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SUSTAINED DEVELOPMENT IN THE NINETIES



**UNITED NATIONS**

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
 Subregional Headquarters for the Caribbean



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## INTRODUCTION

As we enter the final month of this decade it might be an appropriate time for the Caribbean Development and Cooperation Committee (CDCC) to reflect on the lessons learned from its recent development efforts. It might also be appropriate for us to see to what extent it is possible to derive fresh insights from these lessons so as to move towards sustained development in the 1990s.

Looking back over the fading decade some of us will remember it with fascination, as a turbulent decade in which changes came at an accelerating pace, stretching our capacity to cope. Yet, as these changes contained within themselves challenges as well as opportunities, our fascination is usually tinged with equal parts of hope and apprehension. Various regions have displayed differing degrees of success in coping with these changes and within regions, countries have demonstrated varying degrees of skill in managing change, based on their resource endowments and their capacities to formulate appropriate policies. If we project from the present to the immediate future, however, we see that the rate of change is accelerating, so that we will need to be even more responsive to change in the coming decade than in the past. Moreover, in the Caribbean we will have to redouble our efforts if we are not to be left behind since we cannot hope for a return to the status quo.

Two background documents have been prepared which form the empirical basis of this presentation. They are documents LC/CAR/G.278 entitled "The impact of external sector developments on Caribbean economic performance" and LC/CAR/G.279 "A brief overview of economic activities of Caribbean countries - 1988", respectively. Both papers deal extensively with Caribbean trade performance and the links between trade and economic and social development and place the sub-region in the context of what has come to be known as the "global economic crisis". Accordingly, they respond to the request made by ministers at the eleventh session that the secretariat should document both aspects of these economic developments<sup>1</sup> and provide them with the basis on which they could engage their colleagues in a policy dialogue.

This presentation is in two parts. The first absorbs the essence of both studies, updates the analysis with such data as are available on developments in 1989 and with some comments relative to the evolution of the social sector. The objective is to provide as complete a picture as possible on social and economic developments in the decade of the 1980s. Based on these facts it tries to derive some lessons from the 1980s and set the framework for the second part of the document, which seeks to provide a set of proposals to assist the meeting in its reflections on the requirements for sustained development in the decade of the 1990s.

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<sup>1</sup> Paragraphs 126 and 178 of the report of the eleventh session of the CDCC outlines the request.

Table I

## SELECTED INDICATORS - CARIBBEAN COUNTRIES

	SIZE km2	POP.N. 1988	AV. GROWTH POP.N.	GDP<1>	GDP/cap 1974	GDP/cap<2> 1988	Debt/cap 1988
Antigua/Barbuda	440	82	0.8	7.8	689	3399	2915
Aruba	193	65	...	...	...	*7500	...
Bahamas	13942	243	1.8	4.3	3362	11447	607
Barbados	431	254	0.2	2.7	1296	5747	62
Belize	22960	180	2.8	3.0	614	*1226	78
Cuba<3>	110860	10414	1.1	2.8	2112	2582	661
Dominica	750	82	0.9	4.8	378	1550	*71
Dominican Republic	49000	6888	2.5	2.2	639	810	220
Grenada	345	106	2.4	4.6	346	1346	65
Guadeloupe	1780	300	...	...	...	*3151	...
Guyana	214970	756	-0.1	-1.4	538	455	2249
Haiti	28000	6285	2.2	0.2	125	*330	*121
Jamaica	11424	2374	1.0	0.9	1038	1219	318
Martinique	1110	300	...	...	...	*3717	...
St Kitts/Nevis	269	47	0.5	5.2	634	2119	36
St Lucia	616	145	2.0	4.7	448	1400	*26
St Vincent	388	114	1.3	6.2	310	1210	*31
Suriname	163265	404	1.0	-3.4	1100	2510	...
Trinidad/Tobago	5128	1234	1.4	-3.0	1778	3782	2012
Br. Virgin Is.	150	12	1.4	7.0	...	9492	...
Montserrat	102	12	0.5	5.2	886	3997	...
Puerto Rico<4>	8800	3294	0.2	5.0	2465	5574	...

Source: ECLAC on the basis of official data.

<1> Average growth rate of real GDP for period 1983-1988; Suriname 1983-1987

<2> In current US dollars

<3> Global Social Product in millions of United States dollars

<4> GDP per capita figures relate to 1975 and 1988

\* Denotes latest data available, typically 1986 or 1987

## SOME REFLECTIONS ON RECENT ECONOMIC PERFORMANCE

Table II

PERCENTAGE CHANGE IN GDP  
(at constant prices)

	1980	1983	1984	1985	1986	1987	1988 Average*	
Antigua/Barbuda	6.7	6.9	7.5	7.7	8.4	8.8	7.6	7.8
Bahamas	6.7	3.2	6.4	5.2	1.4	4.6	4.7	4.3
Barbados	4.3	0.4	3.6	1.2	5.1	2.5	3.5	2.7
Belize	2.4	0.8	0.8	2.3	1.5	5.0	7.6	3.0
Cuba<1>	-0.5	4.9	7.2	4.6	1.2	-3.5	2.3	2.8
Dominica	16.5	3.0	5.0	1.7	6.8	6.8	5.6	4.8
Dominican Republic	6.0	4.6	0.3	-2.6	2.0	8.1	0.9	2.2
Grenada	...	1.4	5.4	4.9	5.5	6.0	4.3	4.6
Guyana	1.9	-9.3	2.1	1.0	0.2	0.7	-3.0	-1.4
Haiti	6.7	0.6	0.4	0.5	0.5	0.1	-0.8	0.2
Jamaica	-5.4	2.3	-0.9	-4.7	1.9	5.2	1.5	0.9
St Kitts/Nevis	3.9	-1.1	9.0	5.6	6.3	6.8	4.7	5.2
St Lucia	-1.0	4.1	5.0	6.0	5.9	2.0	5.0	4.7
St Vincent	3.3	5.8	5.3	4.6	7.2	5.7	8.4	6.2
Suriname	-6.6	-4.1	-1.9	-2.3	-2.0	-6.6	...	-3.4
Trinidad/Tobago	-6.5	5.2	-7.1	-4.5	-1	-6.1	-4.7	-3.0
Br. Virgin Is.	14.0	5.9	5.6	0.2	4.2	16.0	10.0	7.0
Montserrat	9.4	-5.3	2.8	5.4	5.1	10.8	12.1	5.2
Puerto Rico	1.6	1.7	6.6	2.2	7.0	7.6	5.2	5.0

SOURCE: ECLAC estimates derived from country data

&lt;1&gt; Global social product in 1981 prices.

\* Average relates to period 1983-88, or 1983-87 in the case of Suriname.

Let us take stock of what has been achieved in this closing decade of the 1980s. Firstly, the rate of growth of the economies, as outlined at Table II, has varied quite significantly in the past five years.

For convenience the economies might be placed into five main categories. Foremost amongst these, in terms of rate of growth, are the Small High-Growth Economies comprising the Organization of Eastern Caribbean States (OECS) and the British Virgin Islands. As a group, they recorded an annual average growth in GDP of 5.7 percent, although within this group those specializing in tourism, such as Antigua and the British Virgin Islands, had above-average performance, growing in excess of 7 percent per annum. The Bahamas, the other economy specializing in tourism, also grew steadily, but at a slower pace, no doubt due to the fact that its industry was more mature, thus having less headroom to grow than was available to the newer entrants to the market. For the Windward Islands, growth was dependent not only on tourism but also on the rapid expansion of banana exports, factors which provided the necessary foreign exchange to sustain increased domestic activities such as construction, commerce and banking, insurance and real estate.

In the category of Large High-Growth Economies, only Puerto Rico qualified, with an average of five percent, growth being propelled by the manufacturing sector which increased by about 12 percent per annum and by tourism. Export earnings were fastest growing in categories such as chemicals, drugs and pharmaceuticals.

The next cluster of countries, The Moderate-Growth Economies, had average growth rates of 2-3 percent and comprised Barbados, Belize, Cuba<sup>2</sup> and the Dominican Republic. All these countries have relatively diversified economies, and the performance of the various sectors was mixed. All have significant tourism sectors which recorded growth, the newer entrants Belize, Cuba<sup>3</sup> and the Dominican Republic recording rapid growth, although Barbados, for reasons similar to those operating in the Bahamas, had somewhat more modest growth. All suffered stagnant or falling returns from agricultural exports, primarily sugar, and all suffered from weak manufacturing performance.

Jamaica and Haiti fell into the category of Low-Growth Economies, having an average growth rate of 0-1 percent. In the former case the declining minerals sector was most noteworthy particularly in the years 1985-1986, given the importance of minerals in export performance. Notable also was the resuscitation of traditional agricultural exports up to 1988, especially in bananas after poor performance during the period 1984-1986. Jamaica was also severely affected by the cost of servicing its national debt, since over 40 percent of total expenditure had to be diverted to repay principal and interest. A similar proportion of the earnings from exports of goods and services needed to be diverted for servicing the external debt.

In Haiti the major declines were evident in manufacturing and commercial activities. While agriculture retained its position at about 33-34 percent of GDP from 1980-1988, export earnings from the sector fell steadily from 1983, to 32 percent of exports in 1988. In 1980 agriculture accounted for 65 percent of exports. Earnings from the free zones increased over the survey period from 25 to 50 percent of exports between 1980-1988, but the rate of increase might have been faster without the recent political disturbances, which caused some firms to relocate elsewhere in the region. Services were up, particularly basic services such as electricity, gas and water and government services.

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<sup>2</sup> Care should be exercised in making comparisons between Cuba's Global Social Product and the Gross Domestic Product of the other countries since methodologies differ.

<sup>3</sup> New in the sense that Cuba has only recently re-entered the tourism industry in a serious way.



The last category comprises The Contracting Economies of Guyana, Suriname and Trinidad and Tobago, which had declines in GDP. All are minerals producers affected by the declines in minerals prices, but all suffered declines in output of minerals as well, either due to management deficiencies in the industry, or social unrest, or both. None of these countries benefitted from the tourism boom experienced by other Caribbean countries, since their tourism sectors were small and in some cases earnings declined. Both Guyana and Trinidad and Tobago also suffered declines in export earnings from sugar, while increases in banana earnings were insufficient in Suriname to compensate for declines in other sectors. Reduced export earnings redounded against domestic economic activities in all these countries, since domestic consumption had to be sharply curtailed in sectors related to construction, distribution, finance insurance and real estate. Stringent measures were also needed to curtail government activities, although this being a pervasive trend for most countries in the region.

#### THE GLOBAL SETTING

The decade of the 1980s will be remembered as the decade of adjustment. It will have demonstrated once and for all that economics is a dynamic discipline which must be seen as a constant process. The efforts of developed and developing countries alike to adjust have been complicated not only by the effects of steep increases in energy prices in the 1970s and early 1980s but also by the rapid evolution of new technologies and changing patterns of consumer demand. Countries have adjusted to these developments at differing rates and with varying degrees of success, they have achieved differing relative rates of investment, productivity and foreign exchange accumulation, with consequent rapid changes in relative exchange rates.

Greater access to information and increased mobility of capital ensured that good performance was rewarded in greater measure than in the past, while poor performance or poor policies were penalized commensurately. While these developments had an uneven impact on the developing countries, their performance was further differentiated by varying degrees of indebtedness and, more importantly, by varying capacities to service the debt incurred in the previous decade.

In the initial years of the 1980s the concerted effort by the developed countries to contain inflation by increasing interest rates ushered in a period of economic contraction. This in turn affected the developing countries' exporters of primary products, with reduced demand for their exports contracting their export earnings, while at the same time climbing interest rates increased the cost of servicing their debt. These twin effects gave birth to the "debt crisis" of 1982, as many of these countries became

incapable of servicing the debt incurred at low interest rates in the decade of the 1970s.

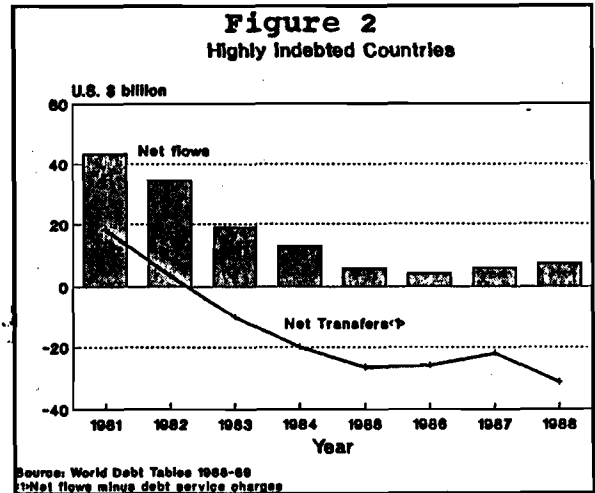
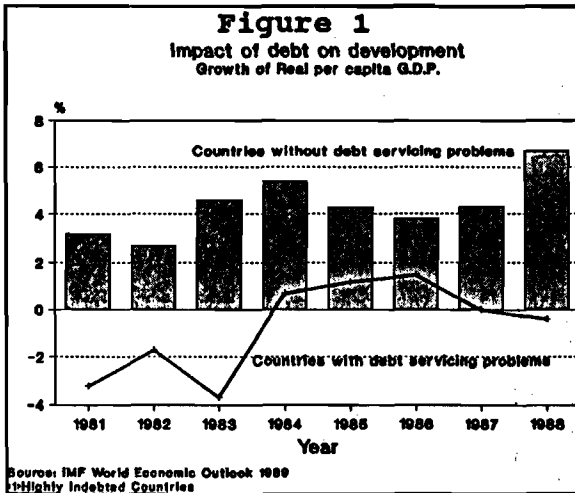
For the remainder of the decade many of these problems were to persist and become even more intractable. It was not until 1987 that this conjuncture of adverse developments was somewhat ameliorated, with a slight increase in developed country demand and an increase in primary product prices serving to bolster export earnings. This fillip to the developing countries was sufficient to reduce the debt service ratio in 1987, although it was to increase again for the next two years as interest rates resumed their upward climb and minerals prices fell again in 1987-1988.

For the developing countries whose economies are driven essentially by export performance, reduced earnings from trade necessitated stringent adjustment policies which impacted adversely on their current standards of living. For many, it impacted adversely also on future standards of living due to falling levels of investment. Those able to expand the trade in manufactures, such as the so-called "Newly Industrializing Countries", were able to adjust more rapidly than those countries, mainly in Latin America and Africa, which depended on the export of primary products and raw materials. Raw materials producers were particularly hard hit, most significantly oil exporters, and they began to show lower growth from the turn of the decade. This was exacerbated by the decline in oil prices in 1986 which was of a magnitude comparable with the increases of the second oil shock of 1979-1980.

But differing policy stances also affected the speed and efficiency with which they were able to adjust. Most significant of these factors was the use made of external loans obtained cheaply, but at variable interest rates in the previous decade. For where these resources were productively used, particularly for the production of innovative manufactures, the task of adjustment was relatively simple when compared to those countries using the funds for public or private consumption.

For many of the latter developing countries, some of which were also oil exporters, the debt became the major policy issue of the decade, with efforts to meet re-payment conditions adversely affecting policy options. For the decade as a whole debt service problems were to bedevil these countries and to dominate all other economic issues after 1982. The rate of growth of GDP and more importantly of GDP per capita was accordingly significantly lower for those countries having debt servicing problems than for those countries which managed to escape them (Figure 1).

While various measures have been tried to resolve the debt problem, it has proven to be more intractable than expected, especially in a period which is regarded by some to have been propitious for the debtors' external performance. In part, their problem is exacerbated by the fact that net capital flows to the



Highly Indebted Countries (HICs) have been declining as creditor banks seek to reduce their exposure in these countries (Figure 2). As a consequence of their massive repayments, net transfers to the HICs have been negative for the past six years. Debt servicing has been possible for most of these countries only by severe economic contraction so that the current growth of those having debt-service problems has stagnated, while their future growth has been jeopardized as investment has been deferred. The hope of growing out of the debt crisis has not materialized for these countries.

For the coming decade, therefore, the issue of debt relief will be even more pressing than it has been in the past, since debt fatigue seems to be increasing while there is a growing belief by the debtors that adjustment policies are primarily geared to the interests of the creditors. In this scenario the probability of defaults is increasing, and there is a growing danger that needed adjustments will be held hostage to the debt issue.

#### THE SOURCES OF REGIONAL PROSPERITY

The relative performance of individual Caribbean countries was conditioned by the mix of products contained in each country's export basket and the fortunes of each product in local and foreign markets over the decade. To provide an explanation of country performance in the 1980s as well as prospects for the 1990s we should, therefore, briefly examine the performance of the various export products such as sugar, bananas, manufactures, minerals and tourism which are the principal sources of regional prosperity.

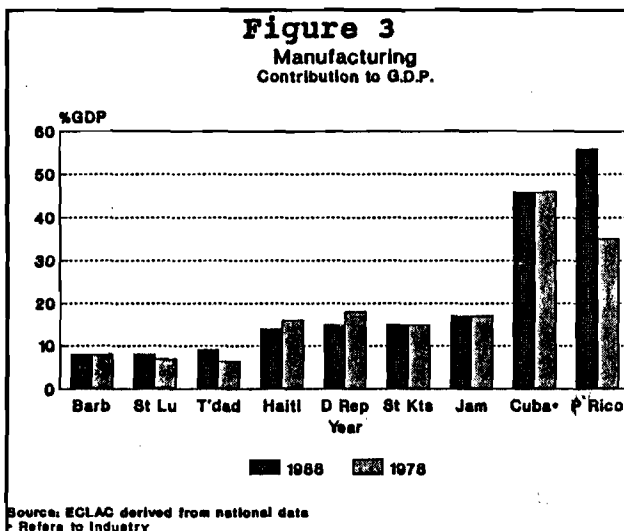
The sugar industry remains chronically ill, surviving only on a life support system provided by the European Community and the United States, or the Council for Mutual Economic Assistance (CMEA) in the case of Cuba. The value of sugar exported declined over the survey period by about six percent. Declines were evident in all countries with the exception of Jamaica which recorded some growth,

although annual performance fluctuated quite widely. The picture regarding earnings was somewhat different, in that price increases limited the loss of earnings to about 2%. This overall picture is, however, somewhat distorted by the influence of Cuban exports since Cuba benefitted from somewhat higher prices than the rest of the region. The decline in earnings for the rest of the region, at 21%, therefore exceeds the decline in volume of production.

The industry has been making efforts to phase out its operations and while they are steady, they are nevertheless slow and not very orderly.

The banana producers reaped windfall gains due to the change in relative parities between sterling and the United States dollar. But the banana producers also maximized their good luck by increasing output as well. The most notable expansion in bananas took place in St Lucia, although rapid expansion was also achieved in most other producing countries.

Yet, while the growth performance of the banana industry was one of the highlights of the period being surveyed, it is well to recall that for the three years prior to 1980 banana exports averaged 225,000 tons, a figure which was not surpassed until 1985. It is also noteworthy that banana production is still not efficient enough to compete on the open market. The picture remains fairly good as long as the UK market continues to be reserved for Caribbean producers, but this is an uncertain prospect.



Manufacturing remains at a cross-roads and has, in general, stagnated over the survey period. Producers are aware of the need to reorient their production to global markets, yet, so far, the means to do so seems to have eluded many of them. Over the survey period Puerto Rico has shown the greatest growth in manufacturing and the greatest shift towards an economy based on manufactures (Figure 3). A similar shift has also taken place in Trinidad and Tobago where the sector has grown by almost 12 percent between 1983 and 1987. Jamaica,

Cuba and Barbados have recorded no growth in the sector, while it has contracted in the Dominican Republic and Haiti.

For the OECS countries, manufacturing contributes a relatively small percentage of GDP, not more than five percent in all countries, with the exception of St Kitts and Nevis. The sector

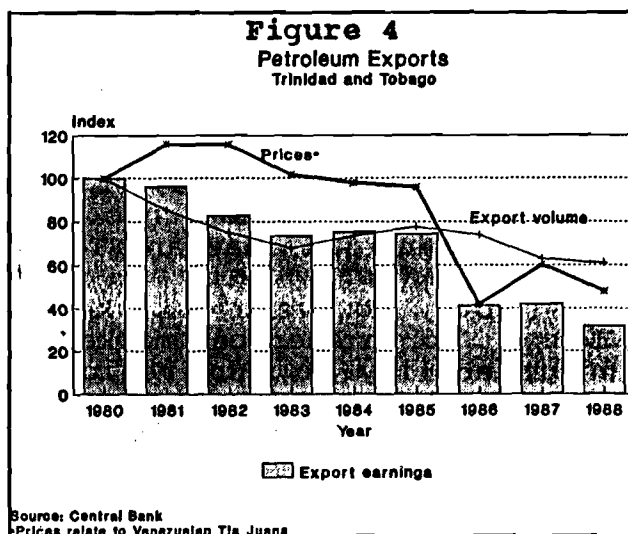
has, however, increased its contribution to GDP in Dominica, Grenada and the British Virgin Islands.

The development and growth of the export processing zone (EPZ) or free zone, needs also to be recognized mainly for its contribution to employment. Nevertheless, linkages to the rest of the economy are few and they do not yet contribute significantly to GDP since the value added by these activities is not high. EPZs have been a source of much debate in the countries in which they have been introduced, but are, nevertheless, expanding quite quickly in some of them. In general they seem, given the current level of our manufacturing productivity, to be the only immediate viable option in this sector. But there is no compelling reason why these enterprises need remain as low-wage low-value-added activities, if workers and managers alike are able to upgrade their skills and move to more elaborate processes. This prospect will be discussed in greater depth later.

Minerals producers have fared badly over the survey period. As energy importers, the metals producers in the Dominican Republic, Haiti, Guyana and Jamaica were particularly hard hit by energy price rises. Conversely, they were beneficiaries as energy prices fell and regional producers regained some of their competitiveness. As a result there was some resuscitation of the industry over the survey period although it was slow and halting. But in general the sector was buffeted by extreme uncertainty and consequent fluctuation in earnings.

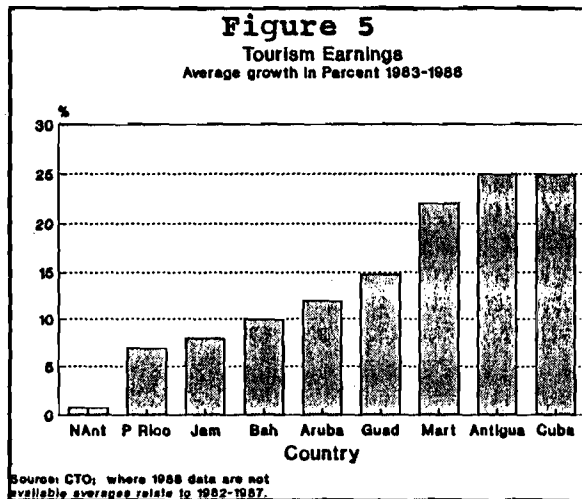
While the metals producers benefitted from the decline in oil prices, the oil producers were harmed. The situation in Trinidad and Tobago is well known (Figure 4). After 1982, prices fell and so did export volumes and consequently earnings. As a result, domestic activity has been reduced drastically, with consequences too familiar to this audience to need repeating.

For the future, the long-run prospects of Caribbean minerals producers will be shaped by the rate of growth in the industrial countries and consequently their demand for aluminum, the price of crude oil and the extent to which Caribbean operations can be reconfigured to increase their energy efficiency. But in the final analysis, a development path cannot be predicated upon minerals exports alone. The terms of trade have been against



minerals since 1950<sup>4</sup> and the amounts of minerals used to produce one unit of output have fallen steadily. In fact development is often measured by the quantum of value which can be added to each unit of raw materials. Minerals producers globally have grown much more slowly than, for instance, those countries specializing in manufactures. The expectations of those who supported the concept of raw materials based development, fashionable in the 1960s and 1970s have not been met in the 1980s and we might need to look to our other resources to provide an engine of growth for the future.

Such prosperity as has been experienced in recent years has come from a steadily growing tourism sector. All the countries in the region either had a tourism sector or were trying to initiate one.



For the region as a whole, growth in earnings accelerated after 1985 with greatest growth recorded in 1987 at 17 percent. For the period 1983-1988<sup>5</sup> growth averaged 10 percent per annum. The fastest growth (Figure 3), was recorded by relatively new entrants to the market, such as Antigua, Dominica, the Dominican Republic, the British Virgin Islands, Martinique, St Lucia, St Kitts and St Vincent and the Grenadines, all averaging 15 percent or more, or by established destinations recovering from a past decline, such as Cuba, and Grenada. Among

the established destinations growth was average in the Bahamas, Barbados and Guadeloupe, or below average in Jamaica, Puerto Rico, Haiti and the Netherlands Antilles. Declines were recorded for Suriname and Trinidad and Tobago.

Note, however, is taken of the warning signals provided by loss of North American market share and declining productivity and profitability of many regional hotels. The spectre of inadequate regional competitiveness and productivity rears its ugly head even in tourism, which is also showing a rigidity in adjusting to changing leisure patterns.

<sup>4</sup> It is estimated that in 1950, 100 units of minerals could buy 100 units of manufactures, but by 1986 100 units of minerals could only buy 14 units of manufactures.

<sup>5</sup> Where data are not available for 1988 averages relate to 1983-1987.

In summary, the fact is that all our major merchandise export earning activities are in decline. Sugar is being phased out. Bananas have staged a comeback in output, but still depend on the preferential market in the UK. Since this market might not be guaranteed for long after 1992, the industry will need to develop the means to stand on its own internationally. Minerals are of declining global importance, have unstable earning capabilities and in the long run cannot be expected to sustain our economies. Only tourism has shown steady growth over the last five years. This summary provides, in a nutshell, the cause of our difficulties in the recent past.

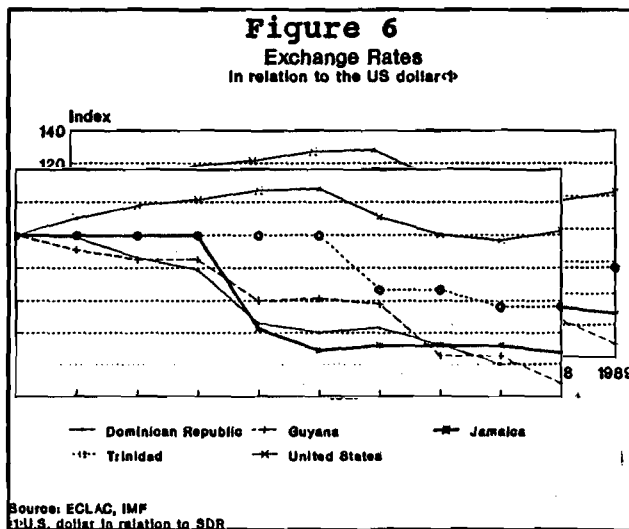
It explains why over the survey period the fortunes of Caribbean people have not been as good as in some other regions. And their fortunes have varied even more significantly than would appear from the simple changes in GDP.

#### THE IMPACTS ON PEOPLE

While an analysis of the economic indicators provides a useful picture of economic trends, it is, nevertheless, incomplete and says little about the distribution of the costs and benefits of such economic performance. To the varying fortunes of the economies need to be added differing rates of population increase from country to country and varying impacts of economic contraction, especially of the reduction of government services on varying groups within each country. While Table II illustrates the changing fortunes of Caribbean economies, it has not been as easy to illustrate precisely how the poorest have been affected by these changes.

It is, nevertheless, possible to conclude that people in six countries - the Dominican Republic, Guyana, Haiti, Jamaica, Suriname and Trinidad and Tobago - have become poorer in the past five years. The decline in personal wealth is made more onerous by the reduction in government services in all of these countries, given the high levels of public expenditures which prevailed and the need in some of them to earmark large portions of public resources for the repayment of the debt.

The decline in economic activity has quite obviously affected the lives of people in these countries. Jobs have been lost and even for those fortunate enough to retain their employment, standards of living have fallen. The most readily available symptom of such decline has been the steady depreciation of the currency, which in small, open economies has a much greater impact on all sectors than in larger countries having a large reservoir of



domestic production<sup>6</sup>. The rate of depreciation for some of the low-growth or contracting economies is illustrated in Figure 6. While all the currencies are shown in relationship to the United States dollar, the relationship of that currency to the Special Drawing Right is also illustrated for the period 1980-1989.

Just at a time when personal standards of living were falling in these countries, the capacity of governments to provide a social safety-net for the

poorest was also diminishing, due to a contracting revenue base. In order to reduce growing fiscal deficits and the accumulating debt burden, public expenditures had to be reduced, with a consequent reduction in the delivery of social services in areas such as health, education, housing and, in some cases, nutrition.

Any attempt at evaluating the social impact of expenditure cuts has nevertheless to be treated with care. While the quantum of funds has in some cases been reduced the proportions allocated for personnel emoluments and materials have also been skewed in favor of the former, further reducing efficiency. At the same time, new means might be used to deliver traditional services in a more efficient manner or to a more precisely defined target group so that a mere evaluation of expenditure might not signify reduced delivery. Finally, the backlog of social services might not be immediately quantifiable as the deficiencies in health or education might not become observable until after a large lag; yet by then, rectification, if still possible, might be protracted. Attempts, had therefore, to be made to discern social trends despite the lack of precise data to measure them.

Bearing in mind the caveats noted above, it is nevertheless possible to come to a few tentative conclusions. In some of the countries listed as having contracting economies the vulnerable target groups among the poorest are pregnant and lactating mothers, children and the aged. Where contraction has taken place for a period longer than the decade signs of social erosion are discernable in health, education and nutrition, so that relative standards have fallen as compared with comparator countries having

<sup>6</sup> In Jamaica, for instance, domestic food production meets only an estimated 10 percent of domestic food needs.



broadly similar incomes per capita. But absolute standards have also fallen in some instances implying declining indicators in the same country over time.

For most countries the backlog in housing is quite considerable, leading to urban slums and often illegal squatter settlements. While high levels of unemployment have been endemic, the growth of the informal sector is a manifestation of the effort of the unemployed to devise and implement their own survival strategies. Yet the concentration on low productivity activities, such as itinerant petty peddling and the provision of simple services attests to the low levels of skills possessed by the hard-core unemployed.

### SOME LESSONS FROM THE EIGHTIES

In terms of policy management, the decade of global uncertainty forced a new awareness on policy makers of the need to adopt more effective measures for short-term economic management. However, they realized, somewhat belatedly, the need to adjust to longer-term trends, such as changing taste patterns and dynamic shifts in comparative advantage. The ability to minimize the contradictions between short and medium to long-term planning was, however, uneven and especially difficult for those countries experiencing debt-service problems.

Small size also makes the region more vulnerable and complicates the adjustment process, since it ensures that production is concentrated on few products. Accordingly, fluctuations in the price of any one product have a greater impact on short-term economic performance, while adjustments to shifts in comparative advantage are protracted and painful for the longer term.

Smaller countries are also denied some of the macro-economic options available to larger countries and the policy framework will need to be constrained accordingly. As a general observation, it is noted that the most open economies and those least subject to restrictions on the movement of goods and capital had the fastest growth. Those pursuing the most moderate fiscal and monetary policies, either through voluntary restraint or where central bank statutes require it, also had the most moderate rates of price increase, the most stable currencies and the lowest debt. The converse was also true.

In most countries the social consequences of economic activities have been treated as a residual. This is partly due to the fact that Caribbean countries have a tradition of extensive participation by government in the delivery of social services and, perhaps as a consequence, their social indicators relate favourably to comparator countries globally. Yet as some of these countries

experience protracted economic decline, the deterioration in social indicators is becoming evident.

Many years of effort are in danger of being eroded. Yet one of the main lessons of the decade has been the importance of that blend of human skills and information to provide a flexible response to a rapidly changing environment. Any policies which downgrade the improvement of human resources will, therefore, render citizens less capable of facing the challenges of future decades.

Moreover, as the consequences of contraction are not evenly spread, there is a danger that income disparities will widen, further eroding social cohesiveness and public order. These concerns have no doubt been partly responsible for the reluctance of policy makers to initiate adjustment measures. As a result, their efforts to disguise the underlying economic weaknesses through increased government expenditures, have complicated the adjustment process by increasing the debt, on the one hand, and postponing adjustment until it has to be especially severe.

The decade has seen an increased awareness of the finite nature of the environment. The Caribbean region is also becoming painfully aware of its own environmental degradation. It afflicts the high growth economies, through the unsatisfactory disposal of solid and liquid waste. These practices threaten health standards and the very growth which causes it since growth for them is predicated on earnings from travel and leisure services.

Yet the low growth economies are no less immune from environmental degradation, which often takes the form of denuded and eroded hillsides, consequent on unscientific cultivation practices and the need to use wood as a source of fuel. All countries are affected alike by population pressures, inadequate land use policies, the effects of oil spills, and the potential dangers caused by the dumping of toxic wastes. Most of our countries are incurring an environmental deficit which cannot be sustained.

## SUSTAINED DEVELOPMENT IN THE NINETIES

For development to be sustained in the coming decade emphasis will have to be placed on enhancing economic efficiency with the accent on vastly improved human skills; building social cohesion; and adherence to a development path that is environmentally sustainable.

In the past, rigidities and the sluggish response of our economies to change have caused us to view rapid global change with anxiety. Major efforts have therefore been made to protect and preserve existing and sometimes declining industries. Yet, this has often been done at the expense of new and possibly more remunerative activities and we have seldom used the breathing space provided by these special arrangements to bring on stream new means of wealth.

As a consequence, many of our resources remain idle, despite efforts to utilize them. Much of our scarce land remains unutilized, some of it which had been used for export crops having fallen into disuse as these crops are no longer profitable. Domestic savings are low and often not productively invested. But the most intractable problem and the most obvious indicator of our reduced potential remains the under-utilization of manpower, since in some cases 30 percent of the labour force is unemployed, with a significant portion of the remainder under-employed or employed only in low-productivity occupations.

### Enhanced economic efficiency

In order to reverse current trends and better fulfill our potential for the coming decade economic efficiency will need to be increased so that the region can capture an increasing share of global trade. To do so will require a diligent search for non-traditional industries or activities that are sufficiently specialized so as to be remunerative in relatively small-scale trading operations appropriate to Caribbean capabilities. We will also need to have a better knowledge of global market trends, greater flexibility in phasing in and phasing out of activities and to apply greater knowledge, skills and technologies in the items we produce. In order to penetrate the global market, we will need to increase the productivity of the economy as a whole, since this is the only sustainable way to increase living standards.

Enhanced productivity is not currently a popular subject. Productivity increases can often only be obtained in the short run by reducing the returns to labour. As a consequence, especially in our region, it is identified with the impoverishment of workers through currency devaluation, or with exhortations to work harder and longer hours. While it is true that these are only ways to buy time for declining industries, such policies should be regarded, at best, only as way-stations on the route to recovery.

An evaluation of the factors of production leads us to conclude that many of our islands do not possess an abundance of highly arable land, neither do we have a surplus of cheap capital. Expectations of rapid growth predicated on the exploitation of raw materials have not been rewarded, partly because the region does not possess an abundance of raw materials, but also partly because rapid growth areas are now in services or in light manufactures which are sparing in the use of raw materials but intensive in the use of knowledge<sup>7</sup>. This leaves us with the other two factors, labour and technology, which can usefully be linked as the latter is operationalized by labour through the use of tools.

Throughout history, productivity increases have been associated with the mastery of tools. Rates of pay have been linked with the worker's mastery, in the first instance of tools that had greater strength than man and latterly those that had greater speed or consistency or greater endurance. But as machines become more intelligent and sensitive, so they encroach more on the domain reserved for unskilled people. As a result, the skills needed to master them have become more complex and so the educational qualifications of people need to increase.

We need, therefore, to take a more positive and optimistic approach to the question of productivity and change. High productivity in this context is understood to mean the re-arrangement of those two components of work, the mental and the physical, to place increasing emphasis on the former. Curiously, we have now entered the stage beyond the mere acquisition of more efficient machines to the acquisition of tools developed to help the mind to work more effectively, to take much of the routine out of certain types of mental work. From this concept is derived the admonition to "work smarter" where previously emphasis was merely on working harder.

As we are in the throes of what is being referred to as the information revolution, it is well for us to bear in mind one of the unique features of information, which, unlike most material goods, increases when it is shared. Information, or "mind workers", therefore, have to be more cooperative than before. They also have to be more alert to learning things on the job and to be more flexible in changing jobs within the team.

This shift will demand from us greater creativity, autonomy and skills, but in the process provide greater awareness of the work process, enhanced job satisfaction, as well as better returns for enhanced productivity. It will also provide a better working environment for those skilled enough to hold their own in it.

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<sup>7</sup> Notes for this section are contained at the end of the presentation.

A greater premium needs, therefore, to be placed on human resource development. This is understood to mean the continuing process of improving skills and knowledge throughout one's productive life and to apply to all people. But it is something over which each of us has some measure of control, both for ourselves and our personal skills development as well as for coming generations. This has implications for our educational process, and requires a shift in attitudes of both teachers and students and from the society at large to place increased demands on the educational system.

The available evidence seems to indicate that those countries which have moved fastest to achieve productivity increases have been able to do so with a good basic general education, which simultaneously provides the foundation for the necessary high level of job flexibility. It goes without saying that computer skills should begin at the earliest level and be regarded simply as an indispensable mind tool. It is also one of the keys to storing, sharing and, therefore, to increasing information.

Links also need to be made early between the world of education and the world of work. Emphasis needs to be placed on helping young people to shoulder the responsibility for making themselves viable adults and the educational process should be seen as preparation for viability<sup>2</sup>. Good general education is also beneficial in widening career prospects and providing operational flexibility.

The best examples available to us show that specialized education is job-specific and often comes as on-the-job training. Team work, the sharing of information and job flexibility<sup>3</sup> are also important components of the new high productivity paradigm.

Enterprises will need to be more alert to the types of skills and structures they will need to put into place, just as they will need to be aware of the technologies they need and how to get them. They will need to explore more effective forms of organization and collaboration with research, financial and technical institutions and with the trades unions.

But it is equally the responsibility of the worker to advise on the best and most effective ways of doing things and to exert continuing pressure for improved skills and responsibilities. This implies ongoing investment by the firm in training and the acquisition of technologies, in order to enhance productivity.

The foregoing elements when brought together will contribute to the development of a culture of entrepreneurship which should pervade public and private sector workers, technicians and professionals as well as institutions such as trades unions, chambers of commerce and manufacturers associations. This culture

will be receptive to new ideas and the incorporation of technological change and make productivity increases a self-generating process.

In the anxiety to address the pressing problems and find the "key" to development, many models have been evaluated, sometimes in their purest and most theoretical forms; yet, common sense will tell us that a judicious mix of elements will need to be used, based on an empirical evaluation of what will work. De-regulation is one such element, and currently in vogue, juxtaposed to regulation. It is often prescribed as the remedy for rigid and unresponsive economies. And it is undeniable that a network of overlapping regulations have rendered regional economies unresponsive to change and have often created contradictions in policy. Moreover, the more impersonal mechanism of price might be the only viable solution where social disharmony, policy inertia, or vested interests oppose the removal of policies which discriminate against trade and a rational approach to planning, or in those areas where knowledge and foresight are limited and change is rapid and unpredictable. But de-regulation is not a panacea; it should therefore not be applied indiscriminately and it is not to be seen as an excuse to abdicate responsibility for development.

However, government/public sector intervention, where necessary, will need to be applied with restraint and humility. It might prove to be necessary to preserve a measure of equity in the delivery of those social services needed to improve social harmony and develop all the human resources to their fullest potentials. It will be necessary to create and preserve a stable legal and economic climate to encourage enterprise and to strengthen the educational system at all levels.

At the national level, the appropriate macro-economic policies to maintain competitiveness so as to increase the country's share of international markets is a necessary, though not sufficient, condition for growth. The role of provider of infrastructure remains, with renewed emphasis on the educational and communications infrastructure. But there is need for an appropriate industrial policy. Selective interventions might need to be made to identify prospective sectors with a high value-added potential realizable at the national level and to encourage their growth. The public sector also has a role to play in encouraging an industrial atmosphere that is harmonious and co-operative rather than conflict oriented.

Investment is the process through which ideas are transformed into productive output. It is the vehicle to increased growth and structural transformation. Yet if investment is the vehicle to increased growth then savings provide the fuel for that vehicle. Nevertheless while savings are necessary they are not a sufficient condition for achieving investment. A propitious investment climate

and adequate investment institutions are also necessary if the stream of savings is to flow into productive investments.

It is also generally conceded that the rate of investment in the region is low and this is believed to be as a result of low rates of saving. If individuals are to be persuaded to postpone spending in the present and to save and if the investor is to take the risk of investing, the payoff will need to be sufficient to induce both sets of actors to do so and it will need to be reasonably assured. Optimism about the future is a necessary element to induce a long term perspective and hence a healthy investment climate. Macro-economic policies can be used to limit rates of inflation ensure positive rates of interest and generally to preserve a measure of stability in the economy as a whole.

Some honest introspection is needed by workers, entrepreneurs and the governments if the region is to determine why investment is not taking place at the desired rate in some countries and why a significant portion of savings are stored abroad, without much chance of their being returned for regional development. Some analysts believe that if these funds were available to the region and used for productive investments, our development would be quickened. The policy maker will need to isolate those factors which are inhibiting savings and investment and take the necessary steps to eliminate them.

It goes without saying that the process of globalization which has accelerated so rapidly in the past two decades will continue. This region which has historically had a global orientation will need to re-learn how to interface effectively with the wider world community. This knowledge is necessary in order to understand our markets, be sensitive to market shifts and be responsive to new intellectual and technological currents.

My comments are not meant to imply a diminished role for regional co-operation, although the last two decades have caused us to look skeptically at the concept of regional integration in the light of its failure to deliver on, perhaps un-realistic, expectations. Regional co-operation remains a viable option in the Caribbean despite a growing recognition that indigenous production is insufficiently broad-based to supply a sufficient range of domestic needs.

Co-operation can be beneficial to small producers to assist them to penetrate global markets. Regional competition can be used as a mechanism for strengthening enterprises to enable them to compete globally. Co-operation in joint marketing might also present a viable option, especially in areas such as light manufactures and tourism. A policy to encourage regional joint ventures and inter-regional investment can also be useful in reducing the risk faced by the Caribbean investor who has to locate all his assets in one small territory. Since the perception of risk

provides the strongest motivation for capital flight, such a policy might serve to increase the quantum of resources retained in the region as a whole.

Co-operation can also be beneficial between small States to assist them to perform those tasks which they have difficulty in performing well on their own. For the smallest of them, some form of integration may be chosen to reduce the human and material costs through the delivery of joint services. But even for the region as a whole, there is much to be derived from cooperation at the level of public policy. Functional co-operation within CARICOM has been one of its successes, while in view of common producer interests, the development of joint strategies at the multilateral level has proven to be beneficial at the CARICOM level and is slowly being extended to the region as a whole.

But regionalism should not be used to provide us with the illusion of a safe haven where we can hide from the rapid developments in the wider global environment. For that is a prescription for continued stagnation.

### Creating social cohesion

The discussion has focussed so far on the capacity to strengthen our economies but that alone is not sufficient for sustained development. This can only be achieved in the long run if a basic measure of social cohesiveness is created and preserved. Consistent policies become more viable in a political environment having a broad-based social consensus, whereby widely polarized interest groups have limited discontent on which to thrive. In this way, issues can take precedence over interests so that policies may be judged on their intrinsic merits.

At the level of ideas, the traditional dichotomy between growth and equity is slowly being reconciled by an emerging consensus that both growth and equity are essential and mutually supportive. Here, the real issue is how to distribute in a way that advances the goal of social cohesion. Questions of equity naturally become more acute in times of economic contraction, yet redistribution becomes politically more difficult with a shrinking pie. The resulting social antagonisms endanger that social cohesiveness necessary for a properly functioning economic system. Explicit policies are therefore needed to use contracting resources more efficiently, and to provide a safety net that would be precisely targeted at the most marginalized segments of the population and should focus on areas such as health, nutrition, retraining and employment.

Many of the assumptions on which the social services in the region were built, and particularly that which emphasized the provision of free and comprehensive social services to all citizens, are currently being called into question. While these



assumptions are regarded by some to be unrealistic they are also regarded by some to be an inefficient way of delivering social services to the public at large. At best such delivery will need to be held in abeyance while the economies are in a process of contraction and restructuring and priority given to meeting the needs of the poorest people while those that have the capacity to do so, will need to fend for themselves.

Primary and preventative health care is the most efficient form of expenditure on health. It also has its greatest impact on the neediest. Nevertheless, means will also need to be found to improve the performance of such physical facilities as have suffered from reduced maintenance as a result of economic contraction. This might take the form of improved management, better administration and improved referral systems and, in appropriate cases, divestment. Where reduced funds have reduced the procurement of pharmaceuticals, more careful targeting and better cost-recovery programmes seem to be the only viable ways to ensure that scarce resources are directed to the neediest.

Nutritional deficiencies have been identified in clearly defined groups, children and pregnant and lactating mothers. Across the board, food subsidies which are expensive and have been demonstrated to be of limited benefit to the poorest might need to be supplanted by programmes linked to schools and pre- and ante-natal clinics or the outpatients departments of hospitals.

Employment has been a recurring concern in Caribbean countries, yet macro-economic policies and institutional rigidities which provide incentives to substitute capital for labour continue to pervade our economies. These will need to be relaxed if any meaningful steps are to be taken to absorb the surplus manpower which is often endowed with only limited skills. Well-focussed training programmes can retrain persons for shifting demands in the labour market while properly conceived public projects might have a limited applicability provided they are targeted to the hard-core unemployed, meet acceptable standards of economic return and fit into existing sectoral priorities. But ultimately, the issue of remunerative employment will be addressed only through effective training, discussed above.

Essentially, this proposal is to treat the delivery of social services in a systematic plan framework, especially where the economy is in contraction. In so doing, efficient ways can be found to deliver basic social services to the neediest and so to minimize the negative social impacts to which they would be exposed.

## Environmentally sustainable policies

The economist has no difficulty understanding that a society cannot for long consume more than it produces. Deficits result in a debt which has to be repaid by future generations, often at the cost of their own development. This relationship is common knowledge, although as we know, the knowledge is often ignored. Yet economists have been curiously silent about the rapid consumption of our natural environment. They have tended to regard development as a process of conquering nature and growth to be correlated with the rate of consumption of our natural physical assets.

Fortunately, and perhaps just in time, we are becoming aware that the rapid exploitation of natural resources is neither the sole, nor even the best, way to produce growth. And as we destroy our hillside cover, erode our best lands, pollute our rivers with chemicals and dump effluent onto our best beaches we are slowly coming to the realization that we are taking more from the natural environment, faster, than it can heal itself. In fact, we have been incurring an environmental debt which will have to be repaid by our children. Indeed, even current generations are already paying for it in decreased yields, and the increased incidence of various diseases, not to mention the aesthetic damage done regularly to our landscape.

As the pressure to relieve material constraints is lessened we will discover that factors other than the material are necessary to insure our survival and to improve the quality of our lives. A healthy and pleasant environment ranks high on any list of such factors and is indispensable for the development of the high value-added recreational and leisure services which seem to hold good prospects for our future growth.

A number of issues need, therefore, to be placed high on the policy agenda for the coming decade, so as to restore our environment to health and to preserve it for future generations. They should include<sup>8</sup>: orderly land use planning; measures to stop the degradation of the coastal and marine environment; prevention and mitigation of the effects of oil spills; solid and liquid waste management; dumping of extra regional wastes; water quality and supply; forest and watershed management; preservation of genetic resources; the preservation of historic and cultural resources.

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<sup>8</sup> For a complete list of the issues defined as priorities see "The Port of Spain Accord on the Management and Conservation of the Caribbean Environment".

## Summary

In summary, sustained development in the decade of the 1990s can be achieved only if economic growth is sufficient to progressively improve the quality of life of the broad majority of the region's people. As if growth alone is not difficult enough to achieve, we need further to qualify the nature of such growth in at least two major ways. Clearly, growth alone will not be enough to improve the quality of life of the broad majority of the region's people, since the benefits of growth will need to filter through to the most disadvantaged people in ways that will allow them to improve themselves and break out of the cycle of poverty which tends also to entrap their children. Secondly, this level of growth will have to be achieved in a way that does not foreclose the options of future generations by making demands on the environment that it cannot sustain over time.

The coming decade will continue to present us with enormous challenges as well as with rich opportunities. The issue is whether we will have sufficient vision to focus on our possibilities, or whether we will merely seek to cling to the fading options of the past. If we are to do the former, I believe we need to develop all our people to be aware of their potential and to have the determination to realize them. For in its essence, this is what development is all about. But development cannot be achieved by the government, it cannot be achieved by entrepreneurs and it cannot be achieved by workers. It has to be achieved by all these working together, to achieve commonly agreed goals that are sufficiently well thought out to be sustainable over time.

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## Notes

1. A laptop computer using 20 lbs of plastics and silicon can cost as much as a 3000 lb automobile today, or much more than a 5000 lb automobile just one decade ago.
2. In the Federal Republic of Germany education is, in principle, compulsory until the age of 18 years. In practice, 40 percent of the age cohort of 15-18 years attend school full-time. The rest undergo a dual system of professional training through apprenticeship, financed by private firms and federal grants. The purpose of apprenticeship is primarily to "teach correct behaviour, accuracy, neatness, reliability, punctuality" - in short to inculcate a work culture. Apprenticeship is the usual route to professional success; nine out of ten apprentices end up with a diploma and 15 percent pursue higher education. Over 90 percent go

beyond the diploma and a further 15 percent of those pursue higher formal education.

For the German, "professionalism is made up of knowledge, skill and behaviour, the ability to learn how to learn, how to work in a team, a sense of method - doing one thing at a time - and a concern for quality - doing a job well". Generally, workers do not get to upper management until their forties and they get there by proven performance rather than by diplomas. Close ties also exist between companies and universities, board members are usually graduates and university elites choose careers in industry in preference to government. (Codet, Michel: "West Germany: A paradoxical power"; Futures, August, 1989).

3. Flexible specialization is a further model which features networks of small firms competing, yet co-operating in sharing information and expertise. Knowledge is rapidly diffused both between firms and within them, giving rise to mutual adjustment, learning and innovation, so that workers, firms and entire districts are able to respond quickly to changed markets and technologies. (The basic concept which emphasizes the issue of flexibility is valuable for all enterprises of the future and puts a new emphasis on vertical disintegration, spin-off activities and new start-ups and was developed by Piore, M. and Sabel, C.) The model is, however, especially attractive for the Caribbean since flexible specialization is especially useful where consumer demand becomes disaggregated and diversified and where small-scale operations and diversified products are involved (see Poon, A. "Flexible specialization and small size: the case for Caribbean tourism" presented at the Second Conference of Caribbean economists May 1989).

4. Peter Drucker, in an article entitled "The changed world economy" published in Foreign Affairs (Spring 1984), stated: "any country or business that wants to prosper will have to accept that it is the world economy that leads and that domestic economic policies will succeed only if they strengthen, or at least do not impair, the country's international competitive position". The comment was made in respect of both the large industrial countries and developing nations.