PUBLIC PROCUREMENT AND INTERNATIONAL TRADE AGREEMENTS: SMALLER DEVELOPING ECONOMY CONSIDERATIONS FROM A CARICOM PERSPECTIVE

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INTRODUCTION

The global significance of public procurement has grown in recent years. This is evinced by the increased prominence of public procurement on the agenda of trade negotiations and in the text of resulting agreements. Public procurement was a major feature in the Free Trade Area of the Americas (FTAA) negotiations. Significant work has been done in the World Trade Organization (WTO) for a Transparency agreement in public procurement. The Caribbean Community (CARICOM) itself is engaged in several negotiations involving public procurement in addition to a commitment to negotiate its own internal regime for procurement under the Caribbean Single Market and Economy (CSME).

There are two main reasons for including public procurement in trade agreements. Firstly public procurement represents a significant market. Access to this market means expansion of trading opportunities and income earnings. The World Bank estimates public procurement expenditure to be approximately 15-20% of GDP in the developing world. This value is even more significant when viewed in the context of government being the largest procurer of goods and services. Within the CARICOM region public procurement consumes a large portion of national budgets. This has made the public procurement markets in the region very attractive to foreign business interests seeking to secure lucrative government contracts.

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The second reason for including public procurement in trade agreements is that it promotes best practice in contract award processes. Agreements usually stipulate norms and requirements for conducting procurements, which promote transparency, fairness and competition.

For any country that accords with one of these agreements, it is therefore reasonable to expect increased opportunities to sell goods and services to the markets of the other parties and transformation of public procurement processes. Ideally, each party to such an agreement should be equally placed to reap these benefits. However the situation is usually one of imbalance where some countries are more positioned to gain than others.

In the CARICOM region, business enterprises rely very heavily on public procurement contracts for their livelihood. In the very small states, many small businesses depend almost exclusively on government business for survival. The economic benefit of public procurement is far-reaching given the employment generated and the many households that it supports through direct and indirect employment.

A large share of public procurement in the region is financed by loans from Multinational Development Banks (MDBs) such as the Inter-American Development Bank (IDB) and the World Bank. This has brought the public procurement systems under scrutiny by these institutions and increased pressure to improve country systems to match international best practice standards.

DISCUSSION

CARICOM in Relation to Trade Agreements

CARICOM countries have not acceded to the WTO GPA. The primary reason for this was the unlikelihood that these economies would realize the promised economic returns from having access to the combined large markets of their counterparts. This concern was rooted in the recognition that among the parties to the agreement, CARICOM countries are extremely constrained by small size both geographically and population wise, lesser levels of development and high vulnerability. In examining the question of whether CARICOM is in a position to maximize the benefits of free trade it is important to explore these handicaps.

CARICOM is an economic union of 15 states in the Caribbean region, established in 1972 to facilitate free trade in goods and services among the member states. The members are: Jamaica; Guyana; Trinidad & Tobago; Barbados; Belize, Suriname; Antigua & Barbuda; St. Lucia; Montserrat; St. Vincent & The Grenadines; the Bahamas; Grenada; Dominica; St. Kitts &Nevis and Haiti. The region negotiates trade agreements as a block. Under the revised Treaty of Chaguaramas which establishes the CARICOM Single Market and Economy, the region expects to reach agreement on its own internal regime for public procurement. CARICOM consists of mainly small island states. Guyana Suriname and Belize are the exception being mainland territories. The states with the exception of Haiti all share a common history of British colonization. There is much diversity within CARICOM as it relates to size, level of development and even vulnerability.

Economic Profile

All the states are considered developing countries. Among the larger states, Trinidad & Tobago is the most industrialized, having as compared to the rest of CARICOM, a well developed and thriving manufacturing sector. In fact it is safe to say that Trinidad & Tobago is the dominant exporter in the region with an extensive range of consumer products penetrating the markets of its sister states. Trinidad & Tobago is also endowed with natural gas, oil and tar. Jamaica although larger geographically than Trinidad, lags behind in industry, its once promising manufacturing sector having contracted significantly in the 1990s with the closure of many factories both local and foreign owned. The economy relies heavily on tourism, sugar and bauxite for foreign currency earnings. Guyana has gold and diamond deposits, however, these remain largely under-exploited. Although a large country, much of the land is swamp. Guyana is largely an agrarian economy, its main crops being rice and sugar. Table 1 shows the states' economic and geographic profile.

TABLE 1
Economic and Geographic profile of CARICOM

Name of State	GDP per capita (USD)	Physical size (sq km)	Population
Antigua/Barbuda	$11,000	442	69,108
Bahamas	$16,800	13,940	299,697
Barbados	$16,200	431	278,289
Belize	$4,900	22,966	272,945
Dominica	$5,400	754	69,278
Grenada	$5,000	344	89,357
Guyana	$4,000	214,970	705,803
Haiti	$1,600	27,750	7,656,166
Jamaica	$3,800	10,991	2,713,130
Montserrat	$3,400	102	9,245
St. Kitts & Nevis	$8,800	261	38,836
St. Lucia	$5,400	616	164,213
St. Vincent & Grenadines	$2,900	389	117,193
Suriname	$3,500	163,270	436,935
Trinidad & Tobago	$9,600	5,128	1,096,585

Source: CIA – World Factbook online 2004

The Eastern Caribbean islands, Antigua/Barbuda; St. Kitts/Nevis; St. Lucia and St. Vincent/Grenadines are the smallest in the group and have long had an economic union of their own. They share a common currency the Eastern Caribbean Dollar. Grenada depends on its export of spices to earn foreign exchange and is a leading exporter of nutmeg and pimento to the rest of the world. Tourism is a vital sector to almost all states and is the mainstay of the Eastern Caribbean islands. Tourism is an extremely fragile industry impacted not only by the internal environment of the particular country but also by external influences on travel. The entire Caribbean area, being susceptible to hurricanes often sees its tourist industry severely affected with the passage of a hurricane. Often, hotels are extensively damaged, road networks uprooted and areas cut off making ground travel impossible. Hurricane Ivan in 2004 practically devastated Grenada, wiping out spice crops and bursting open the island's prison sending convicts of serious crime on the run. At the same time, it caused major damage in other states such as Jamaica. Across the region, damage from Hurricane Ivan has still not been completely repaired.

All states have significant work to do in terms of putting in infrastructure such as roads, port facilities, and modernizing public administration. Most of the states face severe resource constraints and depend on borrowing to carry out these programmes. Although the state of industry within CARICOM varies in level of sophistication and development from one state to another, one thing is certain, compared to the economies of its counterparts under the FTAA e.g. USA, Canada, Mercosur and other large Latin American Countries, CARICOM is not equally yoked. National industries are comparatively underdeveloped. Small size limits their ability to maximize economies of scale. A large company in Jamaica, which is the largest island in the English-speaking Caribbean, would qualify as a small enterprise in the big economies of the USA and Canada. High production costs fueled by factors such as high inflation, labour costs and high foreign exchange rates, erode the competitiveness of local suppliers. Against CARICOM suppliers, foreign suppliers usually have the comparative advantage. This means that the foreign supplier will normally win the procurement contract because he can offer a lower price. In a situation where such contracts are the mainstay of industry, this can mean significant displacement.

In recognition of its disadvantaged position relative to its trade counterparts, CARICOM sought in its negotiations under the FTAA, to obtain special and differential (S&D) treatment in relation to obligations under the agreement. S&D treatment would take the form of concessions allowing transitional periods and the use of offsets such as domestic content requirements and margins of preference. CARICOM asked for transition periods of up to fifteen years before giving effect to some requirements under the agreement. This would give the countries of the region time for industries to modernize and make the adjustments necessary to hold their own against competitors from the FTAA countries.

How realistic is this? Even while their negotiating counterparts consider 15 years to be much too long, CARICOM believes that this still may not be adequate time to bring underdeveloped industries up to par. It is unlikely that the region will succeed in getting such a lengthy time period which means it will be forced to open its markets far sooner. In addition to the opening of markets to foreign suppliers the agreement will also bring transparency requirements for publication of laws and other provisions governing public procurement as well as information on contract awards. This will put greater demands on public administrative systems that are already not very sophisticated. None of the states has a central repository for procurement statistics. Data on procurement is widely dispersed and difficult to collect. This makes planning and responding to requests for statistics extremely difficult. One of the handicaps of being small is the paucity of trained procurement professionals. This is especially so because public procurement was never treated with importance as a career path in the civil service as compared to other disciplines such as accounting. Governments have not invested in training and developing procurement staff. In many of the small states the sheer population size gives rise to the shortage of human resources. Functions are often doubled up and procurement is handled by a financial controller or personnel manager.

To address human resource constraints CARICOM also sought technical assistance and cooperation under the Hemispheric Cooperation Programme of the FTAA. The programme would provide funds and technical assistance to train staff and suppliers and sponsor public education.

Supplier Viewpoint and Government Response

The view of the private sector across the region is that governments should secure the procurement market for locals and protect the private sector from competition from overseas suppliers. This position is not compatible with the principle of free trade which demands that markets be opened and all suppliers be accorded the same favours. For governments that have agreed to negotiate free trade agreements it is a struggle to reconcile the two positions. In Jamaica, the private sector has been pressing the government to apply domestic margins of preference in bid evaluations and even more, to instruct public entities to buy local goods and services first. Requests have been made for the government to reserve procurement contracts of a certain value for small to medium enterprises (SMEs). This has resulted in the draft Domestic Industries Policy which is to be submitted for Cabinet approval. The policy sets out the workings of a programme of preferences and reservations for local small businesses. Similarly, in Trinidad the government has promulgated a policy for the protection of local businesses. In the Bahamas, purchasing from local suppliers over foreign is encouraged and is stipulated in local government law. The question is whether a government chooses to pay a premium to acquire domestic goods and services thereby promoting domestic industry or opt for lower priced foreign goods in the hope that savings will be invested in other developmental objectives thereby resulting in national welfare gains.

The Smaller Economy Dilemma

The choice posed by the forgoing question has to be made with due consideration for a number of factors. What are the benefits as against the disadvantages and costs? Are resources being used in the best way? If a government chooses to promote local industry by purchasing higher priced goods and services it may stand to lose far more than the additional cost. Given the reality of financial constraints, the first consideration would be whether this is the best way to spend limited funds. Public procurement should always seek to obtain best value for tax dollars. Taxpayers may not readily appreciate governments spending more than is necessary to purchase a good from a local entity when the same good could be obtained for considerably less from a foreign source. This position may be even harder in a harsh economic climate where taxation is considered excessive and burdensome, as is the case in Jamaica. It is made worse if the public views the private sector as self-serving and not giving to the community and the local product are found to be of a lesser quality. In many of the states where the manufacturing sector is not very strong, there is a thriving merchandise trade made up of re-sellers of imported products. These re-sellers consider themselves ‘local suppliers’ and often bid on public tenders. In recent times they are increasingly being sidelined as procuring entities find that it is far more economical to purchase from the overseas manufacturers. A government would need to convince citizens that it is not merely propping up inefficient suppliers with measures such as reservations and margins of preference. These measures pose the risk that local suppliers will become complacent and will fail to take the steps necessary to improve their efficiency and competitiveness. The result of this being stagnated development and increased pressure on the government.

Notwithstanding the disadvantages, the expected benefits from supporting local industries through public procurement may be enough to persuade CARICOM governments. Public procurement fosters employment in the private sector. Regardless of the size of the entity, each award of a government contract keeps that enterprise in business thereby keeping its staff employed. Large contracts usually necessitate sub-contracting and the hiring of additional labour outside of the primary contractor. Especially in economies where unemployment is at undesirable levels, such contracts help resources to filter through and channel income into households at all levels of the society. This in turn fuels business activity for shops, utility companies, financial institutions and so on. Viewed in this context it can be seen that when a foreign company wins one of these contracts the loss to the economy far exceeds any savings derived from a cheaper purchase price. This was brought home very harshly in Jamaica when the Ministry of Education's annual contract for the printing of Primary School textbooks which was normally won by the Gleaner Company (the largest newspaper company in the island), was won by a foreign company. This company offered a better package for printing and distributing the textbooks within a shorter time frame at a lower cost. It was the best value for money but the displacement caused by this contract award was extensive. Small printers who were normally sub-contracted by the Gleaner Company for the project were left without work and had to lay off staff. Couriers normally used for the distribution of the books to schools across the island were also left empty handed. All this happened in a season when the September back –to- school expenses were coming and people were relying on the contract for income. There was prolonged public outcry. After this the government began to apply a domestic margin of preference to this contract. Initially the margin was 7 1/2% but after this failed to help and a foreign company won again, the margin was increased to 10%.

As taxpayers it is reasonable that businessmen will expect to get a share of the pie that their taxes help to finance. It is also reasonable to expect that their governments will support them against harsh competition from more advantaged external players. If a government opts for savings up front through lower purchase prices from foreign suppliers what assurance is there that these savings will in turn be channeled into national developmental programmes specifically those that will help to develop local industries? If local businesses were to lose out on government contracts on a large scale, this could cause wide-scale social and economic displacement, increasing poverty, crime and other social ills. CARICOM governments generally do not possess the capacity financial and otherwise to assist displaced businesses the way governments in more developed countries can. In developed countries governments have the means to provide funds for re-tooling, training and other facilitative measures to assist businesses into new areas or build up their competitiveness. CARICOM governments would need to dedicate resources in a similar way but this is extremely difficult where there are so many competing priorities such as health care, education, crime reduction and the occasional hurricane or flood that may come and wipe out all plans for already limited resources. There really is no guarantee then that savings that may come from this approach will be channeled into help programmes to benefit vulnerable business.

As world opens more into one seamless trading space small states like those of CARICOM will be increasingly challenged to hold their place in the global marketplace. Whether they can buy time and delay the rush of competition while building up the capacity of some industries and find the resources to successfully implement measures to protect very small enterprises will determine if the region achieves the economic progress it so desperately needs.

ACKNOWLEDGEMENTS

Thanks to Mrs. Patrice Pratt-Harrison who suggested that I write on this topic.

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