

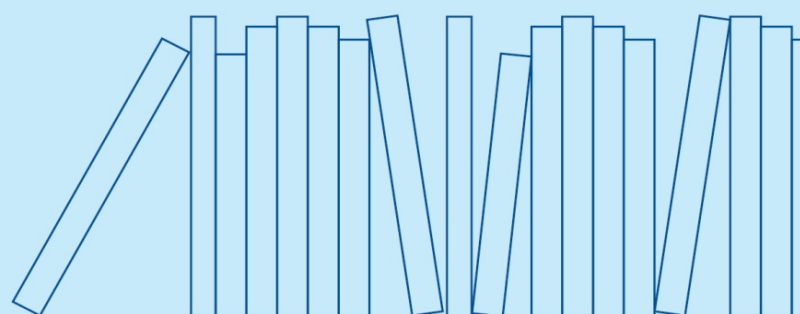
Economic Commission for Latin America and the Caribbean

ECLAC WASHINGTON OFFICE



The Caribbean on the edge: an anthology of ideas and writings

Winston Dookeran



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This document was prepared by Winston Dookeran, Interregional Adviser on Caribbean Affairs, under the supervision of Ines Bustillo, Director, with the collaboration of Tamara Lorenzo, Research Intern, at the ECLAC Office in Washington, D.C.

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**In Commemoration of Seventy Years of the Economic Commission for
Latin America and the Caribbean (ECLAC)**

Author's note

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Preface: The Caribbean on the Edge

By *Winston Dookeran*¹

It is in the Caribbean, some economic historians argue is where globalization begun. Always an open society, where harmony and discord work together, The Caribbean Sea has been a magnet to centuries of discovery voyages, a source of hidden wealth and a place where peoples of all continents call home. The new mantra of human rights had its genesis in Castro's Cuba revolution, and one hundred and sixty years before in Haiti's black rebellion and a surge for true independence.

It was in the latter half of the twentieth century, that several flags were raised almost in contradiction to the notion that "no island is an island". Today, in the new geopolitics and in a much more competitive world, a new phase of tense stability is emerging in the Caribbean, and with the changing balance of power new threats undermine the old premises of development and diplomacy.

This manuscript traces the evolvement of economic analysis in confronting policy frameworks, identifies the missing links in development strategy and looks ahead to a pathway on key imperatives in analytical leadership. In a period of persistent global uncertainty, fragile political and economic structures and the politics of 'populism' and the limits to institutional leadership, in more than one sense the regional polity and economy is in search of a shifting landscape.

Ms. Amina J. Mohammed, UN Deputy Secretary-General, in her opening remarks to the IMF-World Bank Spring meetings² made reference to the SDG's (Sustainable Development Goals) and big Data which she had earlier elaborated upon at the Forum for the Future of the Caribbean when she called for the Caribbean to make the institutions "fit for purpose for effective implementation" and "maximizing this time for global action"³. This captures key imperatives as the Caribbean once again enters into another phase in the new era of globalization.

Hence, as the title of this book suggests, the Caribbean is once again on the edge.

¹ With acknowledgement to Tamara Lorenzo.

² Meetings conducted on the week of 16-22 April, 2018 in Washington DC.

³ See Winston Dookeran and Carlos Elias, *Shifting the Frontiers*, Ian Randle Publishers, Jamaica, 2016. Page 321.

Prelude

The Caribbean on the Edge is part of a sequel of previous books. The first book is entitled Power Politics and Performance, the foreword for that book is as follows;

Forward by Honorable P.J. Patterson, former Prime Minister of Jamaica

Both inside and outside the Caribbean, the challenge to improve governance as a link to political development and sustainable economic growth, has, over the ages, engaged the acute interest of persons in the academic and political world.

In a fascinating collection of Essays of ideas which span the gamut from Thomas Hobbes to Mahatma Gandhi and against the background of writings from Machiavelli to Marx, the diligent authors of Power, Politics and Performance have outlined a convincing case that the best route for the optimum development of Small States requires the dynamics of a Partnerships Approach- with its citizens, regional institutions and the global community.

The book clearly identifies the myriad problems which face al Caribbean States: size, the building of human capital, the paucity of natural resources, the vulnerability to natural disasters, and the legacy of our shared history. To these, one may add a number of the dominant concerns facing all mankind in the world today: climate change and global warming; terrorism; trafficking of illegal drugs and illicit arms; the spread of infectious diseases with the dangers of a health pandemic; insecurity within the financial markets; volatility in the terms of trade and investment; and inadequate access to finance and technology. While this publication places the focus on Caribbean nations, it is hardly surprising that the insights and the prescriptions which it provides are in large measure also valid for universal application. The existence of the global village demonstrates that ‘No man is an island’.

Everywhere, there is a growing acceptance that the old and traditional style of governance is obsolete. But even though the old order is no longer extant, that new order for which we yearn has yet to be established as a result of constant cataclysmic changes virtually with each passing day. Consequently, there is still an ongoing search to create a brand new paradigm for the exercise of political power and the

management of national economies. To pass the final litmus test, any replacement must be accountable, responsible, inclusive, open and transparent or it will not survive.

Power, Politics, and Performance identifies the critical issues which have long been the subject of intellectual discourse and which now require urgent action if we are to chart a course for a safe and prosperous destination. The future prospects for the economic growth and social development of our Caribbean society must be guided by the compass of good governance. It must permit each citizen and broader elements of society to become fully engaged as we strengthen our democratic systems, to ensure the due observance of basic rights and fundamental freedoms for all; as we foster the fulfillment of individual potential and promotion of social well-being for the people.

While this welcome and penetrative work of scholarship is both timely and refreshing, it has yet to pass the exacting test of the political crucible. The joint authors, Winston Dookeran and Manfred Jantzen are no neophytes to the political scene. History does not afford them the unique opportunity of demonstrating how sound theories can be validated by resolute political action and, thereby, effectively secure the transformation which they so ably articulate.

It is high time that the perception of politics as an obstacle to the advancement of the Caribbean be removed. To become the catalyst for meaningful change, politics must be visionary but, yet, pursued through positive activism and principled purpose.

As we completed the first decade of the 21st Millennium, this is indeed the moment to espouse bold concepts which extend the frontiers of our knowledge, that also reflect a full appreciation of what is essential to fashion new political models, engender change and deepen the democratic process.

May this publication serve as an intellectual bridge to span the gap ‘between expectations and performance’; to stem the ‘rising tension between intention and reality’ and most importantly, to make the true art of politics synonymous with good governance.

The second book is entitled, Crisis and Promise in the Caribbean: Politics and Convergence, and included here is the Preface by Paula Morgan, the University of the West Indies, Jamaica;

Crisis and Promise in the Caribbean has emerged out of a fierce crucible. Winston Dookeran has for to his credit over three decades grappled with the politics and development in the complex, multi-ethnic, social order of Trinidad and Tobago and o the wider Caribbean. The issues and contestations are common to the new nations which climbed out of imperialism’s early experiment in global capitalism half a century ago to craft viable parameters of nation statehood. Many are, like Trinidad and Tobago, small island societies vulnerable to ravaging histories, economic vicissitudes, secondary migrations, natural disasters and competing ethnicities. The master craftsmen are therefore grappling with a herculean task of hammering out a viable social order.

Winston Dookeran’s comprehensive offering in this volume is exemplary of such an engagement. It is clear that it has been crafted from a multiplicity of viewpoints over a length of time. One senses the guiding hand of the economist, the politician, the foreign policy maker and practitioner, the thinker. One sees in the volume also the passage of time and regimes, the array of roles and positions, the insider/outsider locations, the evolution of viewpoints and ideologies. The factors which lend cohesion to the volume are concern for the people and faith in the power of good governance. The introductory sentences in the first essay reads: “despite the promise of our independence in 1962, we have failed as a country to forge a nation united by a single vision in pursuit of our goal to create a secure and vibrant participatory democracy”. This statement articulates a vision and an aspiration, defines a problem, expresses faith in a people, laments a failure and yearns towards successful intervention and resolution. This encapsulates the configuration of the entire volume. The collection is both visionary and practical. In its three parts: “New Politics: A Democratic Society;”, “Inclusive Development: Sustainable Growth,” and “Caribbean Convergence: Integration Without Borders” combines bedrock pragmatism with a fierce insistence on the higher ground an transcendent aspirations and ideals. The volume expounds the power of servant leadership, working in tandem with a fully engaged, educated and empowered citizenry, within reformed

systems designed for responsible governance as opposed to thinly masked, self-serving electioneering. Mindful of the dominant ethos and mindsets of this time, the writings refute cynicism and insist on the possibility of different order. On the pragmatic side, it speaks to the nitty gritty changes that will be required – constitutional reforms, poverty alleviation, local government enhancement, wise fiscal management, enhanced regionalism and so much more.

This collection gathers insights formulated over decades and charts new development spaces without which we will continue to be bound by manacles of our past. Eminently readable it is a valuable resource for students, academics, policy makers and practitioners – in short all who have put their hands to the challenging project of crafting the development of the Caribbean nations.

Introduction

By *Tamara Lorenzo*

The Caribbean on the Edge compiles and adapts different chapters written by the author during the last decades on the topic of Caribbean development. On the one hand, the document provides the reader with the opportunity to travel in time acknowledging the evolution of academia, paradigms, and frameworks regarding the Caribbean. On the other hand, it shows the reader how many of the action plans and strategies suggested through the years are still relevant and how many of the challenges and structures of Caribbean nations have not changed radically over the years, once again stressing the urgent need for action.

The document covers a wide array of topics within Caribbean growth and development, as it also takes on different approaches. The first couple of chapters are rich in historical backgrounds, providing information and analysis bringing the reader up to date with the different Caribbean challenges, while the last couple of chapters are mostly focused on strategies and action plans to achieve the objectives that had already been identified earlier on.

The analysis provided is not only theoretical but is constantly being supported with country-specific examples. Most of these examples focus on the experience of Trinidad and Tobago, the economy with the largest GDP in the Caribbean, however, in more than one chapter the author uses the development examples of European small states, and several chapters look at worldwide trends and experiences, trying to extract some of the best practices from around the globe and to adapt them to the Caribbean needs.

The strategies suggested include financial recommendations -such as integration of the financial system-, resource clustering, product integrations, changes in higher education and in the way of financing it, fostering knowledge economies, and even shifts in diplomatic approaches. Given this extensive range of topics, the policy recommendations of this work could be picked up not only by government officials, economists, academic scholars, and students but also members of the private sector and Caribbean entrepreneurs.

The document is divided into three different sections. Section I, *Confronting the Framework*, provides background and historical context for the discussion about Caribbean development. Through detailed analysis, it establishes the main challenges and prerogatives when it comes to the region's growth

and introduces some of the main themes that have been repeatedly present throughout discussions on Caribbean development. Such topics include the trade-off between regionalism and sovereignty, country size, political tensions, and trade policies. Moreover, the section provides some initial insights on how to move forward on the search for a new paradigm and on expanding the reach of the Caribbean economy. In chapter two, the author provides recommendations supporting an open regionalism approach, establishing that, “open regionalism includes some preferential elements, import barriers are low and it allows for the open-ended participation of its members in other trade agreements and regional schemes, so that these various groupings will function as building blocks towards global accords and an open and more transparent international economy”.

Chapter three explores four significant issues that, following the author's words, “will weigh heavily on the region's economic future”. In this sense, he immerses himself in studying the role of small states in global competition, the need to build a knowledge-driven economy, to expand the region's economic space, and to finally address the urgency of adapting the Caribbean to the new global environment.

Section II, *The Missing Link in Thinking*, expands on the relationship between politics and development. The author considers “politics as a key ingredient in the search for answers in development thinking and practice.” Furthermore, he introduces the distinctions -as well as associations- between politics, governance, political economy, growth, and development, while addressing several questions, such as: What is the key link between politics and development? What is the right balance between political economy and development, and what is the path to achieving it? What are the components of good governance? Can development be attained without growth? He also advances on Francis Stewart's question, is there a great transformation in development economics ahead of us?

Chapter four builds upon the World Bank's *Growth Report* (May 2008) to analyze the development experiences of different regions, extracting lessons learned from all around the world. The chapter goes through a brief summary on the first wave and second wave of reforms, studying how the predominant international paradigm shifted from an initial - almost exclusive- focus on macroeconomic stability to a different one considering the importance of institutions. Inequality is a recurrent theme throughout the whole section, given that this unequal distribution created by markets is what leads to winners and losers that, in the author's opinion, needs to be corrected by the political economy.

Chapter five develops on the new challenges in global governance, international finance, and multilateral diplomacy, together with the limitations of integration processes around the world. It picks up on Daron Acemoglu's and James A. Robinson's development strategy focused on inclusiveness and provides recommendations on how to move forward from the current economic strategy towards a more inclusive one.

Chapter six goes back to stressing the need for a new development paradigm able to reconcile and synchronize the political and economic logics focusing on equality and financial sustainability. This chapter uses the example of Trinidad and Tobago's overdependence on the hydrocarbon sector to show how political and economic changes are essential to bring the country towards sustainable growth. The strategy explored by the author in this chapter involves tax efficiency, fiscal effectiveness, and jobs.

Section III, *Pathways in Analytical Leadership*, is a section stressing towards action. These chapters are rich in strategies and action plans trying to frame the path for Caribbean engagement with the world in the near future. The initial argument that provides meaning to chapter seven is the idea that the process of Caribbean integration has reached its limits. As a direct response, the author suggests a new framework known as Caribbean convergence. In his words, “Convergence is not about creating something new, nor is it opposed to CARICOM integration. Rather, it is about bringing new political and economic dynamics to the process of Caribbean integration by reworking the existing frameworks in 'innovative' and 'flexible' ways.” The chapter goes through the main pillars and strategies of the convergence framework and provides recommendations for specific actions aimed at increasing Caribbean convergence.

Since the rise of financial liberalization, financial markets have been becoming increasingly important. So, what is the role of financial markets in development? This is the main question for which the author provides perspective through chapter eight. Will there be a shift of power from policymakers

to financial markets? The core of the chapter consists of providing possible Caribbean responses to financial liberalization. Some suggestions are, establishing a Caribbean-wide regulatory system, diversifying the financial sector, and conducting reforms aimed at strengthening banking supervision. In terms of monetary policy, he explores the strategies of inflation targeting and flexible exchange rates in the Caribbean and finally identifies some common challenges for small states in today's financial global context.

Chapter nine explores two different sides on how to tackle inequality and attain sustainable growth. Part A looks at building knowledge economies and examines the role of higher education in building such societies in today's globally competitive environment. "It argues for a reform programme for higher education, an enabling regulatory framework and the need for new models of financing of higher education. The chapter looks at worldwide trends in the finance of higher education, and findings of an OECD/UNESCO study (2002) in developing countries. Various financing proposals are identified on the search for more accessibility to tertiary education, and issues of political governance and challenges to academic values, as the university competes in the marketplace, are discussed."

Part B describes what happens to income distribution during intensive changes in the gross domestic product due to external market conditions. "It deals specifically with an open market petroleum-based economy, Trinidad and Tobago, and reviews changes in national product and income levels and the income distribution pattern over the twenty year period 1957-76. An examination of the spatial, occupational and temporal aspect of the distribution pattern points towards the elimination of structural dualism in the economy as the surest path towards greater income equality in Trinidad and Tobago."

Chapter ten adds the most contemporary components to the discussion by addressing the new waves of populism and protectionism that have risen across the world during the last couple of years. This chapter studies new trends in global politics, quoting opinions from different authors regarding the future of the liberal order. The author himself states that "the challenge to the 'liberal order' is not really a challenge to the values underpinning that order, as much as it is a 'correction' to the excesses of that order and the consequential shift in the structure of global power". The chapter does not provide specific recommendations but urges the reader to be aware of new mechanisms emerging in regionalism and to consider what these changes could imply for small states.

Lastly, chapter 11 recapitulates on the dynamics between politics and economics, this time from a global economic perspective. The author goes through the political effects of the global financial crisis, addresses current risks in the global economy and identifies the crossroads in choosing the economic path for the future. He also introduces *The Foundation for Politics and Leadership*, as a central forum and important milestone on achieving a framework for an action agenda for small states. Finally, he stresses the need for a paradigm shift in economic leadership and draws upon different authors to study the evolution of small states in Europe.

The Evolution of ECLAC's School of Thought and its Influence for the Caribbean

By Daniel E. Perrotti, ECLAC's Washington Office.

ECLAC's Structuralism Thesis

Several authors track the origin of Latin American structuralism to the publishing of the following documents: "The economic development of Latin America and its main problems"⁴; "Economic Study of 1949"⁵ and, "Theoretical and practical problems of economic growth"⁶. These documents use historical analysis to highlight the various problems and circumstances leading Latin America to a point in time where economic development constituted nothing more than a distant expression of desire.

Structuralism theory identifies the configuration of a global economic system -based on natural comparative advantages- as one of the main causes of the regional delay in development. This configuration established well-defined roles for the different countries, making a distinction between centric – or industrialized- countries, mainly the United States and Europe, and those peripheral countries, constituted by Latin America and other regions. This second group being highly dependent and influenced by the decisions of industrialized nations.

The characteristics of the centric countries were reflected in mature industrial structures, with societies that enjoyed higher standards of living than those in the periphery -both in terms of income and of the variety and availability of consumption products-. In these countries, productive activities had adequate financing , through domestic savings channels and/or capital flows, which allowed them to stay at the lead with state-of-the-art technologies in capital goods, maximizing labor productivity, and spreading large markets of goods and services (both in terms of quality and quantity of the supply and purchasing power of the demand), capital accumulation, and increases in the potential growth of the economies, consolidating a virtuous socio-economic circle.

⁴ Prebisch, Raul (1973), *Problemas Prácticos y Teóricos del Crecimiento Económico*, CEPAL, Santiago de Chile.

⁵ Prebisch, Raul (1949), *El desarrollo económico de América Latina y sus principales problemas*, CEPAL.

⁶ Prebisch, Raul (1973), *Problemas Teóricos y Prácticos del Crecimiento Económico*. CEPAL, Santiago de Chile.

Meanwhile, the reality in periphery countries was quite different. There were, indeed, minor similarities with the characteristics of center countries, especially in those areas of exports that reflected the natural comparative advantages of periphery countries, where economic agents of large size -relative to the rest of the economy- provided the center countries with a large part of their requirements of raw materials (for further industrialization, consumption, and export). In contrast, the rest of the productive structure, and most of the society faced significant economic and social weaknesses, in a scenario of high productive heterogeneity.

The fragile industrial structures developed in the region during both World Wars and the great depression were focused on developing domestic markets, competing with imports under disadvantageous conditions, such as deficient technologies and services, and low worker skills, which implied less efficiency in the productive processes. In addition, as mentioned above, the production of basic goods of these local industries was absorbed in a domestic market where the purchasing power was significantly lower than that of the developed countries, affecting the potential economies of scale of these industries. Moreover, local elites preferred the consumption of more sophisticated imported goods, mirroring the consumption patterns of the elites in developed countries.

The social impact was even worse. The productive structures of the periphery had a negative impact on income distribution given the low levels of labor productivity, uncompetitive markets, and high levels of the available labor force – mainly coming from increasing rural to urban migration. These characteristics attempted against the purchasing power of workers, lowering the chances for a successful market for domestic consumption.

In this context, ECLAC pointed out that the relationship between the center and the periphery was characterized by an imbalance according to which the distribution of the benefits of economic progress showed a clear asymmetry between the different types of countries. This asymmetry was reflected by the loss of purchasing power -terms of trade- of goods exported by Latin American countries with respect to those purchased in developed countries. Likewise, it was understood that, in the absence of an active intervention by periphery countries, this asymmetry would tend to be permanent.

Another regional factor generating special concern was inflation. Orthodox approaches claimed that the causes of Latin American inflation were derived from the quantitative approach of money in its monetarist version. ECLAC presented an alternative explanation, according to which, certain rigidities in the productive areas resulted in supply restrictions, hence triggering inflationary pressures. Ultimately, inflation was considered part of the structural imbalance of economies, for which monetarist solutions would be ineffective.

Following ECLAC's reasoning, the reality observed in Latin America contrasted with the neoclassical approach, which assumed that terms of trade while exchanging primary exports –from periphery countries- for manufactured goods –from center countries- would reveal a long-term tendency favorable to the periphery. This theory was based on the idea that increasing productivity in industrial countries would tend to lower the prices of their goods, while agricultural products, with limited productive resources such as land, would show a rising tendency in prices. These desirable consequences contrasted with a reality in which the products exported by the region revealed income elasticity lower than unity, while imports had higher income elasticities.

The Industrialization period

ECLAC's perspective concluded that the *invisible hand*⁷ only aimed to maintain the Latin American status quo, instead of promoting regional development. Following this line of thought, it became clear that government intervention was necessary. However, what type of intervention would foster development? Certainly, from the beginning of the First World War, and more intensely in the interwar period, Latin American countries began to modify the perception and the role of the State over their economies. Governments introduced regulatory and interventionist policies, and expanded their – until then - limited

⁷ See Smith, Adam, 1723-1790. (2000). *The wealth of nations* / Adam Smith ; introduction by Robert Reich ; edited, with notes, marginal summary, and enlarged index by Edwin Cannan. New York :Modern Library,

action framework. This approach was mainly a reaction to the protectionism and nationalism rising in center countries as a result of the wars and the great depression.

This incipient and fragile industrialization -observed only in a few countries-, showed certain unfavorable biases, such as difficulty in attracting financial resources, management problems, lack of economies of scale, and, shortages in economic infrastructure. In addition, important technological clustering could be observed in those few firms linked to foreign companies. However, the economic clusters with the highest accumulation of domestic capital (large landowners) were reluctant to get involved in industrial activities and investments; instead, they were conceiving a return to the primary agro-export insertion model.

For ECLAC, the solution was straightforward. State intervention was required, not as a reaction to specific external events, but as a systematic and rational way of responding to a global economic structure which was causing undesirable and permanent effects for the region. It was a rational intervention with a clear objective: Latin American industrialization.

The proposal consisted of two differentiated phases. The first phase intended to substitute imports of basic consumer goods and byproducts from light industries, in addition to the substitution of certain productive inputs. During the second phase, the efforts would focus on the domestic production of capital and durable consumer goods, through the development of base industries, with greater technological content.

The external bottleneck was a key factor to be solved in the transitional period towards industrialization. In its early texts, ECLAC highlighted how the tendency to a permanent deterioration in terms of trade affected the balance of payments, stressed by the need of imported goods and services, as well as intermediate inputs. Prebisch expected that the industrialization process would require an import of inputs and capital goods not previously seen in the region and for that purpose, he proposed active government policies tending to minimize the costs during the process of change in the Latin American productive matrix. In particular, he pointed out the need to reduce the consumption of non-essential imported goods.

It was hoped that, as industrialization progressed, domestic production would reduce external dependence, while promoting an expansion in productivity and propagating the fruits of growth over a large part of the population. In the long term, the regional situation was expected to be more comparable with that of center countries than with peripheral ones, reflecting better standards of living for a vast part of the population, as the vulnerabilities in the external sector would be overcome.

This approach implied a long-term perspective that, unlike the neoclassical perspective -which emphasized efficiency in a context of static equilibrium-, assumed that costs in short-term efficiency derived from distortions created in the period of industrialization promotion would be far outweighed. In the medium and long-term horizon, ECLAC's vision proposed a virtuous model of accumulation, in which the macroeconomic aggregates would come with favorable and well diversified social indicators.

During this period, ECLAC emphatically promoted planning to provide coherence and cohesion to support public policies. The best example of this was the creation of the Latin American and the Caribbean Institute for Economic and Social Planning (ILPES) in 1962. Several courses and seminars were provided, manuals were created, and technical support missions were carried out in situ.

In addition, the planning process needed basic economic statistics. In this regard, ECLAC would also be forged as a pioneer institution in the collection and consolidation of national accounts, presenting annual reports on economic series. Likewise, statistics and population projections would be integrated regularly into the orbit of ECLAC since the creation of the Latin American and the Caribbean Demographic Center (CELADE) in 1957.

Other activities of regional institutions during this period were related to the promotion and guidance of proposals for regional and sub-regional integration (such as those of the Latin American Free Trade Association or LAFTA, and the Central American Common Market). The support came from the structuralism understanding that the industrialization processes reflected gains from economies of scale

available for market sizes greater than those observed within the physical borders of the countries, thus integration was a desirable solution. Similarly, ECLAC accompanied the proposal for the creation of the United Nations Conference on Trade and Development (UNCTAD), which was indirectly addressing issues of trade inequalities between industrialized and underdeveloped countries.

This was also the period in which ECLAC introduced the thesis on dependence and on structural heterogeneity, with proposals to modify Latin America's structure via income redistribution policies (including agrarian reforms).

Macroeconomics and shocks period

ECLAC's school of thought during the seventies was essentially focused on a new development 'syntheses' between promoted social homogenization and pro-export diversification, with sustainable production and consumption patterns. ECLAC also pointed out the efficiency problems related to faults in commercial and industrial policies. In this sense, economic studies of the period -particularly those of 1975- detailed a number of issues to be improved such as: the excessive protectionism against large-scale projects, the low productivity, and the non-productive use of capital inflows. The proposals of ECLAC focused on strengthening the industrialization and promoting exports as mechanisms to face the difficulties of the region's international insertion. Towards the second half of the decade, ECLAC prioritized macroeconomic analysis, and issues related to foreign debt. It also published the first documents that explicitly dealt with environmental problems.

In the eighties - a decade which would later be called the "lost decade" given a contraction in terms of per capita GDP -, ECLAC, driven by the needs and urgencies of the existing situation, became focused on technical analysis and proposals to attend short-term issues. In particular, the issues were related to the implementation of adjustment and stabilization policies, offering alternatives with greater gradualism and fewer social impacts ("expansive adjustments") with respect to the proposals promoted by the mainstream. It also prepared studies on proposals for the renegotiation of foreign debt, to alleviate pressures from the external sector.

The productive transformation with equity period

During the nineties, ECLAC became an institution concerned about a "productive transformation with equity", characterized by a focus on a long-term approach. Technical progress was promoted as the strategy to eliminate poverty and external vulnerabilities, but with a renewed vision which proposed commercial openness to avoid technological isolation. This new vision also highlighting the need to advance on legitimate competitiveness, as opposed to the spurious competitiveness derived from the simple manipulation of the nominal exchange rate. ECLAC maintained a pro-gradual reform posture in search of greater efficiency, but highlighting the need to reconcile the reform in a long-term vision, minimizing the social costs.

The rights approach period

During this period, ECLAC maintained its long-term approach but expanded and deepened the set of economic and social variables studied in previous decades. Thus, for example, the assessments on equality was no longer focused only on income, but instead became part of a multidimensional perspective based on the rights approach. Something similar happened with the measurement of poverty, which added multidimensional aspects to its calculations. Likewise, topics related to minorities -such as gender, ethnicity, youth, etc. -were incorporated in greater detail. Other issues, already examined in previous decades, acquired renewed emphasis -like the governance of natural resources, planning, environmental issues, and, aspects of the investment cycle and financing for development. The studying of alternatives to compensate for the asymmetries of globalization was also emphasized, with the goal of allowing for a regional insertion within a framework of equal distribution and social cohesion. Moreover, a common denominator of much of the intellectual efforts of the institution in recent years has been to establish the welfare and development of human beings -together with its social dimensions and interactions with nature- as the centerpiece in the pursuit of sustainable growth in Latin America and the Caribbean.

I. Caribbean Development: Setting the Framework⁸

A. The Caribbean as an Open Frontier

The Haitian anthropologist, Michel-Rolph Trouillot, once described the Caribbean as an open frontier where harmony and discord work together; where the boundaries of culture are not easily defined, and where memories of 'roots' refuse to allow the past to be silenced or the society to be canceled a reminder of Europe's distant history of centuries-old rivalries and war time conflicts.

A place where the old and new worlds meet, where African, Asian and European peoples have converged and where the East-West and North-South fault lines sometimes surface. Truly, an issue of identity, yet a silent yearning for a common Caribbean stand, even perhaps a Caribbean State. "The peoples of CARICOM and their Governments must no longer think in narrow terms of a "Commonwealth Caribbean" but in wider terms of a "Caribbean Commonwealth," declared the West Indian Commission, in their 1992 report *Time for Action*.⁹

Two years later in the search for new economic and political space, the Association of Caribbean States (ACS) was set up with membership of all countries whose shores are washed by the Caribbean Sea. Cuba is a member, The United States is not. The platforms defining Caribbean economic and political space over the last forty years include the triangular trade of the pre-independence period, the era of multinational corporations and United States hegemony, and more recently, the IMF-World Bank structural adjustment programs. Out of this framework came theories of exploitation, neocolonialism and marginalization, and the export of protest diplomacy. There followed heavy moral and political overtures for protection, special consideration, aid, trade, and investment support from the developed world.

⁸ The text in this chapter was adapted from Winston Dookeran, *Caribbean Development: The Premises of an Emerging Agenda*. Found in Nordic Journal of Latin American and Caribbean Studies, vol. XXVIII: 1-2, Stockholm University, 1998.

⁹ The West Indian Commission, *Time for Action: Report of the West Indian Commission*, (Barbados: Widey, 1992)

This approach may have been acceptable in the 1960s and 1970s, given the state of development thinking and the geopolitical structure of the world economy in that period, but it is no longer sustainable. For decades, the plantation economy of the hinterland has adjusted only to persistent low level equilibrium, resulting in low levels of employment and incomes. Although the region's resource-based industries were integrated into the global economy, this resulted in economic enclaves within the domestic economy, without sufficient development benefits. Caribbean countries remain highly sensitive to exogenous factors; such as shocks, exchange rate manipulation and crisis, all of which can adversely affect their critical foreign exchange, their largely export-driven public revenues, and their competitiveness.

The financial and economic geography of the world have altered and have facilitated new flows of international capital. Now there is an increasing divergence between political and economic boundaries. There are now no privileged spaces. Yet, there is a high demand for Caribbean countries to create a new generation of exports to reduce the cost of doing business and to expand its production frontiers. How? And What are the options? Two further questions recur: Is our development strategy correct? Is our understanding of world politics insightful?

B. The Changing Perspectives

1. Objectives of Development

Caribbean development, always challenged by the dichotomy between growth and development has been premised on the argument that growth is a necessary condition for development. Now the sequence may have changed as development has become a necessary condition for growth. What then did we and do we mean by development? In previous decades, development was seen as simply increasing GDP. Stiglitz argues that today, economists and planners have "a broader set of objectives in mind: the focus is on democratic development, on sustainable development and on increases in living standards". (Stiglitz, 1997). As economists have long recognized, GDP accounting can no longer adequately capture changes in standards of living. The improvement of education and health care, the abatement of pollution, and the generation of externalities must all be taken into account if we are to arrive at a meaningful estimation of living standards. There has been a change in thinking about development strategies: a change in objectives.

This broadened set of objectives leads to quite different development strategies. In sketching the outline of an agenda for economic development for the coming century, Stiglitz concludes that "it includes a wider set of objectives than development agendas of the past" and "a changing role for the state - a partnership between government and markets -that involves a catalytic role for government in helping to create markets". Social income, once seen as being produced by the state, can now be the product of the market, behaving "within an appropriate regulatory structure- what is required is not deregulation but regulatory redesign".

Policy makers and getting the prices right is not enough. The states can create markets, they helped regulate markets, and they used markets to achieve their development objectives. The sequence of reforms can affect not only the performance of the economy in the short-run, but also the momentum for the continuation of reforms. The simple lesson to emerge from this discussion is that incentives matter: that they matter in both the public and the private sector, that the government should make more extensive use of incentive mechanisms for guiding its own behaviour, and that government should take actions to improve the incentives within the private sector.

Development, as we recognize today, is more than the accretion of physical capital or of human capital. It also includes closing the knowledge gap between rich and poor economies. And it includes other transformations, such as those that result in the creation of social capital, the quality of growth rates and changes in the structure and behavior of economic organizations. Alberto Alesína (1997) asserts, based on a cross country data analysis, that countries with large public sectors and 'poor' institutions are gravely harmed in the development process. Now the external environment is an 'endogenous' factor and

influences significantly the political economy of 'high and low growth' in both advanced and developing countries. In Stiglitz's view, the coming decade will see enormous growth in the developing world and a reduction in poverty. It will be a struggle. The challenges are great, but the opportunities are enormous.

2. Regionalism and Multilateralism

The forces transforming the global environment are moving the international system in two seemingly contradictory directions. On the one hand, the world is moving towards multilateralism and global integration with strong commitment to open markets and international institutions. On the other hand, it is entering a new era of regionalism, as nations seek to guarantee their markets. Policies, strategies and institutions that are not in harmony with international regimes may not be tenable. The meshing of local policies with the external policy environment is an emerging issue which may have prompted Robert Putnam¹⁰ to design a 'two-tier framework' to analyze the domestic component of foreign policy.

The issue is more complicated with the resurgence of regionalism as pointed out by Jagdish Bhagwati (1992). The first round of regionalism collapsed in the 1960s, primarily because the United States was intent upon following a multilateral course. Now, regional thrusts are seen a stepping stone to multilateral goals, thus widening the interest of the regional agenda to go beyond trade and investment issues into matters of security, common regulatory systems, environment and labour standards, and institution-building. This broadened agenda has set the stage for a new kind of 'moving integration' where the boundaries keep shifting, new frontiers keep emerging and the economic equations within the integration areas are changing. We are now in a dynamic integration process calling for a new model of integration.

In this rethinking process, regionalism is not about developing 'self contained' blocs, it too must synchronize its formation in a global context. As Bhagwati noted; "regionalism need not necessarily be a stumbling block towards a multilateral trading system". The World Trade Organization is the most recent example of the evolution of a global institutional framework, a trend that poses major reform requirements to other international bodies in the field of development. Development banks are likely to face new demands for change in a more competitive global financial setting. Indeed, political leaders and other executives of the public interest can no longer define interests primarily in terms of their geopolitical boundaries, but must increasingly do so in regional and global terms.

3. The Issue of Sovereignty of the Nation State

However, as difficult as integration might be, collaboration on agreed upon agendas and shared responsibility for the promotion of common interests does not mean that the nation state will disappear, or that national sovereignty will be lessened. Indeed this issue has sparked much debate in the Caribbean recently, as nation states in the region strive for common interest positions as a means of pooling their 'sovereignty' for wider regional and global trade-offs. If entered into wisely such agreements will increase economic well-being at home and enhance government's ability to govern. The establishment of regional common interests and joint problem solving processes, far from limiting the states power, therefore, may heighten national autonomy ; particularly when these agreements are entered into with a view into how one can benefit from a greater integration with the external world, while at the same time supporting the multilateral process.

4. Political systems are undergoing stress

Government in both the developing and developed world are facing the increasingly difficult task of managing their national economies in order to improve macroeconomic performance, to provide increased levels of public investment for job creation, education and health care, and to develop policies and

¹⁰ For an analysis of the two level games of international relations and political policies, see Putnam (1988).

institutions that will address the issues of poverty and inequity, in an increasingly laissez-faire global environment. Political systems are undergoing stress, as the economic forces for integration outstrip their capacity to make the requisite political adjustments. They are likely to endure only insofar as they are able to adapt.¹¹

In the Caribbean and other developing regions, this scenario is further complicated by structural adjustment policies, which many argue are undermining the conditions for development. Others fear the building of the requisite regional institutions for addressing these problems will result in a loss of national identity and sovereignty. Furthermore, as regionalism is by definition discriminatory, economists and decision makers are concerned about the possible trade-diverting effects of the future regional landscape.¹²

5. Size is not an issue

We in the Caribbean have rationalized that our smallness constrains development, but in fact, size is not itself an issue. The city states of Hong Kong and Singapore have achieved high levels of prosperity, without significant natural resources, preferential trade accords, or proximity to the United States and European markets. They determined their cultural strengths and built on them, developing policies and strategies that unleashed the microeconomic forces for growth, and complementing these with the macroeconomic framework. This was a matter of clear goals, skillful strategies, and sound policy making, not market size.

China, on the other hand, with its authoritarian government, large internal market and substantial resources, was unable to modernize its economy outside the global framework; nor have other large nations, including India, Indonesia, Brazil, Russia, Pakistan, Bangladesh, Nigeria, and Mexico, been able to do so, though many have excellent resource bases (see Wolf, 1994).¹³ The point, then, is that the political and sociological legitimacy of the nation-state are not threatened by changes in operational sovereignty per se; rather, today's world requires that the nation-state cede more of its operational sovereignty, in order to hold its legitimacy and viability.

C. The Emerging Frameworks

6. Open Regionalism

Regionalism is an inescapable feature of the landscape. Open regionalism encourages nations to form sub regional trading blocs in ways that facilitate linkages with others, thus synthesizing the globalization and regionalization trends. It allows for the open ended participation of its members in other trading arrangements and regional schemes, so that these various groupings will function as building blocks towards global accords and an open and transparent international economy.

Open regionalism is seen as a way of achieving a development model in which economic growth and social equity are enhanced simultaneously. Accordingly, the horizontal expansion of aggregate demand as a result of market integration would be compounded by vertical expansion of demand, owing to country level social integration. In this connection, integration agreements between countries not only may be

¹¹ On this and related issues see Galbraith (1994).

¹² Examples of the confusion surrounding these issues are readily apparent— The MERCOSUR trade BLOC (Argentina, Brazil, Paraguay, and Uruguay), for instance, which formed the world's second customs union in January 1995, will not establish a supranational court to settle trade disputes, as some members felt that it would reduce their sovereignty. Many in the U.S. Congress— even those considered free-traders — were reluctant to pass the Uruguay round (UR) legislation in late November-December 1994; they feared that the World Trade Organization (WTO), by eliminating the one-country veto and establishing tribunals to rule on trade disputes, would dilute U.S. sovereignty and force the changes in a wide range of U.S. environmental and labor laws. In a nationwide referendum, Norway voted not to join the EU, feeling at least in part, that its resource base was strong enough to keep foreign bearcats from interfering in its "internal" affairs. And the Caribbean Community Common Market heads of state were determined to keep its expansion under the ambit of elected governments, in part because they feared development of their sovereignty. In each case there were serious debates as to what constituted the national interests and how integration would affect national sovereignty.

compatible with the goal of steadily increasing international competitiveness but may also be instrumental in achieving it. Their purpose is to usher in a more open, transparent international economy. In other words, integration is seen as a building block of a future international economy free of protectionism and barriers to the exchange of goods and services.

The open regionalism approach should be designed with certain characteristics in mind; they should contribute to a gradual reduction of intra regional discrimination, to macroeconomic stabilization in each country, to the establishment of suitable payment and trade promotion mechanisms, to the building of infrastructure and to the harmonization or non-discriminatory application of trade rules, domestic regulations and standards. Moreover, the reduction of transaction costs and discrimination within the region could be reinforced by sectoral arrangements or policies to take advantage, in turn, of the synergistic effects of integration.

7. The Rise of Regional Economies

Kenichi Ohmae (1995), asks the question whether "nation states -notwithstanding the obvious and important role they play in world affairs -[are] really the primary actors in the world economy? "Indeed, as Ohmae suggests, it is doubtful whether, in today's world where economic borders are progressively disappearing, "nation states are the best window on the global economy; whether they provide the best port of access to it; whether arbitrary, historically accidental boundaries are genuinely meaningful in economic terms; and, if not, what kinds of boundaries do make sense?" In other words, exactly what are "the sufficient, correctly sized and scaled aggregations of people and activities" with which to tap into the global economy.

As Ohmae notes, one way to answer these questions is to observe the flows of what he calls the four "I's": namely, Investment, Industry, Information Technology and Individual Consumers. Taken together, the mobility of these four "I's" makes it possible for viable economic units in any part of the world to attract whatever resources are needed for development. They need not look for assistance only to pools of resources close to home. Nor do they need to rely on the formal effort of governments to attract resources from elsewhere and funnel them to ultimate users. This makes the traditional "middleman" function of nation states - and of their governments- largely unnecessary. Because all the global markets for the four "I's" work just fine on their own, nation states no longer have to play a market clearing role. Global solutions will flow to where they are needed without the intervention of the nation states. On current evidence, moreover, they flow better precisely because such intervention is absent (Ibid.:4).

In essence, therefore, as Ohmae argues, "region states are economic not political units, and they are anything but local in focus. They may lie within the borders of an established nation-state, but they are powerful engines of development because their primary orientation is toward- and their primary linkage is with- the global economy. They are, in fact, among its most reliable ports of entry. "Indeed, what defines the region states is "not the location of the political borders but the fact that they are the right size and scale to be the true, natural business units in today's global economy. Theirs are the borders- and the connections- that matter in a borderless world" (Ibid.:5)

8. The "flying geese" metaphor in economic growth

Takatoshi Ito (1997:2) put forward a very interesting observation that the pattern of development takes place through a "flying geese" formation. Based on his study of East Asian countries, he concluded that the Asian economies are like a group of geese flying in V-formation. Japan, flying at the front, is flanked by Hong Kong and Singapore, followed by the Republic of Korea and Taiwan. Behind them are Malaysia and Thailand, the Philippines and Indonesia. The order of the formation is that of the stage of industrialization and per capita income.

The argument is based on shifting comparative advantage. As rich countries shift their production to technologically advanced new products, lower value added versions of these products are produced by

neighboring less developed lower cost countries which, taken together, generates a dynamic process of development. As an example of this type of phenomenon, one can look at Japanese investment behaviour in East Asia in electronics and autos industries. Japanese investment behavior in their manufacturing sectors shift from Japan in the late 1970s, first to Hong Kong, Singapore, Taiwan and Korea, then to Malaysia, Indonesia and now to China.

Is this pattern likely to be replicated in other regions of the world? In other words, would economic take-off now take place in clusters of economies rather than through national economies or satellite economies? In the new economic geography, the regional economy diverges from the established political boundaries, it now appears that it is the regional economy, not the national economy or even the satellite economy that will become the basic unit upon which a dynamic process for economic growth and development can be predicated.

Ito goes on to argue in his paper that for countries endowed with little natural resources, like Japan, Korea, and most East Asian economies, growth means industrialization. Two indicators of the level of economic development are agriculture's share of GDP and machinery's share in exports. As economic growth increases, a resource shift takes place to the manufacturing sector, and in this process the product composition of exports changes. Production and exports shift from textiles and light industrial products to more sophisticated goods such as machinery, steel and automobiles.

Is this sequencing appropriate for Caribbean industrialization? Empirical evidence of industrialization performance do not support this process of resource shift. The early thinking on this matter focused on the "value added" concept where more returns are being sourced from the existing resource use leading to downstream and linkage industries. As a result, specialization and resource shift were given lower priority in the development of industry in the Caribbean. According to Dennis Pantin (1995), CARICOM developed an industrial allocation scheme to target specific "light industries" in the smaller Caribbean economies. This scheme has had limited results.

What is emerging is the distinction between a strategy for economic development based on the value added idea as opposed to a strategy based on "resource shift." Many sunset industries in the Caribbean have been retained on the argument that new investment could diversify the outputs, and create a dynamic for growth based on the old expenditure patterns. To some extent, this explanation is attractive because of its political appeal. There are no real losers, only winners. The need for de-industrialization to precede re-industrialization is clearly addressed in the "resource shift" idea where dynamic development will be sustained only through major shifts in national expenditure from "sunset" to "sunrise" industries.

Ito argues that the key lesson that can be learned from the experience of East Asia is to understand how incentives have worked in that environment, and the efficacy of government intervention in these economies.

In both respects, there was a common policy approach by the countries in the cluster region which facilitated the emergence of the flying geese formation in economic change. In this regard, there are wide spaces in policy coordination among Caribbean countries, in spite of valiant attempts to establish common approaches in external trade matters and monetary cooperation, It would seem that the flying geese metaphor in a Caribbean context may require an integrated policy framework at both the policy and operational level. The framework must be based on new pillars of growth that are sustainable through the working of the market system, including perhaps the issue of a policy framework for the knowledge-based economy. This continues to remain a major challenge to the political economy of development in cluster economies.

9. The Missing Link in Economic Progress

In most Caribbean countries the first generation of reforms- macroeconomic policy, trade reform, financial reform and privatization- are in process. The theme now is to make a permanent shift toward growth following adjustment There is the need now to go beyond the adjustment process into an agenda of second generation reforms. The situation in each country differs. Trinidad and Tobago, for instance, has embarked on a highly complex process of change that has not yet run its course. Will the present policy

matrix sustain external balances and deepen the process of structural change? What are the key elements of a second phase program that will maintain a momentum for growth and development?

Nancy Birdsall (1996), saw the key elements as the three 'E's': Export, Education and Enabling Government. which she described in her chapter as the missing ingredients for the economic success of the Caribbean. She argues that the growth of exports encourages the rapid growth of employment and eventually wages, which raises the demand for labor and contributes to the relative equality of incomes. Exporting may also create a second advantage in that it forces countries to be globally competitive, thereby generating rapid productivity gains.

The second key variable which Birdsall alludes to is education. Education needs to be accorded a high priority as it contributes not only to wage and productivity growth but also to fertility decline, which makes higher investment in education per child possible. The third element Birdsall refers to in her list of second generation reforms is an enabling government. In her view, government should be viewed not as an engine of growth but as an enabler or catalyst of private sector growth. In particular, governments need to create a predictable and reliable environment for investors, and thus an environment friendly to the business sector. Birdsall's "missing links," now perhaps part of the old orthodoxy, necessitates a development framework that will remove these missing links.

The growth of an economy depends on how stabilization efforts and structural reforms work in a particular setting. The environment takes into account the microeconomic behavior, the functioning of factor markets and the performance of the regulatory system. The interplay of micro and macroeconomics, says an ECLAC publication (March, 1996) is the new challenge to policy makers in the Caribbean and Latin America. Growth alone is not enough. There are also conditions on the microeconomic and systematic levels that are essential for creating externalities that will internalize the transformation process with a special objective increasing the income of the poorest.

The setting goes beyond the national economy. The strategy to capture global technology flows, to be competitive in an integrated regional economy, and to respond to the global business cycle will determine the growth rate and the income level at which the economy may reach a 'steady state' equilibrium. That equilibrium may produce an externality that 'opens or closes' the gap between private and social returns to investment depending on how the management of social policy takes place. The missing challenge in strategic economic programming in many Caribbean countries is to design a logistics that will link:

- short-run macroeconomics and medium-run growth;
- public institutions and the production and trade structure:
- micro and macroeconomics;
- the national and global economy;
- economic and social efficiency and political feasibility

This leads to the construction of an agenda for second generation reforms which in broad outline may cover, inter alia, the management of the public sector, a prospectus for 'unshackling' the private sector, choices and change in financial and monetary management and sustainable social programming (Dookeran 1996b).

10. New integration agenda

The ECLAC study on Open Regionalism emphasizes two critical aspects of integration: one dealing with technical change and the other dealing with social integration. It argues that technical progress in integration requires government to play a catalytic role in Latin American and Caribbean economies in order to build appropriate business structures and information networks that are required to facilitate technological change. With respect to social integration, ECLAC argues for a strategy that will change production patterns with social equity and in this respect outlined a series of measures in microenterprise

development aimed at reducing marginalization and increasing participation of lower income people in the actual business of development.

In the search for a new integration paradigm, three main pillars upon which such a strategy can be designed have been identified (Dookeran, 1995). The first is with respect to the search for external economies of scale. In the midst of a world that is now less dependent on physical resources and commodities, the identification of such industrial strategy remains a key area of enquiry. The development of geographically compact economies is another pillar where strategic niches can be built upon and corporate partnerships and alliances can be encouraged. The third pillar upon which the integration paradigm can be constructed is the search for extending the range of Caribbean economies so that regional capacity can be enhanced to play a competitive role in world commerce. These considerations along with the concept of dynamic integration alluded to earlier is but a starting point in the building of an integration approach.

Development in the Caribbean entails a comprehensive political economy of change, including the development of endogenous growth capacity to drive the economy. Only then can the region benefit from the new and flexible world economy, in which ends and means are readily adjusted to changing opportunities in different countries. This will require an integration model that transcends trade and converges at the institutional level, and facilitates backward and forward macro- and micro-economic linkages. Eventually, a virtuous cycle should be created, in which the region can expand its political space and gain greater negotiating strength in the international arena. Merging into a greater political economic whole should help to free individual states from rent-seeking power bases, bring about greater economic efficiencies, and allow governments to concentrate on governance.

Sustainable development is an affirmative political-economic process, linking economic logic- the measures needed to pursue economic efficiency in both the international and domestic spheres - with political logic in a synergism that allows them to reinforce one another. Merely opening the economy to the outside will not induce sustainable growth; to the contrary, it will result in further social and economic destabilization. As integration progresses and the state reduces its direct role in the economy, public policy will have an even greater impact on society. There will be winners and losers; to address this situation, the government must be strong enough to manage the transition and alter the opportunity structure, so that lower-and middle-income groups will not bear disproportionate burdens. The government's challenge is to ensure that poverty issues are systematically addressed with visible effect.

11. Competition Policy

The issue of the competitiveness of the Caribbean economy has now emerged as a key requirement for the successful integration of these economies into the global economic system. Serious issues do arise in determining the path and process for improving competitiveness. These issues include matters of macroeconomic policy, changes to the structure of specific industries, the financing of infrastructure development and institutional systems to promote competitiveness.

In the new agenda for global trade, the issue of an international agreement on competition policy has emerged. The argument is that the determination of trade barriers do not ensure that markets are genuinely contestable. The WTO currently does not require its members to meet competition policies. There is no entity responsible for ensuring that global markets are competitive. A single set of rules could, in principle, provide more coherence than the current system.

The negotiation of these rules cover a wide range of topics:

- Elimination of antidumping and countervailing duties rules.
- Antitrust laws.
- Business practice that restrict market access.
- Creation of an international competition office.

- Implications for preferential tax treatments.
- Constraint on domestic competition policy.
- Competition rules may outlaw market sharing agreements.

Whatever the agenda items, it is clear that an international competition policy will have direct impact on the trade and commercial practice, and will have differential effects on different groups of countries. It may well lead to the categorization of countries on the basis of their degree of integration with the world economy. It may be that the incremental approach to incorporating competition policy within the international trading system is likely to be the most incremental approach. The Caribbean region's framework for negotiations is now an urgent assignment.¹³

D. Managing Political Tensions

1. Development and Political Management

Fragmentation and social incohesiveness at both the national and regional levels have raised questions about the readiness of Caribbean states to confront inescapable global realities and challenges emanating from a dynamic environment. In the post independence period, political development and the forging of relevant social institutions have received little attention. A formula to harness and exploit the potential of multi-ethnic, multi-cultural societies remains elusive despite increasing evidence that politics and culture can impact positively on the development process. Replacing many of the old theories and approaches are paradigms which recognize the need for inclusiveness in promoting social stability and addressing problems of equity. The imperative now is to forge new forms of governance involving greater national consensus and wider community participation in decision making. There is much to learn from countries that have moved ahead.

Weaknesses in management at the national level and their counterparts at the regional level where progress towards a stronger and more powerful Caribbean Community has been stymied by fear over loss of national sovereignty and a wavering commitment that finds it difficult to discern the full relevance and potential of a vibrant Caribbean. Political skills have been in short supply and increasingly not even the rhetoric can hide the failure and the disappearing vision.

2. Is the Westminster System under stress?

Political systems are undergoing stress, as the economic forces for integration outstrip their capacity to make the requisite political adjustments. Consequently, they are likely to endure only insofar as they are able to adapt. There is the fear that building the requisite regional institutions for addressing regional problems will result in a loss of national identity and sovereignty.

Anthony Payne (1993) notes that the emergent forms of politics in the post independence Commonwealth Caribbean have been shaped by the historical legacy of British colonialism, that this inherited political order has been adapted to Caribbean conditions in a creative and distinctive way, and that the resulting system, which can be described as democratic, offers the region a workable, although far from flawless, basis on which to defend its political practice into the 1990s and beyond.

Despite the dominance of the Westminster model, however, Arend Lijphart (1990) begs the question which form of democracy is the most suitable for countries like Grenada and others in the Eastern Caribbean area. His answer is that the consensus model of democracy- characterized by such features as power sharing, proportional representation, multipartism, and federalism - should be given serious

¹³ For a discussion on this see Ostry (1997:Ch. 7).

consideration as the major alternative to the Westminster or majoritarian model, because most of the Eastern Caribbean countries are plural or deeply divided societies.

According to M.G. Smith's (1965) conception of the plural society, a "plural society is one in which sharp differences of culture, status, social organization, and often race also, characterize the different population categories which compose it." Smith's definition is roughly similar to Lijphart's own definition, namely, that plural societies are "societies that are sharply divided along religious, ideological, linguistic, cultural, ethnic, or racial lines into virtually separate sub-societies with their own political parties, interest groups, and media of communication."

In Lijphart's view, because the Eastern Caribbean states tend to be deeply divided societies, the consensus model of democracy appears to be more suitable for them than the majoritarian model. Consensus democracy can almost be said to have been especially designed to manage the tensions inherent in such societies (Lijphart, 1990:36).'

3. The Caribbean Regional Security Systems¹⁴

Security is a highly contested concept with a variety of definitions and usage. However, it is generally considered as part of a country's "high politics". As some experts believe, non-military developments can pose genuine threats to long-term security and the quality of life. Traditional concepts of sovereignty cannot cope with significant transborder flows of narcotics, money, AIDS, arms and immigrants. However, no single country can combat these threats alone and new regional and international rules and institutions will be needed to cope with the non-military threats facing most nations. Moreover, not only are states no longer the only critical actors in the international arena, non state actors abound, and some of them wield considerable power, oftentimes more than states.

There are three structural and operational features of the still transforming global environment with direct implications for the region:

- The change structure of military and political power.
- Alterations in economic relationships.
- Policy reprioritization.

As Jorge Dominguez (1995) rightly observed, the Caribbean now has lesser military importance in world affairs. However, the end of the Cold War does not negate the strategic value of the Caribbean. The region's strategic significance is reflected in economic, geographic and communications attributes that have transcended East-West geopolitics. Also, the Caribbean is not only for strategic importance to states, but also to non-state actors, notably drug-barons.

As the relevance of military threats and military alliances decline, geo-economic priorities are becoming increasingly important in state actions as countries seek new alignments to advance economic prospects. The transition to a new world economy is already marked by conflict and the accompanying uncertainties will pose major challenges for the region. The megabloc phenomenon with its multiple implications occurs at a particularly unpropitious time for the region, given the significant impact of the global and regional turbulence, which includes depressed banana, bauxite, and sugar production, high public debt, and high unemployment.

The military-political changes caused by the end of the Cold War have had tremendous causal and consequential links to the third general feature of the new strategic environment that is critical to the Caribbean: policy reprioritization. Reprioritization by these countries is the result of several factors. These include budgetary constraints, economic recession, shifting foreign policy focus, the demand by domestic constituents for more attention to domestic concerns, and leadership changes which may cause policy

¹⁴Griffith (1996), "Caribbean Security on the Eve of the Twenty-First Century"

reevaluation. In tangible terms, this has meant reduced aid, aid relocation, preferential trade readjustment, reduced foreign investment guarantees, and diplomatic downgrading of some Caribbean countries.

4. Move away from the traditional position of protest diplomacy

The Caribbean must accept the realities of the new global economy, and a policy environment must emerge to provide a development buffer zone, as we strive to emerge on a higher international platform. In this context, the establishment of the ACS can be seen, not as an integration process per se, but as an attempt to strengthen the region's negotiating position in international diplomacy. This poses an opportunity for the Caribbean to move away from its traditional posture of protest diplomacy towards a more affirmative stance, in which vital interests are identified and promoted in anticipation of changing balances in world politics.

Furthermore, it lends credence to the notion that a non-sovereign "regional state" -one which could exhibit the same sort of cooperation in world affairs that the Scandinavian countries often demonstrate, and perhaps move towards regional cooperation on economic policy matters, the funding policies of the international financial organizations, as well as cooperation in the United Nations and other multilateral organizations -may well be more appropriate to the conduct of international relations than the nation-state.

E. Developments in Caribbean External Affairs

1. From Multilateralism to a Multi-track Trade Policy

The term "globalization," first used in 1986, really reflects the investment surge of the 1980's. During the period 1985 to 1990, global investment averaged nearly 30% per year, four times the rate of world output and three times the rate of trade. Most of the investment was in capital and technology intensive sectors. Technology flows between the first and second half of the 1980s increased from a negative growth rate of 0.1 to 22%.

These outflows reflect underlying structural forces as the revolution in information and communications technology altered the production function of the firm and industries on an economy wide basis. The investment surge, fuelled by technology flows had a profound effect on the structure of world output and trade. At the same time, the movement toward new trading pacts accelerated.

U.S. trade policy, long rooted in the strong advocacy of multilateralism and the GATT shifted to a multifaceted trade policy: multilateralism, regionalism, bilateralism and unilateralism. The U.S. trade policy continued to emphasize the need for a multilateral trading system, eventually leading to the establishment of the World Trade Organization.

At the same time, track two of U.S policy pursued further relations through regional arrangements like NAFTA and FTAA as well as bilateral ones like the arrangements concluded with Israel and also CBI. The third track based on a unilateral focus on Section 301, and the expanded sequence 201 of 1988 will become a dominant aspect of the "trade politics" between the U. S. and Japan.

At the December 1994 Summit of the Americas in Miami, Florida, the democratic countries of the Western Hemisphere announced their intention to form a hemispheric free trade area to be known as the Free Trade Area of the Americas (FTAA). In particular, they committed to (1) begin immediately to eliminate barriers to trade and investment; (2) conclude the negotiations no later than 2005; and (3) make concrete progress toward the attainment of this objective by the end of this century.

In the absence of a single path to the FTAA many alternative strategies are evolving simultaneously. Existing trade arrangements and the proliferations of new initiatives may either hinder or contribute to the eventual creation of the FTAA.

Existing bilateral agreements seek both to liberalize and facilitate trade. The proliferation of such agreements, however, has created a confusing array of rules of origin and regulation. This overlapping of

agreements is likely to hinder trade rather than promote it. The simplification that is expected to result from a single FTAA would be a significant benefit.

Substantial economic liberalization has been achieved in the majority of countries in Latin America and the Caribbean. However, the state of preparedness to participate in and benefit from the FTAA varies widely.

However, as Richard Bernal notes; “By the early 1990s, a new ‘Latin American consensus’ had emerged, based on competitive markets, macroeconomic stability through reduction of public sector deficits, opening of the external sector to foreign competition, and reducing the role of the state by privatization and deregulation. The extent of trade liberalization reflects a variety of structural economic features, policy orientations and political perspectives. Further complications arise from limited and tentative political support for economic reform and liberalization, partly due to the fact these policies were prompted by the frustration with import-substitution and protectionism during the 1980s. The circumstances in which the more complex stages of liberalization must be implemented are made difficult by more unequal distribution of income and increased incidence of poverty that have accompanied economic reform and liberalization. The recent experiences of Venezuela and Mexico reveal the fragility of the process” (Bernal, 1997).

Whether the Latin American and Caribbean countries are able to take advantage of access to the larger hemispheric market or to larger regional groupings to expand exports will depend on both government policies and also on the readiness and ability of the private sector to compete effectively. Even where an economy has comparative advantage it can be offset by the lack of a competitive advantage. Economic reform, liberalization, and adjustment are necessary preconditions for participation in the FTAA. Trade liberalization, on the other hand, is a necessary but not sufficient condition. Governments must of necessity address the economic, social, and political difficulties of adjustment of the goal of hemispheric free trade is to be realized.

2. The Bridgetown Declaration -US Caribbean Summit¹⁵

The Bridgetown Declaration signed in Barbados on the May 1, 1997 between the United States and fifteen Caribbean countries was an attempt to strengthen cooperation in responding to challenges of the coming millennium. The Declaration recognises the important link between trade, economic development, security and prosperity in countries of the region. It therefore aims to improve the economic well being and security of all citizens, to defend and strengthen democratic institutions and to provide for social justice and stability.

As the Declaration notes; “As we enter a new century marked by rapid expansion and globalization of finance and investment, production and commerce, driven by revolutionary developments in technology, we acknowledge the need for a new era in our partnership. (In this regard,) We note the increasing role of the human, technological and communication capacities required for operating in this new competitive international environment and the current reality in most Caribbean States and to accept the need for systematic, cooperative initiatives to strengthen the quality of their human resources and technological capacity. ”

Some of the key provisions of the Bridgetown Declaration can be categorized under Institutional and Policy Support and Resources to the Caribbean (See Boxes 1.1 and 1.2).

With respect to trade matters, the Bridgetown Declaration pledges to enhance Caribbean-U. S. trade relationship by working jointly towards the further reduction of trade barriers between the United States and the Caribbean countries and endeavouring to refrain from introducing new import restrictions, consistent with World Trade Organization (WTO) rules.

There has been a shift in U.S. trade policy which focuses not so much on Caribbean membership but on building transition space through CBI parity mechanism prior to the eventual establishment of FTAA.

¹⁵ Bridgetown Declaration of Principles, Bridgetown, Barbados, May, 1997.

Many Caribbean countries which, therefore, had hopes of membership in NAFTA should take that out of their agenda based on the Summit Declaration. U.S. interests will dominate over the Caribbean's interests outside the United States.

With respect to resource flows, the Communique calls for an increase in technical cooperation and called on the IDB to honour its eighth replenishment commitment to channel more funds to smaller economies including the Caribbean. In this respect, the Summit did not provide the confidence that there will be additional resource flows to the region. It merely underlines the existing resource situation, with the promise of some technical assistance. The Bridgetown Declaration would not alter in any fundamental way the economic relations between the Caribbean and the United States. Rather it opts for incremental change that will come about at the current pace of movement.

Box 1: Institutional and Policy Support

The Caribbean region shares the common goal of achieving stable, sustainable economic development and widespread prosperity for all citizens in the region. To this end, the Declaration affirms the region's strong commitment to:

- internationally recognized labor standards and worker rights, especially freedom of association and collective bargaining;
- the empowerment of women to permit their full participation in the political and economic spheres, through fair access to education, health care and credit while recognizing that addressing and preventing violence against women is an important step toward the goal of strengthening democracy;
- finding, at the earliest opportunity, a mechanism to facilitate rapid consultations on trade related issues;
- endorsing the recommendations of the Working Group on Smaller Economies to provide opportunities to facilitate the participation of the smaller economies during the negotiations and their effective integration in the FTAA, to make every effort to reduce the transnational costs and minimize dislocation to their economies during their implementation;
- encouraging the smaller economies in the Caribbean to consider the early implementation, to the extent possible, of internal adjustments which will enhance their ability to participate effectively in the FTAA.
- Finding institutional mechanisms, including Trade missions to encourage dialogue between the Caribbean and U.S. private sectors.

Box 2: Resource Flows

The region welcomes the continuing commitment of the United States to assist Caribbean nations in their economic reforms by:

- seeking to support measures including technical assistance, in support of programs that promote internal structural adjustment;
- the provision of technical assistance to Caribbean countries to support their economic diversification and in particular, to assist the OECS countries in pooling their resources in order to enhance the competitiveness of their products;
- facilitating the Caribbean's implementation of its Uruguay Round commitments. In so doing, the United States will initiate a three year grant agreement, with Caribbean countries to provide technical assistance for trade liberalization and labor relations;
- the need for technical assistance to strengthen Caribbean human, institutional and infrastructural development necessary to assist in the adjustment process and to enable them to participate meaningfully. In this regard, we urge Caribbean countries to analyze their particular circumstances and identify their specific technical assistance needs; and
- Exploring ways by which current bilateral and multilateral debt management programs can support adjustment efforts in highly indebted countries;
- Joining in the call to the IDB to meet its eighth replenishment, to target 35 percent of Bank lending to smaller economies, including those in the Caribbean.

3. Green Paper on Relations between the European Union and the ACP countries¹⁶

In November 1996, the European Commission issued a long "waited Green Paper on "Relations between the European Union and the ACP countries on the eve of the Twenty-First Century: Challenges and Options for a new partnership". The Commission presented its Green Paper as a "discussion tool" whose aim is "to provide food for thought, trigger wide-ranging debate and pave the way for dialogue between those concerned by the expiry of the Lome Convention. It does not flame any formal proposals and the options put forward in no way predetermine the proposals that the Commission may table in due course".

The core hallmarks of the European Union's positions and the basis of the policy, according to George Huggins, and hence of negotiations appears to revolve around a number of tenets derived both from the main trends of political globalization and from the experience of Europe itself. These include:

- expanded role of the private sector vis-a-vis that of the State, with the State
- acting as a catalyst for development, and the private sector taking the leadership for development;
- institutional reform for improved public sector management and progress in private sector led growth among a clear line of democratic participation are a precondition for earning partnership;
- transparency and efficiency in the use of resources by ACP countries: both to ensure accountability to the European donor public and to promote development discipline;
- a shift towards a duality, at least, and certainly a stratification of ACP members: those likely to make it into the inner ranks of partnership, through reforms and successful private promotion and those that have severe difficulties in doing so. The EU proposes for the later a heavy helping hand, assuming direct responsibility for carrying them along.

The first area of cooperation, i.e., the social and economic dimension, has two intertwined aspects: economic development and poverty alleviation. The main vehicle for economic development has been identified as the private sector. Indeed, a persistent reality of many ACP countries is the relatively low state of development of their private sector. However, it must be borne in mind that private sector lead to social redistribution and reduction of concentration and thus development.

The second are of cooperation, is the institutional and public sector dimension, is an essential element for the development of the ACP countries and regional organizations. This area of cooperation should be the first priority, as it conditions both the development of the ACP countries and the efficiency of aid. However, it is how the institutional reform is carried out that will determine its success.

According to the ECDPM Synthesis of ACP Independent Comments on the Green Paper of the European Commission on Partnership 2000, three broad areas of recognition may be called for:

- The political will for sustainable development, with particular reference to the profound internal cultural, social, institutional and policy issues and with all the implications for internal restructuring and external space of the entire society;
- Sustained moral, political, financial and other form of support for the long process of poverty reduction, equal access by all sectors to resources and services;
- Genuinely open democratic context of cooperation and participation,

The ACP response to these measures remains somewhat blurred. One of the key issues emerging in the deal so far is whether the ACP should be kept as a combined forum or should be broken down in its constituents: pan-African, Caribbean and Pacific. Caribbean countries appear to support the continuation of the ACP forum, but are yet to work towards common cooperation goals that need to be achieved on a wider global basis. A second issue facing this debate is the continuation of the preference arrangements

¹⁶ This section is based on George Huggins (1997) and ECDPM (1997).

and its compatibility with the new world trading discipline reflected in the WTO. Recent decisions of the WTO to support the argument against Caribbean bananas is an adequate illustration of this incipient conflict.

Other issues that emerged in this debate relate to the question of political conditionalities working through issues such as human rights, environment and labor standards. When the Lomé Protocol was established, they derived their motivation from the need to establish an equal union between the European and the ACP countries. Now, it would appear that the continuation of these protocols are predicated on a combined European foreign policy towards the Caribbean, Africa, and Pacific countries. In this sense, the new arrangements are more likely to be fitted to a European vision of its global presence than it is to add new life to an old partnership, notwithstanding the call in the Green Paper for a new Partnership in the "Global 2000."

4. Changing roles in a changing world

Today, as trade matters in the Caribbean are faced with a built-in agenda, the region has to identify its vital economic interests in the various concentric circles surrounding it. Apart from the WTO, FTAA, EU-ACP trade relations, the Caribbean has to contend with the Latin American options, including MERCOSUR and more recently the ACS. The ACS with a clear mandate of increasing trade and investment among its members have not been able to get an emerging consensus on how. CARICOM's call for a free trade area in the ACS is still some distance away from the expectation of other ACS members adding new concentric circles as CARICOM attempts to expand its geographical base. The waters are indeed murky. The question that must be brought to the fore at all times is whether the waves echo the past or signal a future.

These changing roles have led the region into a 'stand alone' position. Alan Henrikson (1998) talks about Clinton's Caribbean policy 'altering in nature but not in depth'. This is what President Clinton told Caribbean leaders at a meeting at the White House. President Castro's quick response to his exclusion from the Miami Summit was; "we are not going to negotiate the normalization of our relations on the basis of concessions". Henrikson raises the issue; "without Cuba, the Caribbean cannot be regionally integrated ... yet with Cuba still under Fidel Castro's leadership, the Caribbean countries cannot acceptably negotiate as a region with the United States. The Caribbean's diplomatic charge is to resist 'protest diplomacy' and adopt a more affirmative foreign policy stand where vital interests are negotiated in the world councils.

Clearly, in this changing world there are changing roles. Development financing institutions are also being challenged to a changing role. Is development banking in the Caribbean sensitive to the agonizing choices and anguishing changes that are being advocated for Caribbean development? I raise the question with great timidity, but also with an instinct that this question may soon arise. Already, development banks are being forced into the 'commercial' arena. In national economies. Central bankers are facing new challenges in the era of 'floating exchange rates' and perhaps a return to currency boards. In the post-liberalization world, commercial banks have begun to restructure as changes in the financial markets are the result of global practices. Long-term development finance is likely to be more accessible in the international private capital market.

The debate on 'conditionalities' has now shifted from the broad economic platform to micromanagement and political concerns through the search for good governance. The effectiveness of development finance is now being questioned, particularly as the gap between delivery and expectations widens. The growing gap in the Caribbean between expectations and performance, and the rising tension between intention and reality, has widened the space between the art of politics and the discharge of governance. This is the politics of illusion, where yesterday's hopes remain unfulfilled, and new hopes emerge with little expectations that they would happen, or is it 'backward expectations'?

5. Forward Expectations

Poverty and social capital concerns, and the working of the political system are now at the top of the political economy agenda in today's Caribbean. So too is the choice of international road maps. Caribbean economist, Anthony Gonzales (1995), recently stated that a free trade area between the European Union (EU) and the Caribbean 'would appear in the long-term to be a superior instrument to most favored nation treatment (MFN), Generalized System of Preferences(GSP) and the Lomé Convention'. Trinidad and Tobago's foreign Affairs Minister, announced his Government's intention to seek membership in MERCOSUR while maintaining its berth in NAFTA.

CARICOM, although it may have reached its limits and may have in economic terms 'come to a dead-end' maybe widened beyond Suriname to include the Dominican Republic and Haiti. The ACS, like a 'medicine in search of a disease' is searching for its own platform the process for the construction of the Free Trade Area of the Americas (FTAA) has commenced. There are now many road maps, and although still in outline stages, may inspire the mapping of possible blueprints. The growing divergence in our political and economic boundaries must be addressed, for groups of nations rather than the 'nation-state' will now be the main actors in the conduct of international politics. Perhaps, the stage is set for the emergence of a different notion of the regional state as a vehicle for creating political and negotiating space in the international arena. Perhaps, Keohane's distinction between 'operational' and 'formal' sovereignty may now be incorporated in the new theoretical framework for institutional behavior in the Caribbean region. A clear political statement which can be credible and effective may now be required so as to place the region's agenda in the global dialogue. It is in this context that we may look at a different notion of the regional state as the vehicle to achieve this goal.

In the post-cold war era, the geo-strategic role of the Caribbean has now been reduced and US interest in the region is based on specific concerns that fits into the US domestic political agenda, A recent Canadian foreign policy review has placed the Caribbean in a Latin American framework, and gone is the term 'special relationship', which at one time was used to describe the (British) Caribbean-Canada links. With the formation of the single market in Europe, as well as the enlargement of EU membership to include near and far Europe, and the strategic importance of the Mediterranean countries to the European Union, the Caribbean now has a lower priority in European foreign policy agenda. The link between the English-speaking countries of the Caribbean and the Commonwealth of Nations is now much weaker as common interests now diverge.

Today, the agenda before us has widened considerably. Covering the old issues of democracy, development, and integration, but at the same time responding to the new issues of sustainable development, good governance and a new integration paradigm for the region. Perhaps now more than before our resilience is being tested, and the sense of our own Caribbean identity is quickly Changing. Our response must therefore be able to build an enduring commitment to confidence in the Caribbean future, that will at the same time retain a sense of Caribbean nationhood.

II. Caribbean Policy Analysis: Shaping the Issues¹⁷

The Caribbean is a complex, even enigmatic region, characterized by great disparities in size, population, geography, history, language, religion, race, and politics. Notwithstanding these important differences, the economic parameters of the countries in the region are largely symmetrical: they are primarily small economies with narrow resource bases and high trade-to-output ratios, whose GDP is largely related to the export of primary resource and agricultural commodities. Despite persistent efforts, most Caribbean nations still depend on preferential export markets, among other factors. Compared with other developing countries, the standard of living is relatively high, though this is due more to periodic windfalls and protected markets than to the region's productivity or international competitiveness.

The platforms defining Caribbean economic and political space over the last forty years include the triangular trade of the pre-independence period, the era of multinational corporations and U.S. hegemony, and the more recent IMF-World Bank structural adjustment programs. Out of this framework came theories of exploitation, neocolonialism and marginalization, and the export of protest diplomacy. There followed heavy moral and political overtures for protection, special consideration, aid, trade, and investment support from the developed world. Given their history of colonialism, the mandates of nation-building, and conditions at the time of independence, Caribbean nations pursued inward paths toward development that included a high degree of state involvement in the economy.

This approach may have been feasible in the 1960s and 1970s, given the state of development-thinking and the geopolitical structure of the world economy in that period, but it is no longer sustainable. For decades, the plantation economy of the hinterland has adjusted only to a persistent low-level equilibrium, resulting in lower incomes. Although the region's resource-based industries were integrated into the global economy, this resulted in economic enclaves within the domestic economy, without sufficient development benefits. Caribbean countries remain highly sensitive to exogenous forces, such as shocks, exchange-rate manipulation and crises, all of which can adversely affect their critical foreign exchange, their largely export-derived public revenues, and their competitiveness.

¹⁷ The text in this chapter was adapted from, Winston Dookeran, *Crosscurrents in Caribbean Policy Analysis, found in Choices and Change, Reflections on the Caribbean*, Inter-American Development Bank.

The liberalization of the global economic system and other conditions are now eroding the preferential tenus of trade on which the Caribbean standard of living is built. Faced with adverse terms of trade, the need for technological advancement, stresses in the political system, and changing political and economic ties with the rest of the world, the Caribbean is confronting its most severe challenges since many of its nations became independent a generation ago.

A. Political and Economic Imperatives

The premise of any future economic strategy for the Caribbean must be the creation of a dynamic export sector that is sustainable without trade preferences. While push-started by negotiated treaties, this sustainability must be founded on market forces. Yet what meaningful steps have been taken to address this crisis and to create a new generation of exports? How will these new exports relate to the region's domestic capacity, to the unit cost of production and to technology requirements, and how will this transformation be financed? How will the region respond to the worldwide liberalization of financial markets, so as not to place its entire foreign exchange in jeopardy?¹⁸ What new policy framework will meet the looming crisis faced by the region's smaller islands, in particular, many of which are almost totally dependent on the exchange they receive from their sugar, bananas, citrus, cocoa and coffee? Furthermore, are the steps now being taken sufficient to push-start the economy into an integrated world economy, so that it can gain a more equitable share of world commerce?

For these questions there have been only partial answers. Despite a great deal of rhetoric and debate, the region has not yet found ways to change its industrial structure, so that transnational Caribbean enterprises could perform on a more competitive basis in the world economy. The growing gap in the Caribbean between expectations and performance, and the rising tension between intention and reality, has widened the space between the art of politics and the discharge of governance. Political rhetoric tends to base new promises on old premises. In this politics of illusion, yesterday's hopes remain unfulfilled, and new hopes emerge with little expectation that they will lead to action.¹⁹

In the face of seriously deteriorating conditions and the abandonment of many social goals, the sense that the Caribbean is not preparing for the future is a deep source of anguish for its people. Not only has this resulted in a deep disillusionment with institutions and politicians, but the role of the state and its ability to govern have come into question.

The Caribbean must determine its capacity for entering the mainstream of income-generating activities and reposition itself in world markets by expanding the range of its economy. Accomplishing this task will require new theoretical models to address the practical issues of policy, implementation, and international relations; outward - and forward - looking strategies to design paradigms for development; new approaches to the region's persistent problems; and a plan for integration based on contemporary realities that will increase the region's political space.²⁰

To be effective, any new integration paradigm for the Caribbean must go beyond matters of trade and respond to the international situation. This paradigm should link productive structures, promote interaction between the private sectors of different countries, and create technological advances that will reduce the costs of doing business, increase institutional flexibility, and promote social capital among the peoples of the region. The alternative is further economic marginalization and political peripheralization. But what the specific targets and methods will be, and how development will be secured by new integration paradigms, remain uncertain.

¹⁸ This scenario is of particular concern, for "despite the rhetoric of the new age of global economy, there are plenty of signs today that we are repeating the dangerous game of competitive devaluation of the interwar period: the worldwide currency chaos in mid-September 1992 and the U.S. effort to undercut the competitive advantage of foreign producers through exchange rate manipulation ... are just two recent startling examples of this sort. Furthermore many developing countries are too small to be optimal currency areas, as the costs of floating their exchange rate exceeds the benefits" (Cui 1994,4).

¹⁹ See Bernal (1993).

²⁰ For a more comprehensive view of these issues, see Dookeran (1995).

B. Sovereignty and Regionalism

Governments in both the developing and developed world are facing the increasingly difficult task of managing their national economies in order to improve macroeconomic performance, to provide increased levels of public investment for job creation, education and health care, and to develop policies and institutions that will address the issues of poverty and inequity, in an increasingly laissez-faire global environment. Political systems are undergoing stress, as the economic forces for integration outstrip their capacity to make the requisite political adjustments. They are likely to endure only insofar as they are able to adapt.²¹ In the Caribbean and other developing regions, this scenario is further complicated by structural adjustment policies, which many argue are undermining the conditions for development. Others fear that building the requisite regional institutions for addressing these problems will result in a loss of national identity and sovereignty. Furthermore, as regionalism is by definition discriminatory, economists and decision makers are concerned about the possible trade-diverting effects of the future regional landscape.

In this, two points should be considered. First, as Bhagwati (1992) indicates, what we are seeing now is a resurgent regionalism. The first round essentially collapsed in the 1960s, primarily because the United States was still intent upon following a multilateral course.²² The lowering of trade barriers worldwide, however, has extended the "new integrationist" agenda far beyond matters of security, trade and markets, toward convergence on such matters as common regulatory systems, environmental and labor standards, and institution-building. This is leading toward a type of interdependency that can be seen in the new financial geography, where cross-border trading and capital flows make it increasingly difficult to distinguish international banks from domestic ones. Furthermore, the removal of strict capital controls in many countries has placed an emphasis on further integration, with the establishment of global safety nets for international trading, external policy coordination, and common fiscal and monetary policies.

The second point to consider is that regionalism need not necessarily be a stumbling block towards a multilateral trading system. The European Community, for instance, furthered the GATT negotiations, and it may very well be that the Western Hemispheric, European, and Asian trading blocs will be better able to carry out the negotiations leading to global free trade than the 120-odd nations that are signatories under the GATT.²³ The danger, of course, is that this will not happen and that, by turning inward, they will fracture the global system. Regardless of the outcome, however, governments and other actors can no longer define their interests primarily in terms of their geopolitical boundaries, but must increasingly do so in regional and even global terms.

Regional integration is a necessary step for solving the Caribbean's problems, but its countries resist taking the next step, that of building institutional and private sector linkages. The goal has been to reduce tariffs and to maximize internal trade—but without establishing external linkages that would increase the Caribbean's international and regional trade. The result has been integration with no convergence, whose premises are outdated, and institutions that may be efficient, but, in terms of achieving the real goals of integration, are certainly ineffective. This is due, at least in part, to the region's insularity: divisiveness remains a prominent, even an institutionalized feature of the domestic political scene. The cultural basis for a new integration process must address matters of Caribbean identity and social capital, so that it will be more durable, and be premised on the integration of peoples, not just policies. In this, integration should also be less anxious about trade, investment, and the creation of human and physical capital, and place a

²¹ On this and related issues see Galbraith (1994).

²² The most notable exception to this, of course, was the European Common Market, now the EU, which the United States supported primarily out of regional security concerns. The same can also be said for the U.S.S.R. and COMECON.

²³ The Free Trade Area of the Americas (FTAA), formed in December 1994, seeks hemisphere-wide free trade by 2005. The EU is currently expanding its borders into Eastern Europe and the southern Mediterranean; and the eighteen members of APEC (Asia Pacific Economic Cooperation forum) have just signed an agreement to establish a free trade zone among developed nations by 2010, while developing nations in the region will meet these requirements by 2020.

greater emphasis on what Robert Putnam terms "social capital," a vital ingredient in the mix for economic development.²⁴

This psychology also extends to the construct of sovereignty in the context of the region's nations that are still engaged in the task of nation-building. But as difficult and painful as integration might be, collaboration on agreed upon agendas and shared responsibility for the promotion of common interests do not mean that the nation-state will disappear, or that national sovereignty will be lessened; in fact, the outcome may well be the reverse. Sovereignty is often confused with notions of size and unilateralism, but its essence—the capacity to make effective, intelligent, and timely decisions that promote a nation's welfare and autonomy—is altogether different.

In Keohane's analysis, sovereignty is twofold, formal and operational. In terms of formal sovereignty, "a state has a legal supremacy over all other authorities within a given territory, and is legally independent...except where it has accepted obligations under international law" (Keohane 1993). In this, all legally recognized states, regardless of size, are "egaux en droit" (Etienne 1993, 3). Nations sacrifice some operational sovereignty, or "legal freedom of action" (Keohane 1993, 91), when they enter into international agreements, but they do so in return for reciprocal limits on other states. If entered into wisely, such agreements will increase economic well being at home and enhance government's options and its ability to govern. Far from limiting the state's power, therefore, the establishment of regional common interests and joint problem-solving processes where the grounds for interdependence exist may heighten national autonomy, particularly when these agreements are entered into with a view as to how one can benefit from a greater integration with the external world, while at the same time supporting the multilateral process.

C. Building Negotiating Space

Historically, the U.S. attitude towards the Caribbean has been conditioned by the geopolitical significance of the region's proximity, and this is still true, despite the end of the Cold War. The regional agenda has decisively widened, however, and there is now a convergence of interests on such issues as drug trafficking, money laundering, immigration, the management of common resources, environmental degradation, and the strengthening of democracy. The Caribbean must seek to establish a new relationship with Washington in the light of these circumstances, and since resources and attention have shifted from the region, it will be taken seriously only if it negotiates as a unified entity.

Furthermore, if the Caribbean is to strengthen its negotiating position at a time when both the United States and the European Union are preoccupied with matters unrelated to Caribbean development, it must speak with a greater voice. The Caribbean and its neighbors in South and Central America need to work together in greater harmony, if not always in total agreement. Regionalism is an inescapable feature of the landscape, and the asymmetrical integration of the Caribbean nations with its larger neighbors does not, as many fear, present a bona fide threat to Caribbean identity. On the contrary, it will enable the Caribbean to distinguish what is uniquely its own, while at the same time facilitating the emergence of a trans-Caribbean identity that encompasses the Caribbean littoral.

The Association of Caribbean States (ACS), created soon after the West Indian Commission report had recommended that CARICOM achieve greater cooperation and economic integration within the Caribbean

²⁴ Distinct from human capital and social expenditures, social capital, as defined by Putnam, "...refers to features of social organization, such as networks, norms and trust, that facilitate coordination and cooperation for mutual benefit. Social capital enhances the benefits of investment in physical and human capital...and seems to be a precondition for economic development, as well as for effective government. Development economists take note: Civics matters." (Putnam 1993, 35-37; Putnam 1994, ch. 6). While social capital is specifically concerned with the grounds for public policy and institution building, on another level it is reflected internationally in the emerging noons for cooperation, multilateralism, and shared concerns and responsibilities, as opposed to traditional opportunistic, unilateral models of international relations.

Basin, was an effort to respond to global conditions.²⁵ But without an explicit agenda or clearly identified targets, the precise function of ACS is unclear, and it is in danger of becoming an expansion of outdated and ineffective structures that cannot deal with the present crisis.²⁶

D. Open Regionalism and the Regional State

The best model that the Caribbean can consider at this juncture is a form of open regionalism, which encompasses a number of the above issues and trends.²⁷ In a time of great uncertainty regarding the eventual outcome of the multilateral and unilateral trading systems, open regionalism encourages nations to form sub regional trading blocs in ways that facilitate linkages with others, thus synthesizing the globalization and regionalization trends. While an open regionalism includes some preferential elements, import barriers are low and it allows for the open-ended participation of its members in other trade agreements and regional schemes, so that these various groupings will function as building blocks towards global accords and an open and more transparent international economy.

The first round of regionalism led to a form of integration that widened the production base, erected trade fortresses and began to build on policy convergences. This cycle is now over, and the integration process being pursued by CARICOM, despite the recent inclusion of Suriname, has reached its limits. The current round of regionalism, however, which combines the integration of production with open markets, is representative of an intermediate position in a global move towards a more open multilateral trading system.

The Caribbean must accept the realities of the new global economy, and a policy environment must emerge to provide a development buffer zone, as we strive to emerge on a higher international platform. In this context, the establishment of the ACS can be seen, not as an integration process per se, but as an attempt to strengthen the region's negotiating position in international diplomacy. This poses an opportunity for the Caribbean to move away from its traditional posture of protest diplomacy towards a more affirmative stance, in which its vital interests are identified and promoted in anticipation of changing balances in world politics. Furthermore, it lends credence to the notion that a non-sovereign "regional state"--one which could exhibit the same sort of cooperation in world affairs that the Scandinavian countries often demonstrate, and perhaps move towards regional cooperation on economic policy matters, the funding policies of the international financial organizations, as well as cooperation in the UN and other multilateral organizations--may well be more appropriate to the conduct of international relations than the nation state.

E. Post Structural Adjustment

Since the oil crisis of the 1970s, the path towards development in many of the world's poorer countries has been hindered by deteriorating terms of trade for export commodities and inappropriate development policies. These difficulties culminated in the debt crisis of the 1980s, following which many developing

²⁵ Prime Minister A.N.R. Robinson of Trinidad and Tobago took the initiative in establishing the West Indian Commission in the late 1980s, in order to examine the issues facing the future of the Caribbean. Its 600-page report, *Time for Action*, contained more than two hundred specific recommendations (West Indian Commission 1992).

²⁶ Twenty-four states signed the convention establishing the ACS on 24 July 1994 in Cartagena, Colombia. Those who became full members are: Antigua and Barbuda, the Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Venezuela. The non independent territories and countries eligible for associate membership are: Anguilla, Bermuda, the British Virgin Islands, Cayman Islands, Montserrat, Puerto Rico, Turks and Caicos Islands, the U.S. Virgin Islands, France (for Guadeloupe, Guyana, and Martinique), and the Netherlands (on behalf of the Netherlands Antilles and Aruba).

²⁷ For a discussion on how Caribbean open regionalism might be built, see Dookeran (1994). For a comprehensive treatment of this subject, see ECLAC (1994).

countries had to restructure their economies along the lines of structural adjustment policies. These programs consist of both short- and medium-term measures for improving the overall economic situation by such means as cuts in public spending, contraction of the money supply, changes in import restrictions, devaluation of the currency, and the privatization of state enterprises. In general, this new orthodoxy views the market as the major instrument of reform, while the state is seen as the key obstacle to development.²⁸

The structural adjustment policy debate in the Caribbean has centered around the sequencing of measures and a time period for these policies to work, when it should have focused on substance. After a decade of adjustment, development still remains an elusive goal. This is largely a static model, based on two-dimensional premises that cannot be supported. The neoclassical policy prescriptions for "getting the prices right," such as reducing costs, getting the right technology, flexible exchange rates, and removing price controls and subsidies, are all well and good in themselves, but competition is a complex, dynamic phenomenon in which price is only a single element. Moreover, while strict fiscal and monetary measures may promote stabilization, they will not unleash the internal forces for change that will result in growth; and while the divestiture of state enterprises, for instance, may be necessary to balance the books, unless privatization takes place within a post-structural adjustment framework for development, it will not result in a new platform from which output, income, and well-being can be increased. Furthermore, such a framework must engender the dynamics for endogenous growth, so that the industrial structure of production may be transformed, creating new vehicles for the empowerment of peoples which will yield a high-level equilibrium and momentum for sustainable development.

Similarly, the measures for "getting the state out of the way" ignore the need for an enhanced state role in building meaningful regional institutions that will create and promote an environment of growth. The state is needed to enforce regulations, formulate and implement policy, build international linkages, forge collective public and private sector initiatives, and promote human resource development that will bring the disadvantaged into the development process. The world that we now inhabit will likely call for constant economic adjustment; but if the foundations of social life are not to be further eroded, this process must be countered with a "high-energy politics ... capable of repeated basic reform," involving intensified public participation and democracy (Cui and Unger 1994, 85). Correcting economic accounts regardless of social costs can only destroy any basis for future growth.

The state must be redesigned, but not eliminated. Callaghy points out that "contrary to free-market mythology, the state has always played a central role in economic development ... [and] economic adjustment in the Third World today requires a balanced tension ... between state and market forces" (1989, 33). While the international financial institutions are slowly coming around to this view, this is the formula in the developed world. Interventionist strategies, such as incentives and subsidies, are at the core of East Asian development. Furthermore, while the structural adjustment paradigm depends on externally propelled growth, these movements are cyclical, as W. Arthur Lewis has pointed out, and there is nothing inevitable about the process.²⁹

F. Political Economy

Development in the Caribbean entails a comprehensive political economy of change, including the development of endogenous growth capacity to drive the economy. Only then can the region benefit from the new and flexible world economy, in which ends and means are readily adjusted to changing opportunities in different countries. This will require an integration model that transcends trade and converges at the institutional level, and facilitates backward and forward, macro- and micro economic linkages. Eventually a virtuous circle should be created, in which the region can expand its political space and gain greater negotiating strength in the international arena. Merging into a greater political-economic

²⁸ The five basic strategies of structural adjustment programs include the reduction of domestic demand, resource reallocation, the increase of foreign and domestic savings, and increased economic efficiency in the use of resources. (See Norton 1987; for specific economic measures, see IMF 1986.)

²⁹ Sir W. Arthur Lewis, a leading West Indian economist, won a Nobel Prize for Economics in 1979.

whole should help to free individual states from rent-seeking power bases, bring about greater economic efficiencies, and allow governments to concentrate on governance.

A society is largely defined by citizens who possess a common notion of their identity and a common loyalty to shared ideals. As we move into the next millennium, Caribbean society must create a new sense of civic identity in which people feel free to express themselves, speak their own languages, practice their cultural traditions and transmit these to their children, as they embrace common goals with the larger society.

III. Caribbean Catalogue: Recasting the Strategies³⁰

As we enter the twenty-first century, it seems an appropriate point for Caribbean countries³¹ to reflect on their past performance, not only to assess their economic successes and failures, but more importantly to use these to assess their future prospects and to address some of the important challenges that lie ahead. Introspection of this kind is difficult at the best of times, but often necessary. It requires a level of maturity to acknowledge past mistakes and to surmise the strength, courage and determination to put matters right. On the basis of a rigorous assessment of the lessons of the immediate past and the distinctive prospects and challenges of the future, we in the Caribbean must also be prepared to construct a dynamic that enables us to take a fresh approach that could lead to the improvement of the human condition of the peoples of this region.

This chapter provides an excellent focused public arena in which we can assess the past and look forward to the future with realistic answers to the global challenges with which the Caribbean community is faced. Today, I want to share with you my thoughts on some of these challenges for both the English and non-English speaking countries that are seeking to secure for themselves a level of growth and development within an increasingly competitive global economy. I cannot, within one chapter, make a comprehensive examination of all the important issues, but will attempt to focus the discussion on a core set of issues that I believe will have a significant bearing on the economic fortunes of the Caribbean in the coming years and to suggest some possible approaches. But first, let me provide some background that will form the context for the rest of my discussion.

The countries of the Caribbean do not comprise a homogeneous group in any sense. Indeed, these countries differ significantly in terms of size, resource endowment, economic structure and performance, language, ethnic composition and culture. Hence, while a broad based approach may be essential to

³⁰ The text in this chapter was adapted from, Winston Dookeran, *The Caribbean: A Catalogue of Open Issues*, from *Uncertainty, Stability and Challenges*, The Central Bank of Trinidad and Tobago, published by Lexicon Trinidad, 2006.

³¹ In this paper, the Caribbean countries are Bahamas, Belize, Cuba, Dominican Republic, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago and member countries of the Organization of Eastern Caribbean States (OECS), which include Antigua and Barbuda, Dominica, Grenada, and St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines.

mitigate some of the developmental challenges facing the region, a successful regional developmental strategy must be tailored to suit each country's particular set of circumstances.

Notwithstanding this, Caribbean countries have many common characteristics. These countries meet most of the criteria that define small states, such as, limited size of market, openness and limited diversity in production, among other things. Most Caribbean countries have also attained a high level of political stability and social development. Although more effort must be directed to encouraging greater participation in the governance process, especially during the years between elections, multi-party democracy has taken root in most of these islands, with elections largely rated as fair and regular.

According to the United Nations Human Development Report 1997, human development indicators for the Caribbean, except Haiti, are reasonably high, falling somewhere between the high and medium human development categories established by the study (see Table 1). Adult literacy rates in many of these countries exceed 80 percent, and although AIDS and some curable diseases present significant health challenges for the region, life expectancy in most of these countries is over 70 years, with the quality of the environment contributing in a significant way to the quality of life.

While most social development indicators are reasonably high, the Caribbean has significant pockets of poverty, varying in severity among countries. Measures of per capita income levels and growth for several Caribbean countries suggest that they have performed fairly well, but for the region as a whole, growth was far below what is needed to reduce poverty. At the regional level, output growth was disappointing in the 1980s and improved only slightly in the 1990s. While this performance can be blamed partly on unfavourable commodity prices and instability in the international financial system, economic mismanagement, delayed and inadequate reforms and natural disasters have also been important factors. With the weak performance of the last two decades, the unemployment situation has improved only in those countries where tourism and free-trade zones are major employers and where ample amounts of FDI inflows have occurred.

The fundamental challenge facing Caribbean nations is to create the political, social and economic conditions conducive to the enhanced well-being of a population that is projected to grow at an average annual rate of 1 percent, from 34.2 million in 2000 to 41.8 million in 2020. This has to be achieved while coping with a changing international environment, pressures on the fragile physical environment, a high risk of natural disasters and the disadvantages of small size and underdeveloped physical and institutional infrastructures. Can Caribbean countries successfully confront these challenges? Let me now examine four of the significant issues that are likely to weigh heavily on the region's economic fortune.

Table 1
Social Indicators

Countries	Poverty percentage of population	Life Expectancy Years **	Infancy Per thousand births **	Clean Water percentage of population **	Literacy percentage Adult population **
	1986-98	1998	1998	1998	1998
Antigua / Barbuda	12	75	17	95	89
Bahamas	5	74	17	94	95
Barbados	1.3	76	14	100	97
Belize	3.3	75	28	83	93
Cuba	n.a	76	7	93	96
Dominica	28	76	15	92	94
Dominican Republic	21	71	40	73	83
Grenada	31	72	14	85	96
Guyana	43	64	57	83	98
Haiti	65	54	71	39	48
Jamaica	16	75	21	93	86
St. Kitts / Nevis	15	72	21	100	90
St. Lucia	25	70	17	99	82
St. Vincent	38	73	22	99	82
Suriname	39	70	28	89	93
Trinidad and Tobago	21	73	16	96	93

A. Small States and Global Competition

The Joint Commonwealth Secretariat/World Bank Task Force on Small States recognizes that small states face special challenges and constraints, which hinder the international competitiveness of these economies. All Caribbean countries fall within this working definition of small states. In recent years, these countries have been attempting to adjust to the new era of rules-based trade regimes under the auspices of the World Trade Organization (WTO), where principles of differential and preferential treatment are set to be phased out over time. Not only is this regulatory regime increasingly embracing new sectors of trade - an example

of which is trade in financial services - but also Caribbean countries are voiceless in this process and largely unprepared for this new trade environment.

Small states, especially those in the Caribbean, are defined by a range of distinctive vulnerabilities, not only those that relate to their geographical position, but also those that relate to the functioning of their economies and which pose special developmental challenges. Such vulnerabilities imply exposure to disruptive external shocks and events against which these countries have little capacity to insulate themselves. The Commonwealth Secretariat/World Bank report rightly notes that small states "are especially vulnerable to external events, including natural disasters, that cause high volatility in national incomes; many of them are currently facing an uncertain and difficult economic transition to a changing world trade regime; and they suffer from limited capacity in the public and private sectors."³² In more specific terms, remoteness and isolation, openness, limited diversification, and income volatility have all been identified as severely constraining factors.

Even so, only a few international organizations and advanced countries recognize the exceptional problems of small island states. The Commonwealth, the UN and the European Union (EU), for example, have put in place specifically targeted programmes to deal with this group of developing countries. And in its relatively recent association, in an ongoing collaborative enterprise with the Commonwealth Secretariat on the small state issue, the World Bank appears to be moving in this direction. Despite being the Caribbean's biggest trading partner, the United States has been slower in coming to this recognition.

In fact, the Caribbean Basin Initiative (CBI), some contend, may have been of more benefit to the United States than the Caribbean economies it purported to assist. US exports to the Caribbean Basin more than tripled since 1984 when that agreement was signed. Moreover, the implementation of the North American Free Trade Agreement (NAFTA) saw many of those trade advantages included in the CBI superseded by the NAFTA parity granted to Mexico. However, the new Caribbean Basin Trade Partnership Agreement (CBTPA), a revised CBI arrangement, not only substantially increases market access for apparel and increases the number of products incorporated under the regime, but also upgrades beneficiary countries up to NAFTA parity status. This development augurs well for the evolving of a wider consensus in this connection. In other words, small states are increasingly being perceived as facing certain peculiarities of circumstances and conditions that deserve consideration for special treatment.

The much-maligned principle of special and differential treatment does not necessarily mean a timeless and indiscriminate extension of privileges and deviations from the general rules of global economic intercourse. What it does mean is, first, the concession of special treatment and, second, the design of the appropriate operational mechanisms to give practical and meaningful effect to a differentiated condition. Such an approach is consistent with the ethos of globalization with a human face that seeks to ensure not only efficient outcomes in the actual functioning of the global economy, but also equitable outcomes. It also assures that these countries are provided with an appropriate period of transition in which they can equip themselves to function effectively in the global economy.

While the burdens of adjusting to the new international trading regime are real and Caribbean governments understandably try to negotiate a slow phasing in of the World Trade Organization's rules, these should not be allowed to delay the necessary adjustments for improving the international competitiveness of these economies. Given that the adjustment costs to the new global trading system are ultimately unavoidable, Caribbean economies must continuously strive to create the capacity to successfully exploit this new environment as they strive to achieve their developmental objectives. While governments might successfully negotiate for and capture some of the benefits of delayed application of the WTO rules, these benefits should be passed on to businesses, if, and only if, in the interim they serve as incentives for businesses to gain international competitive strength.

Competition should not be viewed negatively. Competition is perhaps the best possible incentive for businesses to improve and to become more productive. Competitive markets at home can help provide a springboard for global success. It is obviously not enough just to strengthen competition in the domestic

³² *Small States: Meeting Challenges in the Global Economy*, Commonwealth Secretariat/ World Bank Joint Task Force, 2003.

market. Caribbean businesses also need to compete effectively in international markets. In this respect, Caribbean businesses should view CARICOM as an opportunity to test competitive strength against regional companies of similar strength, while positioning themselves to take on larger competitors in the global market.

To move to this point, however, the region must develop a strong forward-looking industrial policy which encourages innovation and contributes to building the types of enterprises that are suitable for a globally competitive knowledge-driven economy. The days of the interventionists have long passed. Industrial policy formulation in the present era means meeting the requirements of the knowledge-driven economy. Promoting open competitive markets provides the sharpest spur to innovation and is perhaps one of the best ways of rewarding risk taking. But governments need not do this alone; business leaders throughout the Caribbean should be part of the process of shaping policies on competition as well as monitoring and reviewing progress made.

The alternative to open markets and competition is, of course, protectionism and regulation. But, as past experience shows, excessive and poorly conceived regulation only limits choice and increases costs, especially to small businesses. Smaller businesses bear the brunt of these regulations mainly because they have fewer resources to meet these costs. Policymakers therefore need to ensure that markets are fair and accessible to all firms, including small ones. In the long haul, Caribbean economies will gain more through productivity growth when governments work to reduce bureaucracy and lessen the burdens of unnecessary regulation. In adapting to the global economy, the Caribbean needs also to reduce its reliance on price factors in adjustment strategies and focus instead on non-price factors. By the price factor, I mean variables such as exchange rates and interest rates. In the past, in the typical adjustment programme, too much emphasis has been placed on these price factors. The rationale for this shift is that in the real world, markets are imperfect and resource transfers emanating from changes in the price factor can turn out to be negative.

This has been the case in the Caribbean, which has seen a net outflow of resources to multilateral institutions. The challenge of building a competitive economy cannot rely as heavily as it has in the past on price adjustments; rather, a better mix of price and non-price factors need to be worked into the adjustment matrix.

B. Building a Knowledge-Driven Economy

In the face of a rapidly changing business environment, Caribbean governments also face the challenge of modernizing their economies to close the performance gap between their enterprises and the well-established firms from other leading economies. While the world has become more open, with larger markets offering greater opportunities, it has also become far more competitive. With the removal of trade barriers, cheap quality goods are produced by efficient enterprises in all parts of the world for sale in the global marketplace. To achieve sustained growth and increased profits, all businesses need to continually improve their processes and to develop new and better-designed products and services. The source of knowledge, which drives this change, is derived from research and development, from learning from competitors and from investing in technology.

In a highly integrated and competitive marketplace, Caribbean economies can find their niche by identifying and exploiting their distinctive capabilities. For many modern economies, these distinctive assets are increasingly the knowledge, skills and creativity of their people rather than traditional factors, such as land and natural resources. Most successful modern economies are built on the ability of their people who are at the heart of a knowledge-driven economy. Indeed, the small size of most Caribbean economies and their relatively limited endowment of raw materials suggest that their only competitive advantages are very likely to be with their people. But the skills needed for a knowledge-based economy are in very limited supply and could impose severe constraints on the region's development. To compete in the global market, the region must place greater emphasis on developing an adequate amount of skilled manpower and managerial talent.

Part of the process of accomplishing this transformation is that government, business and each individual need to take on the challenge of upgrading skills. To successfully compete with foreign companies, Caribbean businesses must combine modern technology, which involves the effective use of digital technology (the nerve centre of the knowledge-driven economy), with information, knowledge, skills and the creativity of their workforces to rise productivity levels and improve their products and services.

The Caribbean private sector needs to strengthen its capacity for innovation and risk taking. Entrepreneurship is the life-blood of a knowledge-driven economy. With the pace of innovation in the global markets, any competitive advantage gained has to be constantly refreshed. Successful businesses are likely to be those which can continuously turn new ideas into winning products and processes. This has to become the common objective of both large and small enterprises in our region. Although affecting shifts in culture and changing business attitudes take time, this should not prevent us from acting. The aim must be to create an environment in which the entrepreneurial spirit of people of all ages is nurtured.

Caribbean businesses also need to have better access to investment financing. Too many small businesses with good ideas have experienced problems raising the credit they need to invest and grow. In a knowledge-driven environment, commercial banks cannot afford to be as risk-averse as they have been in the past. In the new economy, banks and other financiers would be required to be almost as enterprising as entrepreneurs themselves are. As the main source of financing for Caribbean enterprises, banks therefore need to become more proactive. They must not only embrace, but also search out innovative small businesses. The Caribbean has become too afraid of failure; banks have become too risk averse. This does not mean that banks must throw caution to the wind. What is needed is an attitude shift that is complemented by a better assessment of business risk, which enables banks to identify those non-traditional business ideas that are deserving of financial support.

Regional financial institutions like the Caribbean Development Bank (CDB) also have an important role to play in project financing. In the new dispensation, the CDB needs to undergo a paradigm shift with regard to its view of the roles of the state and the private sector in development. There is both theoretical and empirical support for the view that social welfare will be greater when governments and public concerns undertake to provide only those services which are considered public goods as well as those concerns in which the private sector has little incentive to invest.

The CDB therefore needs to place far greater emphasis on private sector financing and helping to position the private sector as the engine of growth in the region's economies. The CDB must also continue its pioneering work of supporting the development of regional capital markets, which should provide private sector firms with an opportunity to shift their capital structure away from the structures of an over-reliance on loan financing and towards the use of less risky equity capital.

The link between business, education and research in a knowledge-driven economy is critical. Part of the drive to create a knowledge-based economy must of necessity involve strengthening the science base and promoting the exploitation of knowledge. Investment in and the drive for excellence in research and development are essential in providing businesses with a competitive edge. This requires closer collaboration and greater funding for regional educational and research institutions. The curricula of these institutions must, however, be geared towards developing the work-related and entrepreneurial skills that are appropriate to the region's development plan. The objective must be to create a highly educated and skilled labour force that is well resourced and capable of delivering sophisticated goods and services.

Very little will be accomplished if research and industry remain out of sync with each other. Scientific and technological knowledge need to be combined with other forms of expertise to create innovative products and services. The most dynamic economies have strong universities that develop creative partnerships with industry. Stronger links between the University of the West Indies and industry could also lead to greater commercial exploitation of research. While governments in the region have been supporting this research effort, universities can become more effective if creative ways can be found for private-public partnership funding. The private sector need not feel a loser in this partnership arrangement, since the next logical step must be to translate research work into better processes and to commercialise new products developed.

To exploit our capabilities in people and technologies to the fullest, businesses must also collaborate across sectors and throughout the region. Few companies have all the skills and know-how to make technologically complex products. Most successful businesses tend to be those that continually adapt their ideas and techniques garnered outside of the business and promote cooperation within the business. With a shared vision of creating knowledge-based economies, governments within the region should encourage business collaboration and teamwork at local and regional levels. Sectoral partnerships, networking and clusters can play a critical role in sharing knowledge and upgrading skills among complementary businesses.

While success in creating this kind of knowledge-driven economy depends on the extent to which the private sector embraces these ideas, governments and regional institutions can facilitate the process. Governments can help by maintaining a stable macroeconomic framework, which would underpin business confidence and help promote long-term planning and investment. In addition, every effort should be made to modernize the public service and to remove regulations and bureaucratic red tape, which retard productivity and impose unwarranted costs on businesses.

C. Expanding the Region's Economic Space

Other important challenges to the Caribbean are expanding and increasing its economic space. Understanding the linkages in our economic system is central to the design of appropriate policies to accomplish this. The situation has become even more complex as we now operate in a world where our environment extends beyond our local borders and, as the contagion from the Asian financial crisis shows, external conditions in faraway places can have far reaching consequences for the domestic economy. Notwithstanding these new risks, many new opportunities for trade and investment are also created by the new global economy. These are the opportunities that Caribbean economies must exploit in their pursuit of a wider economic space.

Real GDP growth for the region was disappointing during the 1980s, and while it increased during the most of the 1990s, it slipped again toward the end of the decade. During the 1980s, real output in the region expanded by a mere 1.2 percent. Guyana, Haiti and Trinidad and Tobago had negative rates of growth. In the second half of the decade, Cuba also stagnated.

In the 1990s, economic restructuring in many of these countries led to an improvement in regional growth rates. Although the average growth in GDP per capita is rising slightly over the 1990s, the rate of expansion has been far below what is required to make significant inroads in reducing unemployment and poverty (see Tables 2 and 3).

Table 2
Growth in GDP per Capita

Countries	1986	1994	1997	1999
Antigua / Barbuda	3.92	2.69	3.9	3
Bahamas	1.43	2.69	3	5.8
Barbados	1.35	3.88	4.8	2.9
Belize	6.03	2.65	1.5	6.2
Dominica	3.2	2.55	3.5	0
Dominican Republic	4.51	6.84	7.3	8.3
Grenada	3.38	3.52	4.8	8.2
Guyana	3.1	4.34	-1.5	1.8
Haiti	-0.72	2.91	3.1	2.2
Jamaica	1.89	-1.11	-0.7	0.4
St. Kitts / Nevis	5.19	4.61	1.6	2
St. Lucia	3.75	2.62	2.9	3.1
St. Vincent	4.26	4.57	5.2	4
Suriname	3.5	5.42	3.9	-1
Trinidad and Tobago	0.78	3.65	4.1	4.2

To the extent that the Caribbean becomes more competitive, productive activities and sectors should expand to contribute to the required GDP growth and employment creation. There are perhaps two basic approaches to raising the level of growth and employment. As discussed above, one approach is to radically reorient the productive capacities of the economies by creating a knowledge-driven economy that can take advantage of the new opportunities being created by the process of globalisation. This essentially relies on the exploitation of new technology to help extend the region's capacity to produce beyond the limits of its natural endowment. This strategy can be pursued alongside measures to improve the efficiency of traditional lines of production.

Naturally, the more diversified the economy and the larger the contribution from traditional sectors, the less likely it is that new opportunities will have to be sought in entirely new lines of production. Recent trends in technology growth may in fact be offering small economies greater room for maneuver in designing efficient supply-side policies. A new trend in technological innovation that allows for low costs even without massive production volumes seems to favour small economies, or, at least, makes the playing field more level vis-a-vis larger economies. E-commerce also offers new prospects for geographically isolated small economies. However, higher levels of investment in human capital, which have been a key to the success of the small, developed economies in Europe, will be crucial to the implementation of such strategies.

Table 3
Labor Force Growth and Required GDP Growth and Tentative Targets

Countries	Labor Force Growth (Average percent per annum)	Required Growth (Minimum average Percentage)
Bahamas	1.5	3.5
Barbados	0.35	2.4
Belize	2.9	4.9
Cuba	0.9	2.9
Dominican Republic	1.8	3.8
Guyana	0.6	2.6
Haiti	3.5	5.5
Jamaica	1.5	3.5
OECS	0.9	2.9
Suriname	1.4	3.4
Trinidad and Tobago	0.9	2.9
Total	1.75	3.75
Total (Excluding Cuba)	2.1	4.1

Future strategies to enhance efficiency and to expand economic space for these economies must therefore be linked to promoting innovations, developing synergies and strategic complementarities and expanding the network of production centres. Although some of the problems that have retarded growth to date stem from conventional defects in factor markets, efforts must be made to explore these factors further. Particular attention should be paid to the "re-engineering" of the public and private sectors, with a view to encouraging the emergence of new economic activities and to motivate economic agents to think in new ways.

Increasingly, the public sector's task is to provide an environment which is suited to overall growth and development. On the other hand, the private sector must become the engine of growth. There are several essential prerequisites for this engine to work, one of which is that the private sector must be given the freedom to conduct business without undue interference by the state. For the private sector to allocate its resources efficiently, market distortions must be at a minimum. The prices of input and output must reflect their productivity and relative scarcity. In other words, labour markets must be made flexible and protective subsidies and quotas must be minimised.

Expansion of economic space places other demands on these economies. Given the savings-investment-growth nexus, an important challenge to the region in the future will be raising its savings rates. High savings rates mean relatively high rates of investment. This is particularly important since only a few countries can maintain the current account deficits implied by reliance on high rates of foreign savings. Indeed, when domestic investment is heavily financed by foreign savings, restoring external equilibrium can lead to sharp fluctuations in investment and growth, which ultimately affect the average level of investment throughout the business cycle.

To summarise, it is worthwhile to point out that in their drive to expand the economic space for their economies, Caribbean governments must recognize that enterprises, not countries, compete

internationally. To achieve the desired level of productivity growth and economic development, it is important that attention be paid to the following:

- A suitable strategy for improving efficiency in both private and public sectors must be found.
- Effort must be made to make the region more attractive for private domestic and foreign capital to play a major role in the expansion.
- Domestic savings must be increased so that financing requirements can be met despite reduced aid inflows.
- Education and skill development must be given priority, since one of the most important constraints for developing Caribbean economies is their limited supply of skilled manpower and managerial talent.
- Prices for inputs and output should be subjected to competition in the domestic economy, especially to rein in relatively high public utility prices. All unnecessary regulations and bureaucratic obstacles to private economic activity must be removed or substantially reduced.

D. Adapting to the New Global Environment

Regional leaders have been calling for the reform of the architecture of global governance to make it more sensitive to the diverse levels of members' development in the design of globalisation and liberalisation. Many of these calls have been aimed at the International Monetary Fund and the World Bank - in the wake of the recent financial crisis around the world -but even more directly at the trading regime administered by the WTO. Many have pointed to the real burden imposed on small states which hitherto have received preferential treatment because of their size, but whose enterprises must now compete on even terms with well-established enterprises from advanced countries. The end of the European Union's banana regime, in particular, will impose significant adjustment problems on the producers in small Caribbean economies if it is dismantled in as short a time as is being demanded. In contrast, it is quite ironic that the dismantling, negotiated at the Uruguay Round of the Multi Fibre Agreement (MFA) entails a ten-year, back-loaded phase-out which will provide ample time for the industrialised countries involved to adjust.

Of course, issues of equity are behind many of these calls for an interim transitional arrangement for smaller states. What is not readily understood and appreciated is that in the new trading regime there will be winners and losers. It is assumed that the benefits to gainers will be large enough to compensate losers, but so far no mechanisms for such sharing have been developed. Indeed, any such sharing arrangement is unlikely. International trading regimes are essentially a device of the political economy: they are in place at least as much to protect nations from their own interest groups as to protect nations from each other.

In this sense, the process of change and adaptation can best be analysed in a framework of political economy in which there are "winners" and "losers." Since the change process is normally associated with the altering of national expenditure from one set of expenditures that emerges out of the current structure and behaviour of the economy, to another set of expenditures that will usher in a new matrix of investment and consumption, the critical issue is how to affect that shift. "Losers" are easily identified for they represent the participants in the current structure of the economy and normally are represented in the political system. They are organised to make appropriate noises. On the other hand, the "winners" perhaps belong to the next generation or to opportunities not yet realised and therefore cannot be easily identified or mobilised. In such a framework, the process of change is challenged by finding a workable compensation mechanism that would allow the "losers" to become part of the constituency of the "winners." Adaptation by small states to the new trading environment before us can best take place if the framework for the political economy of change can be designed and an appropriate strategy spelled out.

Even at the international level, where nations protect each other from other nations, strategic policies have become part of that framework. We are well aware of strategic policies implied in the "social clause" on environmental and labour issues, which have been viewed as being against exporters from developing countries. So too is the "Super 301" clause in the US Trade Act, which from time to time has been used.

The strategic approach, therefore, in the context of adaptation to the new trading environment by small countries, must become part of a deliberate strategy. Such strategic policies will tend to alter the pace, the timing and the scope envisaged in the change process.

Another aspect of the political economy of change deals with the core-periphery dynamics of the new economic geography. Market forces must work together with new economic geographical arrangements. In this sense, there are two distinct and related processes that seem to be taking place:

- The relocation of industries and services in regions that are favoured with an attractive and richly endowed environment.
- The specialisation of economies that favour regions with a head start in production and attract industries away from those with lesser initial conditions.

New knowledge and insight of these three aspects of the political economy of change - winners and losers, strategic policies, economic geography dynamics - can form part of a scholarship agenda as small states adapt to the new trading environment.

Development in the Caribbean entails a comprehensive political economy of change, including the development of endogenous growth capacity to drive the economy. Only then can the region benefit from the new and flexible world economy in which ends and means are readily adjusted to changing opportunities in different countries. This will require an integration model that transcends trade and converges at the institutional level, and facilitates backward and forward, macro-and microeconomic linkages. Eventually a virtuous circle should be created in which the region can expand its economic and political space and gain greater negotiating strength in the international arena. Merging into a greater political-economic whole should help to free individual states from rent-seeking power bases, bring about greater economic efficiencies, and allow governments to concentrate on governance.

Sustainable development is an affirmative political-economic process, linking economic logic- the measures needed to pursue economic efficiency in both the international and domestic spheres - with political logic in a synergism that allows them to reinforce one another. Merely opening the economy to the outside world will not induce sustainable growth. On the contrary, it could result in further social and economic destabilization. As integration progresses and the state reduces its direct role in the economy, public policy will have an even greater impact on the economy and society in general. At the international level there will be winners and losers. To address this situation, governments must be strong enough to manage the transition and to alter the opportunity structure so that lower- and middle-income groups will not bear a disproportionate part of the burden. Governments must also ensure that poverty issues are systematically addressed with visible effect.

A society is largely defined by citizens who possess a common notion of their identity and a common loyalty to shared ideals. At the beginning of a new millennium, Caribbean society must create a new sense of civic identity in which people feel free to express themselves, speak their own languages, practice their cultural traditions and transmit these to their children as they embrace common goals with a larger society. The agenda before us is enormous, but we can neither succumb to the forces of history nor surrender to the new vulnerabilities that will surface in the path ahead. Our resilience must be founded in our own sense of Caribbean identity with an enduring commitment to confidence in our future.

Section II: The Missing Link in Thinking IV. The Politics of Development³³

The Growth Report (May 2008) commissioned by the World Bank,³⁴ and the papers presented at the UNU-WIDER conference on Country Role Models,³⁵ provide extensive accounts of development experiences of several countries. This opens the opportunity to bring new insights into the theories of growth and development. In all these studies, the politics of development remained missing, although the importance of the issue was evident in the analysis. The work of the political institutions, the political economy approach, and the politics of the future are difficult subjects to integrate into a development agenda. It is therefore essential to explain the complete process of development.

In addition, the recent literature on the great transformation, governance and democracy all point to politics as a key ingredient in the search for answers in development thinking and practice. Rekindling a strategic conversation on the link between development and politics is the aim of this chapter.

A. Politics and Development

As we enter the twenty-first century, development has come face to face with politics, one of the key ‘factors’ in the advancement of growth and development. Previous attention on this link focused on politics in policy making, and the conferring of benefits to parts of the society that will enhance the whole society’s well-being and national interest. Specifying national interest is the work of the political process that is usually conducted in a competitive democratic system. This brings out large differences in the choice of

³³ The text in this chapter was adapted from, Winston Dookeran (2008), *Politics and Development: A strategic conversation on the missing politics in development*, found in, *Leadership and Governance in Small State*, ((Germany: VDM Verlag).

³⁴ The World Bank (2008), *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, Commission on Growth and Development, available online.

³⁵ UNU-WIDER Conference on Country Role Models for Development Success, Marina Congress Center, Helsinki, Finland, June 13-14, 2008.

the national interest, differences that at times may manifest in competing ideologies. Today, the debate has now shifted towards the 'right policies that will yield the right outcomes'.

The polity of a society strives to work out the 'best balance' in the equilibrium between political and economic goals (i.e., reconciling the political and economic logic), while reflecting the national values of the society. Often, this equilibrium is unstable and constrained by the powers of the institutions in the society and the state. The application of the calculus of political economy allows the society to find the 'right balance' that will promote sustained growth and development. Politics is about the distribution of power in a society, while political economy is about compensation to the 'winners' and 'losers' in any given distribution of power. Development is about closing the gaps in social equity and growth potential of the society. How to acquire and consolidate power depends on the nature and the outcome of the mechanisms of the political system. How to compensate the losers is part of the process of reshaping the society's social welfare. How to bring about development is about all (and more) of these questions.

The politics of development is often viewed in narrow terms of the distribution of income and opportunities. Looking at inequality and injustice in our global economy, Nancy Birdsall argues for higher weights to these goals in the policy paradigm of development.³⁶ Her argument is that globalization is disequalizing for three reasons: (i) the market works by rewarding countries and individuals with the most productive assets; (ii) the market fails by generating negative externalities for the vulnerable and increasing the risks faced by the weak; (iii) the market has power - rules and regimes - to systematically favor the already rich countries and people.

To address these inequities, Birdsall advocates a global social contract to deal with unequal endowments and to build sound institutions that will:

- Link global transfers to the supply of global public goods.
- Construct global regulations to address market failures.
- Provide better representation of developing countries in world bodies.

These elements in the global social contract raise critical issues of politics, which cannot be overlooked. The idea of policy conditionality has taken up many pages in the documents on policy dialogue. Currently, processing conditionality as 'making it happen' is the more dominant development challenge. The argument will shift in a generic sense from 'what' to 'how', opening up a whole plethora of political matters.

Politics in development is likely to get deeper, as each political choice will have different development outcomes. As such, analysis of the political choices becomes an essential part of the data requirements for good decision-making. This poses a tremendous challenge to leaders in development, politics, policy making and management alike. Apart from the undertaking to build models of politics and development, there will be the need to secure the population's legitimacy for this trade-off, as they are critical in making political choices. Let us briefly examine the challenge of history in economic thinking.

Is there a 'great transformation' in development economics ahead of us? Francis Stewart boldly and articulately raises this question.³⁷ Stewart first traces Polanyi's arguments about Europe where the harsh consequences of the unregulated market led to a counter-movement to regulate and humanize the market, so that society controlled the market rather than vice-versa, which she refers to a great transformation. She then swings the pendulum to developing countries where the harsh consequences of the market make a great new transformation desirable, but the possibilities of change are severely constrained by global forces and democratic politics. Admitting that her search for a great transformation in our times does not represent

³⁶ Birdsall Nancy (2006), *The World is not Flat: Inequality and Injustice in our Global Economy*, UNU-WIDER annual lecture 9. She argues that global markets alone will not increase wealth and welfare in the global economy, and there is the need to address the fragile global polity.

³⁷ Stewart, Frances (2007) "Do we need a new 'Great Transformation'?" "Is one Likely?" In Mavrotas and Shorrocks, *Advancing Development*. Polanyi in 1944 wrote his path-breaking book, *The Great Transformation: the political and economic origins of our times*, where he traced the pre-market. Pre-industrial system to the market dominated industrialization of the nineteenth century and the 'succession of changes that were provoked by the predominance of the market model'. See Frances Stewart (2007), in Mavrotas and Shorrocks, *Advancing Development*.

a finished product, Stewart calls for an ambitious research program to understand the strength of movements for political change in particular countries around the world.

B. The First Wave of Reforms

The Growth Report³⁸ traces the development experience of 'successful' developing countries. The analysis for the most part excludes the incentive structure that informs political behavior and omits how political logic will support strategies for growth and development. What is astonishingly missing in this far-reaching work is the analysis of the politics of development. In the last twenty-five years, some developing countries have been on the 'catch-up' trajectory in the development cycle. Many have persistently attained high growth rates over a period. The report identifies thirteen such economies with a sustained growth rate of seven percent over a quarter century. Is there a formula? What is the underlying growth strategy? How is the framework built to sustain high growth rates over a long period? Clearly, domestic policies, important as they are, worked in an open integrated world economy. Increasing global demand together with abundant labor supply enables 'catch-up' growth in the early stages of development. For small economies, this is a special challenge. High growth rates are possible through sustained transformation of the society and economy. Such dynamics unleash a new energy of microeconomic undergrowth, sometimes referred to as 'creative destruction' - creating new frontiers while protecting the people adversely affected by this change.

In the preface, the report states that growth is not an end in itself but it is a necessary, if not sufficient, condition for 'broader development'. Could broader development take place without high growth rates? The report is silent on this issue, albeit regarding inclusive development as a critical objective. This implies that the nature of development must focus on inequality and poverty. Such challenges remain the key focal points of development, which can be pursued effectively even by societies without high growth rates. This raises the question of what is the natural rate of growth of a specific economy? How could inclusive development take place in any growth scenario? After all, inclusive development may well have a higher priority in the social welfare of the population. If not, the democratic outcome may alter the social welfare function through the workings of the political process.

The report calls for a long-term commitment by political leaders pursuing with patience, perseverance and pragmatism. Do the incentives facing political leaders support that nature of the commitment? How can continuity in growth strategy be attained in a competitive political market where the very disruption of that continuity creates a new political opportunity? Why would the development agenda take precedence over the political agendas of political entities vying for political office? Understanding the link between politics and development is crucial and is an important ingredient in constructing a rapid growth formula. A credible and strong political leadership must be able to emerge from the workings of the democratic system, which itself must have in-built incentive structures if this has to occur. Merely identifying deficits in the political economy is not enough. Rather, we must ask whether the democratic rules and behavior by which leaders operate allow for a development outcome.

Such outcomes should create a greater demand for good governance. Unless such a demand exists, there is less possibility for the emergence of a supply of good governance. Here, the interaction between policy, institutions and the market becomes a critical ingredient in the growth strategy, a lesson learned from the experiences of the reform process. The first wave of reform policies concentrated on issues of macroeconomic stability of putting the house in order. The main measures of macroeconomic stability were opening up the economy to become competitive, removal of persistent budget and non-budget deficits, control over liquidity and inflationary excesses, and altering the supply structure of private and public goods.

³⁸ See *The Growth Report*

C. The Second Wave of reforms

The second wave that 'institutions matter' came to the forefront as issues of effective regulatory systems. More market-based initiatives and new institutions to promote inclusive development became central to the new reform. The right governance now acquires a special meaning to influence market behavior so that the public interest is paramount. Sustained high growth rates and inclusive development like equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth are the anchors of the new legitimacy of right governance. Honest and transparent processes in both the public and private sectors add to that legitimacy.

Small states face a special challenge because of the high per capita cost of public services, limited scope for production diversification and increasing risks to economic shocks. The Growth Report's analysis of small states is rather limited, although in numbers they comprise a significant portion of sovereign nations. Its prescription for small states is this: embrace the world economy, form regional clubs and outsource some government functions. In small states, short-term cyclical capital inflows cannot mitigate the risk factors of emerging fiscal deficits, loss in competitive advantage and secular decline in productivity. In defining the current challenge of Caribbean small states, a recent report by the Foundation for Politics and Leadership has this to say: "Caribbean societies are caught in a profound wave of change, as they respond to a different globalized order and to an emerging crisis within the borders of their own politics. The political and economic paradigms of yesterday have lost their legitimacy to promote workable solutions for a generation that is impatient and has high expectations.³⁹ The realization of these expectations cuts across the social and generational space unleashing the inherent conflict with politics and creating new obstacles to advancing development.

The new obstacles may also surface in the strategy for high growth if countries are unable to navigate through global challenges ahead. As the world faces up to the prospects of global warming and climate change, efforts to satisfy the criteria of efficiency and fairness as a global solution have reached an impasse. The global search for solutions between growth, income equality and environment has also been stalled on critical financial issues. The changes in the global relative prices may affect a country's choice of sectors in its development strategy, and have a fiscal and balance of payments impact. Demographic changes and policy coordination in multilateral systems will add to the challenges of assessing global risks, uncertainties and opportunities. In particular, changes in the world's currency reserve system may provide a new impetus for shifting power in the governance of the financial institutions to reduce the risks faced by developing countries and improve the efficiency of the global system. One imminent risk is the rise of protectionism in the face of World Trade Organization's (WTO) commitment to a flexible multilateral trading system.

The report identifies the 'adding-up' problem, where if many individual countries pursuing export-led growth would it work in the aggregate? The idea is dismissed as a fallacy of composition as there is little evidence in the pattern of trade that early entrants block late arrivals. Countries graduate to higher levels of labor intensity in their exports, thus keeping the door open to lower levels for new entrants. This may well be a fallacy as the very composition of trade may change to the demands of an information era, making it noncompetitive to tread the old path. In any event, high growth rates are sustainable by structural changes in the economy that is at the same time competitive. It is unlikely that old paths will remain competitive, an essential ingredient in a strategy of sustained growth.

True enough, there is no generic formula for countries to emulate as each country has specific characteristics and historical experiences that must be reflected in the growth strategy. Do the experiences of these countries help in the understanding of the general theory of development? Do we need to design a new vintage of embodied and disembodied growth models that will explain the present reality in development? These are questions open to scholars of model building in the economics of development. The 'success' stories of even China and India do not deny that development remains the central global

³⁹ The Foundation for Politics and Leadership, a think and action initiative, was launched in Port of Spain, Trinidad on June 4, 2008.

problem of our times. It would be a mistake to call a victory too early, as the Growth Report is tempted to do.

D. Political economy of development: what can be learned?

The UNU-WIDER conference on Country Role Model carefully examines the issues of macroeconomic stability, reform of institutions and the politics of development as the model countries look ahead at the economic and political challenges. There is a lot of normative analysis on this theme, and each group of countries exhibits special features that allows for some generalization. A key focus is on the third wave of the reform process, the 'next step'. 'Success' stories of some economies are presented. This provides insights and may have shed some new light on the performance of different strategies for economic development. What emerges from the conference are propositions that may guide thinking to reflect on the current reality, hurdles and pathways.

The Nordic and European experience

The Nordic experience suggests that the key to organizing the economy is to organize the society for consensus, being adaptable to innovative change and strengthen good institutions to counter the adversities of the resource curse (an account of the European experience is found in the Epilogue of this book). With little political room, Finland was able to achieve a political compromise that was deemed politically legitimate preserving the democratic institutions and basic freedoms and allowing for necessary capital accumulation, wage moderation and welfare reforms.

In the non-Nordic developed economies of Europe, the focus was on changing the economic structure to sustain employment and reduce the demand for the welfare state. The key strengths lie in the competitiveness of the economy and the contestability in the political system. A special case of having devised the right political institutions was Switzerland, starting from the Swiss confederation in 1848 to the current 'direct democracy' model that paved the way for sustained economic growth of a consensus nature.⁴⁰

The East Asian and Pacific economies

The argument shifts to process and the microeconomic foundations of capabilities in the presentations of the East Asian and Pacific economies. Economic development results from domestic capital accumulation and enhancing the capabilities of the population in this emerging part of the world economy. The Asian giants face the challenge of sustainable economic growth translating into economic development. The key factor to these successes lies in the dynamic learning and flexible institution building as components to a strategic approach to development. The ideas raised in the Growth Commission Report are consistent with this approach, focusing on development as a process with strong microeconomic foundations embedded in the people themselves.

The transition economies

The transition economies confused the critics in their ability to cope with the politics of changing the system as they work the new institutions of a market economy. Here, shock therapy could not bring results, as the initial conditions did not prevail and private accumulation of wealth raised a new dichotomy between the roles of the state and the market. The key lesson for development is not to discard the existing strengths in the economy. Hungary offers an example of a neo-institutionalism political economy approach to development where reform coalitions were in-built in a reform strategy shaping the reform waves.⁴¹

⁴⁰ Weder, Beatrice and Weder, Rolf (2008), "Switzerland's rise to a wealthy Nation: competition and contestability as key factors". Paper presented to UNU-WIDER Conference on Country Role Models. They have this to say: "the Swiss political system with its direct democratic elements and the implemented principle of subsidiarity created political contestability that maintained government efficiency and led to political stability throughout history".

⁴¹ Csaba, Laszlo (2008), "Country Study Hungary". Paper presented to the UNU-WIDER Conference on Country Role Models.

The African experience

When the issue of development is applied to Sub Saharan Africa, the main missing ingredient to success is getting the political economic model right. Here, the pendulum swings between taking control of the state and state failure as the political dynamics wherein the state is regarded as a vibrant agent of development. Augustin K. Fosu's paper on the anti-growth syndrome traces the political and economic context of development in African countries since independence to the end of the last century. It is an extraordinary account where he succinctly shows the persistent conflict between the workings of political forces and institutions for economic growth.⁴²

The conservative policy framework gives way to more soft and hard state interventions, a phenomenon that appears to reflect in all the African case studies. This approach emphasizes the challenges of macroeconomic management in a post-colonial Africa. Fosu argues that a common thread emerges where the institutional framework displayed an anti-growth bias retarding economic development. This experience gives rise to the importance of the institutional constraint in macroeconomic performance and the emergence of democracy and development models as a key learning requirement to understand change in Africa.

Latin American and the Caribbean

Latin American and Caribbean economies faced the development challenge of stability in fragility' as the reform process was fractured and incomplete. Here, more than anywhere else, the issue of theory vs. real change emerges, as good macroeconomic indicators do not necessarily imply a fall in inequality and poverty levels and improvements in other development indicators. The dichotomy between growth and development is stark as the entropy index (measure of diversification) suggests that the development cycle may recur. There is much uncertainty since development discontent may find expression in political populism.

MENA

The process of economic behavior re-emerges in the discussion on Middle-East and North African economies. Development here is seen as correcting mistakes on the road map to higher levels of development. These economies exhibit 'uniqueness' and their development hurdle is how to use the 'Dutch disease' phenomenon to change direction and broaden the development process from fragility to sustainability. Stable leadership rooted in their history and culture currently provides the right politics for growth, if not development and democracy.

An overriding theme in the conference is the role of leadership and governance in economic development. Such leadership and governance must be rooted in the 'right politics', reconciling economic outcomes with political democracy. A clear distinction between policies and institutions needs articulation as policies do change when right institutions evolve. A key premise in formulating development strategy is to recognize the initial conditions and the successes of the past, as this becomes departure point from the old paradigms.

There are significant strides in the development performance over the last fifty years yet the path ahead is still treacherous, given the uncertainties in the direction of global adjustment and global market failures, especially in the context of current financial crisis and global recession. The misalignment of currencies and the upward inflationary pressures due partly to new aggregate demand is drawing the attention of world leaders. Rising food and fuel prices are a reflection of the stress in the fundamentals of the world economy. The adjustment to this current global macro imbalance is unclear and poses new risks to the developed and the developing countries alike. It may lead to a shift in political power and a reaction, as evident in the current postures of G8 and G5 countries. Political leadership in today's world is the new development challenge of tomorrow.

⁴² Fosu, Augustin K. (2008), 'Anti-Growth Syndrome in Africa: a Synthesis of the Case Studies'. In Ndulu, B et al., *The Political Economic Growth in Africa 1960-2000*. Cambridge: Cambridge University Press, pp 137-172.

E. A New Approach to Politics and Development

The current phase of globalization has deepened considerably. There are benefits of globalization even for developing countries, as the Nobel laureate Joseph Stiglitz observes. Globalization has reduced the sense of isolation of developing countries and "has given many people in the developing world access to knowledge well beyond the reach of even the wealthiest in any country a century ago."⁴³ Nevertheless, as Birdsall points out, income inequality has risen in most regions over the last two decades and consumption data from groups of developing countries reveal the striking inequality that exists between the richest and the poorest in populations across different regions. Globalization is gathering momentum.

The importance of the sovereign governments should not be overlooked as they still have the power to erect significant obstacles to globalization, ranging from tariffs to immigration restrictions to military hostilities, and the world is still made up of nation states and a global marketplace. George Mavrotas and Anthony Shorrocks raise the bar in the search for "big ideas" in development.⁴⁴ They admit to the scarcity of theory today as the turning point in development thinking since the 1980's has gone back to basics to understand the expanded general concept of development. Earlier, the promise of the new political economy of the development approach did not go further than the role of institutions making a strong case that development depends on institutional quality. Here, the nexus between growth inequality-poverty is seen as an indivisible process yet to be properly understood in development theory.

Louis Emmerij states that the fork before us is whether there is one theory (development) and one practice for the entire world, or whether there should be many theories in order to tailor make development policies according to culture and habits of countries.⁴⁵ This opens up the question of the definition of development. It is here that Nobel laureate Amartya Sen's insights throw new light on the nature of development - development is about creating a set of 'capabilities' and development is about 'freedom'. The scope is now widened, as Sen's interest shifts from the pure theory of social choice to a more practical approach that sees individual advantage not merely as opulence or utility, but primarily in terms of the lives people manage to live and the freedom they have to choose the kind of life they have reason to value.⁴⁶

Sen's emphasis on freedom of choice naturally leads him to democracy as a preferred political system where a country does not have to be deemed fit for democracy; rather, it has to become fit through democracy. The pendulum has now moved to democracy and good governance as a critical requirement of development. However, there is still the search for a consensus on the precise indicators of democracy and good governance. What is clear is that the conduct of politics will influence considerably the measurement of these indicators.

In the search for these indicators on good governance, the notions of political tolerance and pluralism can differ remarkably, if one views government from a western liberal perspective or from the perspective of development outcomes. The World Bank with a western liberal eye, measures the six components of good governance as, voice and accountability, political instability and violence, government effectiveness, regulatory burden, rule of law and the control of corruption. These are important indicators, but may miss issues like economic inequality, poverty, employment, technology, liberty and rights, capabilities and well-being. In several developing countries, the institutional framework may not be mature. Yet the outcomes of governance may be high when measured by indices like the human development and gross happiness. Therefore, a consensus on a set of good governance indicators must capture the dynamics of development that takes place in an ever-changing institutional framework.

The World Bank has measured a 'development dividend' of good governance. This dividend is a difficult proposition to isolate and to measure, but there is no doubt that good governance can deliver

⁴³ See IMF Staff (May 2008), "Globalization: A brief Overview", with a reference to Joseph Stiglitz's *Globalization and its Discontents*, (2003), New York, p. 4.

⁴⁴ Mavrotas, George and Shorrocks, Anthony, Eds. (2007), *Advancing Development: Core Themes in Global Economics*, Palgrave Macmillan.

⁴⁵ Emmerij, Louis (2007), "Turning Points in Development Thinking and Practice". In Mavrotas and Shorrocks (Ed.) *Advancing Development*.

⁴⁶ Sen, Amartya (1999), *Development as Freedom*. Oxford:Oxford University Press. See also, Nafziger, Wyne, E (2007), "From Seers to Sen: The meaning of Economic Development" in Mavrotas and Shorrocks, 'Advancing Development'.

significant improvements to people, particularly if the demand for good governance could grow among the population in a steady manner. Here, the dynamics of the political culture becomes important, as good governance will thrive if the demand for it increases. Often, this is a matter of political choice and the conduct of politics in any given situation. In spite of a growing proliferation of good governance initiatives, much work is needed on the issues of the nature, measurement and supply of good governance.

An evolutionary view of the major waves of development is presented by Mannermaa in her work for the Finnish Parliament.⁴⁷ Mannermaa states that the Agrarian era (ca. 6000 BC -1750 AD) attended to issues of community interest within the village context. The Industrial era followed for the next 250 years driven by new means of production where models of representative democracy emerge as a governmental form. Today, the information era is upon us, creating an information society, yet to mature. It is characterized by innovations in communication technology. Networks, rapid changes and flexible thinking will now inform the political process, creating a democracy of 'minorities' that will undermine the 'majority' notion in representative democracy.

How will the conduct of politics be affected by this new wave of development? According to the Committee for the Future in the Finnish Parliament, the notion of 'instantism' (the expectation that things have to happen immediately) may see a shift towards electronic voting, and an increase in 'non-representative' civil society's influence in the political process. Consequently, the welfare function that reflects the developmental needs of the society may be at risk, adding new challenges to development and democracy.

In a path-breaking study two decades ago, Robert Scalapino identified the key link between politics and development in Asia at that time.⁴⁸ A large part of the 'success' of the Asian development in three decades can be attributed to the management of tensions and politics in these countries. To a western mind, the kind of political system may not fit the indicators of the democracy matrix, thus bringing into focus the link between political systems and economic development.

Yao bases his explanation for China's record of economic growth on the notion of 'disinterested government'.⁴⁹ He defines a disinterested government as one that does not have differentiated interests among the segments of the society and is more likely to foster overall economic growth of the country instead of advancing the interest of certain segments that it represents or forms an alliance with. This is because reform is seen as a historical evolution reaffirmed by the belief that the pursuit of egalitarian policies and an equal society is the trusted prerogative of the political elite that cannot be comprised by alliances with any segment of the society. Yao dismisses the 'one party system' as being anti-democratic, as there are democratic elements in China's political structure allowing for 'voice and accountability', and indeed other components of indicators of good governance.

Politics and economics have been central to the analysis of development and the western academic tradition has kept it so partly for pedagogical reasons. However, in the study of development such a separation may conceal the dynamic interconnections between the economic and political factors. This chapter is an attempt to rekindle a strategic conversation on the subject. Could it lead to a synergy between economic and political logic in the study of development?

⁴⁷ Mannermaa, Mika (2007), *Democracy in the turmoil of the Future*. A Publication of the Committee of the Future, Parliament of Finland.

⁴⁸ Scalapino, Robert A. (1989), *Politics of Development: Perspectives of 20th Century Asia*. Harvard University Press.

⁴⁹ Yao, Yang (2008), "The Disinterested Government: An interpretation of China's Economic Success in the Reform Era". Paper presented to the UNU-WIDER Conference on Country Role Models.

V. Political Economy and Strategy⁵⁰

A. The Economic Debate of the Century⁵¹

And so, in the history of the political economy there have always had departure points and shifts in the prevailing economic paradigm putting the economy on a different path. One such departure point in the hemisphere and the Caribbean region was in the 1980s. In Trinidad and Tobago we shifted from a "commanding heights" economy to a market-driven economic process. We embraced the economic strategy of the Washington consensus and began to answer the following questions:

- What macroeconomic measures are required to stabilize the economy?
- How do we liberalize our markets to exploit opportunities abroad?
- Why do we need a better relationship between the private and public sectors?

The answers to these questions came to be called the first generation reforms, a challenge of structural adjustment. The political process was emphasized culminating in a failed coup attempt in 1990 that threatened to derail the new direction. The first generation reforms were soon seen to be insufficient, giving scope to a second generation of reforms focusing on building institutions. Suddenly, it became apparent that institutions matter requiring:

- The change in the exchange rate regime;

⁵⁰ The text in this chapter was adapted from, Winston Dookeran, *Political Economy of Development: The Search for New Thinking*, found in, *Crisis and Promise in the Caribbean*, Ashgate publishing, 2015.

⁵¹ Winston C. Dookeran and Akhil Malaki, *Leadership and Governance in Small States: Getting Development Right* (Germany: VOM Verlag, 2008). Also includes excerpts of a speech delivered by Winston C. Dookeran on the 4 June 2008 entitled "Crisis Economy: Is our Economy heading for a fall?"

- A new regulatory model in telecommunication and technology;
- Meeting international banking standards;
- Creating new delivery systems for public goods like water, electricity, postal services, roads, bridges education and health.

Changing institutions became much more difficult than imagined, as it also meant a change in the power structure controlling these institutions. Many talked about change but few were really prepared to give up power and the privileges that the change required for the common good. Once again, the development results were disappointing and a populist discontent emerged as poverty levels rose, prices soared beyond the reach of large segments of the population and violence leading to lawlessness. In the meantime, the integrity of the political process was questioned as bribery and corruption drew the national attention. This is the context of our development path since the turning point of the 1980s as the country embraced a reform agenda, similar to what was taking place in the Caribbean and Latin American region.

B. Is the Magic from Macroeconomics Over?⁵²

What are those movements of political change? Looking ahead, way ahead, maybe up to 2050 we are likely to see some fundamental reordering of and a new configuration of global power. That has been due to a number of reasons.

The first is that the demographic dividends are likely to now emerge as a positive factor in global order of the future and therefore the emergence of demographic dividends is that something we must take into consideration as we try to chart what is likely to happen.

The second aspect is the process of capital accumulation of which we have been accustomed to, is also in a mode of change and many of the institutions that we have set up on certain premises of capital accumulation are now in fact relooking at the process of capital accumulation in the different world. And thirdly the sources of productivity growth are likely to be different in the future than they have been in the past and certainly in the present and these three factors have led really to a change in the pattern of global demand.

Underlying what is likely to happen on the issues of global governance and on the issues of financial institutions is the fact anchored largely in the economic forces that will dominate the world economy over the next many years as we look ahead. What are we likely to see as the outcome of that change? The largest economies of the world in the future are not necessarily going to be the richest economies and that is a fact that we have to bear in mind and therefore the spending pattern in the world is going to change fundamentally. Recent studies have suggested that that pattern of spending is going to dominate the dynamics of political power and hence the governance which we now enjoy. What therefore is the impact of these developments on the contemporary situation in which we are today engaged?

Global governance and the international financial system have both been predicated on certain thoughts that are likely to be up for review. Integration movements in the world have reached their limits in many cases. In fact when we look deeper into the crisis in the eurozone which was once seen as a crisis emanating from the failure of the market in the financial sector, soon turned into a crisis of sovereignty, later turned to a crisis of politics and even as we speak now, it is still a crisis of fixing a situation to maintain a currency. The truth is that underlying that crisis is really a challenge to the integration process that has been put into place in Europe.

For many years it has been successful, but perhaps it has reached its limits. And the development apparatus for that integration process is really what is under question; whether the system of transfers, capital accumulation and the system of stability that have been used in the past can be used in the future in order to bring about a solution to that problem. But integration movements are not only being challenged

⁵² Minister of Foreign Affairs for Trinidad and Tobago, the Honourable Winston C. Dookeran's most recent address to the Organisation of American States on the occasion of the conference on Global Governance and Reform of the International Financial System: Impact on the Americas in Washington D.C. on the 22 April 2013.

in Europe, integration movements in many parts of Latin America and certainly in the Caribbean region have been under great stress.

The Caribbean region has not been able to develop the sense of comfort for growth and equity as it was once expected to do so; not that it was wrong; indeed it was appropriate at the time and have achieved many areas of success. But the time has come for us now to review whether the integration movement must now give way to what has been called the new convergence process.

Development financing therefore is under scrutiny with respect to its objectives. Developing financing in the Caribbean region has been located in compartmentalization of the private sector and the public sector and therefore to find our development banking institutions have had to isolate and compartmentalize their modus operandi; perhaps that will now be challenged in a period of economic convergence that is taking place in the globe as well as in Latin America and the Caribbean.

Economic convergence therefore is putting in the front seat the private sector traditionally called that, to create the opportunities for growth and development and therefore development financing must now respond to the needs for a new convergence process, where capital markets and the flow of funds will become so critical for the future of the region and a new form of private sector-public sector models in financing will need to be revived or replace what exists.

The third implication in the terms of its impact on the issues highlighted and its relevance to the Caribbean region has been the question of multilateral diplomacy. What we heard is that now there are informal groupings that are developing and that what we sense that on parallel to multilateral diplomacy there are numerous expressions of multi-track diplomacy. So in the world of uncertainty, in the governance in which we now face in diplomacy we have to come to terms with the fact that there is now multi-track diplomacy that is required, in addition to the multilateral processes that are well into place.

What therefore are the implications for these developments? The issue of institutions of global governance, whether it is at the United Nations or Bretton Woods Institutions, will now be matters for scrutiny. A very recent conference that took place in the United Nations on the theme of global governance in today's world came up with a number of recommendations as to defining the situation before us, among them was the most prominent: inclusive dialogue. Inclusive dialogue was in fact the outcome of that thematic conference. The Prime Minister of Trinidad and Tobago Kamla Persad-Bissessar, S.C. participated in the conference and presented the views of the Caribbean as to what this inclusive dialogue should be like.

Among the issues that have emerged out of that discussion was the fact that the old paradigm of the centre periphery in diplomacy is also a matter that is changing. Events in some of the countries in the periphery like Cyprus more recently and before that Greece and other such situations, have shown a new realignment between the centre and the periphery and therefore diplomacy of the future in the governance framework will have to come to terms with the fact that the old pattern of political power that exists between the centre and periphery is going to evaporate.

This will happen, not because there is need to include many small countries in this operation but because in the interconnected world in which we live, in the spill-over world in which we will be living and in the new patterns of spending that will emerge over the next many years, the periphery is going to be an equal partner in this process. And therefore since it has the effect it has had in this current situation it is likely in this world of interconnectedness to have even greater effect in the future. So it is in the interest of the countries in the core to adapt to new governance in diplomacy that brings into fore the centre of periphery diplomacy.

The Caribbean, small economies described at times as fragile, over used in its description as vulnerable are always subject to what has been called external shocks. The reality is that there are some new challenges emerging and the first of this has to do with finance. The paradox of the situation in the Caribbean is that there is a financial sector that is strong in many ways and the recent World Bank report on the region identified that the financial sector in the Caribbean has a size of 350 percent of the gross domestic product. In that report, it is revealed that the financial sector which has been dominated by the

banks but not exclusively so, has been strong in many different ways but yet the region itself is in major deficit on public financing. This is the first paradox that we have to address.

How do we convert the strength of the financial flows in the region to deal with the financial deficits in the public sector and how do we do that and ensure that there is sustainability of confidence in the process? We are now faced with that paradox. Too often the Caribbean has searched for solutions that require external support and indeed external support will always be necessary, but we must understand the reality, that the finance challenge is one of development.

Development is about how you channel the flow of funds within your own economy in order to support the development thrust. It is no doubt that the financial sector has operated in an enclave, responding to the incentives of the global system but less so with respect to the development requirements of the region; another major paradox. But beyond that the external support is necessary. International financial institutions today are measuring sustainability on arithmetical ratio measuring sustainability and debt to the GDP ratios on different aspects of arithmetical ratios.

The truth is, that the way to measure sustainability is itself in need of change and sustainability must be measured in its ability to cope, in our capacity to adjust and in institutions that build buffers for the future. The international financial institutions may wish to review how sustainability for small economies is measured in the Caribbean and do so in a more dynamic framework that can support those measures that increase flexibility in terms of coping with external shocks in terms of building buffers both locally and externally to sustain that.

Why? Shocks have been seen as a temporary phenomenon but in the Caribbean, region it has been a permanent phenomenon. In fact, the history of management of the economy of the Caribbean is how to manage shocks. This has not been today or yesterday, it has been part of the history for all times. Had it not been possible to manage shocks and external shocks in small economies the Caribbean would have sunk a long time ago, but it has displayed a credible form of resilience.

The international institutions tend to view shocks as a temporary phenomenon, as a short-term phenomenon, to be dealt with in a short-term scenario. The buffers to deal with shocks must be sustainable in its long-term and must be supported by the development of local buffers, as well as international buffers and perhaps to review of the measures of sustainability in the fiscal and in the finance challenge is critical.

The second challenge has to do with the limitations of the integration process - more specifically of the emergence of the new convergence process. Building economic space beyond your borders has become essential. It is no longer a matter for rhetoric and the old institutions to do so have in fact perhaps reached their limits. But today it is necessary to move beyond the integration process to bring about a new sense of convergence. In that process, whether capital accumulation or equity is indeed going to be the driver for development is a big issue; for too long have we felt that capital accumulation is the source of growth. The recent economic commission for Latin American report, did make mention of the fact that equity is the source of growth and in that sense it is necessary to review that entire process.

Finally in terms of the region, this entire process is a political process, whether it is in terms of the change of governance in the world or indeed the governance in the region itself, it is a political process. And therefore the alignment between the logic of politics and the logic of economics must now be reviewed and realigned. For too often politics have become your obstacle to development and in that sense there is need for new alignment and that alignment requires a new diplomacy in the relationship between economics and the economy.

In the region we are neither isolated nor insulated and therefore we have to adopt a strategy that is consistent with the world development that is likely to impact upon us whether we like it or not. We must look ahead and adjust to that strategy but in the short-term we are not isolated or insulated from developments of today and therefore it requires us to be able to cross the current bridge by dealing with the paradox of finance and perhaps other issues that would allow the region to build its resilience for that future.

C. Inclusiveness: The New Economic Development Strategy

In their widely acclaimed publication entitled *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*⁵³ authors Daron Acemoglu and James A. Robinson argue extensively that inclusiveness, particularly inclusive institutions, is a most necessary requirement to pave the way forward for economic development. More importantly, Acemoglu and Robinson maintain that inclusive development has the power to make or break a nation - they give compelling evidence of this by juxtaposing areas poverty prone and economically stable communities attributing the contrast to exclusiveness. The book, which also gives an historical overview of world politics and economic strategies, has generated numerous debates and business giant Bill Gates, in his own review of why nations fail critiqued the explanations as being too simple counter arguing that "most examples of economic growth in the last 50 years - the Asian miracles of Hong Kong, Korea, Taiwan, Singapore - took place when their political tended more toward exclusiveness."⁵⁴

However, the truth is that, as Acemoglu and Robinson have realized, inclusive development is really about capital that brings about inclusiveness. And so the new strategy for economic development must therefore recognize the following departures from past and current economic strategy:

- Foreign exchange management must be a central economic instrument in the economic policy package;
- Economic policies must deliberately seek to link the growth process with distribution targets;
- Regional developments must be purposely encouraged via effective fiscal and other measures;
- The distribution system which is the basis upon which the production structure is built and the consumption pattern formed must be at the centre stage in any multi-sectoral plan;
- Technology forecasting must be an ongoing process so as to ensure flexibility in the entire economic structure and the performance of that structure;
- High-skilled, human-based industries must be part of our longer term programme.

Leadership and Governance: Reconciling Economic Outcomes with Political Democracy

A clear distinction between policies and institutions need articulation as policies do change when right institutions evolve. A key premise in formulating development strategy is to recognize the initial conditions and the successes of the past, as this becomes a departure point from the old paradigms.

There are significant strides in the development performance over the last 50 years. Yet the path ahead is still treacherous given the uncertainties in the direction of global adjustment and global market failures, especially in the context of current financial crisis and global recession. The misalignment of currencies and the upward inflationary pressures due partly to new aggregate demand is drawing the attention of world leaders. Rising food and fuel prices are a reflection of the stress in the fundamentals of the world economy. The adjustment to this current global macro imbalance is unclear and poses new risks to the developed and the developing countries alike. It may lead to a shift in political power and a reaction, as evident in the current postures of G8 and G5 countries. Political leadership in today's world is the new development challenge of tomorrow.

Sustainable Growth

While growth is at the core of national development, sustainable growth is hard to achieve, hence, long-term national development is at risk. But in the last 25 years, some developing countries have been on the

⁵³ Daron Acemoglu and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown, 2012).

⁵⁴ Bill Gates, "Why Nations Fail: The Origins of Power, Prosperity, and Poverty" review of *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* by Daron Acemoglu and James A. Robinson Gates Notes - The Blog of Bill Gates, 26 February 2013, accessed 3 July 2013

"catch-up" trajectory in the development cycle. Many have persistently attained high growth rates over a period. There are 13 economies with a sustained growth rate of seven percent over a quarter century.

However, a key feature of developing countries is that the growth process lacks persistence. Periods of rapid growth are punctuated by collapses and even long periods of stagnation. The goal therefore is to achieve sustainable growth or at least prolong the duration of growth. What determines the length of the growth spell? While external shocks, initial income, institutional quality, openness to trade and macroeconomic stability are critical determinants of growth, some researchers argue, that income inequalities must be taken into account.

Is there a formula? What is the underlying growth strategy? How is the framework built to sustain high growth rates over a long period? In the long term the relationship between income inequality and economic growth matters. Inequality of income distribution is related to unsustainable growth, or to state it another way, the more quality income the longer are the periods growth. Berg and Ostry, in their article, "Inequality and Unsustainable Growth: Two Sides of the Same Coin?"⁵⁵, assert that the longer growth spells are robustly associated with more equality in the income distribution.⁵⁶

Clearly, domestic policies, important as they are, worked in an open integrated world economy. Increasing global demand together with abundant labour supply enables "catch up" growth in the early stages of development.

⁵⁵ Andrew B. Berg and Jonathan D. Ostry, "Inequality and Unsustainable Growth: Two Sides of the Same Coin?" IMF Staff Discussion Notes, 8 April 2011.

⁵⁶ Honourable Winston C. Dookeran the then Minister of Finance for Trinidad and Tobago in a speech entitled Inequality Restricts the Space for Economic Growth: Notes for Phase One. New Growth Development and was based on an address to the Regional Forum on Cluster Development held on 9 November 2011.

VI. Political Logic and Economic Logic⁵⁷

A. A Strategic Conversation on the Missing Politics of Development

As we enter the 21st century, development has come face to face with politics, one of the key "factors" in the advancement of growth and development. Previous attention on this link focused on politics in policy making, and the conferring of benefits to parts of the society that will enhance the whole society's well-being and national interest.

Specifying the national interest is the work of the political process that is usually conducted in a competitive democratic system. This brings about large differences in the choices in national interests; differences that at times may manifest in competing ideologies. Today, the debate has now shifted towards the "right policies that will yield the right outcomes."

The polity of a society strives to work out the "best balance" in the equilibrium between political and economic goals (i.e. reconciling the political and economic logic), while reflecting the national values of the society. Often, this equilibrium is unstable and constrained by the powers of the institutions in the society and the state.

The application of the calculus of political economy allows the society to find the "right balance" that will promote sustained growth and development. Politics is about the distribution of power in a society, while political economy is about compensation to the "winners" and "losers" in any given distribution of power.

Development is therefore about closing the gaps in social equity and growth potential of the society. How to acquire and consolidate power depends on the nature and the outcome of the mechanisms of the political system. How to compensate the losers is part of the process of reshaping the society's social welfare. How to bring about development is about all (and more) of these questions. The application of

⁵⁷ The text in this chapter was adapted from, Winston Dookeran, *Synchronizing the Logic of Politics and Economics: Fiscal Management and Job Creation*, found in, *Crisis and Promise in the Caribbean*, Ashgate publication, 2015.

the calculus of political economy allows the society to find the "right balance" that will promote sustained growth and development.

B. Manging the Economy of Development

If politics and economics are inseparable, politics without economics is disastrous. Political decisions over time have created the current distorted and mismanaged economy in Trinidad and Tobago and must be set right. A mismanaged economy has:

- No sustainable national development policy;
- Misdirected priorities placing buildings before people development;
- Misallocated national resources;
- Mismanagement in the massive transfer payments from the energy sector into mostly unproductive activities.

Therefore, government must not only address the mismanaged economy but also address the distortions that impact on our society. The mismanaged economy has overtime distorted the culture and behaviour of the entire society. It has had a corrupting influence on all economic, social, and political activities which allows for democracy to be replaced by a creeping dictatorship when critical national resources and economic activities are redirected to unproductive use. This creates a shift in focus from hard work, productivity, wealth creation and long-term sustainable development, to short term measures for the sake of political advantage.

Short term measures destabilize the society and its major institutions. The huge transfer payments from the energy sector have been to sustain political power. While the rich have been getting richer, more people have now been ranked as working poor and the numbers of those dependent on the state for employment have also increased.

Past administrations with misplaced economic priorities have not dealt with the increased threat to our safety and security from the powerful illicit and particular drug economy. Drug transfer payments have been flowing into this country causing not only violence but major economic distortions, impacting all aspects and levels of our society.

The time has come therefore, for leadership to search for a new development paradigm; one that will identify political logic and economic logic. This logic will construct new measures for financial sustainability and design a strategy for basic development that puts equity at the centre. This requires us to drill deeper into development. Why? For the simple reason that unless economic logic and political logic are synchronized, we cannot walk toward any particular solution and so the debate must be put in that perspective.

Growth and Inequality

One of the issues is the sources of growth and the sources of inequality. Are they really meshing? How can we have added equity along with added growth? But more importantly, is it that growth is now seen as the search for new economic space within a country - whether geographically or by bringing new people into an economic space that was not there before through what is sometimes being referred to as the inclusion concept. It is in this context that inequality restricts growth. In that context, equality is the best way to enhance growth potential.

Given the outlook for its energy sector, and the dependence of its non-energy sector on the government as its primary market and source of significant transfers, Trinidad and Tobago faces the significant development challenge of transitioning its economy into a post-hydrocarbon model, while continuing to improve its standard of living.

This transition will require that a number of reforms and investments be undertaken so as to foster an environment in which non-traditional economic activities can flourish independently. Public sector spending will have to become more efficient and effective, and the multitude of subsidies and transfers feeding patronage systems and distorting incentives for private sector activities will have to be rationalized and targeted to create incentives for the transition to the post hydrocarbon economy.

There is a clear mandate to transform the country by channelling it on a new path so as to move away from an entitlement model fuelled by transfers to one that is competitive and sustainable without such heavy reliance on the energy sector. We have to work towards creating different conditions for achieving a more sustainable growth, which requires a fundamental reorientation of our outdated policies, and putting in place new and more modern governance and institutional structures. Without this investments will never achieve the expected results.

C. A Look at Tax Efficiency, Fiscal Effectiveness and Jobs⁵⁸

So in that sense the debate before us must be put in the perspective of synchronization between the economic and the political logics. Unless there is synchronization between the economic logic and the political logic, it is hardly likely that we can walk towards a particular solution. What are the issues that emerge out of that framing of the solution matrix?

In the first instance, we would like to merely identify how we frame the issue of the topic before us; it is an issue of tax efficiency on one side and an issue of fiscal effectiveness on the other side. By tax efficiency, we merely mean that we are concerned about the framework for economic activity; and by fiscal effectiveness we mean how fiscal policy will be adding value to the growth, to equity, and, in the final analysis to jobs - for it is now well recognized that the bottom line in this whole equation is jobs.

Tax Efficiency: The Framework for Economic Activity

One of the issues is the sources of growth and the sources of inequality. Are they really meshing together and how could they mesh together? How could we have added growth and added equality? And therefore that is one of the fundamental issues that must be resolved.

The other issue is an issue of political economy within which decisions are made. It has to do, not so much with the technical aspect of tax administration, whether it be in terms of the mix of taxes, or the level of taxes, but with the matter of who are the winners and who are the losers; and what is the best equilibrium that will be sustainable politically between the winners and losers in this game of taxation and fiscal effectiveness.

New Thinking on Growth, Equity and Taxation

In order to deal with these issues, clearly, we must find the right theoretical framework. What is before us, really, is a choice between thinking that may be outdated, and new thinking that has emerged in the theoretical literature on the issue of growth, equity and taxation.

We all remember in our early days the study of economics and most of us had that experience and are familiar with the kuznets curves, and the hypothesis based on the view that it is indeed savings that will enhance capital accumulation. It is capital accumulation that will generate the growth and such savings are likely to be more effective in distributions that are unequal rather than distributions that are equal. That was the view that many of us were taught when we began the study of economics.

Today there is now a growing consensus developing that perhaps this is not quite correct. Andrew G. Berg and Jonathan D. Ostry's study have now identified that there are in fact positive attributes to growth as a result of equality. What were the findings and observations of this work? There are three basic observations that emerged in the theoretical literature.

⁵⁸ This article on tax efficiency was based on a presentation by Honourable Minister Winston C. Dookeran, then Minister of Finance of Trinidad and Tobago. The original speech is entitled "Tax and Inequality" and was delivered at the 4th ITO Global Conference 00 7-9 December 2001 in New Delhi India in the Session "A more detailed look at Taxes and Growth."

One observation is that increasing the length of the growth spells - and it introduces growth spells into the argument rather than just getting growth going critical to achieving income gains over the long run. In other words, it is not so much enhancing growth but having the duration of that growth period that would enhance equality issues and income gains.

The second observation is that continuously more equal income distribution tends to have significantly longer growth spells. So the link that we have been speaking about is the relationship between equality on one hand and growth spells on the other hand. It is in that context therefore that the new thinking, or perhaps some of the new thoughts with respect to the issues of the links between tax and growth, and growth and equity, has now begun to change. Is equity the natural consequence of a deliberate strategy on the part of governments and expenditure policies; or to what extent is it really enforced by some form of revenue policy? This is a big question that has been raised here in this very forum.

But more importantly than this, is that growth is now seen as the search for new economic space. New economic space within a country, whether it is geographically or whether it is by bringing new people into the space - the economic space, that was not there before - by what is sometimes being referred to as the inclusion concept. And it is in this context that inequality does restrict the growth of economic space, and in that context therefore it is important to look at the perspective of creating more economic space and in so doing, equality is the best way to enhance the growth potential.

Section III: Pathways in Analytical Leadership

VII. The Imperative of Caribbean Convergence⁵⁹

A. Defining the Inspirational Moment

The Forum on the Future of the Caribbean marked the start of an exciting new chapter in the development of the Caribbean. It was a moment of true possibility -one that we must grasp. It is now incumbent upon those of us who attended and participated in the event to free ourselves from both the constraints of traditional thinking and the limits imposed by entrenched views that suggest 'it's just not done that way'.⁶⁰

My inspiration to have this forum was influenced by the changing global and economic landscape in which the Caribbean is strategically positioned, and it is in this regard that the idea came to me to have a forum to address the growing concerns among Caribbean nations. The opportunity to take a leadership role comes at a time when the Caribbean Community (CARICOM) is said to have stalled and perhaps run its course in addressing these issues and, therefore, now requires a different approach.

Fazal Karim, Minister of Tertiary Education and Skills Training in Trinidad and Tobago, aptly said, 'leadership is about delivering results.'⁶¹ This Forum is itself an act of assuming leadership responsibility to ensure the frontiers of future generations are as good as, or indeed better than, those of the present. Convergence, therefore, plays a central role which requires a realignment of political and economic logic

⁵⁹ The text in this chapter was adapted from, Winston Dookeran, *Shifting the Frontiers: Defining the Imperative of Caribbean Convergence in the Twentieth-first Century*, found in, *Shifting the Frontiers, an Action Framework for the Future of the Caribbean*, Ian Randle Publishers, Jamaica, 2016. And Winston Dookeran, A new Frontier for Caribbean Convergence, found in, *Caribbean Journal of International Relations and Diplomacy*, Volume1, Issue 2, June 2013.

⁶⁰ Winston Dookeran. 'Forum looks to set new strategy for the Caribbean.' Opinion Editorial.

⁶¹ Fazal Karim. ' Karim: Good leadership is about delivering results'

with the realities of contemporary Caribbean economic problematique. I offer a full exposition of this in my book *Crisis and Promise in the Caribbean: Politics and Convergence*.⁶²

In the forty years since its birth, the Caribbean integration movement has achieved much but may have reached its limits.⁶³ Consequently, there exists an urgent need to respond to the current realities and emerging global trends which require greater engagement from the public, students, academics and policy makers in moving CARICOM towards a new trajectory of Caribbean convergence. The immediate concern is to design ways to improve the convergence process among the Latin American and Caribbean countries. This convergence process must also be sensitive to the current and emerging global dynamics.

The emerging trade and economic structure is rapidly changing-in both its dynamics and the architecture. For example, the articulations of global groups such as the Brazil, Russia, India and China (BRICS), and the regional convergence as in the case of the Association of East Asian Nations (ASEAN), are some examples of alternative ways of dealing with global development. It is important to note that emerging markets have become economic power houses in the current global economy. They have become the major consumers with increasing national savings and growing capital markets. It is interesting that the South-South and North-South trade is overtaking the traditional North-North trade metrics. This emerging trade architecture is supported by a growth and expansion of multinationals from the emerging markets. In addition, emerging market economies hold almost three-quarters of sovereign wealth funds.⁶⁴

The global financial architecture in the twenty-first century has also undergone dramatic changes. This emerging financial architecture is multipolar with the yuan asserting its role alongside the dollar and the euro. Sovereign wealth funds from emerging markets are fuelling outward foreign direct investments and growth in bilateral investment treaties. Furthermore, significant changes have occurred in the governance structure of the global financial system of the Basel III where a number of rulemaking institutions have extended membership to BRICS. In this way, all G20 countries were included as members in the Basel committee⁶⁵ and Goldman Sachs's *Dreaming with BRICS: The Path To 2050* predicts that BRICS 'could be larger than the G6 by 2039'.⁶⁶

Public-private partnerships provide necessary breathing room to countries with limited fiscal capacity to fund infrastructure and other investments in the region. The role of the private sector and private institutions in economic growth has become pivotal to the forging of convergence. It calls for innovative forms of partnerships between states and the private sector, and for global and regional development finance institutions in integrated production. In short, the emerging public-private partnership demonstrates the trend towards a more inclusive political economy.

The world has also moved from multilateral to multi track diplomacy. We live in a different world today. The number of players has increased markedly, and similarly, the web of interests and influence has become significantly more complex and interrelated. In Trinidad and Tobago, we have deliberately begun to search for a new method for reinforcing multilateralism, and we recognize that we must operate on a multitrack policy of diplomacy. But at this point in time, the choices are not clear. What is clear is

⁶² Winston Dookeran. *Crisis and Promise in the Caribbean: Politics and Convergence* (ENGLAND: Ashgate Publishing Limited and USA: Ashgate Publishing Company, 2015).

⁶³ The CARICOM region recently celebrated 40 years of signing the Treaty of Chaguaramas on July 4, 2013.

⁶⁴ For more on emerging markets and global political economy, see World Bank, 'The 34 Role of Emerging Market Economy Demand during the post-2005 Boom', Contribution from the World Bank to the G20 Commodity Markets Sub Working Group 71266, April 2012; World Bank, *Multipolarity The New Global Economy* (World Bank, 2011); Gordon Hanson, 'The Rise of Middle Kingdoms: Emerging Economies in Global Trade, NBER Working Paper 17961, March, 2012; Gaston Fornes, "Emerging Markets: The Markets of the Future," MPRA Paper No. 42315, September, 2012; Joshua Aizenrnan (2007), ' Large hoarding of international reserves and the emerging global economic architecture,' Working papers No. 07-08, 2007, Santa Cruz Center for International Economics; Robert B. Zoellick, ' After the Crisis,' Development Outreach, World Bank Institute, December 2009.

⁶⁵ See Stephany Griffith-Jones, 'Perspectives on the Governance of Global Financial Regulation.' Paper presented at the Commonwealth Finance Ministers Meeting, Limmasol, Cyprus, September 30 through October 3, 2009. The Commonwealth Secretariat.

⁶⁶ For more on BRICS see Goldman Sachs Report 'Dreaming with BRICS: The path 35 to 2050', Global Economics Paper No.99 (October 2003), and Sandra Lawson, 'Dreaming with BRICS: The Path to 2050.' CEO Confidential (October 2003/12). In the article by Sujay Mehdudia, ' The way Forward From Policy discussions to delivering tangible benefits, BRICs nations plan on wider cooperation' published online in the Hindu on the February 21, 2013, which speaks clearly to the need for action by moving from ' policy discussions to delivering tangible benefits'.

that to protect our vital interest, we must be engaged in moving away from diplomacy of protection to one of engagement. A multi track diplomacy is really what we have been engaged in, whether it is at the United Nations, in our bilateral relationships with countries, or in our relationship with the emerging order globally; at all times, the fundamental objective is to ensure that we now move towards a diplomacy of engagement. Specifically, we have begun to open our doors to Latin American institutions. Trinidad and Tobago now enjoys full membership in the Latin American Development Bank (CAF), which is significant because we now see the integration of Latin America and the Caribbean being funded by sources and resources from Latin America and the Caribbean. This policy choice is a remarkable departure from our reliance on the traditional multilateral institutions such as the World Bank and the IDB.

B. Set the Architectural Framework

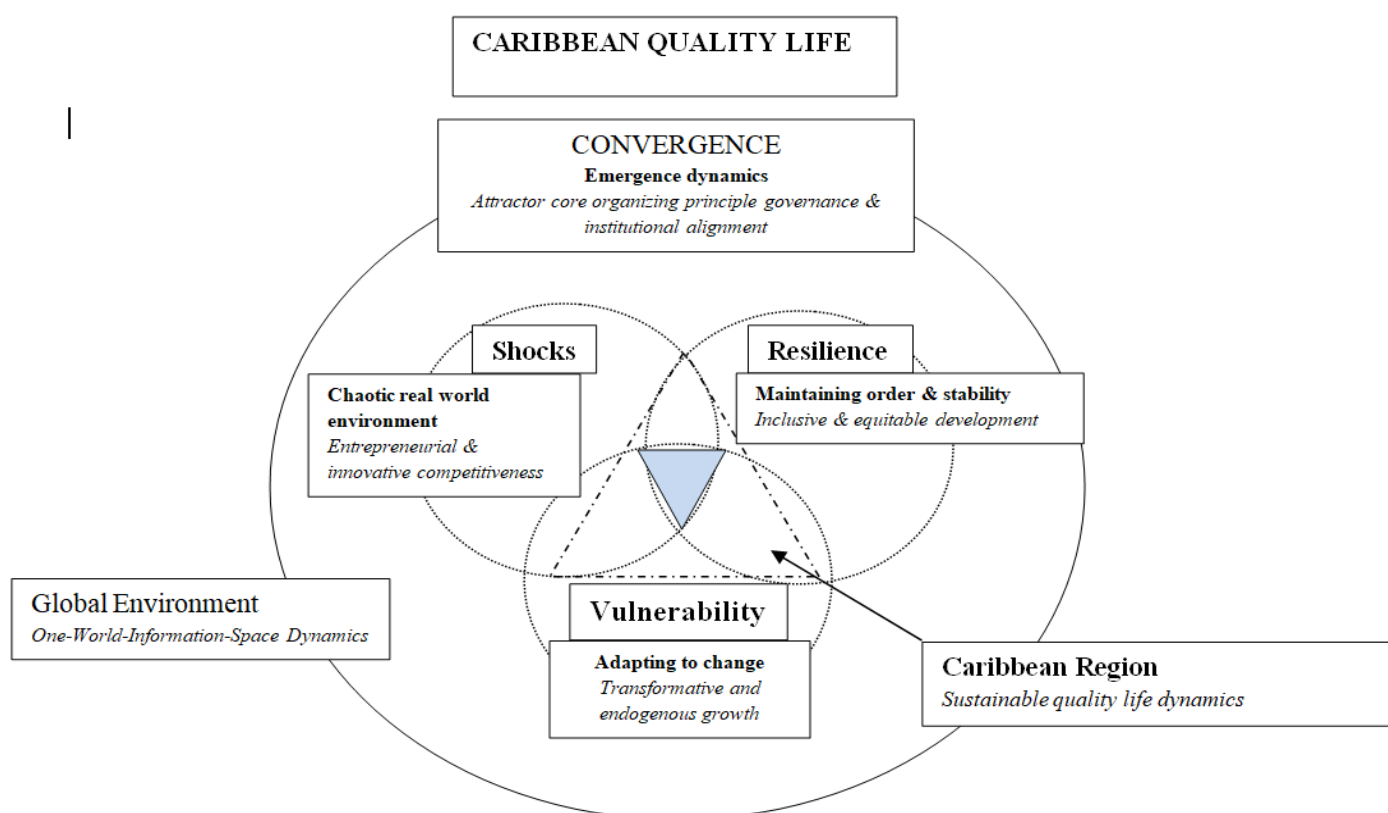
For a new Caribbean economic space to become a reality, it must be based on new models of intervention which can position both CARICOM countries and the wider Caribbean to engage in this convergence in order to seize the opportunities that the global market provides. The international political economy has changed from what it used to be, when CARICOM countries first became independent nations, and thus requires a different approach to its economic development.

Sachs notes that convergence ‘occurs when the per capita income of the poorer regions rises more rapidly in percentage terms than the per capita income of the richer region, so that the ratio of per capita incomes of the poorer regions to richer regions rises toward one, that is, the same standard of living’.⁶⁷ Sachs, like other economists, believes this ‘catch-up effect’ is taking place with the rise of the global middle class, bringing an unprecedented convergence of perceptions, ideas and nuances signaling that a new global order has already arrived, and requires that the Caribbean region create a new framework (going beyond the old inherited structural arrangements) that is better suited to the region’s needs. With this convergence, relations can deepen to create the kinds of incisive institutions which can deal with today’s challenges.

Dierdre McCloskey warns, correctly, that conditional convergence is not inevitable.⁶⁸ Countries must transform themselves to adapt to new conditions and to be prepared to take advantage of opportunities. As the history of Trinidad and Tobago shows, it is possible for real income per capita to be cut in half during an economic downturn, and then to rapidly double again during an economic boom. Why is volatility such a key characteristic of the Caribbean? In Trinidad and Tobago, and also in other countries in the region, socioeconomic performance depends on many factors, such as designing appropriate or wrong policies, high or low prices of Caribbean exports, and good or bad luck among more. As the region moves forward, governments and stakeholders should be aware of these issues that transcend temporary political cycles. My thinking on the meaning of convergence is well depicted in a framework diagram by Manfred Janzen and his team on the Caribbean Future Initiative. See figure 1.1.

⁶⁷ Sachs, Jeffrey. *Common Wealth: Economics for a Crowded Planet*. (New York: The Penguin Press, 2008)

⁶⁸ McCloskey, Deirdre. 2010, 122. *Bourgeois Dignity’ why economists can’t explain the modern world*. The University of Chicago Press.

Figure 1: Convergence Framework⁶⁹

C. Convergence

There are definite gains made by using convergence as a response to emerging global changes. Expanding the economic space provides the scope for leverage in production and competitiveness. Caribbean convergence is the strategy to move the Caribbean integration process towards fuller and more complete integration, within the Caribbean and beyond. The rationale behind the new 'Caribbean integration' strategy is striving towards a convergence of economies of scale with capital. The strategy draws upon the new convergence framework that transcends borders of integration both regionally and globally. Therefore convergence of 'economic spaces' is a response to the limitations of the CARICOM integration process and opening of new spaces for confronting the development challenges ahead. Accordingly, convergence is a shift from a physically limited plane to an 'open economic space'.⁷⁰

In the first instance, convergence is about the addition of new institutions which allow the Dominican Republic, the Dutch and French islands and French Guiana to be engaged. Convergence is not about creating something new, nor is it opposed to CARICOM integration. Rather, it is about bringing new political and economic dynamics to the process of Caribbean integration by reworking the existing frameworks in 'innovative' and 'flexible' ways (logic of politics) to cope with changing global realities, and redefining the modalities of execution.

⁶⁹ Sourced from Jantzen, N; Saha, G; Nicholson, M; Curling, A; Kacal, E; Lewis, D and Bdrham;T. 'Caribbean Future Initiative: In the Context of the Caribbean Future Forum'. Paper prepared for Winston Dookeran, Minister of Foreign Affairs, August 2015.

⁷⁰ Winston C. Dookeran (ed) Crisis and Promise in the Caribbean: Politics and Convergence (Ashgate Publishing Ltd, 2015).

What is innovative in this convergence framework is a new form of public-private partnership within an 'economy of the Caribbean Sea' with a focus on production integration, distribution and competitiveness (the logic of economics) as supporting trade and markets. Convergence is about adding future value to the workings of the integration process, and supporting the structures built over the last 40 years. This is in line with the call for building regional capacity to address global challenges.⁷¹

Convergence strategies and partnership go together. The discussions on 'Regional Economic Integration Caribbean Convergence and Competitiveness' in the Caribbean Growth Forum launch event (2012) has, in a way, set the tone for action and change. Two important issues were recognized: the 'political imperative of convergence' and the need for 'appropriate correcting mechanisms' that align the needs of the local with the regional. It was also noted that the problem with Caribbean integration is in its 'failure of implementation.' The larger Caribbean space is heterogeneous with contrasting economic differences that are politically sensitive. The discussions concluded that the genesis for convergence (integration without borders) should first of all be political, requiring a political will and advocacy. Creating the Caribbean Sea economy is first a politics-driven process.

The new structures must aim at production integration, competitiveness and distribution across this economic space (i.e. the economic logic), in addition to trade and markets. It must allow for economies of scale and space. According to this economic logic, convergence is not just about enlargement of markets and trade, it is about making the region resilient and globally competitive to capture opportunities in the future. The partnership approach is a stakeholder approach that provides us with a practical way forward as we align national strategy with a regional one. Central to this regional space is aligning the logic of politics (e.g.inclusiveness, cooperation) with the logic of economics (e.g. production integration, competitiveness and distribution).

The idea of Caribbean convergence has already been put forth and discussed on various occasions over the last couple of years with positive feedbacks. These feedbacks have provided the inputs for the framework developed here which is an innovative approach to revive CARICOM in a different context to make it more relevant to capture on 'A New Frontier of Caribbean Convergence'.

Some concerns recently raised by ECLAC were the mechanisms of convergence and the modalities to engage the private sector in CARICOM. The framework addresses these concerns first through the partnership approach, and more specifically, through fostering public-private partnerships across the economy of the Caribbean Sea. The Trinidad and Tobago Chapter of the Caribbean Growth Forum identified the three themes (investment climate, logistics and connectivity, skills and productivity) to be achieved through public-private partnerships. This document is already a step ahead in addressing these issues through its twelve-point action program for Caribbean convergence.

It is a matter of necessity and urgency that we push this process of Caribbean Sea convergence to make it happen. It is hoped that the CARICOM Foreign Ministers will adopt the concrete proposals made in this document.

The CARICOM institutional framework has reached its limits, and many prominent leaders and scholars have already voiced this fact Sir Shridath Ramphal emphatically notes that the leadership in the region has 'put the gears of CARICOM Single Market in neutral and the gears of CARICOM Single Economy into reverse'. The countries in the region have been steadily drawing away from each other.⁷² Although the CARICOM was a political concept from its inception, it has become an economic project.

The Caribbean institutions are 'enslaved by the methods of the past' and 'paralysis in thinking'. It is no longer economically workable. The logic of economics that drove this project has been trade and

⁷¹ ECLAC, Opportunities for Convergence and Regional Cooperation: High Level Summit of Latin America and the Caribbean, February 21-23, 2010, Cancun, Mexico.

⁷² Ramphal, Sridath, 'Vision and leadership: The infinite unity of Caribbean needs'. In Ramphal, Sridath, Caribbean Challenges, Hansib Publications, London, 2012. Pp. 157-173.

markets.⁷³ However, the convergence argument here is that trade and markets should be buttressed by production, distribution and competitiveness.

The former Prime Minister of Jamaica, P.J. Patterson, has commented that the Caribbean integration has had pitfalls and if it does not change, it will disappear.⁷⁴ In the current context, the forces of integration elsewhere in the world are shaken by the roots because integration is multi-track in nature - they are local, regional and international all at the same time.⁷⁵ Furthermore, the CARICOM as an economic project was mostly designed as integration of markets and expansion of trade with negligible attention to the most important economic and market actor, the private sector.

The issue is not whether CARICOM integration has failed or disappearing. Norman Girvan has aptly stated that economic integration in the Caribbean is still work in progress; and what has been accomplished so far has not impacted significantly on regional economic development. The nature of the exercise of sovereignty has posed a constant challenge and therefore the urgency to be innovative and flexible.

The issue is about fresh thinking and innovative ways of moving the process beyond CARICOM integration to Caribbean Sea convergence. This convergence process offers greater flexibility and benefits for the Caribbean Sea economies in responding to emerging global challenges to capture a new frontier space.

We know that the nature and characteristics of small Caribbean economies make them extremely sensitive to global trends. The success of these economies is dependent on how flexible they are to adapt and adjust to the changing global conditions. We are getting some glimpses of the future in current discussions from ECLAC⁷⁶ to the emerging Post-2015 development framework.⁷⁷ There will be a greater role for public-private partnerships driven by non-state entities.⁷⁸ The effect of global financial rulemaking on small and medium economies has already been noted.⁷⁹ Furthermore, the global economic and financial architecture has changed from G7 to now G20, which has its own implications on our region.⁸⁰ Even the ACP-EU relations will undergo fundamental changes in the future as the recent briefing paper notes that there is a tacit understanding among Europeans that the ball is in the ACP's court in terms of defining and determining their own future as a group and its relationship vis-a-vis the EU as such.⁸¹

The Caribbean Sea as a special space has already been recognized by the Association of Caribbean States (ACS) which has even established a Caribbean Sea Commission.⁸² The Draft Declaration of Haiti endorses the:

Initiative of the Republic of Trinidad and Tobago to promote economic advancement in the region through the creation of a Convergence Process structured on the facilitation of capital movement, the integration of capital markets, the development of transportation

⁷³ Dookeran, Winston. 'Caribbean Convergence: Revisiting Caribbean Integration'. Remarks for the Opening Ceremony, Caribbean Development Roundtable, Guyana, May 30, 2012.

⁷⁴ Patterson, P.J. in his keynote speech at the book launch of Sir Sridath Ramphal's *Caribbean Challenges* on June 18, 2012, Jamaica

⁷⁵ Dookeran, Winston, Plenary Speech at the Caribbean Growth Forum Launch Event, June 18-19, 2012, Kingston, Jamaica.

⁷⁶ ECLAC, Opportunities for Convergence and Regional Cooperation. High Level Summit of Latin America and the Caribbean. February 21-23, 2010, Cancun, Mexico. ECLAC, "The politics of global financial regulation rulemaking". ECLAC Brief 2012, Washington Office.

⁷⁷ ECLAC, The Caribbean Forum: Shaping a Sustainable Development Agenda to Address the Caribbean Reality in the Twenty-first Century (Draft Report), Bogota, 5-6 March, 2013. Adam, M.F and Niels, K., *Practice Makes Perfect? The European Union's Engagement in Negotiations on a Post-2015 Framework for Development*. DIIS Report 2013:04.

⁷⁸ Andonova, L.B., 'Globalization, Agency and Institutional Innovation: The Rise of Public-Private Partnerships in Global Governance'. Goldfarb Center Working Paper No. 2006-004.

⁷⁹ ECLAC, 'The politics of global financial regulation rulemaking'.

⁸⁰ Bissessar, Kamala Persad, PM of the Republic of Trinidad and Tobago, at the UN General Assembly Thematic Debate: 'The UN and the Global Economic Governance', April 15, 2013.

⁸¹ DIE, 'ACP-EU Relations beyond 2020: Exploring European Perceptions'. Briefing Paper No.11, 2013, German Development Institute.

⁸² ACS, Fifth Summit of Heads of State and/or Government of the Association of Caribbean States (acs). Draft Plan of Action, April 17, 2013.

infrastructure and the reorientation of the policies of the International Financial Institutions to better equip regional economies to withstand exogenous shocks.⁸³

ECLAC clearly calls for broader regional forums to foster cooperation that can unlock the synergies of different sub regions and progress toward gradual convergence of regional economic space.⁸⁴ It is against the above background that this framework advocates the Caribbean Sea convergence as moving the process forward. The framework moves the Caribbean integration process into the direction of convergence. Put simply, there is another, better way for capturing the future through a new frontier for Caribbean convergence.

The convergence framework draws upon the practical convergence taking place in the world today, as opposed to integration. The focus is on converging economies regardless of structures, because structural integration is a problem everywhere -e.g. Latin America, Caribbean and Europe.

Performance Pillars of the CSE Economy

In order to be sustainable, the Caribbean Sea economy has to be built on the following four pillars:

a) Inclusive & Equitable Development

Inclusiveness also implies enlargement of the Caribbean to bring in the other islands and widening of trade arrangement to include the Caribbean Sea economies consisting of a market of 40 million (inclusive of Cuba). Therefore, the proposal is to include Dominican Republic as member of CARICOM and to incorporate the other French and Dutch islands and French Guiana into the CARICOM framework. Inclusive development also implies a new partnership approach to include in the process all actors and agency like the private sector and civil society to improve the quality of life for all stakeholders.

b) Transformative & Endogenous Growth

Endogenous growth must be based on regional space involving stakeholders at national and regional levels. The drivers of endogenous growth are growth in the capital sector, capacity to pool regional resources, and the restructuring of domestic and foreign investments/finance. This implies a transformative approach by fostering a new public-private partnership. Endogenous growth should be predominantly private sector driven.

A fast-track policy-making included in convergence will provide the stimulus for the private sector. Secondly, transformative endogenous growth means redefining the role of development finance and equity in the Caribbean Sea space. Thirdly, endogenous growth implies that production, distribution and competition should be addressed at the same time.

c) Innovative & Entrepreneurial Competitiveness

Building a competitive Caribbean Sea economic space is an absolute necessity for the new frontier of Caribbean convergence. In the current global context, ICTs are central to efficiency and competitiveness. Competitiveness is driven by innovation in the areas of science and technology as well as entrepreneurship.

Improving labour productivity and skills in the Caribbean Sea space is crucial. Access to finance, supporting environment to business and innovation, promotion of entrepreneurship and the private sector will enhance the region's potential of capturing a new frontier for Caribbean convergence. Competitiveness is also enhanced by expanding trade and markets across the Caribbean Sea space.

d) Adaptive & Re-aligned Institutions

Institutions are key mechanisms for execution and sustainable convergence. If sustainability of actions is critical to convergence then the roles of adaptive institutions become central. It means realigning existing regional institutions to achieve Caribbean Sea convergence in a sustainable way. It also implies a

⁸³ ACS, Draft Declaration of Haiti. Preparatory meeting for the VI extraordinary meeting of the ACS ministerial council, Peton Ville, Haiti, 23-24 April, 2013.

⁸⁴ ECLAC, *Opportunities for Convergence and Regional Cooperation*.

re-orientation of policy imperative to align the regional institutions to the convergence outcome. There are a number of regional institutions that can become the modalities of execution.

D. Critical Convergence Strategies for Achieving Caribbean Sea Convergence

A careful review of the various ideas and solutions put forth so far identify four broad convergence strategies to support the pillars of the Caribbean Sea economy: finance, clustering, infrastructure and production. These strategies are mutually interdependent and therefore need to be addressed together. The whole convergence process rests on executing these strategies. While these may appear as broad regional strategies, the specifics will be closely studied and spelled out by research and policy groups that are proposed in the policy imperatives

Finance Strategy

The economic convergence process will have to confront political challenges and redesigning of the economic and financial architecture. Finance and liquidity are the lifeblood of any economic system (national, regional or global). The task is to shore up sufficient regional finance to ensure there is enough liquidity to support convergence. There are four ways to achieve this financial strategy: Buffers, capital mobility, regional stock market and development finance.

The buffers we are alluding to are those that are internally generated and shored up as sovereign wealth funds and international reserves. The other form of buffer is that which is externally supportive of small states and exist in terms of international institutions. These forms of regional and national buffers provide the necessary flexibility to adjust to a new frontier of Caribbean convergence. The requirement of national buffers will also act as a disciplining the fiscal policy of respective economies of the Caribbean Sea. Furthermore, these economies will also need to look at engaging other Latin American countries and the emerging markets in finding new buffers.⁸⁵

Creation of a regional stock exchange is an added advantage in expanding regional production, trade and equity markets. There must be a fully integrated capital market, free flow of capital, open investment strategies, accompanied by a review of double taxation treaties.⁸⁶ We will need to review and harmonize rules that facilitate movement of capital in the economy of the Caribbean Sea. The financial sector in the Caribbean has a size of 350% of GDP and yet the region is in major deficit or public financing.⁸⁷ Therefore, convergence will also require redefining the role of development finance institutions that must respond to the needs for a new convergence process.

Resource Clustering Strategy

Clustering is a regional grouping of firms and institutions. They include an array of collaborating and competing services and providers that create a specialized infrastructure supporting the industries and businesses. Typically, clustering draws upon shared talent pool of specialized skills and/or resources. Clustering represents a synergy and dynamic relationship between companies, stakeholders, institutions and economies in the region.⁸⁸ They contribute to developing regional networking, and through public-private partnerships.

⁸⁵ Anthony P. Gonzales, 'Assessment of the Convergence Model of Integrated Production'. Symposium to discuss the paper: 'Introduction to the Convergence Model of Integrated Production'. ECLAC Sub regional Headquarters for the Caribbean, Trinidad and Tobago, May9, 2013.

⁸⁶ Winston C. Dookeran, 'Introducing the Convergence Model of Integrated Production'. Concept paper presented at Meeting of Regional Integration Bodies in the Margins of the UNECLAC, March 2013, Bogota, Colombia.

⁸⁷ Winston C. Dookeran, Address at the Conference on Global Governance and Reform of the International Financial System: Impact on the Americas, OAS, Washington DC, April 22, 2013.

⁸⁸ Michael Porter, 'Cluster and the New Economics of Competition', Harvard Business Review (November-December, 1998).

Regional clusters have the ability to offer local goods and services, knowledge and linkups that cannot be matched by outside rivals. In this way clustering can contribute to innovative competitiveness transformative endogenous growth. Clustering also relates to production integration that will enhance regional competitiveness and value-added manufacturing and services. It means the clustering of regional resources to consolidate growth, innovation and competitiveness. For instance, regional 'branding' of products and multi-destination tourism are ways of clustering.

Clustering would also mean a regional strategy for capital mobility, foreign direct investment (FDI), facilitate regional transfer of knowledge, skills and technology, regionally based and owned investments for promoting innovation, and a regional strategy for ICTs and information exchange. There are also synergies in clustering universities and technical institutions in the region - e.g. partnering for innovation and competitiveness. Clustering is about complementarities in convergence in the Caribbean Sea economic space. Pooling of resources could precipitate faster and more sustained growth which could then spill over to impact all other countries. It could also imply Caribbean convergence of capital with resource rich countries driving the process.

Infrastructure Strategy

The infrastructure for the new frontier of Caribbean convergence includes terrestrial transport linkages, aerial linkages and communications technology with cross-border capabilities, border management and security and regulation of movement of people. Improved and low cost regional transport (e.g. liberalize and encourage regionally-based/owned low cost carriers to compete) is absolutely critical to facilitate greater movement of goods and people within the region.

Endogenous growth also needs to improve labour productivity, especially targeting youth and address equality and equity that benefit all stakeholders. Improving infrastructure facilitates quicker and cheaper movement of goods, services and people.

Regionally-owned (private and/or public) low cost air carriers operating in the economy of the Caribbean Sea will boost trade, production, and multiple tourist destinations. This in itself will promote entrepreneurship and business opportunities across the economic space - a kind of spread effect that will lock in the private sector. There is tremendous scope for public-private partnerships in developing the region's infrastructure (universities, R&D centres, hospitals, air and sea transportation networks, telecommunications network).

Industry & Production Strategy

A strategy of production integration is central to all the pillars of the economy of the Caribbean Sea.⁸⁹ The emphasis is on the private sector led production integration. The important issue here is to design appropriate modalities to stimulate private sector response.

These modalities need to be incorporated in the partnership approach. Including the private sector as stakeholders in the new public-private partnership would invigorate the private sector.

The public-private partnership needs to be accompanied by a Caribbean Investment Program designed to foster production distribution and integration across the convergence space. This will stimulate subcontracting and outsourcing of manufacturing and services which will in turn reinforce entrepreneurship and competitiveness across the Caribbean Sea economic space.

Production integration buttressed by capital mobility and regional equity markets will unleash a whole new regional economic dynamism in creating a new frontier of Caribbean convergence. It has been noted that encouraging regional value chains would link the internationalization decisions of the leading

⁸⁹ C. Dookeran, 'Introducing the Convergence Model of Integrated Production'. Concept paper presented at Meeting of Regional Integration Bodies in the Margins of the UNECLAC, March 2013, Bogota, Colombia.

economic players with convergence process.⁹⁰The strategy should focus on reducing transaction costs and coordinating the supply of regional public goods and to generate regional value chains.⁹¹

E. Institutional Drivers and Imperatives for Future Action

Institutional Convergence Drivers

Our framework includes ‘adaptive institutions’ as a pillar of convergence. We will need to realign existing delivery instruments to adapt to the convergence process. Therefore we briefly examine existing institutions and organizations that can serve as modalities of execution towards a new frontier of Caribbean convergence:

- CARICOM Secretariat - is the principle administrative organ of CARICOM. The new Ambassador to CARICOM, Dr. Clarence Henry, has indicated that there is need for CARICOM through its secretariat to ‘devise a Marshall-like strategic development plan to propel economic recovery’.
- The Revised Treaty of Chaguaramas (2001) -has, led to the creation of a regional fund (Caribbean Development Fund) to provide technical and financial assistance to address the issue of regional asymmetries among CARICOM members.
- Latin American and Caribbean Economic System (SELA) -established in 1994, provides consultation and coordination for the adoption of common positions and strategies to foster cooperation and integration among countries in Latin America and the Caribbean.
- Association of Caribbean States (ACS) - is an organization established in 1994 to strengthen regional cooperation and integration process with a view of creating an enhanced economic space in the region. Caribbean Sea Commission - established in 2008 under the auspices of ACS. Its purpose is to share information, provide advice and build consensus among partners in the wider Caribbean region over ocean governance.
- The Economic Commission for Latin America and the Caribbean (ECLAC) - Caribbean was included in 1984. It is the central entity on issues of the region as a whole and for policy. Council for Trade and Economic Development (COTED) -under the auspices of CARICOM Secretariat to promote issues of trade and economic development in the region.
- Caribbean Growth Forum (CGF) - launched in 2012 is an initiative to facilitate a platform for public-private dialogue around the growth challenge. It engages a broad group of stakeholders and critical players including the private sector and civil society.

Policy Imperatives: A Twelve Point Action Proposal

We acknowledge that it is now necessary to design and engineer catalytic drivers to propel the structural and institutional changes. Restructuring of the CARICOM Secretariat alone is not enough as there is need for an additional catalyst on a more permanent basis that will keep driving the process/structure and by including the private sector. This is only the beginnings in a strategic direction as a starting point of a narrative for speeding up the process which involves inclusiveness, rationalization and improved management.

This framework of moving towards a new frontier of Caribbean convergence has generated some policy imperatives that require immediate attention and decision at this meeting. The CARICOM Foreign

⁹⁰ ECLAC, Opportunities for Convergence and Regional Cooperation. High Level Summit of Latin America and the Caribbean. February 21-23, 2010, Cancun, Mexico.

⁹¹ SELA, Productive development and industrialization in Latin America and the Caribbean. Permanent Secretariat of SELA, Caracas, Venezuela, July 2012, SP/Di No.18-12.

Ministers hereby recommend the adoption of the following twelve-point proposal for action, with immediate effect, to move the process in the direction of a 'New Frontier for Caribbean Convergence' to establish the 'Economy of the Caribbean Sea':

1. Expanding the Political and Economic Space

Support and approve the expansion of CARICOM to the Economy of the Caribbean Sea.

i. Recommend a fast-track decision to facilitate the entry of the Dominican Republic as a member of CARICOM.

ii. Endorse the incorporation of the Dutch and French Caribbean islands and French Guiana into the CARICOM framework.

2. Developing an CSC Integrated Transport Logistics

Reiterate that transport and logistics are critical to achieving transformative endogenous growth and competitiveness in the economy of the Caribbean Sea.

iii. Propose a ministerial meeting to take place calling all airlines operating in the region to look at how the logistics of transport could be rationalized and improved to provide better interconnection and networking.

iv. Propose this meeting to look at low cost air carriers involving the region's private sector, and/or public-private partnership to this end.

v. Establish a regional research group to look at sea transportation and make recommendations for providing a system of sea transportation within the economy of the Caribbean Sea.

3. Establishing a CSC Capital Mobility Policy

Endorse that finance and capital mobility is the backbone for sustaining the pillars of convergence of the economy of the Caribbean Sea. Reiterate that there must be a fully integrated capital market and free flow of capital.

vi. Propose that a single capital market should be established. Therefore, all stock exchanges in the region are mandated to meet and work out the modalities in a time frame.

vii. Recommend all members of the economy of the Caribbean Sea to create national sovereign wealth funds and regional buffers as a measure to offset external shocks.

viii. Set up a regional committee to review and harmonize mechanisms to facilitate intra-regional investments. Organize a regional meeting of all private sector organizations to identify areas and strategies of production integration and public-private partnerships.

4. Developing CSC Energy and Food Security Policies

Reaffirm that energy and food security are essential for the convergence of the economy of the Caribbean Sea.

ix. Set up a policy group to look at developing a common energy security plan to clearly define the rules for complementarities in the use and clustering of regional energy and natural resources for a new frontier of Caribbean convergence. To ensure that regional resources will be utilized for strengthening production integration and competitiveness.

x. Set up a policy group to examine a common policy on self sufficiency in food.

5. Implementing a CSC Finance Policy

Agree that development finance institutions are isolated and compartmentalized into public sector and private sector in their modus operandi.

xi. Propose that all the development finance institutions in the region (COB, IDB, TAFF, CAE and others) should meet to redesign their lending paradigm in the region to deal with the current problems and support the convergence process.

xii. To bring together development finance institutions to redefine the role of development finance that is sensitive and supportive to regional needs and the convergence process.

6. Monos Island Chaguaramas Declaration

The CARICOM Foreign Ministers, after having met and reviewed the document 'A New Frontier for Caribbean Convergence', hereby declare political support for actualizing the twelve-point action proposal. We unanimously commit to execute the above proposals with immediate effect with the goal of achieving Caribbean Convergence.

Getting the politics of development right requires solving the alignment gap between the logic of politics and the logic of economics. International, regional and local politics may well be the most significant obstacles to development. It would also appear to be the single largest hurdle in finding solutions to the current global crisis. Getting the politics of development right requires cooperation and coordination of priorities, policies and action at all levels.

A new leadership with a global mindset must engage the various communities of interest to find more durable solutions in a volatile global Environment. This new international leadership must find the right mix of power, politics and economics to achieve the necessary performance level for sustainable regional and global economic growth and ultimately development benefiting the citizens of all Caribbean nations.

The politics of this nation is at a turning point, and it is this generation, in this twenty-first century, that begins to turn the corner, and we must not hold back growth and development; instead we must break the anti-growth coalition that has dominated Caribbean societies. The time has come for a new leadership to search for a new paradigm for development-one that will identify political and economic logic; one that would construct new measures for financial sustainability; and one that will design a strategy for basic development that puts enquiry at the centre.⁹² We must do so within the framework of a democratic system functioning at its best.

The previous notes provide what I hope will become the beginning of a new awakening for Caribbean development. But, as noted during the Forum, Caribbean citizens also need to see actions taken in the direction of convergence, leading to higher growth and development in the region. Fittingly, I conclude this chapter with an opinion editorial that was prepared ahead of the Forum on the Future of the Caribbean which lays out the imperatives for the future.

⁹² Drawn from Winston C. Dookeran and Manfred Jantzen 'A new Leadership Challenge', in *Power Politics and Performance: A Partnership Approach for the Development* (Kingston: Ian Rndle Publishers, 2012), 233.

X. Small States Diplomacy and the Liberal Order⁹³

“The Liberal Order is Rigged: Fix it Now or Watch it Wither” is how Jeff Colgan and Robert Keohane titled their early analytical challenge to the Trump presidency. They argued that ‘the Brexit and Trump phenomenon reflect a breakdown in the social contract at the core of liberal democracy’ and attributed this to ‘populism.. defined by a faith in strong leaders and a dislike on limits of sovereignty and of powerful institutions’ and concluded that to ‘stave off complete defeat’ political ideas must be rebranded and ‘substantive policies’ must be developed “to make globalization serve the interests of middle and working class citizens” ...or it will wither away.

Amitav Acharya in reply to the ‘outpouring of anxiety over the future of the liberal order’ quietly claim that “trump’s ascent to power is a consequence – not a cause- of the decline of the liberal order” and that “the myths, limitations, and decline of this order have been anticipated and forewarned for some time”. In any event, the liberal order, however defined was ‘centered on the Atlantic littoral’ and “the crisis of the liberal order has deeper roots, owing to long-term and structural changes in the global economy and politics” – and I may add global power shifts.

Are we in a post hegemonic cycle in international politics?

Maybe it was this very insight that led Andy Knight to suggest that the “world seems to be crying out for an alternative.... Which will depend on the convergence of interests and attitudes of the existing preponderant power and emerging powers, as well as on the willingness of the United States to accept a new role in a post-hegemonic world order”. Would the evolving world order focus on ‘ideas and ideology’ and could that be decoupled from the military, economic and technological sources of power? This, in my view is the dialectics necessary to sort out the contradictory processes working simultaneously in understanding the ‘realpolitik’ in today’s practice of statecraft and diplomacy.

⁹³ The text in this chapter was adapted from notes and speeches by the author in difference conferences.

A. The Dialectics of Realpolitik in Small States Diplomacy

In the practice of diplomacy, there are three ideas which I would raise, the advent of a multiplex world order, regionalism in the evolving world order and the small states rise to prominence in that order. In doing so, I am minded by John Bew's insights that "ideas were important in politics- increasingly so, in the democratic age- but their importance was to be judged by their political force rather than their purity or elegance". In the conduct of international relations, we may be witnessing a reassertion of the genesis of Realpolitik, exercised in a world of extreme uncertainty or rapid transformation, and an attitude of 'cynicism and cold calculation'. Is this an ideological moment that 'attempts to reconcile idealism with the pursuit of national interests'?

In the search for a new vocabulary of international relations, Amitav Acharya urged scholars to remain 'open to new concepts and theories... and new possibilities of a world order that have no precedents in history'. His journey into a 'multiplex world order' is a lucid and logical response in a period of uncertainty, and extreme uncertainty, and points to a changing framework, but cannot claim to define a new order of things, simply by 'cross cutting globalisms', as the new order will remain in flux in this 'cycle of hegemonic decline'. In transitions from one world order to the next, there is always a lag as certain resilient elements of the 'old' order is giving way to the 'new' one. The transformation is usually never abrupt.

The dominance of the global economic and security order that have engaged world leadership in this era have overshadowed the key role of regionalism in the emerging world order. In a new publication on regional public goods, global governance and sustainable development, Estevadeordal and Goodman carefully show how regional leadership - alliances and networks- fit together in the new frontiers of 21st century cooperation. Acharya - in a penetrating chapter, focuses on an alternative conceptualization of regionalism – hegemonic, integrationist and multiplex – and concludes that "old regional mechanisms are evolving towards wider and more complex functions, and new mechanisms are emerging". Regionalism will be confronted by new 'balance of power' situations, and so will be forced to seek more 'leverage room' for itself and for relations with non regional actors.

Will this lead to less structured integration, and more 'spontaneous' convergence among countries? As such the study of convergence spaces, rather than integration models may become more relevant. Will the lines of distinction between 'private' and 'public' sectors become more blurred, where 'risk sharing' takes on a more critical place in the analytical calculus of development paradigms? These and other questions give credence to the insight that in regionalism, 'new mechanisms are emerging'. One of the mechanisms that might be emerging in the new regionalisms is 'subsidiarity' a social organization where political issues should be dealt with for resolution at the most immediate level.

Increasingly, countries on the periphery have been searching for more 'wiggle room' in the international order, as Robert Keohane observed several years ago, that "one of the most striking features of contemporary international politics has been the conspicuousness of small states... who through diplomatic innovation have risen to prominence, if not to power". The underlying premise of this observation has been based on the pillars of the liberal order, free trade, multilateral diplomacy, the growth of democracies and 'values' in institutions of governance. The 'erosion' of these pillars may pose a risk to the 'prominence' of small states that have gained from accepting policies rooted in the 'neoliberal order'. The vulnerabilities of small states will extend beyond issues of geography, economics and ecology and now include policy shifts, resource flows, and the existential threats of natural disasters-as they affect the survival of these states. The world of small states, unique as it is in its problems and its solutions will now search for more inviting alliances that could secure its sustainable development.

B. A challenge for 'New' Thinking in Latin America and the Caribbean

At the recent CAF conference, Susana Malcorra urged new thinking on 'a renaissance of the global system' as she addressed the new global dynamic in Latin America. Noting that the unipolar order has been gradually eroded, the pressures 'of modernity and globalization' are bringing business and political

leadership together’ in almost every country of Latin America. This goes beyond the traditional private public partnership, and focuses on the ‘catalytic’ role of the state in forging new enterprises. A new dialogue on Latin America in world affairs has started, where lines of distinction between an Atlantic and Pacific Latin America are now blurred, and the international roadmap remains unclear.

At the first ever UN Security Council meeting to invite small states, held under the Presidency of New Zealand in 2015, the theme that global challenges demand collective responsibility was pervasive, no doubt predicated on the notion of multilateralism, a key pillar to the liberal thought and order. Alicia Barcenahad called for ‘revitalizing multilateralism’ to promote the 2030 Agenda, and it is at the cornerstone of small states voice and influence in accepting collective responsibility for global challenges. In the circumstances, platforms for multilateral diplomacy for articulating small states interests and their commitment for global responsibility, will be redefined to reflect more willing advocates in the council of nations. This will be a tall challenge for small states in today’s world of diplomacy.

At the recent a High-Level symposium in Argentina Alicia Barcena declared that “today more than ever, cooperation must be promoted and expanded on multilateral bases” – a theme she had raised earlier among leaders in Europe at the European Union- ECLAC Forum- describing the current global context as “marked by the weakening of multilateralism and the return of protectionism” and called for more ‘dialogue space’ in the ‘new context’ for sustainable development, as outlined in the UN 2017 World Economic and Social Survey.

Historically, Caribbean countries have been faithful to the prescriptions of the ‘Washington consensus’, as they agreed that the gains of ‘globalization’ will allow them a ‘better insertion’ into the global economy. Rather than lament that the landscape of that order is now ‘closing doors’, a new diplomatic engagement to ‘open doors’ will of necessity occur. This too signals the need for more inviting alliances, and poses a huge challenge to the conduct of international relations, at a time when global institutions are themselves engaged in responding to the realities of a ‘flux’ in power relations.

I conclude with an observation. The challenge to the ‘liberal order’ is not really a challenge to the values underpinning that order, as much as it is a ‘correction’ to the excesses of that order and the consequential shift in the structure of global power. Will this be a transient phenomenon, or will it have an ‘ideological reach’ and so alter in a more far reaching way the value premises of democratic societies and also add new momentum to a post hegemonic cycle in world politics?

C. Small States Diplomacy in Global Competitiveness⁹⁴

In the new geopolitics of today, there has been an ‘outpouring of anxiety over the future of the liberal order’.⁹⁵ The spillover of this anxiety has opened a dialogue on the ‘new globalization’ in a period of protectionism, weakening multilateralism, and a political assault on global competitiveness. Amitav Acharya, who was accorded the prestigious honor of Distinguish Scholar Award at the 2018 Annual Convention of the International Studies Association in San Francisco last week, for his path breaking scholarship in defining the political architecture of the emerging multiplex world order, summed it up as follows “ *international relations scholars should be wary of conventional wisdom and be open to new concepts and theories, and hence to new possibilities of world order that have no precedent in history ...where scholars and practitioners alike will have to embrace the complexities of this new system*” .

This insight provides the setting for discovering ‘new possibilities’ for small states diplomacy in the upcoming period in economic advancement for small states in an uncertain economic order. The title of the Keynote Speech by Enrico Spolaore on “*small states and the future of globalization*” is a great choice with spot on relevance to the global challenges of our times, and the central theme of this impressive agenda at this conference here in Luxembourg.

⁹⁴ Notes provided by the author for the Conference: *Competitiveness strategies for the small EU states: economic and social perspectives*, April 19-20, 2018, Luxembourg.

⁹⁵ Amitav Acharya, “*After Liberal Hegemony; The Advent of a Multiplex World Order*” in *Ethics and International Affairs*, September 2017

The Global Competitive Report 2017-18, affirmed that “improving competitiveness requires the coordinated action of the state, the business community and civil society”. It focusses on financial vulnerabilities as a threat to competitiveness, and on nation’s ability to finance innovation and technological adoption, spread the benefits of technological adoption and provide worker protection in a flexible labor market.

Global economic institutions must now confront a new quest to design strategies and roadmaps for reform that will build on the achievements of the past, and cope with an increasingly new set of ripples that poses risks to the orthodox practice of development and ignite a search for a new kind of diplomacy.

In this regard, small states have unique challenges, some of which were addressed by the World Bank in their recent presentation titled, *Small States: A Roadmap for world bank group engagement*. With reference to small EU states, the Roadmap identified financial deepening of the private sector - the cascade approach and blended finance approaches – as relevant to enhancing competitiveness strategies in small states in Europe. The mandate of its affiliate the International Finance Corporation is to enhance financial flows for small economies. Capital flows- its direction and sustainability- is key to building resilience for small economies of the world.

This task is anchored in economic analysis, but building a momentum to achieve results is essentially a diplomatic initiative.

The Global Competitive Report linked global convergence and competitiveness, as the economies with higher convergence indices have witnessed greater competitiveness and have grown ‘significantly more strongly’ than less competitive economies. The report identified ‘the importance of a comprehensive competitiveness agenda for reducing between country inequality’ as key to sustaining strong growth within and among clusters of countries. As such, the identification of ‘emerging convergence spaces’ has been a topic of enquiry for ECLAC’s research agenda for Central American and Caribbean economies. The experience of the Pacific Alliance in pooling economic instruments in support of convergence has had promising results. The countries of the Pacific Alliance have seen their growth rate more than doubled the regional average during the period 2014-16.

The World Bank Roadmap for small states specifically linked financing to competitiveness by carefully identifying seven priority action areas, in which there is need for the development of a global practice. This practice ‘include multiple efforts to mobilize concessional and private resources to serve small states clients’ development finance needs, particularly addressing financial vulnerabilities’ Some of these as it applies to small EU states are; predictability of affordable financing, debt sustainability, access to financial markets and diversification of small economies. With respect to deepening private sector involvement, the report says that the “IFC is committed to helping expand the limited set of economic opportunities leveraging the full weight of resources of the world bank group. Ensuring obstacles for the poor and the bottom 40 percent of the population to access these economic opportunities are reduced”.

One of the flagship economic report that measures business competitiveness rankings is the World Bank “Doing Business” Index. These indicators carry considerable weight in investment attractiveness, and include regulatory hurdles, tax and exchange rate issues, and other measures that make a ‘better’ business environment. Within recent times, the methodology applied in constructing this index and the integrity of its findings have been under question, as evidenced by an article in the Economist “*The world bank ease of doing business report faces tricky questions*” This index attracts extensive international media coverage and its findings are used by “countries against each other to improve their standing”. There has been calls to ditch the “doing business’ rankings, in light of a diplomatic war between Chile and the editors on the political bias of the findings.

The Global Competitiveness Report recently developed a proposal on “the future of competitiveness benchmarking” which offers an opening for technical negotiations and conceptual innovations in the design challenges. This index is a valuable measure of how a country is progressing to build structures and processes to support policy initiatives on a global competitiveness framework.

Our paper ⁹⁶ from ECLAC, drawing on the pioneering work of Lino Bruguglio on resilience, constructed a methodology to measure the Caribbean external vulnerability and then argued that the trends in financial flows is key to building economic resilience – by examining the ‘structural variable’ of vulnerability, the ‘process’ variable of fragility and the ‘challenging policy variable’ of resilience – to generate inflow of funds, sustain competitiveness and grow the wellbeing of citizens on a persistent path. While the methodology is applied on data from Caribbean countries, its logic and methods can be applied with equal rigor to small economies of the Europe or indeed elsewhere.

To move the pendulum forward, the technical analysis will need to build a momentum for effective results. As such, the search for diplomatic interventions becomes necessary, within global institutions and in the global policy frameworks that are being framed.

A global dialogue is in the making, and small economies will have a vested interest to be part of that dialogue. It is not only a technical dialogue, but also a matter of diplomacy. In an often cited publication, Tom Long⁹⁷ argued that “small states can influence institutional rules and procedure...just as for rules shaped by greater powers” Many scholars argue that “small states can ‘punch above their weight’, and according to the paper cited above, “*Luxembourg has been a founding model member of European institutions, and it has used this, to pressure for favorable EU policies, while seeking to strengthen institutions as a bulwark against historic German French rivalry*” Serge Allegrezza explained this in a seminal chapter⁹⁸, and drew attention to ‘competitiveness observatory’ set up by the social partners in Luxembourg and the measurement of the competitiveness scoreboard which was discussed in ‘a special parliamentary session’ on competitiveness and growth.

It is postulated in Long’s paper, that “small states have a greater capacity to influence the agenda in world politics and play a critical role in the evolution of European integration than is commonly understood...inside European institutions, small states can construct a “a position of authority” through diplomacy- by influencing rules and voting procedure” In this sense, small states diplomacy is an essential component of advancing its interest in global competitiveness.

In search of 21st century cooperation,⁹⁹, Estevadeordal and Goodman show how regional leadership-alliances and networks- fit together to link public goods with sustainability, and with Acharya called for a new conceptualization of regionalism that will embrace more complex situations in a changing ‘balance of power’. Could small states shift global economic structures to favor their interest? Would small states benefit from open trade systems? How could small states overcome their ‘smallness’ and develop diplomatic leverage? These and other relevant questions addressed in work of Henrikson¹⁰⁰ and Alesina Alberto and Spolaore¹⁰¹ provide a critical body of thought that informs the agenda of small states diplomacy in today’s world.

Regional public goods have once again been cited as ‘important in the context of 21st -century international relations”. Michelle Egan,¹⁰² traced the pivotal role of European public good in the foundations of European integration. The range of these public goods include competition policy and market access, common external tariff and trade matters, transportation and cross border services, environment and negative externalities, economic convergence and income and wealth disparities, macro-economic stabilization and the euro, and internal security and border control.

Egan, in his conclusion said “despite the growing chorus of disenchantment in Europe – with the concerns for inequality, productivity and migration – there remains a role for regional organizations to act

⁹⁶ Ines Bustillo, Helvia Velloso, Winston Dookeran and Daniel Perrotti, “Resilience and Capital Flows in the Caribbean” ECLAC (Washington) March 2018.

⁹⁷ Tom Long, “*Small States, Great Power? Gaining Influence through Intrinsic, Derivative, and Collective Power*” International Studies Review, volume 19, issue2, June 2017

⁹⁸ See “*The Economy of Luxembourg*” in Lino Brüguglio. (edited), Small States and the European Union: economic perspectives Routledge (2016)

⁹⁹ See 21st Century Cooperation, edited by Antonio Estevadeordal and Louis Goodman, Routledge, 2017

¹⁰⁰ See Henrikson Alan K 2001 “*A Coming Magnesian’ Age? Small States, the Global System, and the International Community*” Geo politics 63:49-86

¹⁰¹ Alesina Alberto, Spolaore Enrico, 2003, THE Size of Nations, Cambridge, Massachusetts Institute of Technology Press

¹⁰² In “*European regional public good*” chapter 12 of 21st Century Cooperation, op cit

as catalysts for collective action by providing regional public goods. But Egan hasten to add that it ‘can also weaken democratic institutions and can collapse trust in European institutions’”

Small States in Europe are strategically placed to recalibrate its approach to regional diplomacy – in its quest to promote and sustain growth and equity in its development goals. As such, it can bring important lessons to the attention of other small states in the world and add considerably to the expectations of this exercise in global analytical leadership.

XI. Getting Governance and Development Right¹⁰³

A. The Challenge for Small States

Principled leadership must rest on consensus building structures. Democracy is the vehicle, but the Western liberal model often ignores the roles of inequality; liberty; human and property rights; and capabilities in the developing world. There is a new definition of development which centres on the diversity of products and competitiveness based on capabilities, as suggested by Dr Ricardo Hausmann.¹⁰⁴ Successful leaders of the information age are undivided in either ignoring all interest groups or integrating them all in a focused partnership. Small states have the potential to play a critical role in shaping governance in the democratic order of our times. From a global perspective, there are approximately 200 nation states: 134 classified as small developing states, 105 with less than 5 million people, 45 with less than 1.5 million people and 34 island states, including those in the Caribbean and the Pacific. It was always questioned whether small states would survive. As small states passed that hurdle, the issue then, became whether they could build the resilience to cope with internal and external risks. This continues to remain a key challenge. The question now is whether small states can be sustainable with the new shifts in global politics and economics.

Societies in small states are caught in a profound wave of change as they respond to a different globalised order. The political and economic paradigms of yesterday have lost their legitimacy to promote workable solutions for an impatient generation with higher expectations. It could be argued that the realignment of the political culture towards the citizens' interests and rights or entitlements for higher standards of living should have been achieved with independence. However, two generations have failed in this task. The stage is therefore set for exploring new approaches.

¹⁰³ The text in this chapter was adapted from, Winston Dookeran, *Getting Development Right: Leadership and Governance in Small States*, found in, *Power Politics and Performance*, Ian Randle Publishers, Jamaica, 2012.

¹⁰⁴ Ricardo Hausmann (July 2010), based on a workshop facilitated by the Finance Minister at the Ministry of Finance of Trinidad and Tobago, Modified Suggestions and Concepts of Dr Ricardo Hausmann based on Complex Dynamic System Behaviour.

Politics has emerged as a formidable obstacle to the process of economic change in almost all Caribbean societies. The premise of the old Caribbean politics as the sustaining culture supporting integrity, equity, and political rights in the workings of the political process is constantly under scrutiny, and undermined by a new oligarchy of corruption that dominates the present power Structure. Societies rooted in pluralistic divisions retreat, rather than advance, when confronted with the challenge of embracing a new political and social belief system.

Economic growth is the engine of development, but development is about people, about expanding their possibilities, improving their quality of life, and enhancing their capabilities. Nation-states are in a constant search for justice and for identity in striving for character and a purpose to economic and social advancement. For almost half a century, scholars sought to respond to the desire of independent people to live their lives, to give expression to independent thought, and to advance the cause of a critical tradition.

In the immediate post-colonial period, the focus was on development of the political economy. Today, after several decades, the focus is on the political economy of development. What is the difference? Put briefly, development of the political economy relates to the tasks of state and nation building. It is about designing and devising political and economic systems compatible with national realities and aspirations. In contrast, the political economy of development relates to the changes in the balance between winners and losers in the process of advancement, defined to include sustained growth and inclusiveness. The political economy of development must not only be sensitive and responsive to vital national and regional interests, but also take cognisance of shifts in a changing world order.

The first reform wave was about 'getting the macroeconomics right'. The second wave was 'getting the institutions right'. If development is the goal, 'getting the governance right' is the current wave, which acquires a special meaning as it can influence sustained growth and inclusive development. Politics and economics must be treated as inseparable in the analysis of development. In my final analysis, 'right policies will yield right outcomes'.

The issue of the 'crisis economy'

While the analysis is rooted in the experience of Trinidad and Tobago, the economy with the largest Gross Domestic Product (GDP) in the Caribbean community, its application is relevant to a wider regional economy. Tracing the context of the economic debate from the first wave of macroeconomic stability -the Washington Consensus -to the second wave, i.e., institutions matter, the question may be asked: what next? The answer to that question lies in the risks faced by Caribbean economies due to current global economic imbalances and the political dynamics of resource-rich countries falling into a downward spiral. It is apparent that once this trend begins, it is hard to stop. The local risk factors of emerging fiscal deficits, falling competitive advantage, and secular decline in productivity in the Caribbean economy cannot be mitigated through short-time cyclical capital inflows.

What is required is a radical reform of a development strategy to construct a knowledge-based economy, which challenges leadership to a better macroeconomic management approach. It has been argued that development today is elusive as economic linkages are missing and growth is limited by cycles in world prices.

The structural issues of inequality and poverty will not be solved easily in a context of a political economy where those controlling natural resource wealth use that wealth to maintain their economic and political power or in a currency reserve system where the international dollar reserves are equivalent to the United States (US) borrowing from the rest of the world.

B. Politics and Development

Development is about closing the gaps in social equity and the growth potential of the society. How to acquire and consolidate power depends on the nature and the outcome of the mechanisms of the political system. How to compensate the losers is part of the process of reshaping the society's social welfare. The politics of development is often viewed in narrow terms of the distribution of income and opportunities.

Looking at inequality and injustice in our global economy, higher weights should be assigned to these goals in the policy paradigm of development. The market works by rewarding countries and individuals with the most productive assets; it fails by generating negative externalities for the vulnerable and by increasing the risks faced by the weak.

The market also has power - rules and regimes - which systematically favour already rich countries and people. To address these inequities, a global social contract is needed to deal with unequal endowments and to build sound institutions that will supply global public goods, construct global regulations to address market failures, and provide better representation of developing countries in world bodies.¹⁰⁵

These elements in the global social contract raise critical issues of politics which cannot be overlooked. The idea of conditionality has dominated policy dialogue; but processing conditionality as 'making it happen' is the more pertinent development challenge. The argument will shift in a generic sense from 'what' to 'how', opening up a plethora of political matters.

Politics in development is likely to get deeper, as each political choice will have different development outcomes. As such, analysis of the political choices becomes an essential part of the data requirements for good decision-making. This poses a tremendous challenge to leaders in development, politics, policy making and management alike. Apart from the undertaking to build models of politics and development, there will be the need to secure the population's legitimacy for this trade-off, as they are critical in making political choices. Is there a great transformation in developmental economics ahead of us?

A greater demand for good governance needs to be created. Unless this demand exists, there is less possibility for the emergence of a supply of good governance. Here, the interaction between policy, institutions and the market becomes a critical ingredient in the growth strategy, a lesson learned from the experience of the reform process. The first wave of reform policies concentrated on issues of macroeconomic stability: putting the house in order. The main measures of macroeconomic stability were opening up the economy to become competitive, removal of persistent budget and non-budget deficits, control over liquidity and inflationary excesses, and altering the supply structure of private and public goods.

C. Political Economy of Development

Waves in Economic Management: The Search for New Thinking

The inauguration of The Foundation for Politics and Leadership raises fresh hopes for a new direction for politics and leadership in the Caribbean. There is the beginning of an emerging consensus that was expressed by several commentators that the time has come again for a new point of departure in Caribbean development. David Jessop¹⁰⁶ calls for Caribbean think tanks, study groups and corporate retreats to look over the horizon and react to the new trends and developments that will shape the future.

There is no single or simple answer but there is an answer, and the search for real solutions must inform the creation of that future. The hopes are that the 'new direction' forum mentioned above would advance Caribbean thinking well beyond what was carefully documented in the 1990s West Indian Commission's report, *Time for Action* published in 1992. The report was a static expression of unfulfilled Caribbean dreams. What we need now is a roadmap for creating new energies in Caribbean development - a new departure point.

The Context of the Economic Debate

¹⁰⁵ Nancy Birdsall, *The World is Not Flat: Inequality and Injustice in our Local Economy*, UNU-WIDER Annual Lecture 9, Marina Congress Centre, Helsinki, October 26, 2005. She argues that global markets alone will not increase wealth and welfare in the global economy, and there is the need to address the fragile global polity.

¹⁰⁶ David Jessop is the Director of the Caribbean Council of Europe and a regular commentator of Caribbean issues in several forums.

The history of political economy has always had departure points and shifts in the prevailing economic paradigm, putting the economy on a different path. One such departure point in the hemisphere and the Caribbean region was in the 1980s. In Trinidad and Tobago there was a shift from a commanding heights economy to a market-driven economic process. The economic strategy of the Washington Consensus was embraced and the answers to the following questions sought; what macroeconomic measures are required to stabilise the economy? How do we liberalise our markets to exploit opportunities abroad? Why do we need a better relationship between the private and public sectors?

The answers to these questions are the first generation reforms, a challenge of structural adjustment. The political process was emphasised culminating in a failed coup attempt in 1990 that threatened to derail the new direction. The first generation reforms were soon seen to be insufficient, giving scope to a second generation of reforms focusing on building institutions.

These institutional reforms required the change in the exchange rate regime, a new regulatory model in telecommunication and technology, meeting international banking standards, and creating new delivery systems for public goods like water, electricity, postal services, roads, bridges, education, and health.

Changing institutions became much more difficult than imagined as it also meant a change in the power structure controlling these institutions. Many talked about change, but few were really prepared to give up the power and the privileges that the change required for the common good.

Once again, the development results were disappointing and a populist discontent emerged as prices soared beyond the reach of large segments of the population, and poverty levels rose leading to violence and lawlessness. In the meantime, the integrity of the political process was questioned as bribery and corruption drew the national attention. This is the context of the development path in Trinidad and Tobago since the turning point of the 1980s when the country embraced a reform agenda, similar to that taking place in the wider Caribbean and Latin American region.

The Expression of the Crisis

Protest politics emerged in the first decade of the 21st century leading to the election of, leftist' governments in Bolivia, Brazil and Venezuela. In the Caribbean, 'change' governments came into office in Barbados, Jamaica, St Lucia, Belize and recently Grenada. Globally, there was a fervent passion for political change as expressed in Australia, Kenya, Zimbabwe, and France and the United States. These political changes were taking place in the midst of an evolving global and national crisis.

In the April 2008 issue of *The Economist*, the cover page headline read 'Fixing Finance ... and the risks of getting it wrong'. The 'home rage' in America's mortgage market raised issues of confidence and faith in open financial markets. First, there was disbelief and denial, then fear, and then came anger because three decades of public policy was dominated by the power of the markets. Finance stumbled with sub-prime lending, the credit crunch, and weak business and consumer confidence; laying the conditions for the onset of a recession in the United States. Other countries like Canada, Mexico, the United Kingdom, and Japan were at risk of contagion effects.

Action was taken to neutralise market fears by bringing real interest rates to near zero. The US dollar weakened in response to stabilising a rising trade deficit. In the economy, between 2002 and 2007, the energy sector's contribution to GDP rose from 26.2 percent to 43 percent, the total revenue from 29.9 percent to 56.0 percent, and exports from 73.3 percent to 89.4 percent. In Trinidad and Tobago, this increased the exposure to adverse financial shocks and emphasised the 'natural resource curse' and vulnerability of this energy-based economy.

Particularly worrisome was the growth of the non-energy deficit or the level of net domestic fiscal injection from 7.6 percent in 2003 to 15.4 percent of GDP in 2007, which increased further in 2008. This was a key source of domestic inflationary pressures. These statistics confirmed that the US economy was facing structural imbalances that reflected a sustained inflation surge and the creeping up of fiscal pressures that would soon create a chronic deficit in public finance.

Confidence and Risks in the Global Economy

Underlying this development was the huge risk of the global economic imbalances - few rich countries were receiving large current account deficits. The United States deficit was about three and a half times larger than the deficits of all other countries of the Organisation for Economic Co-operation and Development (OECD) combined. It is estimated that the average growth rate of energy during the next years will be about 5.5 percent, and given the supply constraints, this will lead to dramatic price escalation. Global growth will be negatively affected. There will, however, be more resilience in the major markets of the developing world.

Historically, resource rich countries fall into a downward spiral and once the cycle has begun it is hard to stop. Economist Joseph Stiglitz, in *Making Globalization Work*¹⁰⁷ argues: 'the political dynamics of resource rich countries often lead to high levels of inequality; in both developed and less developed countries, those controlling the natural resource wealth use that wealth to maintain their economic and political power- which includes appropriating for themselves a large fraction of the country's resource endowment'.

Can you imagine Trinidad and Tobago without an energy sector? We are sitting on the cliff of a crisis economy in a global economy that is on the verge of major macroeconomic adjustment. A key element of this adjustment will come in reforming the global reserve system and in the expected global crisis in food and water.

The global reserve system is at the heart of the weakness on the global financial system. In the dollar denominated reserve system. The reserves are tantamount to borrowings of the US. The return on these lending is much less than it would have been if it were invested in other commercial projects. Stiglitz estimated¹⁰⁸ that the cost of holding reserves is in excess of US\$300 billion per year. That represents four times the level of foreign assistance from the whole world.

The key risk issues ahead are a global recession, adjustment in macroeconomic imbalances, global reserve reform and the erosion of competitiveness. These risk factors pose challenges to the resilience of Caribbean economies, already vulnerable to external shocks. On the local radar screen, new expressions of internal balance will surface because of the coming trends in economic behaviour.

The twin deficits in the fiscal and current account may once more recur as a key policy concern. The reasons why this may now emerge as a risk are the emergence of a growing non energy fiscal deficit notwithstanding the persistence of buoyant revenues, the continuous fall in competitive advantage on an economy-wide basis, and a secular decline in productivity in the Caribbean economy over the last 25 years.

These risk factors may be mitigated in the short-term by energy financial inflows. However, recent developments in the behaviour of energy companies operating in Trinidad and Tobago by cutting expenditure and seeking more tax breaks, would suggest an end of sustained growth in this sector. This is further reinforced by the revelations of the limitation on gas supplies in the wells and the high depletion rates in the industry.

Crossroads and Changing Directions

The economy is now at another crossroad in choosing an economic path for the future. We now stand at yet another point of departure. The gains made during the first and second generations may have reached the end. The Caribbean Community (CARICOM) has long since reached its limits. In spite of the recent breakdown of the Doha Development Rounds of trade negotiations, the Caribbean countries remain defensive in their trade negotiations. In short, the economic space in which the region operates is perhaps receding. 'New thinking' in the political economy is now a necessity.

¹⁰⁷ Joseph E. Stiglitz, *Making Globalization Work*. (New York: W.W Norton & Company), 2007.

¹⁰⁸ Ibid.

What are the new pillars for building another generation of economic leadership? In the immediate future, preparing for the adverse risks ahead is the key challenge. There are positive risks that we must address upfront. How do we go about that task?

Energy flows converted into public investment is limited in its returns. This is so because such public investment, rather than generating income and output in the national economy, makes more demands on further recurrent expenditure. Infrastructure development for building productive capacity in a competitive economy is the direction in which we should be heading.

This calls for a radical altering of development strategy to deal with structural inflation; that spells serious economic instability. Such instability may lead to social pressures that cannot be contained by the political process. Economic leadership must shift from targeting a dateline for development to managing risks on a current basis - risks associated with the falling dollar. And the expected fortunes of the energy sector must be carefully simulated in a model with foresight.

In this forecast the following risks must be factored: the exchange rate and interest rate volatility; shortages and price rises in an overheated economy; the fall in the real value of the local currency; and the change in food and fuel prices on relative prices in the world.

New directions in building institutional capacity for delivering public goods must be on top of the economic leadership agenda. The old institutions may have lost their relevance, calling now for new models for cooperation among private, public, and civil society. The role of the State must respond to the delivery and equity issues confronting the society. The bureaucracy and the judiciary are essential activities that must be included in the matrix of governance fundamentals.

New directions are required in the models of political leadership. Kelvin Dalrymple¹⁰⁹, former Chief Research Economist of the Caribbean Development Bank (CDB) in discussing the role of leadership in economic development, characterised the models of Caribbean leadership as personality, autocratic, dynastic, crisis, and situational. The political structures that support these styles of leadership must be assessed in the context of development and right politics. The economy is riding on a cliff, with the expectation that the bubble will grow in response to global rise in prices and non-performing energy output in the local economy. The fall is inevitable. At that time, the stabilization fund (still underfunded) may have to be accessed and the national debt increased. Where do we go from here?

Choices for the future

The Foundation for Politics and Leadership provides a forum to critically define the issues and construct solutions. To do so, the following questions provide a framework for an action agenda:

- How do small nations sustain development in a constantly changing global information and competitive market environment?
- What is the relationship between a state-centred economy, use of state funds, natural resources, and sustainable development?
- What is the relationship between the state and the development of a market economy and healthy private sector? How can the new network power - social networks and connectivity - be used as a catalyst for creating new leadership in development?

We have arrived at another point of departure. First, it was a programme for adjustment, then the creation of institutions. Now, the challenge is of constructing the structure for a knowledge-based economy and introducing a risk management approach to economic leadership.

The time has come to introduce a paradigm shift in the economic leadership. Trinidad and Tobago is a classic resource-based economy. In such economies, development is elusive as economic linkages are

¹⁰⁹ Kelvin Dalrymple, former Chief Research Economist, Caribbean Development Bank, Barbados: 'A catalyst for development resources in the Caribbean', High-Level Roundtable on International Cooperation for Sustainable Development in Caribbean Small Island Developing States, Bridgetown, Barbados March 25-27, 2008.

missing and growth is limited by the cycles in world prices. The imperative is now to search for new choices for the future. Resource- and investment-driven industrialisation strategies cannot deliver sustained development.

Today, knowledge is a major driving force in development, fuelled by changes in the globalised economy in the new information era. The building of a knowledge economy has become possible due to the creation of knowledge through research and advances in technology, investments in education and a new openness to innovation. At the heart of this is the search for competitiveness and sustainable development. Investment in knowledge infrastructure, including human capital, offers a new wave in economic restructuring with higher value-added products with closer customer linkages. Finland was able to transform from a natural resource based economy into a knowledge-based economy in a short period, recently ranking first in the World Economic Forum's competitive index.

Structural transformation to a knowledge driven economy may better prepare us for a secure future. Small economies can build a competitive edge by focusing on infrastructure that enhances productivity; incentives that facilitate technological leapfrogging; and investments that quickly penetrate the global market. Once these goals are set, a programme to direct private and public national expenditure towards these choices must be implemented. This will demand a deep understanding of the political economy of change including the challenges of building capacity in the education, information, telecommunication, and innovative sectors.

A risk management approach to macroeconomic management should be adopted. The basic elements of the first and second generation reforms must be kept, but a third point of departure is now mandatory. The world economy is not standing still and global markets are more integrated. This raises adverse risks and positive opportunities in economic management. Visioning and consensus-making mechanisms must be seen as a continuous process in framing strategies and executing plans.

The first question is whether small states will be able to survive. Limited by geographical space and capacity, it seems to be an impossible target, especially in a world based on reciprocity and competitiveness. Lino Briguglio¹¹⁰ makes a strong argument that small states have been surprisingly resilient as they respond to their vulnerability to external shocks, their inherent narrow range of exports, and structural openness. This resilience, Briguglio claims, is based on policy interventions in four principal areas, viz., macroeconomic stability, microeconomic efficiency, good governance, and social development. This provides a framework upon which a risk management matrix could be designed for decision-making in the present. The question for small states now is whether resilience is the necessary condition for sustainability?

A Political Economy Perspective of Small State Development

The political economy perspective sets the backdrop for the future agenda. The new feature to this perspective is a regional approach to small state economic resilience. Small European states share the common characteristic of having achieved a high degree of economic and political success. In addition, like all other small states, they have to continuously adapt to the changing world economy. How have they succeeded in their development? In *Small States in World Markets*, Peter Katzenstein¹¹¹ provides an analysis of the industrial adjustment strategy of small European states of Sweden, Norway, Denmark, Netherlands, Belgium, Austria, and Switzerland.

Katzenstein describes how these states have coped with changes in the international economy. The social agenda asks to build social cohesion and to promote basic needs and capabilities; it asks for the delivery of basic social services to consider regional social impact, and to establish the Caribbean Court of Justice (CCJ). The political agenda wants the reform of systems and governmental institutions, electoral reforms, a demand for greater accountability, and the effectiveness of public policy.

¹¹⁰ Lino Briguglio, Gordon Cordina, Nadia Farrugia and Constance Vigilance, eds, *Small States and the Pillars of Economic Resilience*. (Islands and Small States of the University of Malta and the Commonwealth Secretariat, London, 2008) 11-34.

¹¹¹ Peter J. Katzenstein, *Small States in World Markets*. (Ithaca: Cornell University Press, 1985).

The CARICOM Single Market and Economy (CSME) agenda requires the inclusion of the development dimension in Economic Partnership Agreements (EPAs), the set up of regional institutions for good governance, and the formulation of a management approach.

The private sector agenda should include private sector leadership and involvement, encourage investments and entrepreneurship, provide incentives for Small and Medium Enterprises (SME) development, and institute governance of private sector and microfinance. The scholarship agenda is about linking political and economic logic, about more process analysis, about directions for capacity building and good governance. It deals with charting demands for good governance and generating new ideas to cope with global changes.

Due to their small size, these European states are dependent on the international markets. They have pursued a policy of adjustment with economic change through a variety of economic and social policies that prevent the costs of change causing political crises. They have cultivated a strategy that responds to, and reinforces, domestic goals that mitigate the political impact of economic changes. The leadership in these States has maintained the legitimacy of the political arrangements through good governance policies.

As Katzenstein notes, the yardstick for measuring their success is the extent to which social coalitions, political institutions, and public policies facilitate shifts in factors of production that increase the economic efficiency with due regard to the requirements of political legitimacy. This form of social partnership covers all areas of economic and social policy that is able to diffuse conflicts and accommodate the different interests of the stakeholders. This model of 'democratic corporatism' (or social partnership) demonstrates a culture of compromise reflected through their political arrangements, reinforcing the shared interpretations of the collective good.

The social partnership provides these European states with the space to respond to changes in the international economy. In their effort to cope with constant change, they pursue a combined strategy of liberalisation, domestic compensation (or distribution) and flexible industrial adjustments. Hence, their strategy is flexible, reactive, incremental, and constantly improvising to cope with change. Their policies are aimed at identifying and anticipating changes in the international economy and helping the social partners (private sector, trade unions and government) to adjust to the changes without causing political instability. In another comparative historical study of development of European states, Dieter Senghaas¹¹² tries to uncover the development paths the countries have followed, and why some parts of Europe developed while others did not. This Eurocentric analysis draws lessons from varied recent history of European development. His discussion focuses on Friedrich List's theory of how 'delayed development' is possible in a world economy characterised by growing development differentials. Senghaas examines the relationship between various types of development paths: 'associative' (export-led), 'dissociative' (opening up of domestic potential) and 'auto centric' development or 'peripheralization'.

Among the smaller states of Europe, Belgium, Austria and Hungary pursued a dissociative strategy. Switzerland and the Netherlands adopted an associative development path. A third set of small states - Denmark, Sweden, Norway and Finland - have pursued an associative-dissociative development history. These states illustrate how a redistribution process preceded industrial growth in successful delayed development. This 'distribution before growth path' in Europe contradicts conventional development theory that puts growth first and redistribution later.

Briguglio in *Small States and the Pillars of Economic Resilience*¹¹³ defines the economic resilience of small states as the ability to generate and manage a relatively high GDP per capita when compared with other developing countries. This ability, given the small states' vulnerability, is associated with policy-induced measures to adjust to external shocks.

These policy measures, called pillars of resilience, are macroeconomic stability, microeconomic market efficiency, good governance, and social development. Deficiencies in anyone of them is likely to compromise a country's ability to withstand exogenous shocks.

¹¹² Dieter Senghaas, *The European Experience: A Historical Critique of Development Theory*. (New Hampshire: Berg Publishers, 1985).

¹¹³ See note 118.

The macroeconomic aspects of resilience building are stability, stewardship, and competitiveness. The regulatory framework needs to promote competitiveness, stability, and predictability. Since small states have limited scope in setting discretionary fiscal and monetary policies, they would need to concentrate on factor and market flexibility. The policies to promote microeconomic efficiency have to focus on market efficiency and right resource allocation. There is a greater role for the private sector in developing small state resilience. Creating a favourable environment for the growth of a healthy private sector and entrepreneurship is crucial. Policies have to promote competition in domestic, regional and global markets.

In a chapter of *Small States*, Claudius Preville¹¹⁴ has noted that development has a wider connotation than economic resilience. He associates resilience building with social and environmental concerns that cannot be considered in isolation from the economic realities. Furthermore, social cohesion negatively affects small states experiencing political and/or ethnic conflicts. Policies need to take into account the wide divergences in income among the different groups.

A social policy that promotes social cohesion enhances the chances of economic success. In another study, Sudha Venu Menon¹¹⁵ shows how the multicultural small state of Singapore is a classic example of good leadership and public management in realising the country's development goals. Governance and leadership are put forward as central forces in fostering economic growth in that country.

D. The Agenda for the Future

Leadership and governance have been important to the development of appropriate institutional frameworks for sustained dynamic development and constant innovation to adapt to changing external realities. The social partnership policies of certain small states have provided the basis for economic resilience. From Briguglio et al. we can infer that in the area of good governance, small states need measures that are more specific to their respective contexts. The important elements of governance are openness, transparency, government accountability, administrative efficiency, respect for human rights and the rule of law.

Venu Menon's report also notes the importance of leadership and governance in the development of small states. A recent newspaper column states that history provides us with a plethora of evidence pointing to a country's development owing to the leadership, irrespective of whether it is in the history of Western advanced countries or the post Second World War emergence of nations.¹¹⁶ Leadership is vital in meeting the goals of development. So is good governance.

The last report on the Wilton Park Conference observes that the era of preference is now effectively over and globalisation poses the major challenge to the Caribbean region.¹¹⁷ The region must therefore develop strategies and policies to enhance resilience. The report raises the following urgent needs of the region: to develop of modern skills like information technology, to enhance entrepreneurship skills and education, to promote small and medium enterprises, to address food and energy security, and to make the region more attractive to investors. The report notes that the promotion of good governance is an important issue. The region has also seen recent changes of governments with a new generation of leaders and the expectation of fresh thinking. What should be the fresh thinking for leadership and development of small states?

¹¹⁴ Claudius Preville, CARICOM's 'Orientation in External Trade Negotiations and Resilience Building' in Lino Briguglio et al., eds, *Small States and the Pillars of Economic Resilience*.

¹¹⁵ Sudha Venu Menon, *Governance, Leadership and Economic Growth in Singapore*. Munich Personal RePEc Archive (MPRA), Paper #4741.

¹¹⁶ *The Sunday Times* 'Leadership for Economic Growth.' Available online: <http://sundaytimes.lk/080817/Columns/eco.html> (August 17, 2008).

¹¹⁷ Report on Wilton Park Conference 900 (March 2008), *Caribbean States in 2020: Sinking, Surviving or Prospering?*

The New Political Economy Agenda

Merilee Grindle¹¹⁸ makes a pertinent point that the reform of the state in the Caribbean and elsewhere demonstrates the importance of ideas in the politics of promoting reform of the state, something that Owen Arthur and Vaughan Lewis also reiterate. In the first chapter of the book the authors make an important point that a fresh thinking of leadership and governance in the development of small states must not only be sensitive and responsive to vital national and regional interests, but also take cognisance of shifts in a changing world order.

The key factors in the new political economy of development are leadership and good governance. Political leadership today must face up to the new notions of formal and functional sovereignty and the exercise of pooled sovereignty in relations between nation-states. Development involves some of the hardest choices between the development path and distribution of public resources. In the current context, governance is about the way in which trade-offs are made between keeping pace with global developments and being sensitive to local and regional aspirations. Global economic trends are bound to impact on domestic and regional politics. The future problems will be in the area of human security that will need to be addressed by a combination of innovative domestic policies and international cooperation via various dialogues and formal institutional agreements.

The task of leadership is to find a synergy between economics and politics in the development of small states. Managing natural resources in a sustainable manner is another major agenda for small states. The economic growth prospects of small island states will depend on management to mitigate the future impacts of climate change.

The Social Agenda

Good governance or quality governance relates to the quality of leadership that can forge 'social cohesion' in a plural society. The future agenda of leadership would have to promote the basic capabilities that cannot be left solely to market forces. Social objectives can contribute to economic growth and human capital. This implies improving government resources and the capacity to implement social policies and deliver basic services. This calls for a fresh look at appropriate governance structures and delivery mechanisms.

The choices about future governance and development should involve a 'regional social compact'. It is necessary to demonstrate renewed commitment to building a regional institution that will foster economic growth and development, namely, the CCJ. This institution will ensure the legal commitment and obligation to implement decisions taken at the regional level after substantial consultation and negotiation among relevant parties. The future of the Caribbean will be brighter once we find the confidence to make something as vital as a regional court function as intended, rather than remain in its present uncertain state.

The Political Agenda

Many small states are today facing the challenge of political reform of the system and institutions of government. During the past 50 years since the Caribbean states attained independence, the Westminster system of governance has been subject to intense scrutiny and the call for fundamental political reform has emerged. This is currently a serious issue in popular, political and academic circles. Of significance is the issue of electoral reform and how governments are elected, which has become a key issue in sustaining democracy in these small states.

At the beginning of the 21st century, the intersection between politics and technology is now part of the new political scenario in connecting minds and shaping political behaviour. Electronic voting is already being promoted as a viable system in this global community. So too are changes in the new media that will enhance the information flow in the quest for good enough governance. Electoral reform is a major

¹¹⁸ Merilee S. Grindle, *Going Local: Decentralization, Democratization, and the Promise of Good Governance*. (New Jersey: Princeton University Press, 2009).

requirement for small states attempting to bring people closer to government and so strengthen the pillars of democracy.

The process of constitution making has come to the fore as nation states strive to alter their worn out constitutions, embrace new approaches to stop the abuse of power, demand greater accountability of the executive power and enhance the effectiveness of public policy implementation. In addition, plural societies face special challenges in reforming constitutional structures that promote social cohesiveness, national character, and justice.

The Caribbean Single Market Economy Agenda

There is the 'unfinished business' of matching the institutional arrangements of CARICOM to the political strategizing and implementing the single market economy and its external negotiating requirements. The task ahead is to relate and support the CSME through a process of political legitimating decisions made in these respects, an essential task for the political leadership. Furthermore, the international economic environment will have an impact on this process through the EPA, for example.

Against the backdrop of the CSME, individual state governance as well as regional governance needs to be addressed. Given the deepening of interdependence, the regional institutional capacity for good governance and management has to be improved.

The fresh thinking should be in terms of consolidating regional governance. While it is important for the region to reorder its relations with the rest of the world, leadership and governance will have to place the development goals of the region as the guiding principle of the relationship. A new CSME cannot be achieved and made to work relying on the existing regional organs such as the Council for Finance and Planning (COFAP) and the Council for Trade and Economic Development (COTED). Establishing a regional development fund would go a long way fostering new institutional capacity.

The Private Sector Agenda

A Caribbean Business Council should be created since a new CSME will also be driven to a large extent by: the private sector. This Council will facilitate greater private sector leadership and involvement in all aspects of the creation and management of the CSME. Given the need to expand the private sector and to create jobs in small states, the new agenda is to provide incentives to encourage investment and entrepreneurship. New and innovative approaches are needed to ensure that there is a continuous process of building local capacity in the region.

In an environment of limited alternative employment opportunities, self-employment and SMEs will continue to grow in the region and improve in competitiveness. Addressing their credit needs is crucial to fostering their development and promoting entrepreneurship. Microfinance is one way of achieving this goal. Microfinance is important for small Caribbean States when considering the contribution of SMEs to GDP, employment, access to credit, and the social benefit it brings.

The current regulatory environment in the region does not favour the microfinance sector, as there is no policy or regulatory framework specifically addressing the unique and specific needs of the microfinance. The CSME will also impact the small and medium enterprise sector and the microfinance industry. The small and medium enterprise and microfinance sectors will become central to the region's future development policy.

Governments and financial institutions at the national and regional levels have to take a fresh regional look at the financial regulation to put microfinance and small and medium enterprise policies within the Caribbean region's development goals. The way forward is to create an enabling policy environment to support an integrated approach to small and medium enterprises. This implies improving the institutional governance for the private sector and microfinance.

The Scholarship Agenda

Global trends are constantly changing. In order to be resilient, small States will need to keep pace by generating new ideas to cope with the changes. This calls for a regional scholarship agenda that raises the following fundamental issues for the future of leadership and development of small states: How do we

reconcile economic/development outcomes with political democracy; What are the new challenges to development and what should be the appropriate responses?

As guidelines for the scholarship agenda, the following propositions are presented:

1. The need to get a frame of analysis that links the political and economic logic;
2. Global forces are disrupting and this requires a shift from pure policy analysis to process analysis;
3. The search for a new great transformation in economics as Polanyi¹¹⁹ did, requires a proper understanding of the working of the democratic political process; and
4. Creating the right political capacity (structure, institutions, and incentives) is an essential task for furthering the goals of good governance. Unless there is a demand for good governance, there will be less chances of having a supply of good governance.

¹¹⁹ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our time*, 2nd edition (Boston, MA: Beacon Press)2001.

Epilogue

A book rarely stands on its own – it comes from somewhere and sometimes ignites unknown paths.

The Caribbean on the Edge is an anthology of ideas and chapters that shaped my thinking over decades of work on development and on the Caribbean.

Throughout my academic and political life, I have sought constantly to search for a way forward in the interests of Caribbean progress and development- which often led me to challenge the lazy orthodoxies prevailing. It has long been my view that status quo solutions will never solve the complex political, social and cultural challenges faced by this expansive and diverse region.

Now, I learnt that to create a common and synchronizing logic between our economic aspirations and our political actions requires analytical leadership rooted in data and vision at the same time

The discredited and fragmented politics of the past must give way to a penetrating new agenda-one that breaks down the barriers to progress in what is a complex, enigmatic region, characterized by great diversity in size, population, geography, history, language, religion, race and politics.

This journey has many starts and no end, and this epilogue says just that, as a message to future students of politics, economics and diplomacy. A moment of true possibility is on us, as we nurture disruptive thought, design bold action and measure the practical outcomes for a dynamic legacy on the future of the Caribbean.

Always an open society, where harmony and discord work together, The Caribbean has for centuries witnessed voyages of discovery, and as some historians have argued, with much persuasion, it is in the Caribbean where ‘globalization begun’. Always a place of hidden wealth, where peoples from all continents call home, and in a geo politics where the notion that ‘no island is an island’; we are now in a phase of tense stability where old premises are no longer valid in the tectonic changes around us.

It is my sincere wish that this anthology will trigger transformative academic research which does not have to reinvent the data of the past or recycle the policy failings of the present, but create a new momentum that will stimulate disruptive thinking and sustain a new policy confidence in the future. This confidence will come from deep analysis that confronts public policy frameworks, and look ahead to a new synthesis between political and economic logic that may rediscover ‘trust’ in the governance process in the wider Caribbean civilization.

But above all, it is in the practice of development that lays the scope to unlock the paralysis of a Caribbean on the Edge, by engaging in a radical shift in thinking, policy and practice.

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