

Caribbean Development Report: Macroeconomic policy for structural transformation and social protection in small states

Ralph Henry



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Abstract

The second Caribbean Development Roundtable hosted by the Economic Commission for Latin America and the Caribbean, was held in Guyana, in May 30, 2012. The theme of the meeting was “Macroeconomic Policy for Structural Transformation and Social Protection in Small States.”

The participants included the Ministers of Finance of Guyana and of Trinidad and Tobago, the Honourable Ashni Singh and the Honourable Winston Dookeran, and high level policy-makers and regional and international experts. Special guests were a delegation from Brazil. Ms. Diane Quarless extended the welcome on behalf of ECLAC and introduced the video presentation on the part of Ms. Alicia Barcena, Executive Secretary of ECLAC.

The event was being hosted in the midst of a crisis facing decision-makers in grappling with the imperatives of promoting stability with growth, while managing crushing debt burdens in an hostile international environment, while still providing social protection for the most vulnerable in Caribbean societies. The Roundtable was the occasion for presenting and examining solutions, and for identifying the way forward in the uncharted waters of a radically changed external economic environment within which these small export-led economies have to sustain themselves as viable states.

There was general agreement among the presenters that most of the region had performed relatively well in the first phase of self-government and political independence. Some of the countries had effectively replaced the primary production base of their exports. Most had become services driven, but with perhaps too heavy a reliance on tourism, with its characteristic fickleness. A few had developed new sources of services exports with promising results.

By and large, though, after a relative success in adjusting their production structure for international participation beyond primary production, there has been a secular slowing of the growth process. The latter years of the 20th century and the first decade of the 21st century have been associated with economic challenges which came to a head with the global economic fall-out in 2008/09. All the portents have become evident of a most difficult transition for the Caribbean countries as they seek to reinsert themselves in changed international economy.

The long standing economic and trade relationship with the North Atlantic countries can no longer be depended on as the sole source for foreign exchange requirements of these countries. These countries which were the locomotive for Caribbean economies as the destination of much of their exports and the source for much of their tourism are being eclipsed by the emerging economies, with

China in the lead. With few exceptions, the export sectors of Caribbean countries have been hurt by globalization, and their heavy reliance on imports juxtaposed against declining competitiveness, is evident in worsening balance of payments problems.

Meanwhile the gains that they have been made in improving social and economic conditions for large sections of their communities, and the social protection infrastructure that has evolved, in addition to the measures that they have put in place to achieve the Millennium Development Goals are being threatened with reverses. Moreover, debt burdens have been escalating with severe fiscal crises.

Some Caribbean countries are now among the most highly indebted countries in the world. Debt has become unsustainable in some of these countries and urgent fiscal consolidation and reform is required to address this problem. But more ominously, debt reduction with limited fiscal space has meant that countries have had to scale back social protection measures designed to protect the most vulnerable in these societies.

Access to finance, including to development finance has become more difficult with a number of advanced countries themselves seeking to stimulate their economies in part through raising their borrowing limits. The Caribbean was no longer the destination for cheap loans and grants, as the donor community shifted their focus to countries emerging out of conflict situations.

At the level of the household or the community, these larger macro-economic variables are playing themselves out in growing social problems. Even with improved systems of delivery and better targeting through such arrangements as conditional transfers, and improved monitoring of social delivery of services, there is likely to be reduced capacity to address the fall-out effects of declining economic performance on the quality of life of households.

Meanwhile in some key areas, like education and health, quality has suffered. The Caribbean countries have demonstrated poor performance in terms of standards achieved in education, as evidenced by examination results. In addition there is often a mismatch between education and training and the skills and competencies required in the workplace. This is against the backdrop of the huge budgetary allocations to the sector, and the expansion in numbers such that universal provision at primary and secondary levels of education is now a reality in most countries.

With increasing crime and low detection rates especially for homicides and murders, Caribbean populations are faced with a decline in the security of the person. The worsening of conditions is reducing the attractiveness of the region for investment, both foreign and domestic.

Labour protection in the form of regulations relating to job security, minimum wages, and hours of work limit flexibility and are a constraint ultimately to productivity improvement. Lower relative productivity of Caribbean labour renders these economies uncompetitive in the very areas where there is a possibility of participation in international competitions. Nor is there the cadre of highly skilled and knowledge workers capable of competing in the production of high value output with sophisticated technologies.

The productivity issue is not simply one of labour productivity but just as importantly, there is import productivity, given the high import content or foreign exchange costs of investment¹. Caribbean countries invariably fail to maximize the productivity of imported capital and equipment, as a result of the approach to their application in the production process. This compounds the underlying poor labour productivity in reducing the competitiveness of these countries. It also mars the development of capacity in new sectors and activities geared to international competition.

There is, more importantly, the failure to develop and utilize domestic capital which is the local knowledge, tools, equipment and techniques, in the production of goods and services, some of which might be unique to the country and allow it some measure of market space and market

¹ Import productivity has to do with the efficiency with which imported inputs are employed in domestic production.

protection from short to medium term rents from capacity that is not readily replicated in competitor countries.

The existential threats from the changes in the physical environment and the increasing and already high vulnerability of the Caribbean to severe hurricanes and to earthquakes, as well as to the impact of climate change and sea rise for small island states, compound the problems of the region. Governments have been saddled by cost of infrastructure repairs that are unavoidable, when disaster strikes, and wreaks havoc on essential infrastructure. Moreover, with rising sea levels and heightened threats, there is need to expand spending on infrastructure.

The most serious challenges to Caribbean development have been summarized by presenters as comprised of:

- Food security
- Unemployment and the viability of the social safety net
- Inadequate quality in the pre-school, primary and secondary education system
- Inadequate quality in the healthcare system
- High crime and personal insecurity
- Persistent inequity in the distribution of land and other property
- Ineffective taxation
- Ineffective implementation of policies
- Low labour productivity in the public sector
- Limited structural change and development of new competitive sectors and activities
- Persistent problems of corruption
- Failure at implementation of various elements of the CARICOM Agreement which might have improved their capacity in facing the challenges posed in the international economy

Permeating the discussions among the presenters has been the search for a path to transformation of Caribbean economies and to the resuscitation of the growth and development process. A number of measures and a range of recommendations have been provided by the presenters at the Roundtable in building the new economy for the region. The strategy involves:

- Creating New Economic Drivers – high value services such as education and health services, creative industries including copyright based activities and other activities with improved capital/export ratio.
- Promoting Productivity Growth – through high import productivity and export of domestic capital relying on domestic capacity for R&D, innovation and management, and supported by competency-oriented and problem-solving education.
- Adoption of an Open Regionalism – through strengthening of the CSME with the supporting infrastructure of trade facilitating regulations, and simplification of import and export procedures, and by strategic initiatives to strengthen regional competitiveness by clustering and joint marketing.
- Linking to Emerging Markets and Exploring “South-South Cooperation – by embracing opportunities for widening trade and integration with Central America and South America, through concerted policies crafted from a regional perspective for penetration and engagement with the emerging economies like China and Brazil, generally with new initiatives beyond the current efforts in Latin America and Asia

- Renewal of Efforts to Secure Foreign Investment – with institutions that support ease of entry and establishment of foreign capital into the productive system of the country, especially the promotion of joint ventures with local firms that lead to spillovers in the local economy.
- Improving International Rating of Caribbean Countries – by winning reputation internationally for sound financial management, and through robust systems of public expenditure management.
- Improving Food Security – by concerted efforts at implementation of announced regional plans based on the expansion of domestic and regional production, geared to domestic and regional demand.
- Addressing Climate Change – by regional approach as a bloc in engaging the international community and implementation at the national level of mitigation and adaptation strategies, including focusing on green energy and building a green economy.
- Strengthening the Role of Competition in CARICOM – by enabling a better functioning of competition policy, and the passing and implementation of national competition legislation, and by developing Caribbean Competition procedures and rules.
- Enhancing the Framework Conditions of the Single Market – by the adoption and implementation of the CSME Regional Integration Policy on Government Procurement, Community Investment Policy and a CARICOM Investment Code.
- Promoting New Actors and Institutions – by deepening integration and promoting competitiveness through developing export-oriented industry associations, and better informed consumer groups.
- Reforming the Governance System – by adopting of arrangements that permit of greater scope for the involvement of the population in running the affairs through devolution and participatory decision making.
- Improving Accounting Systems in the Public Service – in pursuit of robust systems for public expenditure management, there will be need to introduce outcome and output based systems and monitoring and evaluation systems to calibrate expenditures with measurable indicators of performance.
- Improving Social Protection – by rationalizing resources, better targeting of the vulnerable, graduating out of transfers those who are best able to transition to self-reliance on the basis of conditional transfers and other arrangements to avoid creating dependency among those in need of assistance from the state.

While the Roundtable did not treat with any great depth with such problems as the need for continuing education and training of the work-force, and the improvement of management of the public service by the adoption of output and outcome measurement and by formal systems of monitoring and evaluation of the operations of the service, there is evidence that these concerns lay under the surface in some of the commentary.

The Roundtable has been successful in calling attention to the fact that in the aftermath of the 2008/2009 crisis, the countries of the Region continue in crisis mode from which they would not escape by the sheer return to growth of the global economy. There is need for them to reinsert themselves but with transformed structures. Failure to do so will see continuing fall-out not only in reduced social protection that cannot be maintained by fiscally constrained Governments, but also in the other areas of social decay in the form of crime, violence, and personal insecurity and declining standards in health and education. The whole system challenge evident in the operations of the macro-economy has to be addressed frontally by policy-makers.

There was general agreement that a collective and coordinated response in an integrated movement offers a major option for these countries, but requires that the Governments move steadfastly on implementation on the commitments that they have already made on the CSME.

I. Overview of the Caribbean economy in the conjuncture

There is unanimity in the view that the Caribbean countries face endemic crisis in the first decades of the 21st century. This has led to critical review of the nature of the development paths pursued by these countries over the decades since their achievement of political independence. The economic structure of their colonial past has been characterized as that of a plantation economy, geared to be the tropical appendage of the colonial power – Great Britain for the most part.

Political independence represented a break with that past. Thenceforth, the economic and social advancement of the populations of these islands became the focus of policy as the colonial governance gave way to island legislatures elected to represent local populations. After about half century of development premised on the advancement of Caribbean people, there is a deep unease over arrested growth that seems to characterize the experience since the global crisis of 2008/2009.

A. The post-independence dividend

1. Growth and transformation in the early years

Most of the Caribbean states were beneficiaries of the decolonization process that spread across the developing world following the formation of the United Nations, after the Second World War. According to Favaro (2012), the transition from colony to sovereign state with the formation of national governments, involved also the creation of national institutions geared to national development.

The post-independence period witnessed a remarkable transformation in Caribbean economies. Most countries have gone from being producers and exporters of a few agricultural commodities to becoming producers and exporters of services. Economic policy in the early post-independence period was based on the model crafted by Arthur Lewis, which focused on industrialization utilizing abundant supplies of cheap labour.

The underlying assumption was that foreign investment could be attracted to the then British West Indies, through generous fiscal incentives, to produce simpler manufactures for export back to

the metropole from whence the foreign capital would come in the first place. Capital shortage and lack of entrepreneurs were important constraints.

Another element in the Lewis strategy was the thrust to develop tourism. Lewis (1950) opined that the larger countries could contemplate some considerable industrial development, but this was not practical for the smaller countries, like those in the Eastern Caribbean. In that regard, tourism offered possibilities to be explored. Lewis conceived the transformation of the countries taking place in the context of movement towards political federation, and surely against the backdrop of economic cooperation and integration among the countries. For example, he envisaged one Industrial Development Corporation, tasked with industrial development for the countries that could support manufacturing industry, thus avoiding competition among them in wooing foreign investors by tax incentives that could lead to a race to the bottom.

The actuality of policy in Caribbean development in the latter half of the 20th century followed variants of the Lewis model. The idea of an industrial development agency for the region, never took root. However, there was industrialization based on imported inputs and technology.

Tourism led development was the strategy pursued with some success in a number of countries and, in the case of some of the smaller countries, by the end of the 1980s, the sector had replaced primary agriculture as the main engine of growth and the major source of foreign exchange earnings, especially following the loss of agricultural preferences.

Although the countries failed in the attempt to develop a political federation as the basis for securing political independence, they soon moved to introduce measures for economic integration, starting with a free trade area, which slowly morphed, arriving at a formal common market in their seeking to deepen the process of economic integration.

The actual achievements have been much below the rhetoric and pronouncements on integration, even though open regionalism is seen in some quarters as the platform for boosting export competitiveness of tradable goods and services. CARICOM with the more recent incarnation of CARIFORUM is now one of the oldest integration initiatives in the world.

The post-independence development of Trinidad and Tobago followed a different path to the other countries. The country used the surge in revenues in the 1970s from its oil industry to build a platform of heavy industry, which allowed for a resource driven diversification into new commodities – steel, methanol, gas, and petrochemicals. While problems of state run enterprise were to compromise the growth process, it is difficult to refute the idea that the entree of the state in directly productive activity shifted the economic platform of Trinidad and Tobago to resource-based industrialization.

This country did not escape the Dutch Disease phenomenon in the 1970s, with the result that when oil prices plummeted in the 1980s, fiscal and balance of payments crises set Trinidad and Tobago on a course of negative growth for almost a decade. It is during this period of structural adjustment that new export activities emerged, that made Trinidad and Tobago a dominant producer of a range of manufactures with target markets being other CARICOM countries.

According to James (2012), by the end of the 20th century, Guyana, Suriname and Jamaica had developed a mixed strategy. The exports of Jamaica and Guyana consisted of goods and consumer services (including tourism). Suriname also pursued a mixed strategy – energy and bauxite/alumina. Table 1 summarises some key information on the countries of the region.

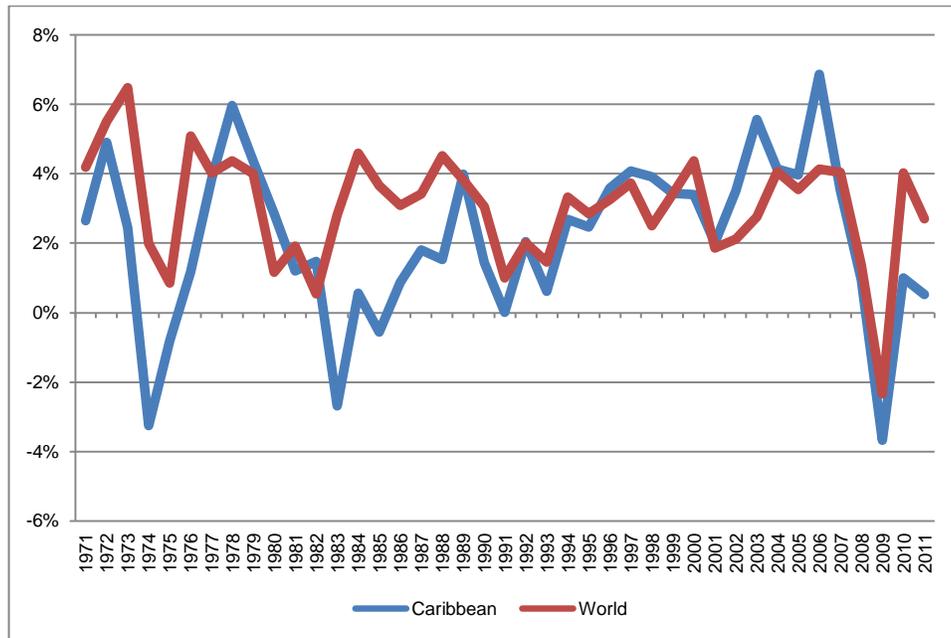
TABLE 1
CHARACTERISTICS OF CARIBBEAN COUNTRIES – POPULATION, TOTAL AREA AND
TYPE OF ECONOMY

Country	Population	Total Area (km ²)	Type of economy
Anguilla	15,358	91	Consumer service export (tourism)
Antigua and Barbuda	88,710	443	Consumer service export (tourism)
Bahamas, the	342,877	13,940	Consumer service export (tourism)
Barbados	273,331	430	Consumer service export (tourism)
Belize	307,000	22,966	Goods export (agricultural products and oil)
Dominica	67,757	751	Consumer service export (tourism)
Grenada	104,487	344	Consumer service export (tourism)
Guyana	754,493	214,970	Mixed – goods export/consumer service export (tourism)
Jamaica	2,741,052	10,991	Mixed – goods export/consumer service export (tourism)
Montserrat	5,934	40	Consumer service export (tourism)
Saint Kitts and Nevis	52,402	260	Consumer service export (tourism)
Saint Lucia	174,267	617	Consumer service export (tourism)
Saint Vincent and the Grenadines	109,333	389	Consumer service export (tourism)
Suriname	524,636	163,270	Mixed – goods export (energy and bauxite/alumina)
Trinidad and Tobago	1,341,465	5,130	Goods export (energy)

Source: James, 2012

Both James (2012) and Gonzales (2012) agree that the region made remarkable progress in the post-independence period, with a number of countries achieving middle income status - and a few even high income status - based on improved growth in per capita incomes and social welfare. Populations in member states have experienced improved educational outcomes including increased numbers and percentages of high school and tertiary graduates owing to better enrolment rates. Improved outcomes were seen in better health care services and greater levels of nutrition, among other indicators.

FIGURE 1
GDP GROWTH RATES FOR THE CARIBBEAN AND THE WORLD



Source: James (2012)

According to James (2012) and Gonzales (2012), the region remains saddled with a number of development challenges related to the slowdown in productivity growth in the last decade, weak export competitiveness in some sectors, expanding fiscal deficits and debt in addition to exposure to natural disasters and climate change related challenges. These problems have led to a lack of sustained growth in per capita incomes which makes it difficult to lift a large enough segment of the population out of poverty.

Moreover, weak export competitiveness has led to chronic external imbalance, reflected in structural current account deficits in many countries, thereby aggravating the foreign exchange constraint and the capacity to import intermediate inputs and technology to fuel economic growth. The deficits have been financed partly by pro-cyclical inflows of foreign capital that are subject to boom-bust cycles.

According to Gonzales (2012), their weak export performance is evident in a declining share of world trade. Moreover, although except for Haiti, they have all moved beyond the factor driven stage, none has arrived at the innovation stage where a capacity has been developed allowing them to apply technology in securing niche markets in international trade. This can be seen in Tables 1.2 and 1.3.

TABLE 2
CARIBBEAN EXPORTS TO THE WORLD
(Thousands US dollars)

Country	Export value in 2006	Exported value in 2007	Exported value in 2008	Exported value in 2009	Exported value in 2010
Antigua and Barbuda	n.a	9862	35593	15714	26544
Bahamas, the	50,9420	66,9977	70,1529	58,4879	62,0143
Barbados	441,214	314,230	454,195	322,725	313,684
Belize	274,429	26,634	295,058	249,660	282,040
Cuba	2,980,152	3,578,490	3,167,698	2,317,052	2,678,208
Dominica	41,473	36,833	39,994	33,486	34,116
Dominican Republic	6,790,320	5,634,950	5,611,374	4,690,946	5,364,635
Grenada	25,371	33,411	37,849	32,228	26,224
Guyana	567,385	784,714	830,214	788,385	936,747
Haiti	639,799	672,958	657,580	661,388	689,553
Jamaica	1,988,808	2,223,961	2,438,810	1,316,037	1,327,602
Saint Kitts and Nevis	39,706	34,089	74,002	70,325	78,463
Saint Vincent and the Grenadines	38,107	47,714	52,206	49,064	41,516
Trinidad and Tobago	14,018,734	13,396,245	18,650,425	9,125,971	14,631,382
Saint Lucia	93,746	52,455	117,430	209,818	91,107
Total	28,448,664	27,756,523	33,163,957	20,467,678	27,141,964
Caribbean share in the world	12,042,911,488	13,843,105,974	15,991,816,044	12,318,171,878	15,030,046,644

Source: ITC

TABLE 3
CARIBBEAN COUNTRIES AT STAGES OF DEVELOPMENT

Stage 1 (37 economies)	Transition from stage 1 to stage 2 (24 economies)	Efficiency-driven (28 economies)	Transition from stage 2 to stage 3 (18 economies)	Innovation-driven (35 economies)
Haiti	Guyana Jamaica	Belize Dominican Republic Suriname	Barbados Trinidad and Tobago	

Source: The Global Competitiveness Report 2011-2012, World Economic Forum. Geneva, Switzerland, 2011.

More recently, on the social front, conditions have not been encouraging. There have been growing inequality and severe crime and dysfunction in many societies in the region especially among the youth. Indeed, in some countries, the development gains of the past decades are threatened unless radical reforms are instituted to tackle these challenges.

2. Caribbean development in comparative terms

The small size of Caribbean economies has attracted interest among economic thinkers and historians since the 1960s. The region is not unique, and shares certain characteristics with islands of the South Pacific, which together have come to be categorized in the literature as Small Island Developing States (SIDS), but are seen as sharing similar characteristics with small states in Africa, and elsewhere which are not islands.

Small size of population, invariably fewer than 2 million of population, high reliance on a limited range of exports in the growth of GDP, and limited skills base in the labour force are some of the features readily associated with small states. Favaro (2012) posits that in reviewing Caribbean development, comparisons with other small states are revealing.

He reviews economic performance over the last three decades, comparing Caribbean countries with other small states in the international economy. He uses the arithmetic average of the rate of growth of per capita GDP in each period and then examines the median of these statistics across countries in each sub-region and in the world as a whole: his data are drawn from a data base of the World Bank. His findings can be seen in Table 4.

TABLE 4
RATE OF GROWTH OF PER CAPITA GDP:
SMALL STATES AND WORLD ECONOMY

Region	1981-1990	1991-2000	2001-2007	2008-2010
Caribbean	3.6	1.8	2.1	-1.0
South Pacific	0.8	4.6	0.9	-0.5
Africa	1.6	0.9	1.9	2.0
Europe	1.8	0.4	6.4	-1.6
Small states	1.4	1.8	1.9	0.3
Other states	1.1	2.0	3.0	1.3

Source: Favaro, 2012.

He finds that:

- First, in 1981-2010, the economic performance of small states was about the same as that of other states measured by the yardstick of the rate of growth of per capita GDP;
- Second, the rate of growth of per capita GDP has varied greatly across regions and, for the same region, over time. Indeed, Caribbean small states had vigorous growth in 1981-1990, the decade where most of them reached independence, but slowed down afterwards;
- Third, there is a wide range of development experiences among small states which suggests that differences in policies across states can do a great deal to augment or reduce the size of the market;
- Fourth, Caribbean, European and South Pacific small states were deeply affected by the global financial crisis of 2008-2010.

Given that so much depends on export performance, Favaro reviews the export data over the same period. This is provided in Table 1.5, which is based on annual percentage rate of growth in median exports of goods and services, again with data from the World Bank data base. He examines also the export share in GDP. This is seen in Table 5.

TABLE 5
RATE OF GROWTH OF EXPORTS OF GOODS AND SERVICES

Region	1981-1990	1991-2000	2001-2007	2008-2010
Caribbean	4.8	3.0	2.6	2.9
South Pacific	0.9	5.0	5.7	n/a
Africa	5.6	5.2	6.3	2.9
Europe	n/a	4.7	8.0	-1.1
Small states	3.6	4.4	6.6	2.1
Other states	4.7	6.4	7.0	1.7

Source: Favaro, 2012.

TABLE 6
EXPORTS SHARE IN GDP SMALL STATES AND WORLD ECONOMY

Region	1981	1990	2000	2009
Caribbean	58.1	54.4	47.7	36.2
South Pacific	36.9	33.9	24.1	36.6
Africa	47.1	51.9	48.0	46.9
Europe	n/a	69.5	53.7	58.4
Small states	51.8	53.8	48.0	45.6
Other states	24.4	26.5	33.0	33.3

Source: Favaro, 2012

He argues that:

- First, the rate of growth of exports of goods and services from small states was consistently below that from other states during most of the period;
- Second, the weak rate of growth of exports is especially noticeable among Caribbean small states.
- Third, on the other extreme African small states had consistently strong export performance until the slowdown of world trade of 2008-2010 -this performance reflects the rapid expansion of natural resource based exports worldwide over the past two decades;
- Fourth, a consequence of the low rate of growth of exports is that the export share in GDP declined (whereas in other states it increased steadily (Table 3) ². The export share in GDP is much higher among small states than among other states; even so, it has fallen slightly over time and for small states as a group and steeply for small states in the Caribbean ³.
- Fifth, the path of exports may be a transitory phenomenon (reflecting the collapse of the old export sector in many small states and the slow emergence of new activities) or may be a sign of deeper difficulties in developing a competitive export sector

Favaro investigates further the evolution of savings, investment and the current account of the balance of payments, which he defines as the difference between national savings and investment. The results are shown in Table 7.

² The export share in GDP is much higher among small states than among other states. The fall in the export share in GDP among Caribbean small states was steep.

³ The expansion of electricity exports to India explains the explosive growth of Bhutan's exports during the past decade. The model that made this possible is described in the next section.

TABLE 7
CURRENT ACCOUNT, INVESTMENT AND SAVINGS
(as % of GDP)

Region	1981-1990	1991-2000	2001-2007	2008-2010
Current account				
Caribbean	-9.5	-9.5	-14.0	-14.8
South Pacific	-3.1	-3.7	-7.9	-15.6
Africa	-3.3	-2.0	-1.0	-8.6
Europe	n/a	-3.4	-8.5	-1.9
Small states	-3.9	-4.9	-8.1	-8.5
Other states	-2.8	-3.1	-2.2	-3.2
Gross capital formation				
Caribbean	28.0	28.0	24.5	24.6
South Pacific	26.5	20.9	20.4	26.0
Africa	25.0	26.0	23.9	26.0
Europe	25.1	22.6	26.5	25.9
Small states	26.7	24.4	24.0	25.5
Other states	21.9	20.9	21.6	21.9
Gross savings				
Caribbean	18.5	18.5	10.5	9.8
South Pacific	23.4	17.2	12.5	10.4
Africa	21.7	24.0	22.9	17.4
Europe	n/a	19.2	18.0	24.0
Small states	22.8	19.5	15.9	17.0
Other states	19.1	17.8	19.4	18.7

Source: Favaro, 2012

Favaro examined also the rate of return on capital (RORK) as well as the level of FDI in GDP. This can be seen in Tables 1.8 and 1.9 respectively. The RORK fell over the period in the Caribbean. The RORK and the rate of economic growth fell, mirroring a decline in the productivity of capital, especially in the 'old' economy, and a not too buoyant performance in the new economy either.

TABLE 8
RATE OF GROWTH OF GDP AND IMPLICIT RATE OF RETURN ON CAPITAL (RORK)

Region	1981-1990	1991-2000	2001-2007	2008-2010
Rate of growth of GDP				
Caribbean	5.2	3.2	3.4	-0.3
South Pacific	1.8	2.7	2.1	0.2
Africa	3.5	4.0	3.5	3.7
Europe	2.2	-0.5	6.0	0.1
Small states	3.2	3.2	3.4	1.9
Other states	2.5	3.0	4.5	3.0
Implicit rate of return on capital				

Table 8 (continues)

Region	1981-1990	1991-2000	2001-2007	2008-2010
Caribbean	18.6	11.4	13.9	n/a
South Pacific	6.8	12.9	10.3	0.8
Africa	14.0	15.3	14.6	14.2
Europe	n/a	n/a	33.3	0.4
Small states	14.0	16.4	14.2	7.5
Other states	11.4	14.4	20.8	13.7

Source: Favaro, 2012

TABLE 9
FOREIGN DIRECT INVESTMENT
(% of GDP)

Region	2000	2005	2010
Caribbean	6.3	8.8	8.2
South Pacific	2.5	3.1	4.3
Africa	3.5	4.0	4.4
Europe	6.8	6.4	3.3
Small states	4.1	4.8	4.8
Other states	3.0	2.9	2.2

Source: Favaro, 2012

He summarises his findings with the following points:

- First, the importance of external savings in the development of these economies is nothing less than remarkable. External savings prompt economic growth in the short-term through their effect on domestic demand but this effect will not be sustained unless the additional savings are invested in activities that generate a return sufficient to compensate for the cost of additional funds. For instance, if external savings have been used to finance expansion of employment in low productive government projects it is unlikely that such growth would be sustainable and may be harmful in the medium term even if it was originally financed through concessional debt.
- Second, the decline in the savings rate in the Caribbean (and also the South Pacific) in the last decade is worrisome, given the implications for investment;
- Third, the investment share in GDP was higher in small states than in other states in most regions and periods examined. Although data are not available to decompose what part of the investment ratio is the result of private sector decisions and what part is driven by public sector investment. But the importance of the share of foreign direct investment in GDP (to be shown below) suggests that the role of private sector investment may have been high.
- Fourth, in the Caribbean, the steady investment to GDP ratio and the falling rate of growth of GDP suggests that average productivity of capital may have been falling (Table 1.7)⁴;
- Fifth, almost unexpectedly, relatively high foreign direct investment to GDP ratios was achieved (Table 1.8). But this has not contributed much to growth, partly because the

⁴ Average productivity of capital can be roughly approximated as the ratio between the rate of growth of the economy and the investment share in GDP (the assumption is that an Ak production function is a close approximation to the evolution of capacity in the economy).

bulk of external savings are invested in resource-based activities, which contribute little to production upgrading and higher value added.

3. Services-led growth

The transformation away from agriculture and into services is one of the more significant developments in the transformation of small states. The share of agriculture in GDP declined in all states over the period 1981-2010, but the trend was more pronounced in the Caribbean as demonstrated in Table 8. This was complemented by the marked increase in the share of services, as seen in Table 9, and with that, an increase in the tourism share in GDP and in exports, as reflected in Table 10.

TABLE 10
VALUE ADDED IN AGRICULTURE (AS % OF GDP: SMALL AND OTHER STATES)

Region	1981	1990	2000	2010
Caribbean	14.5	11.1	6.5	4.3
South Pacific	24.1	20.9	22.5	12.1
Africa	19.0	12.9	11.8	7.5
Europe	n/a	16.6	4.8	8.4
Small states	19.9	14.4	10.5	6.0
Other states	18.2	17.6	11.3	9.4

Source: Favaro, 2012

TABLE 11
SHARE OF SERVICES IN GDP SMALL STATES AND WORLD ECONOMY

Region	1981	1990	2000	2009
Caribbean	59.2	65.8	71.6	74.2
South Pacific	58.9	65.0	60.4	61.8
Africa	47.8	50.2	51.1	57.1
Europe	n/a	33.7	61.1	71.6
Small states	50.1	55.6	61.6	61.8
Other states	48.5	47.0	52.6	60.1

Source: Favaro, 2012

TABLE 12
TOURISM SHARE IN EXPORTS SMALL STATES AND WORLD ECONOMY

Region	1995	2000	2005	2009
Caribbean	46.1	39.1	49.8	54.4
South Pacific	37.5	30.0	47.1	45.5
Africa	15.3	11.0	12.6	17.3
Europe	10.9	9.5	9.2	10.6
Small states	26.2	27.9	31.6	35.6
Other states	7.5	8.2	7.3	8.0

Source: Favaro, 2012

The structure of the new economy emerging in small states can be attributed to the role that the governments of small states performed in attracting foreign direct investment, which generally facilitated the transition out of the reliance on agriculture into other activities. The main strategies were based on:

- The establishment of incentive mechanisms in bilateral infrastructure agreements for the exploitation of natural resources;
- the use of export processing zones to encourage foreign direct investment into countries that would have been otherwise unlikely to attract it; and
- the establishment of inviting policies for investment in the tourism sector.

Favaro notes another significant difference between the Caribbean and some other small states, in recent times in respect of the contribution of the tourism sector. The growth in the sector as measured by market share shows that there has been considerable competition among tourism destinations in maintaining market share, as seen in Table 13. In the case of the Caribbean, the Dominican Republic has experienced high rates of growth compared to other small states in the Caribbean, including Jamaica. This can be explained either by a better competitive product on the part of the Dominican Republic, or by its specializing in a segment that is different from that of the rest of the Caribbean. Gonzales (2012) suggests that the product among the CARICOM member states has matured and there has been failure in diversifying it.

TABLE 13
TOURISM: ARRIVALS AND AVERAGE SPENDING PER TOURIST

Region	1995	2000	2005	2009
Arrivals				
Caribbean	119,500	162,500	199,000	191,500
Dominican Republic	1,776,000	2,978,000	3,691,000	3,992,000
Jamaica	1,147,000	1,323,000	1,479,000	1,831,000
South Pacific	29,000	28,000	30,500	51,000
Africa	104,000	130,000	163,500	303,500
Europe	530,000	1,090,000	1,555,000	1,824,000
Small states	106,000	115,000	129,000	154,000
Other states	591,000	800,000	1,063,000	1,522,000
Expenditure per tourist				
Caribbean	805	855	973	1127
Dominican Republic	903	952	966	1009
Jamaica	905	n/a	1193	1173
South Pacific	1111	808	819	1101
Africa	752	481	427	362
Europe	1542	935	1223	1500
Small states	816	776	727	1015
Other states	704	632	838	962

Source: Favaro, 2012

B. Challenges to Caribbean development

There are three major challenges facing Caribbean States, according to Favaro (2012). These are reflected in:

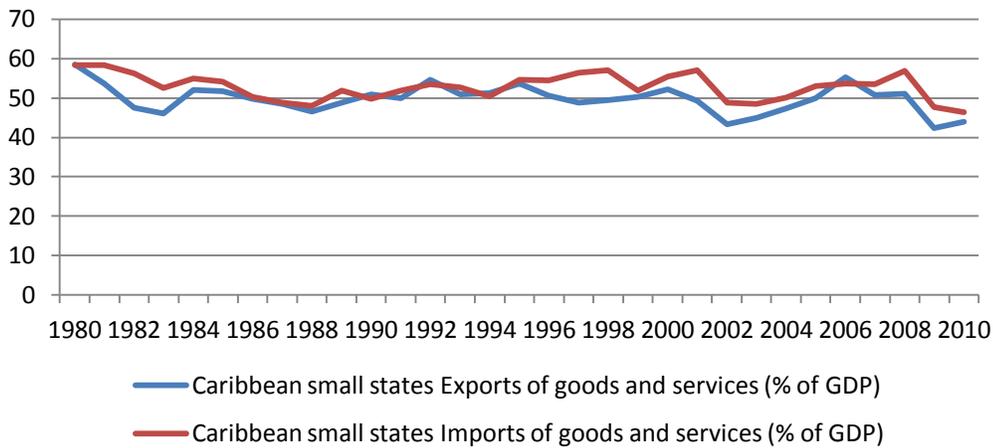
- The rate of growth of exports of goods and services in the more recent period for smaller countries;

- The management of capital inflows;
- The high government debt and debt service costs to GDP ratio.

The rate of growth of goods and services was consistently below that in larger states. This might be transitory as the old export sector is displaced by slowly emerging new sectors and activities. But slow growth in exports may be due instead, to the difficulty involved in developing internationally competitive export industries.

For countries that are so heavily dependent on imports and exports, the rate of growth of exports over imports as a percentage of GDP is key variable to be monitored. Figure 1.2 shows percentage of GDP comprised of imports and exports of goods and services for Caribbean small states over the period 1980 – 2010. For countries pursuing export-led models of development their performance has not been impressive: the trajectory of imports exceeds the path of exports, which is unsustainable, in the long run.

**FIGURE 2
IMPORTS AND EXPORTS AS SHARE OF GDP**



Source: Compiled by Editor from World Bank, World Development Indicators Database.

In respect of capital inflows, the Caribbean has performed remarkably. However, there are serious pressures in managing these inflows, where they lead to the appreciation of currency, with implications for the pricing of exports. Furthermore, foreign capital has not realized its productive potential due in part to areas of specialization and weak complementary domestic capability in a number of areas. High debt is the other problem, and it derives, in part, from the need of the government to build the infrastructure and the institutions necessary to promote and support development.

In an environment of insufficiency of domestic savings, and of a weak private sector, the government often has to be ‘spender of last resort’ to maintain economic activity and employment and provide a basic minimum of social services. All of this is compounded by rapid change in the demographic structure, with implications for dependency. An unintended consequence of the debt burden is the increase in the share of interest payments in total government spending, and the displacement of spending that would otherwise have contributed to high productivity growth. The debt stock of Caribbean countries in comparison with other small states is seen in Table 14.

TABLE 14
EXTERNAL DEBT (AS OF % GNI AND OF EXPORTS)

Region	1986	2000	2009
Ratio external debt to GNI			
Caribbean	44.9	61.4	54.0
South Pacific	39.5	34.2	38.8
Africa	61.6	61.3	58.8
Small states	53.2	52.1	54.2
Other states	69.1	61.9	28.5
Ratio external debt to exports			
Caribbean	56.9	114.0	131.0
South Pacific	91.6	42.4	62.7
Africa	159.9	110.0	137.8
Small states	84.2	103.4	129.8
Other states	314.1	191.0	120.1

James (2012), for his part, sees the challenge residing in terms that are more fundamental, requiring a rethink of approaches to ensure that they are embedded in the nature and logic of the regional economy. This demands a clearer understanding of the main drivers of the development process. Past theory, James (2012) suggests, placed primacy on increasing labour and capital productivity to increase the quantity and quality of production of goods and services, particularly for export to major markets.

This growth in accumulation and productivity was expected to be financed by increasing the domestic savings rate and to be supplemented by foreign direct investment (FDI) that would also transfer knowhow, technology, managerial skills and provide established marketing networks. While all of these are necessary for changing the trajectories of Caribbean development, however, they are insufficient.

Raising domestic labour productivity is not sufficient for sustained growth. The region also has to increase import productivity or the efficiency with which it uses scarce foreign exchange resources. This can be done by investing in upgrading high-value export services such as education and health services, which requires research and development and innovation in these sectors.

However, the experience of Caribbean countries over the longer term has been one of low or falling import productivity. This can be seen in Table 15. Falling import productivity would create downward pressure on per capita income, unless there is a compensating increase in the rate of use of import capacity, or an increase in the volume of import capacity per capita. A major challenge for the region is that, given their standards of living as middle and even high income status, for some, labour and import productivities are far too low.

This is reflected in relatively low export productivity (productivity of exports relative to per capita income) levels, where the Caribbean tends to export products that reflect those of countries at a lower standard of living. Gonzales (2012) notes the lack of competitiveness of the Caribbean vis-à-vis Asian comparator countries. In addition, Caribbean unit costs tend to be far too high for their firms to undersell European firms in the markets in which they specialise: Caribbean economies continue to enjoy some level of market access to the European Union, but countries need to adjust to maintain market share under the EPA.

TABLE 15
ESTIMATES OF ECONOMY-WIDE IMPORT PRODUCTIVITY, SELECTED COUNTRIES

Region	Import productivity	
	1970-1999	2000-2010
Antigua and Barbuda	1.3	1.5
Bahamas, the	1.8	2.1
Barbados	2.0	1.9
Belize	1.8	1.7
Dominica	1.8	1.9
Grenada	1.5	1.9
Guyana	2.6	1.4
Jamaica	2.2	1.9
Saint Kitts and Nevis	1.3	1.5
Saint Vincent and the Grenadines	1.6	1.8
Suriname	2.4	1.9
Trinidad and Tobago	2.3	2.5

Source: James 2012.

The outward visible evidence of weakness in policy is revealed, according to James (2012), in four critical areas: persistent poverty, unemployment, especially among young people, performance of the educational system, health and personal security. Gonzales (2012) sees this weakness extending to the wider supra-national sphere, with the countries failing to implement decisions that they might take as members of the regional organisation CARICOM, which has led to failure in areas where cooperation might have worked in overcoming problems e.g food security.

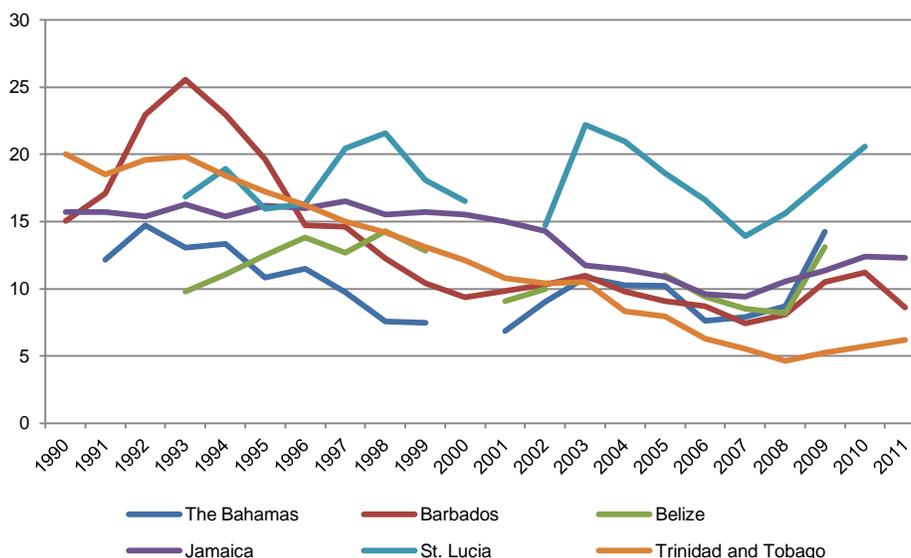
1. Persistent poverty

In the Caribbean, poverty levels fell in the 1990s. The region has been able to control extreme poverty (indigence) by a combination of measures, including investments in education and healthcare, transfers and subsidies to poor households and improved access to affordable housing. However, the region is now in danger of reverses, in this downward trend. The Caribbean has high levels of headcount (absolute) poverty but has made significant improvements in levels of indigence (extreme poverty and hunger) over the decades. Indigence levels have fallen in most countries with the exception of Belize.

2. Unemployment rate

The problem of open unemployment has been largely solved in Trinidad and Tobago, but not in the rest of the Caribbean, where average disguised unemployment rates still exceed 10 per cent of the labour force. In the wake of the crisis, unemployment has soared to over 20 percent. Furthermore, in all countries, the problem of youth unemployment remains acute. There remains a substantial gender unemployment gap. Figure 1.3 shows unemployment rates for selected countries. The region is also affected by changes in the nature of employment with increasing use of short-term contracts and temporary work.

FIGURE 3
UNEMPLOYMENT RATES IN SELECTED CARIBBEAN COUNTRIES



Source: James 2012.

3. Educational underperformance

The entire region has experienced major expansion in access to education and training. Most countries are on course for universal secondary education. Mean years of schooling of persons 25 years and over has generally been rising in countries such as Guyana, Jamaica, and Trinidad and Tobago, and at worst have been stationary since 2000 in countries such as Dominica and Suriname. The expected years of schooling have also been stationary. Despite the growth in the mean years, the relative position of the region on the education index has not been as high as would be required to compete on a sustainable basis for a strong position in the international economy.

Most countries are well below performance of the Asian leader like Hong Kong and Singapore, and some countries such as Belize, Dominica and Guyana are only slightly above the world average of 7.64 years. The rate of 7.23 years in Suriname is even below the world average. According to Gonzales (2012), Barbados is the only regional economy showing capacity for competitiveness, on the basis of the Knowledge Economy Index, compiled by the World Bank. The deficits elsewhere point to underinvestment in raising the quality of education and the skills to use technology, linked to underinvestment in technical and vocational education as well as to the failure to boost quality by investing in education for export. Data on the Caribbean are provided in Table 17

TABLE 16
MEAN YEARS OF SCHOOLING IN CARIBBEAN COUNTRIES

	Mean years of schooling						
	1980	1985	1990	1995	2000	2005	2010
Antigua and Barbuda	...	...	...	...	...	...	8.93
Bahamas, the	...	...	...	...	...	...	8.45
Barbados	6.31	7.35	8.09	8.59	8.68	9.18	9.34
Belize	7.26	7.56	8.00	8.46	8.07	7.70	7.96
Dominica	...	...	...	...	7.68	7.68	7.68
Grenada	...	...	...	...	...	...	8.55

Table 16 (continues)

	Mean years of schooling						
	1980	1985	1990	1995	2000	2005	2010
Guyana	5.47	5.96	6.38	6.79	7.07	7.45	7.96
Jamaica	5.24	5.80	6.44	7.42	8.56	9.03	9.63
Saint Kitts and Nevis	...	...	...	...	...	...	8.39
Saint Lucia	...	...	...	...	...	...	8.28
Saint Vincent and the Grenadines	...	...	...	...	...	...	8.62
Suriname	...	...	...	...	...	7.23	7.23
Trinidad and Tobago	6.98	7.20	7.45	7.88	8.34	8.81	9.24
Norway (global best practice)	9.07	9.98	10.84	11.14	11.52	12.71	12.63
World average	4.83	5.38	5.92	6.51	6.91	7.26	7.64

Source: James 2012.

4. Comparative efficiency

Gonzales (2012) finds that regional competitiveness has remained stagnant or fallen general. This position is supported by data which he cites from UNIDO and the World Bank, and from the World Economic Forum. The Region falls short in basic development drivers of productivity, competition and innovation, compared to competing countries. Only Barbados scores in the first half of 142 countries on all of certain key indicators, as can be seen in Tables 18 and 19.

TABLE 17
THE GLOBAL COMPETITIVENESS INDEX 2011-2012: EFFICIENCY ENHANCERS

Country/economy	Efficiency enhancers		Higher education and training		Goods market efficiency		Labour market efficiency	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Barbados	49	4.28	25	5.08	56	4.31	35	4.69
Trinidad and Tobago	79	3.89	64	4.2	104	3.91	87	4.12
Jamaica	85	3.84	85	3.92	78	4.12	80	4.22
Dominican Republic	93	3.71	99	3.56	111	3.85	104	3.98
Guyana	110	3.50	79	3.99	94	3.99	91	4.10
Suriname	124	3.27	104	3.46	130	3.58	101	4.01
Belize	130	3.14	112	3.20	121	3.73	82	4.19
Haiti	140	2.76	141	1.98	140	3.04	89	4.11

Source: The Global Competitiveness Report 2011-2012, World Economic Forum. Geneva, Switzerland, 2011.

TABLE 18
THE GLOBAL COMPETITIVENESS INDEX 2011-2012: INNOVATION AND SOPHISTICATION FACTORS

Country/economy	Innovation and sophistication factors		Business sophistication		Innovation	
	Rank	Score	Rank	Score	Rank	Score
Barbados	47	3.86	41	4.29	49	3.42
Trinidad and Tobago	76	3.44	67	3.89	86	2.99
Jamaica	84	3.36	75	3.81	94	2.92
Guyana	87	3.33	82	3.77	99	2.89
Dominican Republic	109	3.12	89	3.65	122	2.59
Suriname	122	2.91	121	3.24	121	2.59
Belize	131	2.78	116	3.30	135	2.26
Haiti	139	2.44	140	2.078	139	2.09

Source: The Global Competitiveness Report 2011-2012, World Economic Forum. Geneva, Switzerland, 2011

5. Health

According to James (2012), poor health is not a significant constraint on the prospects for Caribbean development. However, there are still significant challenges related to the quality of healthcare, including the financing of healthcare. Crucially, health insurance coverage levels are inadequate to meet the needs of the population. The outstanding healthcare issue is the continuing challenge with relatively high adolescent fertility rates, measured by the number of births per 1000 by women between 15 and 19 years⁵. Overall, measured in births per woman, total fertility rates have generally dropped in the years since 2000, as compared to 1970-1999.

However, partly on account of the high adolescent fertility rates, only Trinidad and Tobago and Barbados report total fertility rates in line with those of more advanced economies such as Norway, Australia, Singapore, and Canada. Such a condition promises continuing difficulties in the medium to longer-term with efforts to reign in pressures on the healthcare system and to bring the standard of living in the Caribbean in line with the more dynamic economies of the world.

6. Insecurity

Caribbean countries continue to face high homicide rates and perceptions of insecurity. Jamaica currently has a homicide rate of about 59.5 per 100,000 persons, followed by 39.7 in Trinidad and Tobago. These are easily among the highest rates in the world. Available data from the 2010 Human Development Report (HDR) suggests low percentages of Caribbean populations who feel safe walking alone at night. This ranged between 42.0 per cent (Trinidad and Tobago) and 47.0 per cent (Guyana). A useful international benchmark against which the Caribbean numbers can be compared is Singapore, with homicide rates of 0.4 per 100,000 and a perception of safety index of 98.

C. The imperatives of Caribbean development

Both James (2012) and Gonzales (2012) posit that there are a number of imperatives that have to be addressed. The first of these is an increased capital-intensity of exports, or capital/export ratio. This

⁵ For example, United Nations (2011) *World Fertility Policies 2011* shows that there is only one country in the Caribbean which thinks its fertility rate “too low” (Barbados), with three countries considering their rates “too high” (Dominican Republic, Haiti and Jamaica). The rest of the countries regard their rate as “satisfactory.”

requires policies to increase domestic capital⁶ in the economy. This would enable the region to shift from exporting primary goods and low-value added services to capital-intensive goods and high-value services such as education and health services, and the outputs of the creative industries.

An improved capital/export ratio is an important driver of export productivity,⁷ which is a crucial driver of sustained international competitiveness. In addition, an improved ratio of capital to import capacity leads to higher import productivity growth or accumulation of foreign exchange. Improvements in these ratios are critical to domestic restructuring and trade competitiveness, given the importance of imports and foreign exchange earnings to the growth process in the Caribbean.

The second imperative requires that policy makers address the persistent inconsistency in policy options relating to the external current account imbalance and the internal imbalance. Policies to tackle external imbalance are often inconsistent with efforts to control inflation, excess liquidity or unemployment. The third imperative to be addressed is the weakness of governance arrangements, where the executive tends to dominate the legislative function leaving very limited avenues for citizens to influence government policies.

A fourth imperative has to do with reconciling the need for regional integration with improvement in competitiveness. Policy makers have to be sensitive to the requirement of blending competition and integration in ways best suited to boosting domestic and international competitiveness to deliver high growth and greater equity in their societies. Competition is essential for disciplining regional producers to improve their productivity and efficiency and hence achieve international competitiveness. Meanwhile, integration provides a vehicle for achieving greater economies of scale in production to facilitate economic diversification, as well as for functional cooperation in a number of areas.

However, countries are generally unwilling to open markets if they produce similar products even though competition can boost trade and specialization, thereby leading to increased overall welfare in the common market. Given the relatively weak competition in exports among the countries of the Caribbean, open regionalism becomes imperative because the level and type of competition required to drive global competitiveness must largely come from outside the integration scheme. Small integration schemes are therefore faced with the challenge of sequencing and blending regional and international competition in doses that would make adjustment socially acceptable and transformation desirable.

1. The issue of finance

There is general agreement that whatever the positive prognostications for a return to growth in the international economy, the Caribbean countries face a major challenge in resuming a positive trajectory because of the lack of finance. Bourne argues that their capacity to finance capital investment programs necessary to resuscitate and sustain economic growth is weaker in the immediate post-crisis period than it was previously. Bourne identifies a number of factors responsible for this.

Firstly, the gross debt of the advanced economies has to be refinanced to restore the growth process, following the crisis. These large financing needs will be a major call on global financial resources, leading to the crowding out of small economies in the process. Gross government debt in 2012 is much over 60 percent in the US (106.8 %), UK (84.7%) Germany (78.9%) and France (89%). This is in the midst of downgrading of several of these advanced economies by the major credit rating agencies.

A second factor has to do with the position of commercial banks, which now display greater risk apprehension, and have engaged in deleveraging by reducing bank credit and overdraft facilities. This effectively chokes off the supply of credit for project finance. Also, high non-performing loan

⁶ Recall that domestic capital refers to the physical means of production produced within a country.

⁷ Export productivity refers to the productivity level that is associated with a country's basket of exports, relative to its per capita income. It indicates whether a country is specializing in relatively high value added, technology-intensive exports, intermediate or low value-added primary exports.

levels have led to increased loan loss provisioning and increased vigilance on the part of banks in lending. Small countries in the Caribbean have little scope for refinancing commercial debt or accessing new commercial debt. The transactions costs in dealing with small markets turn out to be high.

Bond finance has not offered great prospects to the small economies, as compared to the large emergent economies like Brazil and Mexico. At best, the smaller countries have been only occasional participants. Thus, although Latin America and the Caribbean as a whole remained attractive over the period 2010-2011, the smaller countries were not significant beneficiaries.

Moreover, several countries were downgraded by either Standard and Poor or Moody's, with the result that high risk premiums apply in their gaining access. Table 1.20 shows recent information on the ratings of selective Caribbean countries. Conditions may actually have worsened for some with negative ratings since then. Countries such as Belize and St. Kitts and Nevis, which confronted an unsustainable debt situation, have achieved some success in restructuring their debt.

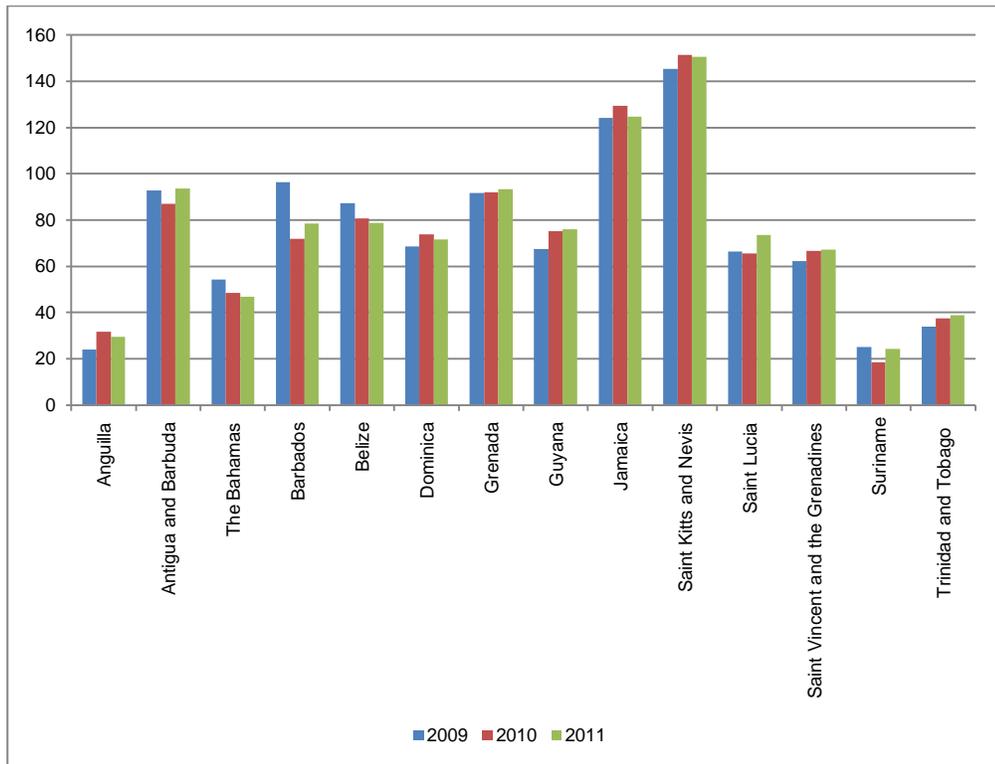
TABLE 19
RATINGS AGENCIES ASSESSMENTS

Country	Standard and Poor's			Fitch			Moody's		
	Rating	Outlook	Date	Rating	Outlook	Date	Rating	Outlook	Date
Aruba	A-	Stable	2/20/12	BBB	Stable	11/21/11			
Bahamas, the	BBB	Stable	2/20/12				A3	Stable	8/5/11
Barbados	BB+	Negative	2/20/12				Baa3	Negative	8/5/11
Bermuda	AA-	Stable	2/20/12	AA+	Stable	11/21/11	Aa2	Stable	8/5/11
Grenada	SD	Negative	3/13/13						
Jamaica	CCC+	Negative	3/17/13	B-	Stable	11/21/11	B3	Stable	8/5/11
Saint Vincent							B1	Stable	8/5/11
Suriname	BB-	Stable	11/29/11	B+	Stable	11/21/11	B1	Stable	8/5/11
Trinidad and Tobago	A	Stable	11/29/11				Baa1	Stable	8/5/11

Source: Sovereigns Rating List, Standard and Poor's, standardandpoors.com. Retrieved 25 February 2013. Fitch – Complete Sovereign Rating History, retrieved 25 February 2013. Moody's-Sovereign Ratings Summary; sovereign and supranational issuer ratings summary.

James (2012) and Gonzales (2012), like Favaro (2012), agree that the debt problem has been linked partly to persistent trade deficits and the need to borrow externally to finance imports and social programmes. The net result is that most of the countries of the Caribbean over the period 2009-2011 have overshoot the upper limit of 60 percent of debt to GDP, as seen in Figure 4.

FIGURE 4
PUBLIC DEBT AS PERCENTAGE OF GDP IN SELECTED CARIBBEAN COUNTRIES



Source: James, 2012.

Neither do corporate equity and debt figure prominently in the international flows to small countries. This can be explained by the fact that many of the businesses in the smaller economies are family owned enterprises. Local capital markets are relatively underdeveloped, and there is an absence of rating institutions that can provide independent information and risk assessment services, and reliable reports on corporate accountability.

At the same time, bilateral aid flows have dried up significantly since the 1990s. What aid exists from the US Government, is targeted at combating international narcotics trade and international terrorism. In the case of the United Kingdom, the other important donor of the past, there has been a strategic shift to countries and regions, which are extremely poor or are crisis torn. The Caribbean is now a minor destination for UK financial assistance. Generally, as Gonzales (2012) notes, Overseas Development Assistance (ODA) has suffered assistance fatigue, and has declined significantly since the 1990s.

D. Summary

The Caribbean has entered the second decade of the present century faced with the need to undertake a radical transformation of their economic structures just to maintain the social and economic gains that have been made in the half century over which they achieved the political status of self-government and independence from their previous colonial condition. The global economy has undergone major change with the North Atlantic countries on which the region relied heavily, experiencing eclipse by emerging countries in Asia, which are set to become the major drivers in the world economy in the approaches to the mid-21st century. That Caribbean countries are not well prepared for this fundamental shift in the global economy is established in the economic and social fall-out across the

region. Participants at the Roundtable in 2012 were unanimous in the recognition of the major crisis looming in the Caribbean economy.

II. Social protection in a crisis

This section summarises the papers that address the issue of social protection in the face of the crisis conditions that have afflicted the Caribbean in the first decade of the new century, and their continuing impact into the second decade. There has been considerable research that has focused on the evolution of social provisioning for the poor and the defenceless in the region.

Most analysts return to the recommendations of the Moyne Commission of the 1930s as the base of the foundation of formal provisions for the poor in the Caribbean. In the immediate post World War II period, the governments of the region introduced measures that provided not only public assistance, then known as “poor relief”, but also old age pensions for the elderly, and school feeding, with fortified biscuits and low fat milk for primary school children.

In the second half of the last century as countries gained political independence, programmes to address vulnerable groups expanded, sometimes driven by populist impulses on the part of Governments. In a number of countries, this led to a hodge-podge of programmes, and to wasteful use of resources, with some clients being able to secure benefits from more than one programme, while other deserving candidates were excluded.

Investigation at the official level by the Governments was encouraged by the Caribbean Development Bank and other multilateral institutions, which had developed a focus on the measurement of poverty. This led to the institutionalization of poverty studies across the entire region. Jamaica, however, has been the only country to conduct poverty studies with an almost fixed periodicity.

In respect of most of the other countries, there have been Surveys of Living Conditions specifically, and assessments of poverty on the occasion of Household Budgetary Surveys that are conducted at least once every ten years, to support the updating of cost of living or retail price indicators. By the end of the first decade of the 21st century, most Caribbean countries would have conducted two or more poverty assessments or surveys of living conditions within a fifteen year period at least.

Table 2.1 provides poverty and indigence levels, as well as the inequality index – Gini coefficients - for the countries based on studies conducted in recent years. In only one country was the

poverty level in single digits or under 10 percent – the Bahamas – and poverty was over 20 percent in most countries.

However, indigence was over 10 percent in a just a few cases. Inequality has been high generally, as shown by the Gini coefficient, which was well above 0.3 in most cases and even above 0.4 in a number of countries. Caribbean countries are highly unequal, therefore.

TABLE 20
POVERTY AND INDIGENCE RATES FOR SELECTED CARIBBEAN COUNTRIES

Country	Year CPA conducted	Poverty rate (&below poverty line)	Indigence (% in extreme poverty)	GINI coefficient
Anguilla	2002	23.0	2.0	0.31
Antigua and Barbuda	2006	18.3	3.7	0.48
Bahamas, the	2001	9.3	n/a	0.57
Barbados	1996	13.9	1.0	0.39
Belize	2002	33.0	13.4	0.38
	2009	41.3	15.8	0.42
British Virgin Islands	2002	22.0	1.0	0.23
Dominica	2002	39.0	10.0	0.35
	2009	28.8	3.1	0.44
Grenada	1998	32.1	12.9	0.45
	2008	37.7	2.4	0.37
Guyana	1999	35.0	21.3	0.43
Trinidad and Tobago	1992	21.2	11.2	0.42
	2005	16.6	1.2	0.39
Saint Lucia	1995	25.1	7.1	0.50
	2006	28.8	1.6	0.42
St. Kitts	2008	23.7	1.4	0.38
Nevis	2008	15.9	0.0	0.38
St. Vincent and the Grenadines	1995	37.5	25.7	0.56
	2008	30.2	2.9	0.40

Even where formal poverty studies are not being conducted with any regularity, there is commitment on the part of all the regional Governments to develop indicators that allow countries to report on their performance on the Millennium Development Goals.

A. Rationalisation of social safety nets

Since the 1990s, and more so in the last decade, there has been increasing concern to rationalize social safety nets. The experience in Asia with the Asian crisis and also in Latin America which suffered a lost decade in the 1980s, prompted research and analyses on the protection of the poor and most vulnerable in periods of severe downturns.

In Latin America, recognition of the devastation wrought on the poor led to experimentation and a widening of the ambit for pro-poor initiatives. Puente of Chile and Progreso of Mexico reflected the inspiration in this regard. A number of countries have since followed with conditional transfers to

the poor and vulnerable to elicit behaviour change on their part such that over time, they could reduce vulnerability or rise out of poverty and escape entrapment in poverty.

The Asian Development Bank has been credited with the elaboration of the concept of social protection defined as the “set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income” (Asian Development Bank, 2012).

The concept of social protection in the Caribbean has been adopted at the official level also with encouragement of the Caribbean Development Bank, which has been at the centre of formal studies of poverty in the region since the 1990s. Gillings (2012) notes that social protection in the Caribbean Regional Studies is broader than conceived by the Asian Development Bank. It embraces all interventions from public, private and voluntary organisations and informal networks that provide support to individuals, families, households and communities in their efforts to prevent, manage and overcome a defined set of risks and vulnerabilities.

According to Gillings (2012), safety nets are increasingly important during periods of economic hardship and declining state resources, particularly those impacted by structural adjustments. They are an integral part of the social protection framework. Gillings (2012), in reviewing programmes across the region, finds that:

- Targeting of beneficiaries is weak and not standardized across agencies: Overall, social protection for human development shows large gaps in provision, especially for the more vulnerable groups and the poor;
- The coverage of existing programmes is limited, the support provided is in many cases insufficient;
- There is a lack of an integrated instrument for identifying the vulnerable;
- There is an insufficiency in human resources to implement programmes;
- There is an absence of clear exit strategies for programmes;
- Monitoring and evaluation tools are not standardized, making it difficult to analyse data at a national level: a culture of learning from mistakes is yet to develop.

As Governments find themselves with reduced fiscal space, they are forced into adopting measures that are standard in the reform package of the International Monetary Fund (IMF). The nature of the adjustment package and the structure of social protection often become an area for political party contestation in Caribbean democracies.

Gillings (2012) suggests that one positive benefit of inevitable adjustment has been the attempt by Governments to rationalize on the operations of various services. She asserts, however, that safety nets cannot replace market-led activities and the state's provision of basic social services: safety nets provide a critical component of any national development thrust.

B. Learning from the experience in Latin America

Latin America suffered a lost decade in terms of economic development. This inevitably focused attention on the impact on the poor and most defenceless in these societies. As far back as the 1980s, UNICEF had pointed to the need for adjustment to be conducted with “a human face”. Data assembled by the organization established how devastating programmes of adjustment promoted by the multilateral organisations like the IMF and the World Bank had been, particularly on babies and children in countries experiencing structural adjustment. Since then, there has been greater care

exercised in identifying measures to protect the most vulnerable from the impact of structural adjustment.

Delamonica (2012) focuses specifically on the issue of child sensitive social protection, and adduces the experience of Latin America and internationally in addressing the needs of children in situations of economic crisis in the Caribbean. Delamonica (2012) argues that while society can arrive at an auspicious and virtuous cycle or macro-level synergy, in which economic growth enhances social development, which in turn, contributes to poverty reduction, which pushes the process of growth along, it can also be established that high growth rates might bear no relationship whatsoever to the lowering of infant mortality which is an indicator of poverty. Indeed, without high growth rates in recent years, a number of countries were able to reduce infant mortality to respectable levels consistent with quality of services available in developed countries. Table 2.2 demonstrates with comparative data, the performance of the region relative to selected countries in the rest of the world.

TABLE 21
COMPARATIVE INFANT MORTALITY DATA, 1990-2010

	Uner 5 mortality rate, 1990	Under 5 mortality rate, 2010	Infant mortality rate (under 1 yr), 1990	Infant mortality rate (under 1 year), 2010
Antigua and Barbuda	26	8	23	7
Argentina	27	14	24	12
Bahamas, the	22	16	18	14
Barbados	18	20	16	17
Belize	44	17	35	14
Bolivia (Plurational State of)	121	54	84	42
Brazil	59	19	50	17
Chile	19	9	50	17
Colombia	37	19	30	17
Costa Rica	17	10	15	9
Cuba	13	6	11	5
Dominica	17	12	14	11
Dominican Republica	62	27	48	22
El Salvador	62	16	48	14
Grenada	21	11	17	9
Guatemala	78	32	56	25
Guyana	66	30	50	25
Haiti	151	165	104	70
Honduras	58	24	45	20
Jamaica	38	24	31	20
Mexico	49	17	38	14
Panama	33	20	26	17
Paraguay	50	25	40	21
Peru	78	19	55	15
Saint Kitts and Nevis	28	8	22	7
Saint Lucia	23	16	18	14
Saint Vincent and the Grenadines	27	21	21	19

(continues)

Table 21 (continues)

	Under 5 mortality rate, 1990	Under 5 mortality rate, 2010	Infant mortality rate (under 1 yr), 1990	Infant mortality rate (under 1 year), 2010
Suriname	52	31	44	27
Trinidad and Tobago	37	27	32	24
United Kingdom	9	5	8	5
United States	11	8	9	7
Uruguay	23	11	20	9
Venezuela (Bolivarian Republic of)	33	18	28	16

Source: Henry, 2013.

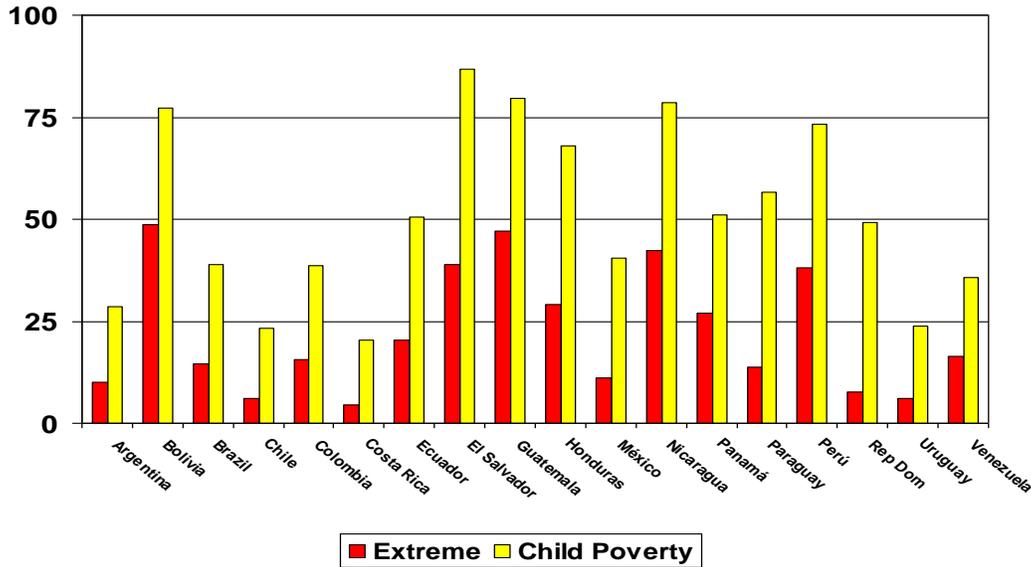
In other words, one cannot wait for economic growth to reduce mortality rates among children under five years of age. Public policy may be directed ultimately at the achievement of all three objectives of poverty reduction, economic growth and social development. However, there are intervening factors that determine the outcome on these variables, like the structure of income distribution, the progressivity in the system of taxation, the extent to which employment is being generated in sustainable value adding activities, and the quality and quantity of basic social services.

This fact has to be taken into account in the current environment of a severe economic crisis in the region. Delamonica (2012) argues that crisis is actually a recurrent and normal event. However, some crises are worse than others: the historical records shows that there have been such crises as the Tulip mania of 1630 and the Great Crash of 1929, and others that have predated the current crisis, in terms of wideness of impact.

It is easy to trace the transmission mechanisms of the Financial Meltdown in the US and weaknesses in policy in both the US and the EU. This led to the international credit crunch which impacted capital flows, exports of goods, tourism, remittances and prices of commodities, eventually creating a slide in output, government revenue and employment in countries in the Caribbean, and finally showing up with deleterious effect on family income and the quality of life for children.

Estimates of poverty tend to be based on the needs of adults, and underestimate the needs of children. Child poverty might be seen in terms of access to nutrition, education, water and sanitation, primary health care, housing and information. Deficiency in any one area can have a severe impact of life chances, and even on life. On that basis, child poverty in Latin America on the basis of recent data, is alarming as can be seen in Figure 2.1, child poverty exceeds 50 percent in Bolivia, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay and Peru.

**FIGURE 5
CHILD POVERTY IN LATIN AMERICA**



The experience in Latin America shows that although child poverty has been recognized as an area for intervention by the Governments, it has not escaped the challenges of targeting in the programmes that might have been introduced, namely of F mistakes ie failure to reach the target population, and E mistakes ie excessive coverage or leakage. In either case, there is inefficiency and social fall-out.

One of the more frequently used measures is the application of conditional cash transfers (CCTs). However, according to Delamonica (2012), while simple cash transfers can work, there has been no reliable and systematic evidence that conditionality works in reducing poverty or increasing access of the poor to services. There is the methodological issue to be addressed: is the problem, the lack of income of the poor, or the condition of the poor person?

A review of educational outcomes at the primary school level for students participating in CCTs, shows mixed results. While CCTs are not to be ruled out, there is need for clarity of purpose with a more generalized approach through child sensitive social protection, given the different risks and vulnerabilities that might be the focus of attention, including:

- Care for children who are victims of abuse, neglect, violence, exploitation, trafficking;
- Insurance against external shocks;
- Leveling the playing field (e.g. education grants for children in income-poor families);
- Reducing income-poverty (e.g. cash transfers);
- Social integration/inclusion (lowering inequalities).

Delamonica (2012) views the systems in place in the Caribbean as uneven, fractured and heterogeneous: major differences apply across the countries, and within countries, there is a lack of coherence.

C. Labour protection

Downes (2012) examines labour protection as a mechanism of social protection in the Caribbean. However, his underlying premise is that labour protection, like social protection, has to be supported by resources deriving in the final analysis, from the productive system. He notes that research has shown a slowing of productivity growth in the Caribbean over the last four decades. Indeed, the Caribbean has lagged behind Latin America, East Asia and the Pacific. The enhancement of productivity may require greater labour market flexibility, which may involve numerical flexibility, and thus reduction in numbers of workers in enterprises where their productivity is less than their wages, but might include their absorption in growing activities.

Labour market participation or employment defines the level of welfare for large sections of the population. In the face of continuing high levels of unemployment, Caribbean Governments are anxious to avoid lay-offs and an increase in unemployment, in the rationalization of labour to improve productivity. In such circumstances, labour protection by itself, is inherently a constraint on productivity growth.

Over the years, given a strong trade union movement, and cooperating governments, there has developed a wide range of labour protection measures. These cover both mandatory and non-mandatory measures, including:

- Unemployment insurance/assistance;
- Minimum wage and wage subsidies;
- Overtime and special period payments;
- Severance/redundancy pay
- Holiday with pay;
- Special leave (maternity, paternity, sick leave);
- National insurance payments;
- Advance notice for dismissal/pay in lieu of notice;
- Protection of fixed-term, part-time and temporary work contracts;
- Penalties for unfair dismissal;
- Seniority for promotion;
- Occupational health and safety conditions;
- Occupational licensing;
- Pension and separation arrangements.

According to Downes (2012), evidence mainly from developed countries suggests an ambiguous effect of existing labour protection measures on productivity, i.e. the effect can either be negative or positive.

There is little documented evidence for the Caribbean, except that one might note that labour laws have not changed significantly over the years, and provisions in collective bargaining agreements have provided greater protection and benefits to workers, without there being any focus on productivity growth, per se.

However, there is temporal or working time flexibility, and this may be covered by collective bargaining agreements. Numerical flexibility is less common and is constrained by labour legislation relating to severance and redundancy payments and to unemployment insurance which is provided in

Barbados. There is also some amount of contract labour and outsourcing to get around the law, particularly in sectors that are not unionized.

Legislation relating to severance and redundancy exists in several of the countries. However, only in Barbados is there in place unemployment insurance. In effect, severance and redundancy legislation render labour a quasi-fixed factor of production.

There have been some attempts at financial flexibility i.e. pay for performance, through the collective bargaining process with some limited success. On the other hand, memoranda of understanding in Jamaica and social compacts in Barbados constitute a restriction on numerical flexibility.

In respect of functional flexibility, there is Occupational Health and Safety legislation in most places now and in the case of Barbados, there is the Employment Rights Bill. These standards and rights are now part of the collective bargaining process, and circumscribe how employers might operate.

There are national minimum wages that are set in the OECS, Jamaica and Trinidad and Tobago, while in Barbados, minimum wage applies to certain occupations. Reverse tax credits for low income workers apply in Barbados, and there are also welfare-to-work programmes in a number of countries.

State employment programmes (SEPs) now exist in most countries and are designed to provide short term employment and income to workers who face great difficulty in securing regular employment in the labour market. Governments have been sensitive to the challenge of structural unemployment, and seek to mitigate poverty by SEPs. At the level of the family, remittances from members abroad have served the purpose of social protection, through private transfers: there are certainly labour market implications since remittances help set a the reserve price for labour.

Anti-poverty programmes provide social benefits by way of welfare-to-work. Jamaica has institutionalized conditional cash transfers through the Programme of Advancement Through Health and Education (PATH), to assist the poorer households with unemployed persons and children, and this model has attracted attention in other countries and is being adopted elsewhere in the Caribbean. However, nowhere has social protection been developed in the region in such a way that the flexicurity model that applies in Denmark can be readily adopted.

Downes (2012) concludes that it is imperative to increase productivity in the Caribbean, and changes are needed in the labour market, given the existing legislation, and the dynamics of change in the economic and social environment of the region. Productivity growth is imperative for sustainable labour protection. In effect, the existing labour protection machinery provides short-term benefits to workers, but not address the need for the labour market to adjust to support long term growth in employment, which in the Caribbean context, revolves around the international competitiveness of labour and thus on its relative productivity vis-à-vis competing countries.

D. Summary

Undoubtedly, social protection has been expanded across the region, and governments have sought to maintain sizeable budgetary allocations for a number of programmes. The focus on poverty in the last two decades has brought even more resources to bear on the structural factors that cause and maintain high poverty levels across the region.

Although there might have been reverses in poverty levels as inefficiency in institutional structures and straightened fiscal circumstances compromise the efforts at poverty reduction, indigence or food poverty has been licked. Generally, the Caribbean might have done better in reducing severe poverty than has been the case in Latin America. However, the region has been much

slower in the adoption of programmes like conditional transfers etc, which may be more efficacious in the targeting of transfers.

The social protection machinery is not limited to transfers, direct and indirect to the poor, but includes a plethora of measures some of which are applied in interventions in the labour market of the countries of the region. The region is still at some distance even in the best of cases, in the development of a model of social protection that is coherent and consistent across the various clients.

E. Recommendations

Beyond the improvement of labour productivity in the labour market, and the reorganization of the economy to achieve sustainable growth, the main recommendations on social protection in the period of crisis come from Gillings (2012), who suggests that countries move from the social assistance mode to one of social development.

This will require the integration and harmonization of existing social assistance programmes, and their refocusing on protecting the consumption of the vulnerable and poor and promoting investment in their human capital. It will involve also bringing together disparate programmes, which have developed piecemeal to deal with specific issues or groups.

Most importantly, it will be necessary to establish the institutional capacity and data resources to ensure the effectiveness of programmes, which involves at a minimum, monitoring and evaluation processes from the outset. The introduction of PATH in Jamaica provides a concrete example of the kind of refocusing required.

Under conditions of severe fiscal constraints, the governments of the region have very little room to manoeuvre and the maintenance of anti-poverty programmes have been threatened by the crisis. The first order of business is to ensure effectiveness, efficiency and equitable reach to the vulnerable with the available resources.

III. Pathways to transformation: overcoming the crisis of the Caribbean economy

This section pulls together the more important recommendations of the Roundtable in the context of the crisis faced in the Caribbean in the second decade of the 21st century. There was general agreement among participants at the Roundtable, that the crisis is unprecedented in recent memory. The international economy is being transformed with the most critical development being the shift in the centuries old dominance of the countries of the North Atlantic and the rise of the BRIC, with China having become the second largest economy in the world.

The foundation of Caribbean economies, as part of the world economic system, dates back to their incorporation as tropical plantation outposts by the erstwhile colonial powers. The achievement of political independence did not result in any radical shift in the direction of trade of newly independent countries of the Region. The crisis suffered in the last decade in the international economy has provided an important lesson to the region. There is no return to the pre-crisis state of the world. The Caribbean has to find a new dynamic to power regional economies.

A. Economic drivers

James (2012) and Gonzales (2012) propose the promotion of new drivers of growth and development in the region. These are identified as high-value services such as education and the output of the creative industries. Favaro (2012), while recognizing the need to build a new economy, argues that there is need for a detailed study of new export oriented activities: there are many more “unknown” than “known” characteristics in the new economy.

James (2012) and Gonzales (2012) see the need also for active search for new competitive activities that can drive growth in the region. However, they point to key elements of the outline in the new economy. Generally, the shift from reliance on the export of primary goods and low-value services to high value services such as education and health services involves an improved capital/export ratio, which in turn is dependent on an increase in domestic capital in the economy: domestic capital is the physical means of production produced within a country.

In the radical restructuring that the region has to undertake, it will need to intensify the skill and R&D content in its exports, according to James (2012) and Gonzales (2012). A correlative of this thrust in the use of domestic capital, is the strengthening of import productivity⁸, or the efficiency with which the region uses foreign exchange. A complementary factor in securing greater value from FDI is in the better harnessing of technology and skill transfers for the development of domestic capacity through education and training and for the development of domestic capacity for R&D. Gonzales (2012) identifies the factors that might contribute to the transition to innovation driven stage in the production structure.

An underlying objective is the boosting of competitiveness of exports on regional and international markets. This involves raising productivity and efficiency in existing sectors including in its flagging traditional agriculture, tourism and other sectors and a search for new areas of comparative advantage, including aspects of the creative industries, some with the copyright based income. There is need for diversification within tourism, to include health, sports, marine and heritage tourism. High value niche agro-processing is also an area in which the return on investment might be high.

James (2012) points to three important features of the new paradigm that would be critical to the development of regional economies. The first is the importance of domestic capital. This requires a recognition on the part of policy-makers that there are indeed many areas in which the ingenuity and the talent of the population are deployed in the development of capacity from domestic knowledge, technology and physical resources.

The invention of the steelband in Trinidad and Tobago has been seen as one of the more outstanding examples of the process at work. The Jamaican music industry that has become a major export is another example. It is also evident in the area of food –Jamaican pattie and Trinidad roti are indicative of the new possibilities.

A second important feature in the new paradigm is the attempt to adopt and adapt technology imported through FDI or acquired by domestic firms, and their use in ways that extract and maximize value beyond what might have been originally intended. This depends on internal capabilities and creativity and involves what others have called “technological blending”⁹.

Given the inevitable heavy reliance on imported technology in these small economies, and therefore the high foreign exchange costs in production, efficiency and creativity in the utilisation of technical inputs from abroad, becomes an imperative in national development. One of the more remarkable examples, in recent times, is the use of mobile phones in banking and other transactions in Kenya¹⁰.

A third feature is the possibility offered by the investment in R&D of new technology on the part of people in the Caribbean, through experimentation and carefully crafted mechanisms to advance science and technology. This involves the establishment of relevant infrastructure and endowment with adequate resources to develop, test and eventually commercialise new technology. The presence of a cadre of research and development personnel constantly abreast of developments on the cutting edge, is a necessary though not sufficient requirement for breakthroughs in knowledge and in the development of new technology and addition to the fount of scientific output.

⁸ Import productivity is a measure of GDP per unit of imports. It is in effect the reciprocal of the Keynesian marginal propensity to import and measures the efficiency in foreign exchange use, since foreign exchange is a scarce resource.

⁹ See James, Jeffrey, “Technological blending in the age of the Internet: A Developing Country Perspective,” *Telecommunications Policy*, 29, 2005, and Bhalla, Ajit, “Technological Blending: Frontier Technology in Traditional Economic Sectors,” *Journal of Economic Issues*, Vol. 20, No.2, 1986.

¹⁰ See <http://newswatch.nationalgeographic.com/2012/07/04/the-invisible-bank-how-kenya-has-beaten-the-world-in-mobile-money/>

1. The productivity dimension

The Roundtable did address the improvement of productivity, which emerged as a cross-cutting issue among the countries of the region. At a generalized level, James (2012) argues that policy makers should direct their attention in the promotion of productivity growth to import productivity and the production and export of products and services that make intensive use of domestic capital.

Favaro (2012) sees the increased marginal productivity deriving principally from new FDI in the tourism. There is concern that the increase in the debt burden as a result of the share in interest payments in total government spending might displace private sector spending on investment that would yield high productivity.

Downes (2012) focuses specifically on labour productivity, and argues that the region needs to invest in human capital with firms engaging in specific training to raise productivity levels. He proposes the Flexicurity Model of social protection, modeled after Denmark, in so far as it allows for some degree of flexibility in labour market operations to raise labour productivity and to promote economic growth: the model allows for a combination of productivity enhancement with labour market protection. He recommends major reform at the legislative, institutional and behavioural/cultural levels in approximating the flexicurity system to work in the Caribbean to achieve productivity growth, with social protection.

James (2012) and Gonzales (2012) invoke Porter's concept of national productivity which includes diversification, innovation and value-added, as being relevant to countries of the region. There is need to increase productivity of all factors of production through improved systems of research and development, innovation and management. A productivity focus in policy development is a necessary though not sufficient condition for improved export performance.

Productivity improvement has to extend to the non-tradable sector and to the utilities, the cost or the dearth of which limit the ability of these countries in attracting new foreign investment in new service industries in the development of competitive non-tourism services. As a whole, the Governments of the region have to raise the quality of public services to levels comparable with Mauritius, South Korea, Singapore and Taiwan. One obvious example is the cost of doing business, which tends to be high in the region relative to other countries.

2. Increasing capital service exports

At the heart of export growth is the development of domestic capital, according to James (2004). Efforts to restructure the economy should focus on growing capital service exports faster than consumer service exports. Given the current profile of industries, Caribbean countries can usefully start to invest in the following capital services: education, healthcare and copyright-based services and related products such as music, radio and film. Further, for the effective export of such services, CARICOM governments should move to reform and upgrade the ICT infrastructure and to encourage private competition in these sectors to promote technological modernisation.

Export of tertiary education services, according to James and Gonzales (2012) should focus on attracting foreign students and enterprises to the Caribbean education system. Many of these students and trainees would remain to invest in the region and many would return home to build brand loyalty. Significant success in this direction has been achieved in training in medical services. This should be expanded to include all other relevant disciplines.

To target the development of enterprise generally and the capital sector in particular, Caribbean societies should reform the existing post-secondary system along two distinct lines:

- Introduction of competency-oriented and problem-solving education; and

- Training which makes intensive use of the internet with the fastest possible broadband to enable full access to all potential national candidates.

3. Increasing private sector role in capital service industries

Caribbean countries should systematically displace some of government's involvement in the capital service industries by encouraging private enterprise that is oriented to the export of such services. Countries should use market forces to engineer the required change in the structure of the economy to ensure an adequate link between technological progress, the growth of capital service industries relative to consumer supply industries, and the growth of capital service exports relative to total exports.

Governments would need to undertake appropriate partnerships with the local and foreign private sector to ensure a strong focus on quality as it promotes expanded investment in domestic capital for export. The example of the high-performing University of St George's model is useful, with the state establishing the institution and then opening it up for international investment collaboration that is having a major impact on the quality and creativity of both the local and international offerings at that university. The elements of the model are worthy of emulation by other Governments.

B. The open regionalism model

1. Strengthening of the CARICOM Single Market and Economy (CSME)

The main aim of the CSME is to integrate the economies of CARICOM into a unified, coordinated and harmonized market where people, goods, services and capital can move freely in a single economy. This is expected to stimulate greater efficiency and competitiveness, thereby providing a platform for gaining and sustaining market share in international markets for goods and services. This mix of regional integration and openness to the benefits of the international market is the crux of the open regionalism model. This involves resolving the tension between competition among countries of the Region and the deepening of their integration.

The countries need to enhance the framework for full implementation of the Single Market. This would involve new governance arrangements at the centre of CARICOM, especially: an executive authority with powers to implement, question and propose; a regional legislative consultative body that functions effectively; adequate separation between the executive from the decision-making political bodies; and the entrenchment of decisions in law as they are made and enforced by a regional court such as the Caribbean Court of Justice.

Other measures include initiatives to strengthen international competitiveness in CARICOM, through:

- Developing competition policies; implementing competition law and training of persons to the new competition regime;
- Providing capacity building assistance to Belize, Suriname, and the OECS to draft and pass national competition legislation, and along with Trinidad and Tobago to enforce the legislation and establish national competition authorities;
- Support for the CARICOM Competition Commission (CCC) accelerate the implementation of its activities, particularly in its effort to harmonize Consumer Protection Policy and to develop Caribbean Competition procedures and rules in areas such as the treatment of monopolies, mergers and acquisitions and other restrictive business practices in the CSME;

- Development and implementation of a sanitary and phyto-sanitary measures (SPS) regime;
- Enactment of new legislation by member states, as well as assignment of the requisite technical and financial resources for the effective functioning of Caribbean Public Health Agency (CARPHA);
- Implementation of new dispute settlement mechanisms at the national and regional levels as well as the provision of information in the interests of consumers;
- Adoption of a framework CSME Integration Policy on Government Procurement;
- Harmonisation of regional customs legislation, and the adoption of appropriate measures to promote export of goods and services, including the development of effective trade information systems and trade facilitation programmes, and the development of a Single Administrative Document (SAD) for submission of customs declaration, simplification of Import and Export procedures and the development of a framework of valuation procedures in accordance with Article VII of the GATT;
- Empowerment and capitalisation of the Caribbean Development Fund to combat regional disparities, and to assist weaker members to face competition in the CSME;
- Improvement of the business environment to attract investment, including through the implementation of a Community Investment Policy and a CARICOM Investment Code to regulate businesses in a more liberalised environment.

2. Adoption of a strategic Regional Competitiveness Policy

The promotion of greater competition and a more effective single market will involve the adoption of a strategic policy at the regional level in respect of competitiveness. Several requirements follow and a number of measures need to be adopted, including the following:

- Several areas such as clustering, joint research and development, joint marketing, training should be part of this new regional strategy;
- Potential non-tourism services areas of opportunity should be further exploited, namely off-shore banking, education, financial services, energy services, entertainment, transport, information services and telecommunications;
- Implementation of the Community Agricultural Policy (CAP) as well as improvement of information, training, transport, storage, research and development, financing, technology transfer, risk management and marketing could alleviate constraints related to food production and security and expand rural income;
- Given competition primarily from countries outside the region, the Caribbean should develop a common tourism policy (investment, pricing, FDI policy) to benefit from synergies and to reduce the cost of marketing and other operations in the sector;
- The region needs to develop a modern strategy for boosting competitiveness in tourism through product differentiation (diversification and specialization) and enhancing the quality of service, given the decreasing market share in the sector;
- A regional harmonized regulatory, legal and policy framework for air and maritime transport should be elaborated;
- Maritime assets should be expanded and modernized; larger scale, specialized vessels created; and seaports upgraded;

- At the same time small vessel and schooner services used for intra-regional trade in agricultural and other products require support in the form of training and other assistance;
- A plan and programme for the efficient use and management of regional air space are also required. The question of strengthening safety and security should also be addressed through technical assistance and training of inspectors and a regional safety management system; and
- Given the high dependence on and cost of imported fuels in the Caribbean with the exception of Trinidad and Tobago and Suriname, renewable alternative energy—solar, geothermal, hydroelectricity has to be more actively pursued and interisland connectivity through the provision of proper incentives should be promoted.

C. Emerging markets and “South-South” cooperation

The region has recognized the importance of the emerging markets, and there is a mutuality of interest. Among the emerging markets, Caribbean countries have turned especially to Brazil, Venezuela and China. Brazil and Venezuela have been active in the region and to some extent rivalling each other for influence. Brazil has opened a number of diplomatic missions throughout the region and has offered financial and technical assistance to Caribbean states over the last two decades, a significant part of which has been focused on Guyana and Suriname.

Venezuela’s influence has grown and it has become a significant donor through its concessionary oil facility. PetroCaribe loans to the Caribbean surpassed \$4.5 billion in 2010, making Venezuela the largest single source of concessionary finance to Caribbean countries.

China’s influence has grown too on the basis of trade, credits and investments, which have increased significantly since the 1990s. There has been a large grant component in many of the loans for construction, as well as investing in regional minerals, tourism and agricultural industries like sugar. The Chinese private and public sectors are now more involved in the ownership of sugar production, tourist resorts and minerals. Direct flights to the region from Beijing are also underway in an effort to encourage Chinese tourism.

By 2010, having grown by 24 per cent annually for the preceding six years, trade between China and the Caribbean had reached US\$ 7.2 billion. China announced, in the Third China Caribbean Economic and Trade Cooperation Forum in September 2011, that it would provide US \$1 billion in soft loans to Caribbean countries to finance infrastructure projects, which has to be seen against the backdrop of its aid and soft loans in support of the 2007 Cricket World Cup.

Another development has been the growth of regional alliances outside of CARICOM, which offer new sources of cooperation, and compare favourably against the apparent stagnation of CARICOM. In addition to the Venezuelan inspired Bolivarian Alliance for the Americas (ALBA) and the Union of South American Nations (UNASUR) which was established in May 2008. The Caribbean countries participating in ALBA are Antigua and Barbuda, Cuba, Dominica, and Saint Vincent and the Grenadines.

Other members are Ecuador, Venezuela, Bolivia, and Nicaragua. Paraguay and Guatemala have maintained an observer status. ALBA seeks to address issues of poverty by laying more emphasis on income distribution and the meeting of basic needs of member states. Cooperation in health and education is also central to ALBA, with countries benefitting from the supply of doctors and nurses to member states, or through training of their nationals at institutions in Cuba. The CARICOM members view ALBA as another source of diversifying their foreign relations and reducing their dependence on a few traditional partners.

The main objective of UNASUR is to integrate the entire South American continent at the political, social, cultural, economic, financial, environmental and infrastructural level, by promoting regional cooperation in areas that facilitate development, such as trade, infrastructure, energy, research, innovation, technological transfer and technological production. It seeks to transform the South American continent into a major geopolitical actor that will make the region a dynamic force in international relations.

Guyana and Suriname have ratified the UNASUR Treaty, and stand to benefit from assistance in fighting trans-national crime, climate change and energy security, provided that CARICOM appropriately reforms its governance structure and develops a strategic agenda. Whether Guyana and Suriname can act as a bridge between UNASUR and CARICOM also depends upon the evolution of geopolitical dynamics in the region and the role of other groupings, including the newly formed Community of Latin American and Caribbean States (CELAC).

As continental countries, Guyana and Suriname themselves have the potential to benefit from improved regional infrastructure, environmental management, and human security, as well as gain from access to much larger market for goods, services and investment that UNASUR will offer¹¹. As the north eastern part of Brazil develops and attempts to forge new links with Guyana and Suriname, there is every incentive for these two countries to seek to participate in UNASUR.

1. Regional strategy with emerging markets

CARICOM should craft a clear strategy to integrate with emerging markets in the south to provide an expanded market and to promote cooperation on technology, innovation and international negotiations. Gonzales (2012) applauds the CARICOM-Brazil Commission which has elaborated a programme of collaboration in education, agriculture, and construction. There is welcome interest of Brazilian investors in natural resources in the region. CARICOM has to become proactive in respect of:

- Initiatives to develop new markets and to foster greater investment and development assistance from the South. On the economic front, a major noticeable shift is the search for investment and markets especially in Latin America and Asia.
- Entry into organizations such as UNASUR, which promote new opportunities and can bring benefits to CARICOM itself.

However, CARICOM needs to plan ahead to determine how it can better leverage integration with these groupings to promote regional development. This requires a strategy to develop competitive products and services that are appropriate for trade in these markets.

2. Strategy to link Central America and the Caribbean

Deepening market integration among countries in the nearer Central American region has been the subject of a special study by Beteta (2012), and was presented at the Roundtable. Beteta (2012) explores the links that have been developed between member states of both regions. The study involved an in-depth analysis of recent trade data series, at the disaggregated product level.

There have been a number of cooperation agreements established since 1998, between member states of Central America and states that are members of CARICOM. The Dominican Republic is a member of the Central American Common Market, but is also a member of CARIFORUM. However, there is no formal agreement that brings both regions together as a whole.

The developing links have been based on the initiatives of private firms from both regions seeking opportunities in member states in the other region. Although there remain barriers in the form

¹¹ This market includes 400 million people and has a GDP of approximately US\$ 2.3 trillion.

of limited airline connections and sea transportation, and such institutional restrictions as visa requirements, there have been encouraging signs.

He proposes that the countries build on these links and deepen the trade and economic relations between the two groups. The opening of markets on both sides will improve competitiveness among the countries and encourage specialization, as is already evident in the trade in goods and services, and in investment flows in either direction.

Beteta (2012) recommends immediate initiatives in the following areas:

- The negotiation of trade agreements, tariff reduction and the simplification and automation of administrative formalities;
- Promotion by Chambers of Commerce of trade and opportunities for individual products;
- Facilitation of trade by reconciling the regulatory and legal framework for trade and investment;
- Development of greater and better data bases on existing services and their costs;
- Service coordination in maritime transport.

The links between the two regions is an example of deepening of integration within the nearer south, which can be highly beneficial to both regions. Gonzales (2012) also supports the use of such alternative regional mechanisms and alliances as new sources of cooperation. In the context of stagnation of the Caribbean integration, the rise of wider regional cooperation and integration schemes beyond CARICOM should not be ignored.

a) Financing development

Commentary on the financing of development is unanimous on the challenges faced by Caribbean economies. The debt burden looms large in all of this. James (2012) and Gonzales (2012) agree on the worsening situation faced by the countries in the access to international finance.

Having confirmed the gloomy prospects of down-grade by the rating agencies and the decreasing flows of aid and assistance to the Caribbean from funding agencies, Bourne (2012) addresses the options that should be pursued by the countries of the region. He suggests two options:

- Renewal of the approaches to securing foreign investment;
- Borrowing from the multilateral financial institutions and regional development banks.

The first option may be available only to a limited number of the countries of the region, mainly those with stronger manufacturing bases and prospects, and countries with mineral resources. In respect of the second option, small countries will need to satisfy portfolio risk criteria of the institutions and display development effectiveness of the resources that they are seeking to secure, based on the tests set by the institutions. Correlates of this option involve a number of measures that Bourne (2012) recommends for these countries.

Given the huge importance of foreign exchange resources, loan financing has, a priori, to be set against the prospective contribution of the activity or sector to an expansion in export earnings. Even though there may be excess liquidity in the domestic banking system, investment projects, whether in the public or private sectors, have to be calibrated against their contribution to, or utilization of scarce foreign exchange, having regard to its role in the economy of small countries.

Secondly, there is need for countries to address resource efficiency and to implement policies to improve productivity, by whatever yardstick: the comparatively low levels of productivity dictate targeted interventions across a wide swathe of areas. Thirdly, Caribbean countries have to seek to win international reputation for sound financial management. This can be achieved by their focusing on fiscal stability and debt sustainability, according to Bourne (2012). James (2012) and Gonzales (2012)

agree and propose that countries of the region adopt robust systems for public expenditure management.

One challenge that Bourne (2012) has not addressed is the decline in the ratings of regional development banks, a difficulty that has been experienced by the Caribbean Development Bank, which is a primary lender of development resources to Caribbean Governments and some of the private sector of the region. A decline in its ratings will trigger an increase in the interest rate in the loans made to it for un-lending to Governments.

Many of the economies are stalled in a quagmire of debt and, in their routine resort to the IMF, receive the standard recommendations of fiscal consolidation, and cut-backs in public expenditure with implications for employment in the public services and allocation to social services. James (2012) point to the need for raising the productivity of government investment to ensure that resources borrowed have a greater development impact. The fact that the countries of the region are the most indebted internationally did not prompt any proposals that seem to break with the past in stimulating growth and financing development.

By and large though, in the matter of financing development, there were no radical proposals made to the Roundtable, even though debt is one of the most serious constraints on the revival of Caribbean economies.

3. Emerging development initiatives

There are two areas of grave import to the region, in which there have been a number of initiatives in the recent past, but which need to be pursued with greater vigour given the tragic consequences of ignoring them or of inadequate response, namely food security and climate change.

a) Food security

The high dependence of the region on imports in respect of essential food supplies was dramatized by the escalation in food prices during the crisis in the latter part of the last decade. The Region could no longer avoid a search for food security, which would involve greater reliance on production within the region, being directed at the needs of the region.

Gonzales (2012) notes that a number of policy measures have been put forward to improve food security. At the broad level, CARICOM has developed a Food and Nutrition Security Policy Implementation Strategy, but a work plan is to be formulated. Oversight and Coordination of the policy strategy are supposed to take place at the national and regional levels. The CARICOM Secretariat is charged with mobilizing resources for capacity building, public education and advocacy, consensus building, information for decision making, and monitoring and evaluation.

Generally, the response of Caribbean countries at the regional level has been mainly under the Jagdeo initiative which started earlier to boost investments in the agricultural sector. Progress on this initiative has, however, been slow as the expected investments have not been forthcoming.

Apart from these CARICOM initiatives, Gonzales (2012) points to other regional efforts in which Caribbean countries are participating and have been undertaken by ALBA and the Latin American and Caribbean Economic System (SELA). ALBA efforts have focused on regional cooperation initiatives such as the Grand National Food initiative, which includes joint projects for agricultural production, food processing and food distribution. ALBA now operates the Pescalba Grand National project, initially started by Cuba and Venezuela, dedicated to tuna fishing and related activities. Other ALBA projects include the establishment of a Food Bank and the creation of a network for regional food marketing.

The member states, through CARICOM and on their own, have to remain fully engaged on the food security issue. Indeed, food security with the implications for expanding domestic and

regional production for domestic and regional demand and need, represents a break with the plantation past, which has been the foundation of region's incorporation into the international economy in the colonial period, when agricultural and food production was geared mainly for export, and all resources, in addition to land, were focused on metropolitan demand.

b) Climate change

There is no longer any debate on the possible impact of climate change on the economies of the region. Gonzales (2012) notes that over the last three decades, the Caribbean region has suffered direct and indirect losses estimated at between US\$ 700 million to US\$ 3.3 billion due to natural disasters associated with extreme weather events.

The Heads of Government of CARICOM have mandated the Caribbean Community Climate Change Centre (CCCCC) to develop a comprehensive regional plan for implementation of a strategy in which priorities will be established and responsibilities allocated, in addition to an investment programme, a governance regime and a monitoring and evaluation system.

This is consistent with the regional approach of CARICOM, in addressing the threats and challenges of climate change and the commitment to full and effective participation of the region in the international negotiations on climate change. Gonzales (2012) applauds the efforts of the region to work together, and to engage the international community as a solidary bloc in treating with the effects of climate change. This is the best approach for the countries of the region in dealing with the international community.

Gonzales (2012) proposes that at the national level, given the potential serious fall-out from climate change, including economic, environment and social impacts Caribbean countries need to include climate change mitigation and adaptation strategies in their development programmes, including a focus on green energy and building a green economy. Implementation of adaptation measures for such purposes will require assistance from the international community to strengthen both capacities as well as resources.

c) Governance

According to James (2012), the political system in the region has provided limited participation for the mass of the population in the decision-making process outside of exercising the right to vote in elections. There is need for political reform to make systems of governance more democratic and participatory. To make the legislatures more accountable, he recommends:

- Reform of the existing governance arrangements to ensure that members of the senate are elected thereby providing greater scope for the senate to operate independently of the executive.
- Removal of the veto powers of the law making process from the chief executive, whether Prime Minister or President, and locating it in a suitable constitutional majority in the Oversight Senate.
- Introduction of a routine rules-based option for plebiscites on any matter of law-making before the Senate, if any concerned citizen wishes and is able to take the steps necessary to triggering a plebiscite on the matter.
- Reform of the existing education system to add an elaborate multi-level programme of certifiable public education and information-sharing aimed at routinely preparing citizens for the responsibility of executive oversight and associated independent participation in joint decision-making processes.
- Introduction of open government data systems to make most government data routinely available to the public to properly exercise its oversight function.

4. Overcoming outstanding challenges

James (2012) and Gonzales (2012) identify a number of challenges that are cross-cutting and constitute a major barrier to the development and transformation of these countries. These include:

- Unemployment and the viability of the social safety net.
- Inadequate quality of education and training in the pre-school, primary and secondary education system.
- Inadequate quality in the healthcare system.
- High crime rates and personal insecurity.

To these, they add critical social issues to be tackled, namely:

- Persistent inequity in the distribution of land and other property.
- Inefficient taxation system.
- Ineffective implementation of policies.
- Low labour productivity in the public sector.
- Persistent problems of corruption.

Their view is that updating the arrangements for the rule of law, and reorganisation of the governance system with greater participation of the population beyond general elections, are the lynch-pin for success. While improved governance might be an antidote for a range of problems that afflict Caribbean societies, crime and personal insecurity have arrived at levels where they threaten the conduct of economic and social affairs in society, and require interventions that are immediate and cannot await the evolution to improved governance. For example, crime and the underground economy threaten to overwhelm the formal economy in some parts of sections of these societies.

With homicides and murders increasing and detection rates approaching single digits for serious crimes and crimes against the person in some countries, there is great urgency for recommendations and action in this area, which has not been addressed frontally, even by James (2012) and Gonzales (2012). Moreover, given the transnational connections that incorporate most Caribbean islands into the international narco-economy, and given the lack of resources to face the fire power already in place among criminal elements linked to this trade in Caribbean countries, it is unlikely that governments can overcome the challenge except with regional and international cooperation.

5. Accounting systems in the Public service

One area that was not addressed in much depth in the Roundtable is the improvement in the operations of the public service sector, which is large across the region. The reference to the need for monitoring and evaluation in the provision of social services has a wider relevance. Indeed the systems of budgetary allocations to the various agencies of the government encourages waste since there has been a failure to adopt output and outcome based systems that invite the use of monitoring and evaluation methodologies and systems in the public service.

The application of such approaches would have the other effect, not only of improving productivity in the public service but also in ensuring that the sector ceases to set low standards on the level of effort in a sector that that is an important determinant of the reservation price of labour. The alignment of output and outcome with allocations will be a radical shift in the operations of the public sector in most countries of the region.

In summary then, the Roundtable outlined elements of strategy to transform Caribbean economies in the face of the economic crisis that continues. These elements involve:

- i) Creating New Economic Drivers – high value services such as education and health services, creative industries including copyright based activities and other activities with improved capital/export ratio.
- ii) Promoting Productivity Growth – through high import productivity and export of domestic capital relying on domestic capacity for R&D, innovation and management, and supported by competency-oriented and problem-solving education.
- iii) Adoption of an Open Regionalism – through strengthening of the CSME with the supporting infrastructure of trade facilitating regulations, and simplification of import and export procedures, and by strategic initiatives to strengthen regional competitiveness by clustering and joint marketing.
- iv) Linking to Emerging Markets and Exploring “South-South Cooperation – by embracing opportunities for widening trade and integration with Central America and South America, through concerted policies crafted from a regional perspective for penetration and engagement with the emerging economies like China and Brazil.
- v) Renewal of Efforts to Secure Foreign Investment – with institutions that support ease of entry and establishment of foreign capital into the productive system of the country.
- vi) Improving International Rating of Caribbean Countries – by winning reputation internationally for sound financial management, and through robust systems of public expenditure management.
- vii) Improving Food Security – by concerted efforts at implementation of announced regional plans based on the expansion of domestic and regional production, geared to domestic and regional demand.
- viii) Addressing Climate Change – by regional approach as a bloc in engaging the international community and implementation at the national level of mitigation and adaptation strategies, including focusing on green energy and building a green economy.
- ix) Strengthening the Role of Competition in CARICOM – by enabling a better functioning of competition policy, and the passing and implementation of national competition legislation, and by developing Caribbean Competition procedures and rules.
- x) Enhancing the Framework Conditions of the Single Market – by the adoption and implementation of the CSME Regional Integration Policy on Government Procurement, Community Investment Policy and a CARICOM Investment Code.
- xi) Promoting New Actors and Institutions – by deepening integration and promoting competitiveness through developing export-oriented industry associations, and better informed consumer groups.
- xii) Reforming the Governance System – by adopting of arrangements that permit of greater scope for the involvement of the population in running the affairs through devolution and participatory decision making.
- xiii) Improving Accounting Systems in the Public Service – in pursuit of robust systems for public expenditure management, there will be need to introduce outcome and output based systems and monitoring and evaluation systems to calibrate expenditures with measurable indicators of performance.
- xiv) Improving Social Protection – by rationalizing resources, better targeting of the vulnerable, graduating out of transfers those who are best able to transition to self-reliance on the basis of conditional transfers and other arrangements to avoid creating dependency among those in need of assistance from the state.

The Roundtable treated with a wide array of issues, some engaging greater formal attention than others, while others reveal an implied though not expressed concern. For example, the improvement of labour productivity and of import productivity would require the upgrading of the labour force. This involves worker training and educational upgrading, which has not been fully recognized in much of the literature. The education system is geared to those in the school age population and young adults preparing for labour market entry. The training and retraining of those in the work-force and mature workers who have years of working life ahead is seldom addressed.

The adoption of robust systems for public expenditure management has to be based on a radical overhaul of the system of expenditure in most countries of the region. The adoption of the approach applied very successfully in New Zealand is worthy of emulation in the Caribbean with governments with declining fiscal space.

In the final analysis, the Roundtable has called attention to the radical departure that is necessary for most countries of the Region as they face a turning point that is as momentous as the Great Depression of the 1930s, or as what would have taken place in Caribbean societies on Emancipation in 1838.

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