 percent of major financial institutions having operations overseas in 2006, compared to only 10 percent in 2001 (Deloitte, 2007). While three or four years ago most jobs were in the IT sector, the scope of offshoring jobs has broadened to include transaction processing, finance, human resources, and even investment banking analytics.

Call Centres and Back-office Services

Outsourcing has been a key topic for debate over the last decade as jobs have moved from the USA and Europe to places like India, China, and the Philippines. The Caribbean was one of the first regions to participate in outsourcing in the 1980s, but its track record since then has been relatively poor. The Caribbean entered the low-end of the call centre business through telemarketing and then failed to adapt to the new demands of the Internet era and the increasing competition from low-wage countries like India. In recent years, the Caribbean has looked to the information and communication technology (ICT) industry once again as a source for economic development. However, in most cases ICT outsourcing has suffered from poor strategic decisions that failed to produce the expected economic benefits. The path of the industry to date provides some important lessons about the obstacles to success in outsourcing and the need for a comprehensive approach to harness the power of ICT for economic gain.

The outsourcing component of the ICT industry includes a variety of operations such as call centres, software development, communication services, data processing, telemedicine, human resources, and financial analysis. The term outsourcing refers to business processes that are performed in a location outside of the firm's home country, whether the operation is owned and operated by the firm or used on a contracting basis. Business Process Outsourcing (BPO) is clearly a growing industry, but estimates differ on the future outlook. International Data Group, a leading technology and media research company, predicts that worldwide spending on outsourcing will grow to $641 billion by 2009 (Deloitte, 2007). However, the National Outsourcing Association, which is based in the UK, has a more conservative estimate of global outsourcing at $181 billion for 2009 (National Outsourcing Association, 2007). Although data on the total economic value of outsourcing to the Caribbean is not available, the employment figures indicate that this is a relatively small proportion of global BPO capacity. Employment in call centres has grown from 11,000 in 2002 to 33,000 in 2005, of which 12,000 are in the Dominican Republic and another 10,000 are in Jamaica (Deloitte, 2007). Although employment has tripled, this sector still represents a small fraction of the offshoring industry worldwide.

Almost every Caribbean country has experimented with call centres or other offshoring industries, most with limited success. The Caribbean Data Services group, a data-processing centre for American Airlines, was one of the first companies to locate in the region, choosing Barbados because of its proximity, high educational achievement, work ethic, and stability. It was successful throughout the 1980s and 1990s, expanding across the Caribbean and employing more than 3,500 people, but it was not able to keep up with the technological changes of the Internet era and the increasing low-wage competition (ibid). The operation has since moved to India.

Generous government subsidies to call centres in Jamaica, Antigua and Barbuda, and the Dominican Republic never realized the promised spillover effects from the industry. In part, this was because they targeted the telemarketing end of the call centre business rather than customer relationship management (OECS, 2005). Call centre employment was viewed as a temporary job and an opportunity to get IT experience, so high turnover rates led to poor returns on investment for training and below average sales. The other side of the call centre industry is customer service, in which operators answer inbound calls about a company's products and services. This business requires longer-term contracts and more intensive training. There is also more contact with the home office and an opportunity for spillover effects through the development of customer service skills and computer knowledge.

Given the poor track record with call centres, the Caribbean should look for alternative back-office services that could be more successful, such as software development. Barbados and Jamaica have taken the lead on software development. The Technology Innovation Centre at the University of Technology, Jamaica, is an incubator that has helped to start 26 technology enterprises and is working on an Angel Investment Network to help small enterprises acquire financing (InfoDev, 2005). The new trend toward open source software means that Caribbean programmers have access to the source code for software programs that can be modified to suit a client's needs. Most software businesses in the Caribbean are single proprietorships, and little has been done by governments to attract more of these enterprises (OECS, 2005). One key to enabling software companies is to create strong intellectual property rights and privacy laws. Mauritius has emerged as a leader in ICT in Africa because of its strong intellectual property protections, attracting international companies like Microsoft, Hewlett Packard, and IBM to base their African operations there (World Bank, 2005).

An offshoot of the software industry, internet gambling has proven to be an important source of revenue in several Caribbean countries, especially Antigua and Barbuda and Grenada. Internet gambling is a $6 billion industry worldwide (OECS, 2005). By 2000, Antigua and Barbuda had close to 100 firms employing about 10 percent of the labour force, but since the United States created restrictions on Internet gambling in 2003, the number of firms has dropped to around 30. All firms are required to keep their servers on the island, and the industry employs engineers, web designers, and customer service representatives with attractive salaries. Antigua challenged the US restrictions through the World Trade Organization (Economist Intelligence Unit, 2007c), and despite a partly favourable ruling in 2005, the USA has made no concessions. Antigua responded by threatening WTO-granted sanctions that would allow it to keep royalties from copying and exporting US-made DVDs and CDs, one of the only potential retaliations it could pursue given the country's dependence on US imports. The matter is still under appeal, but the industry is much less promising now than it once was.

Looking to Asia for development models, several Caribbean countries have tried or considered cyber-parks, industrial groupings with modern technological facilities, which have contributed to the economic growth of India and Singapore. However, cyber-parks are risky because they require large government investment in infrastructure and generous tax subsidies and often take up to 15 years to become profitable. The Dominican Republic constructed a cyber-park for $30 million, which has failed to meet expectations, and Trinidad and Tobago is in the process of building one (OECS, 2005). The infrastructure alone is not sufficient for success. As the Asian models have shown, the modern facilities must be combined with training and research centres, local support services, active promotion to private industry, and a qualified management staff.

In the highly competitive realm of outsourcing, the Caribbean has several disadvantages. One of the primary concerns of any ICT business is the quality and price of telecommunications. The Caribbean has good telecommunications infrastructure in many areas, but it is not uniformly distributed and remains relatively expensive. For example, Barbados has 505 telephone lines per 1,000 people, while St. Vincent and the Grenadines has only 161 (see Table 5). In the English-speaking Caribbean, the Caribbean Cable & Wireless company, which was once the monopoly player, still holds between 49 and 100 percent of the stakes in the telephone companies in these countries and territories (ibid). The newest entrant, the Irish company Digicel, now competes in 16 Caribbean countries and is gaining market share. However, the lack of competition in most areas means that calls can cost up to 30 times more than in North America, and intra-Caribbean rates are just as expensive. The high cost of leased circuit capacity has been and continues to be a serious impediment to the development of an ICT sector and the establishment of an information society in the Caribbean.

The labour force has also been an impediment to growth in call centres and back-office services. Labour costs are higher than in many developing countries. The average price per agent hour in the Caribbean is $15.50 compared to $10 in India (InfoDev, 2006). The education and skill level in the Caribbean is also lower than in some of the other major offshoring locations like India because tertiary enrollment is low and many highly trained professionals migrate to the USA. There is also a perception that the service culture is substandard. Although English is the native language for many in the Caribbean, accents are an issue for US customers who are wary of providing credit card information and other personal details to foreigners.

Table 5. Information and Communication Technology Indicators for 2004

Country	Telephone Mainline per 1,000 people	Cellular Subscribers per 1,000 people	Internet Users per 1,000 people	Researchers in R & D per million people
Barbados	505	744	558	NA
Cuba	68	7	13	537
Saint Kitts and Nevis	532	213	NA	NA
Bahamas	439	584	292	NA
Trinidad and Tobago	247	498	123	399
Antigua and Barbuda	474	674	250	NA
Dominica	293	585	259	NA
Saint Lucia	NA	568	336	483
Saint Vincent and the Grenadines	161	481	68	179
Suriname	182	477	67	NA
Dominican Republic	107	289	91	NA
Belize	119	346	124	NA
Haiti	17	48	59	NA

Source: Human Development Indicators.

While the Caribbean will continue to have trouble competing in outsourcing operations based exclusively on low-cost labour, improvements to the education system and the ICT infrastructure could enhance opportunities in services requiring higher skills. CARICOM has created the Caribbean Knowledge and Learning Network (CKLN) with the support of the Institute for Connectivity in the Americas, the World Bank, and the United Nations, which will provide distance learning by satellite and wireless technology to public universities (Jobbins, 2005). After significant upgrades to existing networks and the completion of the current pilot phase with a few selected universities, CKLN plans to expand the program across the region. This investment is important for the long-term prospects of ICT industries, which will require an educated and computer-literate pool of employees.

Investments in ICT can help to create human capital and improve competitiveness in many industries besides outsourcing. Manufacturers can improve margins by reaching customers directly via the Internet, hotels and resorts can develop high-tech marketing campaigns, and companies can manage inventory more easily. With the proper infrastructure, ICT can be a way to tap into global markets, improve basic services, and provide new economic development opportunities. Although ICT is important to the economy in general, the outsourcing component alone is not a cure-all for economic problems. Using ICT to develop human capital rather than competing on cheap labour will be a more sustainable strategy.

Educational Services

The Caribbean is well known for its relatively high levels of educational attainment. Literacy rates for the region are high. Trinidad and Tobago's adult literacy rate is 98.4 percent, and even Jamaica at the lower end has a 79.9 percent literacy rate (Human Development Report, 2007/2008). Most primary and secondary schools provide an education equivalent to developed countries. The large numbers of university graduates who leave the region for better opportunities demonstrate the quality of tertiary programs, although enrollment rates remain lower than in many developing countries. While many top students emigrate after graduation, there is also a growing market for foreign students to come to the Caribbean to study. Students from the United States often consider an international education, particularly in the highly competitive field of medicine. The Caribbean has become a leader in the growing industry of providing medical education for US students.

Offshore medical schools began appearing in the Caribbean in the 1970s, with the Dominican Republic as the preferred site. Since then many schools have opened and closed. There are currently about 30 medical schools and at least two veterinary schools operating in the region. New schools have entered the market to meet the rising demand for internationally educated medical graduates (IMGs). Enrollment in medical schools in the USA has remained flat at about 17,000 students per year despite nearly twice that many applications. Over 25 percent of practicing physicians in the USA were IMGs in 2004, following an upward trend over the last 25 years (Akl, Mustafa, Bdair, and Schünemann, 2007). The USA seems to be experiencing a shortage of physicians, particularly in areas such as radiology, anesthesiology, cardiology, rheumatology, and pulmonary and critical care. Experts have predicted that the shortage of physicians in the USA may be as high as 200,000 by 2025 if current trends continue (ibid). These trends include faster than anticipated population growth and an aging population. The medical field in the USA has also changed, with medical graduates increasingly choosing the higher-paying specialties in order to pay off larger amounts of debt. The rising costs of medical malpractice insurance have forced some doctors to leave the industry altogether.

With the shortage of physicians and the demand for more medical education, the Caribbean has become a leading region for international medical education for US students. Over 70 percent of IMGs entering the USA between 1984 and 2004 graduated from offshore medical schools in the Caribbean (OECS, 2005). The Caribbean medical schools are privately owned and operated ventures that provide a basic science curriculum in the Caribbean followed by clinical rotations in the US with partner hospitals. The curriculum is modeled after US programs and aims to prepare students for the US Medical Licensing Exam (USMLE), a three-part test that is required to practice medicine in the USA. Medical schools in the USA must have a research program and maintain a full service hospital to be accredited. In contrast, foreign medical schools can forgo the research and hospital programs and focus solely on teaching, which reduces costs and increases margins significantly. Caribbean schools are accredited by boards in the country in which they are located, whereas schools in the US are accredited by each state. Only four states, California, Florida, New Jersey, and New York, have a process for accrediting international medical schools, and a number of Caribbean schools have received accreditation from these states. Students from the USA are attracted to Caribbean schools by the lower fees, shorter time to graduation, lower application requirements, and the pleasant location. At the same time, they are able to do their clinical rotations and residency in the USA and receive preparation devoted specifically to the USMLE.

The two largest schools are located in Dominica and Grenada. Ross University in Dominica was founded in 1978 and has graduated over 4,800 medical students.[5] The faculty of 70 teaches a basic sciences curriculum in classrooms with multimedia capabilities. Ross has affiliations with more than 45 teaching hospitals in the United States, where students go for clinical rotations and residency programs. It is also accredited by all four of the US states that evaluate international medical schools. Like Ross University, St. George's University in Grenada was founded in the late 1970s. It was originally a school of medicine but later added a veterinary school, a school of arts and sciences, and recently an international MBA program.[6] St. George's medical program is recognized by all four US

[5] This section is based on the Ross University website www.rossu.edu.
[6] Information on St. George's University is taken from the website www.sgu.edu.

states that do accreditation and by the United Kingdom as well. After completing the basic science requirements, medical students spend a semester at Kingstown Medical College in St. Vincent for intensive clinical preparations. Unlike many Caribbean medical schools, St. George's has a research program through the Windward Islands Research and Education Foundation. It also has an active role in the community with over 500 employees and more than 150 students in the School of Arts & Sciences who are Grenadians.

For small islands, the economic impact of these schools is important. For example, the direct economic impact of Ross University on Dominica is 8.3 percent of the GDP.[7] St. George's University is the primary source of foreign exchange in Grenada, eclipsing the hotels and resorts. Medical schools generally have high profit margins and employ local staff in jobs that pay well. Students provide a boost to the local economy through spending on housing, food, clothing, transportation, and entertainment. The medical schools create other incidental benefits by attracting highly trained doctors to the region, who sometimes work as consultants for local hospitals. The medical students often work in local clinics improving the quality of care.

The quality and academic standards of Caribbean medical schools provoke considerable debate. In 2000, 65 percent of all foreign medical graduates passed the USMLE on the first try, compared to 92 percent of all US and Canadian graduates[8] (NBME, 2001). However, this result masks the disparities among the medical schools. Established schools like Ross University and St. George's University report USMLE results that are equivalent to US schools. However, with the increasing globalization of education, some are concerned that institutions will lower standards and create a commoditized product that is simply a "set of skills" from a diploma mill.[9] Although some of these concerns may be legitimate, especially for small upstarts, many schools in the Caribbean are as good as their American counterparts. Yet, one school with a poor record can damage the reputation for the region. This is one reason why accreditation is so important. However, the accreditation process in the Caribbean is lacking because each country can establish its own requirements, which may or may not reflect international standards. Most schools rely on accreditation from US states to signal their quality. A more comprehensive regional accreditation body would provide more transparency and reduce the concerns about the quality of Caribbean schools.

Accreditation systems are not the only obstacle to the expansion of educational services. Competition, changing demand, and poor infrastructure will continue to be threats to the industry. Competition comes from within the Caribbean and from destinations such as Israel, Mexico, the Philippines, and India, although each country graduates relatively few IMGs by comparison. Within the Caribbean, governments have provided major tax concessions and tax holidays to medical schools, a measure that could turn the industry into a tax haven. While the demand for medical education from the USA is predicted to grow, changes in US policy that offer more openings for graduate students could limit the offshore industry in the future.

While the buildings, technology, and equipment for each school are provided by the private owners, improvements in telecommunications and transportation infrastructure will provide a more conducive environment to medical education. Although medical institutions that cater to US students are generally separate from other tertiary education providers in the countries where they are located, some increased investment in infrastructure and technology would benefit both types of institutions.

The University of the West Indies (UWI) is the preeminent university in the Caribbean. UWI has developed quotas for the number of Jamaican students in courses with limited space such as engineering, law, and medicine to assure that Jamaican students have access, but they also maintain enough full-fee students from abroad to fund the programs. Developments in for-profit education in the Caribbean have primarily been market-led by local institutions rather than through a comprehensive government policy (Middlehurst and Woodfield, 2004). The Caribbean could follow the recent path of the UK and actively seek full-fee students from abroad, particularly from the United States, for its public universities.

The potential for offshore education extends beyond medical programs. There are already several English-language-training providers based in the Caribbean. Some schools have also diversified to veterinary-training programs and business degrees like the Masters in Business Administration (MBA) and Masters in International Business (MIB). The educational services industry is one area in which the Caribbean has consistently been on the leading edge. In order to maintain this advantage, Caribbean governments must create an environment that is conducive to private educational institutions and encourage entrepreneurship in this field.

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[7] Ross University website.

[8] This includes students at Caribbean medical schools and all other schools outside the USA and Canada.

[9] Speech by Frank Trocki, President & CEO, University College of the Caribbean.

Health Care Services

Medical tourism is a relatively new industry with a growing demand from customers in the United States, Canada, and Europe. A study conducted by the Confederation of Indian Industry and McKinsey consultants estimated that medical tourism could be worth over US$2 billion by 2012. The study revealed that in 2006 over 150,000 foreigners visited India alone for treatment, with the number rising by 15 percent from the previous year. Thailand and India are currently the most popular health tourism destinations (Confederation of Indian Industry and McKinsey & Company, 2002). While newspaper accounts and interviews indicate a growing number of foreigners visiting the Caribbean for health and medical services, data on this industry is relatively scarce. Jamaica hosted a Caribbean Health Tourism and Spa Symposium in 2007 in response to the growing interest in this industry. Data collection is complicated by the sometimes fuzzy line between medical tourism and non-medical tourism depending on how broadly the categories are defined. The Caribbean has numerous advantages in health care services, including proximity to the US and Canadian markets, a well-educated population, an established hospitality industry, and a desirable natural environment. The medical training available in the Caribbean is generally of high quality, as evidenced by the growing number of Caribbean-trained nurses working abroad.

There are a range of services that fall under the category of medical tourism, and even more that might be considered "health tourism." Broadly defined, these include wellness services, medical treatment, and rehabilitation. Wellness services are the most highly developed area of health tourism in the Caribbean and include spa services, healthy lifestyle vacation packages, herbal treatments, and alternative medicine services such as acupuncture. These services are generally provided by large hotels and resorts, who often market spa packages directly to consumers.

Treatment services include testing, diagnosis, surgery, chemotherapy, and other medical services performed by a trained physician. Doctor's Hospital in the Bahamas is one of the leading treatment centres for tourists to the Caribbean, with approximately 15 percent of patients coming from outside the region (Gozales, Brenzel, and Sancho, 2001). Anecdotal evidence shows that some cruise ships will wait until they reach the Bahamas to send passengers for medical care at Doctor's Hospital.

In contrast, the case of Mount Hope hospital in Trinidad is a cautionary tale about choosing the right strategy for exporting health services. With 534 beds and a fee-for-service model, Mount Hope attempted to attract foreign visitors from the US and patients from nearby islands with the latest technology and relatively low costs (Huff-Rouselle et al., 1995). However, foreign patients were reluctant to use Mount Hope for services that would be covered by insurance in the United States and elective procedures could be obtained for even lower prices in Latin America. Malpractice insurance proved very costly, and medical licensing was not in line with international standards. After many failed strategies, Mount Hope has had some success by opening a medical school on-site. This case illustrates the difficulties of entering the treatment category of health care services. Simply providing the same services available in developed countries at lower rates is not enough. The services must fulfill a need that is not being satisfied in a patient's home country, which often means targeting procedures that are not covered by insurance or national health programs. In addition, quality, reputation, and marketing are important for attracting visitors, who often base decisions on referrals.

Rehabilitation services include activities such as addiction programs, psychotherapy, kidney dialysis, physical therapy, and elder care. In the rehabilitation services category, one of the most successful enterprises in the Caribbean has been the Crossroads Centre at Willoughby Bay, Antigua. Founded by musician Eric Clapton in 1998, Crossroads is a highly rated non-profit organization that administers drug and alcohol dependency care. The centre employs local support personnel, administrative staff, and clinical professionals. The services are priced lower than comparable addiction programs in developed countries, and 70 percent of patients come from the USA, Canada, and Europe (OECS, 2005). The fees from foreign visitors subsidize "scholarships" that allow Caribbean patients to attend the clinic.

Another area of health care services is telemedicine, which is any medical service that does not require the patient to be physically present. This can include diagnosis, processing of medical records, or consulting services. The partnership between doctors in St. Kitts, who provide radiographic services, and Dalhousie University in Canada is one example of telemedicine. The Caribbean has not attracted many telemedicine operations primarily because the costs of technology and telecommunication are prohibitive.

There is a significant and growing demand from the United States, Canada, and Europe for a wide variety of health care services. Specifically, the USA represents a large market, with more than 45 million citizens without health insurance and even more with health coverage that they consider inadequate (Oxford Analytica, 2006).

In fact, about 150,000 Americans each year leave the USA for medical procedures, and the industry is growing by 15 to 20 percent annually. Countries like the United Kingdom and Canada, which have public health care systems, also generate demand, because many patients who would be forced to wait for surgeries such as hip replacements and even heart surgery prefer to go abroad for earlier treatment (Sanders, 2007).

For patients, there are both costs and benefits to choosing to go abroad for medical treatment. Benefits include savings for equivalent or even better-quality service, higher physician-to-patient ratios, access to some experimental procedures that are not available elsewhere, and the opportunity to recover in a pleasant climate. The quality of care in top hospitals is said to beat most American hospitals, while providing savings of 30-80 percent. Yet, even low costs will not induce most patients to seek treatment for procedures that are readily available and covered by insurance or national health programs. Patients are also taking a risk by going abroad since follow-up can be difficult and malpractice laws are generally less patient-friendly, especially compared to the United States. Medical tourism may also mean leaving family and friends behind just at the time when they are most crucial. Opportunities are also limited to patients who are well enough to travel.

While the Caribbean has some advantages in the provision of health care, there are a number of obstacles to further developing services. One of the most significant barriers is the referral process that typifies health care services. Most patients choose doctors based on referrals, and it is unlikely that doctors in the USA, Canada, or Europe will readily switch to making referrals abroad. In the case of the USA, doctors would be particularly reluctant to refer patients knowing that they would have to pay out-of-pocket for procedures that would be covered by insurance in the USA.[10] Given this obstacle, hospitals and clinics that cater to foreign patients should target procedures that are not covered by US medical insurance and those that have long wait times in Canada and the UK, such as cosmetic procedures, heart surgery, and hip replacements.

Many Caribbean hospitals have poor infrastructure that requires more investment to reach international standards. There are also a number of labour issues in the health care industry. While a new market for medical tourism might help retain some of the Caribbean-educated doctors and nurses who are going abroad, wages would have to rise, making the Caribbean less price-competitive. The greatest potential for medical tourism lies in specialty fields, but there is a shortage of specialists in the Caribbean. There is also a deficit of health industry management skills in the region.

Table 6. Health Indicators for 2003

Country	HDI Rank	Public (as % of GDP	Private (as% of GDP	Per capita (in US$)	% of Births Attended by Health Professional	Doctors per 100,000 people
Barbados	31	4.8	2.1	$1,050	98	121
Cuba	50	6.3	1.0	$251	100	591
Saint Kitts and Nevis	51	3.4	1.9	$670	99	119
Bahamas	52	3.0	3.4	$1,220	99	105
Trinidad and Tobago	57	1.5	2.4	$532	96	79
Antigua and Barbuda	59	3.2	1.3	$477	100	17
Dominica	68	4.5	1.8	$320	100	50
Saint Lucia	71	3.4	1.6	$294	100	517
Saint Vincent and the Grenadines	88	4.1	2.0	$384	100	87
Dominican Republic	94	2.3	4.7	$335	99	188
Belize	95	2.2	2.3	$309	83	105
Guyana	103	4.0	0.8	$283	86	48
Jamaica	104	2.7	2.6	$216	97	85
Haiti	154	2.9	4.6	$84	24	25

Source: Human Development Indicators.

Even if hospitals can attract medical tourists, health care service exports can become a domestic issue. One concern among governments in the Caribbean, and an explanation for the reluctance to pursue policies friendly to health care services exports, is the potential that it would create a dual health care system with high quality care for foreigners while local citizens experience lower quality services (World Bank, 2005). However, this may not necessarily be the case. Fees from foreign visitors can help to subsidize services for the local population while helping to retain qualified health care professionals who might otherwise migrate.

In medical tourism, the Caribbean lags other developing countries. A number of developing countries are already competing in the industry. Within the Western Hemisphere, Costa Rica, Cuba, Colombia and Mexico are leading providers with many of the same advantages as the Caribbean in proximity to the US market and high-quality medical workers.

While much of the success of exporting health care services depends on the private sector, the policy environment influences the industry. For example, private health care operations have been hindered in some countries by foreign direct investment (FDI) policies that make it difficult for foreign entrepreneurs to own land (Gonzales et al., 2001). In addition, medical licensing procedures are not uniform and do not meet international standards in some countries. Perceptions of quality are particularly important in health

[10] Most US insurance policies do not cover treatment abroad except in the case of emergency.

care. Although conditions in many foreign hospitals are as good as or better than those in developed countries, these institutions must overcome image problems of poor education, poor hygiene, and backwardness that are still pervasive. Accreditation through international organizations such as the Joint Commission International (JCI), a non-profit accreditation organization that evaluates international hospitals, is a signal to international customers that a hospital meets international standards in care. There are currently no JCI-accredited institutions in the Caribbean.

The health tourism industry has potential to expand the diversity of service exports in the Caribbean. Health and wellness offerings are a logical add-on to current tourism offerings. There is demand for medical treatments that are costly or involve long delays in developed countries, and the Caribbean has an excellent environment in which to provide rehabilitation services. However, the shortage of health care professionals, the poor infrastructure, and the lack of uniform standards must be resolved. With so many competing destinations, Caribbean hospitals must differentiate their services not on price, but on high quality doctors and the advantage of recuperation in a tropical climate.

Transportation

Throughout the Caribbean's history transportation has been essential to the prosperity of the region. Transportation is a vital sector for the small island economies in the Caribbean that depend on access to global markets through trade and tourism. Countries in the Caribbean depend heavily on the tourism industry for their development and so both maritime ports and airports play an important part in Caribbean economic development. Tourism continues to boom in the Caribbean with arrivals increasing 8.3 percent over the last year, with the United States and Europe being the principal sources and the Bahamas, Jamaica, Barbados and Trinidad and Tobago being major destinations (Girvan, 2007). Yet regional transportation also matters because the countries in the region depend on trade for many of their basic necessities. The geography of the Caribbean makes transportation issues even more pertinent and the need for cooperation between nations in the Caribbean even more necessary.

Air Transport

Air transport continues to be important for the economic sustainability of the region's economies, particularly with regard to tourism but also in terms of linkages with developed countries. Nearly 90 percent of tourism earnings in the CARICOM region derive from visitors arriving by air. The collective annual traffic on Caribbean airlines is 3.5 million travellers. As a basis for comparison the United States' annual domestic traffic is almost 500 million travellers. International traffic to/from the USA is 140 million visitors annually with 54 percent of that carried by US airlines. Traffic between the Caribbean and the USA in 2004 was 15 million, of which 83 percent was carried on US airlines. A number of major airlines have regular flights to the region: American, Delta, US Airways, American Eagle, Continental, United, Northwest, Air Canada, and British Airways. Regional carriers have included BWIA International Airways (Trinidad and Tobago), Air Jamaica (Jamaica), and LIAT (Barbados) (OECS, 2005). Attempts at creating unified regional carriers have consistently failed because of distrust and discord between management in these national carriers and the lack of steady leadership from national governments to make integration happen.

Airlines are a critical component for the region, but differences exist among governments on whether there is currently enough capacity to sustain the tourism industry and future needs of the Caribbean states (OECS, 2005). The question of terminal capacity and the role of private versus public financing are some of the major issues debated. Most countries in the region have air transport that is efficient but places a financial burden on their governments (World Bank, 2005). The countries in the Caribbean have several regional airlines, in which governments have an important stake but which suffer from financial problems. The desire among countries in the Caribbean is to have reliable, competitively priced air transport. Several countries in the region have sought to provide continued protection of routes by regional carriers like LIAT, but this approach has failed to make these kinds of airlines into viable "national carriers" and has not lowered prices or safeguarded supply. Air Jamaica, BWIA and LIAT, over the last ten years, have incurred losses in excess of US$1.5 billion and are now, between them, receiving US$700 million to restructure their operations in the hope of making them profitable(OECS, 2005). BWIA had to shut down this past December. The case of LIAT has even caused tension among members of the Organization of Eastern Caribbean States, with countries such as St. Lucia wanting to move toward alternative arrangements dependent on non-regional carriers such as American Eagle, to the chagrin of governments supportive of LIAT. Another problem for the region is the overall lack of coordination between governments in the region when it comes to air transport, resulting in missed opportunities for cost cutting and greater efficiency.

The main reform advocated is to liberalize air services in the region to increase services and reduce costs. One international approach has been the proposal to sign an Open Skies agreement with the United States or European countries, which would allow airlines from both sides in the bilateral agreement to permit unrestricted airline service to each other. Countries in the region that have signed with the United States include the Dominican Republic, Jamaica, the Netherlands Antilles, and Aruba, among others. Yet many regional governments remain attached to their national carriers (World Bank, 2005). One of the major issues that has arisen in the airline industry is the question of security, particularly after the terrorist attacks of 11 September 2001. Fear remains within the regional airline industry that security measures taken to ward off terrorist attacks may negatively affect the amount of people willing to travel overseas for tourism, with the Caribbean being particularly hit by this development.

Maritime Transport and Ports in the Caribbean

The Caribbean needs a functioning maritime transport sector to deal with the growing needs of the population. The movement of people between countries in the Caribbean also relies on maritime transportation from one island to another. Between 2000 and 2003 imports to the Caribbean increased 20 percent. The region has also increased the extent to which it exports by more than 50 percent since 2000. These factors make increasing capacity vital to the continued economic growth of the island economies.

The degree to which there is maritime transportation from island to island in the Caribbean is highly heterogeneous. To date there is no unified ferry system across different countries in the region, although that has been a much discussed goal among Caribbean nations. Recent discussions have focused on the possibility of simplifying what identification is needed from citizens of Caribbean countries to travel to other islands. Inter-island transportation is important in Caribbean countries that inhabit more than one island such as Trinidad and Tobago, Antigua and Barbuda, Saint Vincent and the Grenadines, Saint Kitts and Nevis, and the Bahamas. Trinidad and Tobago has several ferry services operating between Port of Spain and Scarborough, with some like the T&T Express offering faster service at higher prices and others such as the MF Panorama offering a slower trip at a cheaper price. These services operate on a daily basis, with Tobago serving as a tourist destination for the residents of Trinidad. Antigua and Barbuda, depends solely on the Barbuda Express, a ferry that offers the only passenger sea link between the two islands and runs five days a week. Larger ferries generally carry about 1,000 travellers per trip. The Bahamas has smaller, government-run ferries that transport passengers across islands that are reasonably close together, and faster ferries for islands that are further apart. Governments of the region have not followed up on the desire for a maritime link, especially a high-speed ferry between the countries that now make up the Organization of Eastern Caribbean States, but one ferry was established by the private Barbados company Remac Tours (Eastern Caribbean Central Bank, 1998).

The importance of ports in the Caribbean can be measured by how massive their ports are relative to the size of their economies. Four of the top twenty major container ports in Latin America are in the Caribbean, with San Juan, Puerto Rico topping the list; Kingston, Jamaica is fourth, Freeport, Bahamas is fifth, and the Dominican Republic has the 18th largest container port in Latin America. Container ports are important because they provide for the ability to both store and serve as transshipment ports within the global supply chain. The major Caribbean ports serve as major transshipment points between other countries and the United States, one of the region's comparative advantages.[11]

Inadequate transport infrastructure may impede efforts to expand and diversify trade, increase the competitiveness of Caribbean firms, integrate with the global economy, and sustain the tourism industry (particularly relating to cruise ships and yachts). Fortunately, with few exceptions, Caribbean countries have adequate physical infrastructure for ports, but major countries such as Jamaica and Trinidad and Tobago need to make larger investments in transshipment port capacity (World Bank, 2005). For the islands of the Caribbean, competitive shipping and port costs are essential to their international competitiveness. Intra-regional cargo services are competitively provided but suffer from irregular service and vessels that are in poor conditions. Because of irregular shipping services, keeping large inventories has become essential for firms in Grenada and Trinidad and Tobago (OECS, 2005). Unfortunately these large inventories tie down capital resources and necessitate additional storage and safekeeping, decreasing these firms' competitiveness. Countries in the Eastern Caribbean are also marred by the notoriously high-cost ports in the region, often a result of antiquated work rules and strong unions opposed to reforms (ibid).

Reforms such as attempts to privatize of port services have been tried, but they have often failed to decrease costs and increase productivity because of a lack of adequate regulatory frameworks in these countries. When this resulted in Dominica, the government authorities retook control of the port in their country. Across the region there is greater support for maintaining public ownership of ports than for privatization, though observers see a shift toward more private involvement as possibly vital to the long-term health of the tourism industry. Greater public-private joint ventures in the maritime port and transport industries are likely in the future. The 9/11 attacks in the United States have made security issues increasingly important for Caribbean countries, as the USA has taken a strong stance on secure ports. The strong dependency of the Caribbean's maritime industry on access to shipping lanes and American ports makes strengthening security in Caribbean ports a vital but expensive goal.

Towards a Strategy for Caribbean Services

The Caribbean today faces a challenging economic environment that demands new ways of thinking about how to guarantee the region's continued economic viability and lay the foundation for healthy and prosperous societies. The rise of Asia poses grave challenges to the Caribbean's economic future. The model that dominated development thinking at the time Caribbean countries became independent – of exploiting abundant cheap labour to move up the product life-cycle chain – has been rendered obsolete by the deepening reintegration of China and India in the world economy. Nor does this even take account of the reemergence of other Asian economic centres such as Vietnam. Relative to these countries, Caribbean labour is no longer cheap and is unlikely to ever be so again.

Resource-based strategies do not offer much in the way of long-term prospects. The Caribbean enjoys abundant natural beauty, and some individual nations have ample supplies of oil and natural gas, lumber, or bauxite. But natural resource-endowed countries are the exception, not the rule, and even the existing supplies will not last forever. Rapid hotel development is gobbling up available beachfront land in several islands, posing environmental threats while reducing the "positional" value of this resource. Trinidad and Tobago's oil boom has substantially raised growth rates, but unless it leads to structural transformation in the Trinidadian economy, growth will peter out if and when energy prices revert to their historical mean. In most islands, agriculture faces limited prospects due not only to the traditional North American and European Union subsidies but increasingly as a result of the fierce competition coming from Latin American producers. The loss of preferential access to European markets for bananas and the poor productivity of sugar farms in most islands further limit the prospects for farming.

In order to maximize the region's future prospects for development, Caribbean leaders will need to position its service sector beyond the realm of tourism, to include other areas where the Caribbean can generate value by engaging in knowledge production or contributing to the service value chain. Tourism will remain a central component of the service sector in the Caribbean, and the ability of this industry to create both supply and demand for the region's services will be an important component of economic development. However, a more broad-based, flexible, and diverse service sector will create greater employment opportunities, mitigate the vulnerabilities that are produced by an over-reliance on the tourism sector, and generate other avenues of economic advancement.

This survey underlines some of the opportunities and challenges presented by a strategy for the service sector that moves beyond tourism into other promising areas. Banking and financial services have offered a promising route for some countries to attract foreign capital and create high-end jobs, but the reputational barriers remain intense for new entrants. The region may benefit through harmonizing tax policies and creating cooperative mechanisms to share the potential of this sector more widely. The Caribbean's difficult experience with call centres and back office services should not deter it from exploring new ways to tap into this growing and lucrative market. By creating a sustainable, long-term strategy for reaping the benefits of the global economy produced by information and communication technology, the Caribbean can become an important niche player in a rapidly evolving industry. Off-shore educational and health services offer similar promise, especially as the US market experiences both a boom in college-age students and Americans reaching retirement age who are seeking affordable and quality health care. Lastly, the Caribbean economies are hampered by a lack of intra-regional transportation, and the governments should work together to assess how best to develop an air and maritime travel system that meets the needs of the region's citizens. Despite the challenges, the Caribbean's economic future can be made much brighter by combining the talent and know-how that drives the knowledge economy with the practical demands of today's global service sector to lay a strong economic foundation for the twenty-first century.

[11] A transshipment hub is a container port that provides terminal and marine services to handle the transfer of containers between feeder and mother vessels. Cargo is transferred from large "mother" ships at load centre ports onto small "feeder" ships destined for smaller, regional ports.

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