

CEPAL

Review

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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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Review

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Sustained development for the Caribbean

*Trevor Harker**

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

This article consists of two parts. The first of these seeks to provide as complete a picture as possible on social and economic developments in the decade of the 1980s. Based on these facts, it is then sought to derive some lessons from the 1980s and set the framework for the second part of the document, which aims to provide a set of proposals to assist in reflections on the requirements for sustained development of the Caribbean in the decade of the 1990s.

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I

Some reflections on the economic performance in the 1980s

If we take stock of what has been achieved in the 1980s, we see that firstly, the rate of growth of the economies, as outlined at table 1, has varied quite significantly over the period 1983-1988.

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

The category of *large high-growth economies*, consists only of Puerto Rico, with an average growth rate of 5% propelled by the manufacturing sector (which increased by about 12% per annum) and by tourism. Export earnings were fastest growing in categories such as chemicals, drugs and pharmaceuticals.

The next cluster of countries, the *moderate-growth economies*, had average growth rates of 2-3% and comprised Barbados, Belize, Cuba¹

¹Care should be exercised in making comparisons between Cuba's Global Social Product and the Gross Domestic Product of the other countries, since the methodologies used to calculate them differ.

Table 1
CARIBBEAN COUNTRIES: PERCENTAGE CHANGE IN GDP
(At constant prices)

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

Source: ECLAC estimates derived from country data.

^a Average relates to period 1983-1988 (1983-1987 in the case of Suriname).

^b Global social product at 1981 prices.

and the Dominican Republic. All these countries have relatively diversified economies and the performance of the various sectors was mixed. All have significant tourism sectors which recorded growth, with the newer entrants—Belize, Cuba² and the Dominican Republic—recording rapid growth, while tourism in Barbados, for reasons similar to those applying to the Bahamas, grew somewhat more modestly. All suffered stagnant or falling returns from agricultural exports, primarily sugar, and all suffered from weak manufacturing performance.

Jamaica and Haiti made up the *low-growth economies*, with an average growth rate of 0-1%. In the former case the declining minerals sector was most noteworthy, particularly in the years 1985-1986, given the importance of minerals in export performance. Notable also was the resuscitation of traditional agricultural exports up to 1988, especially in the case of bananas, after their poor performance during

the period 1984-1986. Jamaica was also severely affected by the cost of servicing its domestic debt, since over 40% of total expenditure had to be diverted to repay principal and interest. A similar proportion of the earnings from exports of goods and services needed to be diverted for servicing the external debt.

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

The last category comprises the *contracting economies*: of Guyana, Suriname and Trinidad and Tobago, which registered declines in their

² New in the sense that Cuba has only recently re-entered the tourism industry in a serious way.

GDP. All are minerals producers affected by the declines in minerals prices, but all suffered declines in *output* of minerals as well, either due to management deficiencies in the industry, or social unrest, or both. None of these countries benefited from the tourism boom experienced by other Caribbean countries, since their tourism sectors are small, and in some cases their tourism earnings declined. Both Guyana and Trinidad and Tobago also suffered declines in export earnings from sugar, while increases in banana

earnings were insufficient in Suriname to compensate for declines in other sectors. Reduced export earnings adversely affected domestic economic activities in all these countries, since domestic consumption had to be sharply curtailed in sectors related to construction, distribution, finance, insurance and real estate. Stringent measures also had to be taken to curtail government activities, although this was a pervasive trend in most countries in the region.

II

The global setting

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

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

In the initial years of the 1980s the concerted effort by the developed countries to contain inflation by increasing interest rates ushered in a period of economic contraction. This in turn affected the developing countries which are exporters of primary products, with reduced

demand for their exports cutting their export earnings, while at the same time climbing interest rates increased the cost of servicing their debt. These twin effects gave birth to the "debt crisis" of 1982, as many of these countries became incapable of servicing the debt incurred at low interest rates in the 1970s.

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

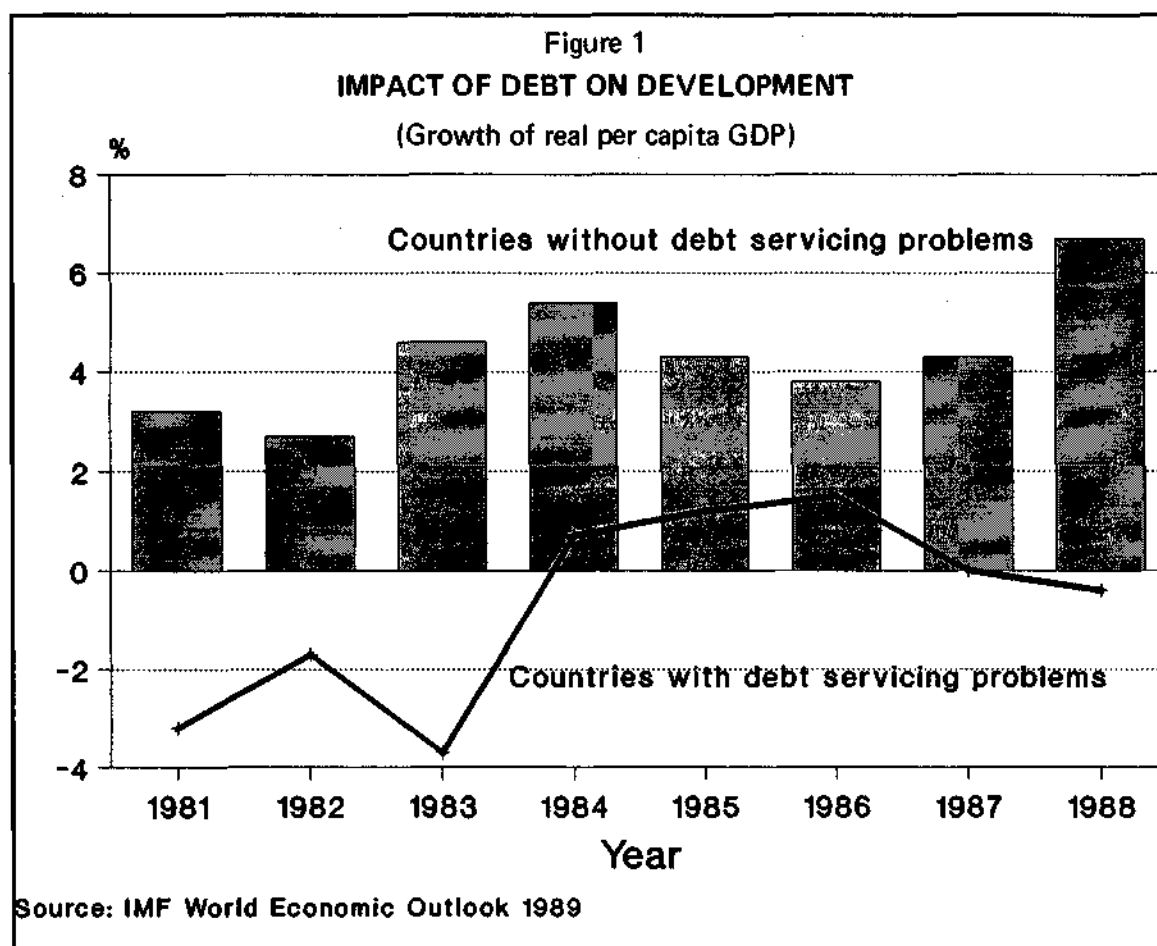
For the developing countries whose economies are driven essentially by export performance, reduced earnings from trade necessitated stringent adjustment policies which impacted adversely not only on their current living standards but also, for many, on their future standards of living, due to falling levels of investment. Those able to expand their trade in manufactures, such as the so-called "Newly Industrializing Countries", were able to adjust more rapidly than those countries — mainly in Latin America and Africa — which depended on the export of primary products and raw

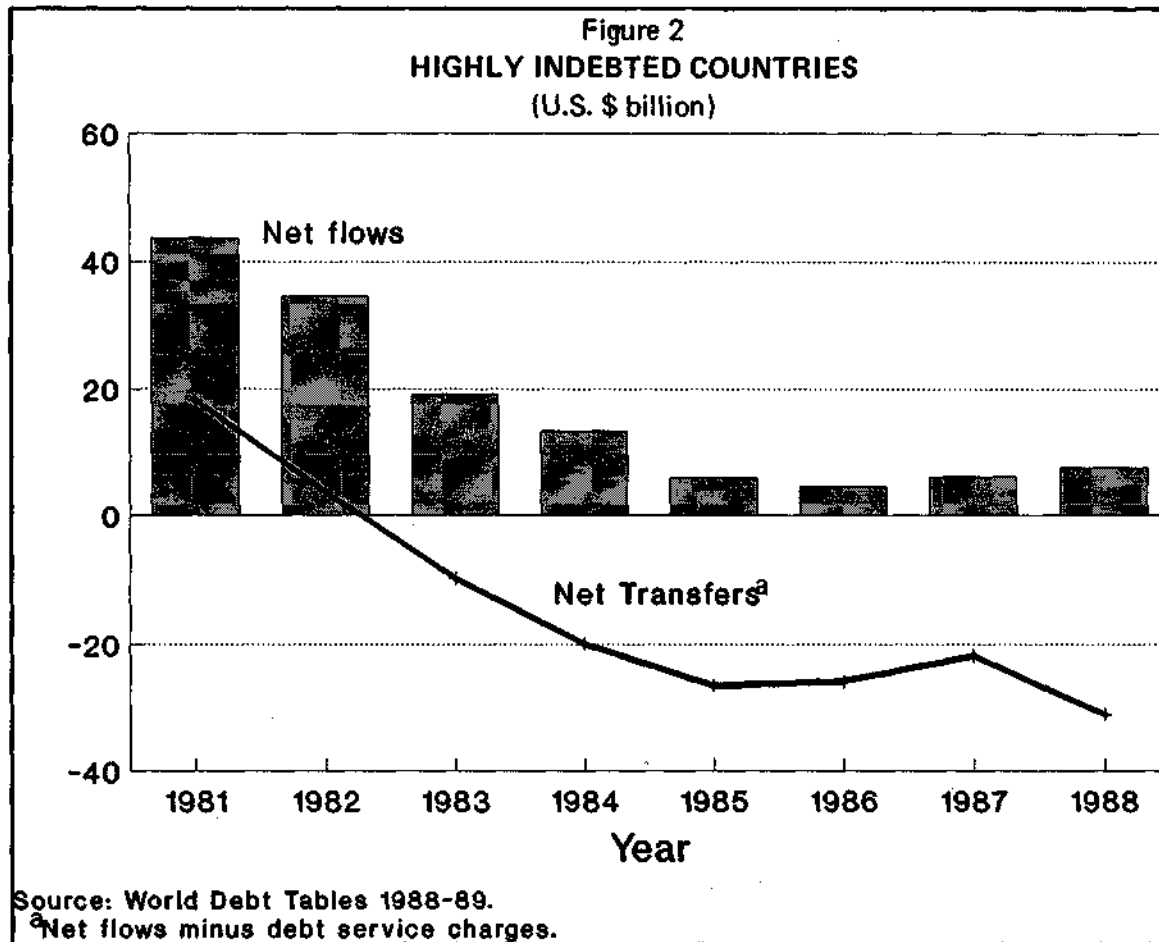
materials. Raw materials producers were particularly hard hit, especially in the case of oil exporters, and they began to show lower growth from the turn of the decade. This was exacerbated by the decline in oil prices in 1986 which was of a magnitude comparable with the increases of the second oil shock of 1979-1980.

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

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

While various measures have been tried to resolve the debt problem, it has proven to be more intractable than expected, especially in a period which is regarded by some as having been propitious for the debtors' external





performance. In part, the problem is exacerbated by the fact that net capital flows to the highly indebted countries have been declining as creditor banks seek to reduce their exposure in these countries (figure 2). As a consequence of their massive repayments, net transfers to those countries have been negative for the past six years. Debt servicing has been possible for most of these countries only by severe economic contraction so that the current growth rates of those having debt-service problems have stagnated, while their future growth has been jeopardized as investment has been deferred.

The hope of growing out of the debt crisis has not materialized for these countries.

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

III

The sources of regional prosperity

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

The *sugar* industry remains chronically ill, surviving only on a life support system provided by the European Community and the United States, or the Council for Mutual Economic Assistance (CMEA) in the case of Cuba. The value of sugar exported declined over the survey period by about 6%. Declines were evident in all countries (with the exception of Jamaica, which recorded some growth), although annual performance fluctuated quite widely. The picture regarding earnings was somewhat different, in that price increases limited the loss of earnings to about 2%. This overall picture is, however, somewhat distorted by the influence of Cuban exports since Cuba benefited from higher prices than the other countries. The decline in earnings for the rest of the region, at 21%, therefore exceeds the decline in volume of production.

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

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

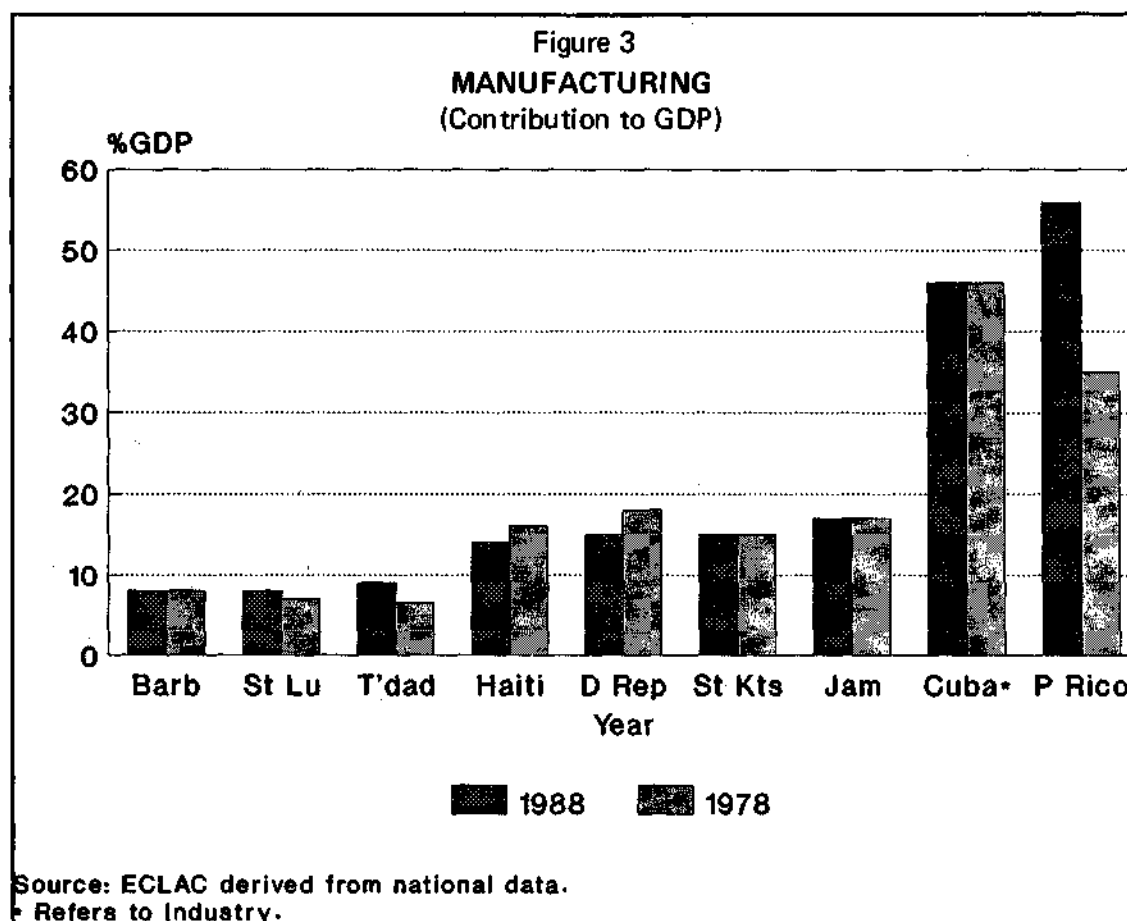
Yet, while the growth performance of the banana industry was one of the highlights of the period under review, it is well to recall that in the three years prior to 1980 banana exports

averaged 225 000 tons: a figure which was not surpassed until 1985. It is also noteworthy that banana production is still not efficient enough to compete on the open market. The picture remains fairly good as long as the United Kingdom market continues to be reserved for Caribbean producers, but this is an uncertain prospect.

Manufacturing remains at a crossroads and has, in general, stagnated over the survey period. Producers are aware of the need to reorient their production to global markets, yet so far the means to do so seems to have eluded many of them. Over the survey period Puerto Rico has shown the greatest growth in manufacturing and the greatest shift towards an economy based on manufactures (figure 3). A similar shift has also taken place in Trinidad and Tobago where the sector grew by almost 12% between 1983 and 1987. Jamaica, Cuba and Barbados have recorded no growth in the sector, while it has contracted in the Dominican Republic and Haiti.

For the OECS (Organization of Eastern Caribbean States) countries, manufacturing contributes a relatively small percentage of GDP: not more than 5% in all the countries with the exception of St. Kitts and Nevis. The sector has, however, increased its contribution to GDP in Dominica, Grenada and the British Virgin Islands.

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



upgrade their skills and move to more elaborate processes. This prospect will be discussed in greater depth later.

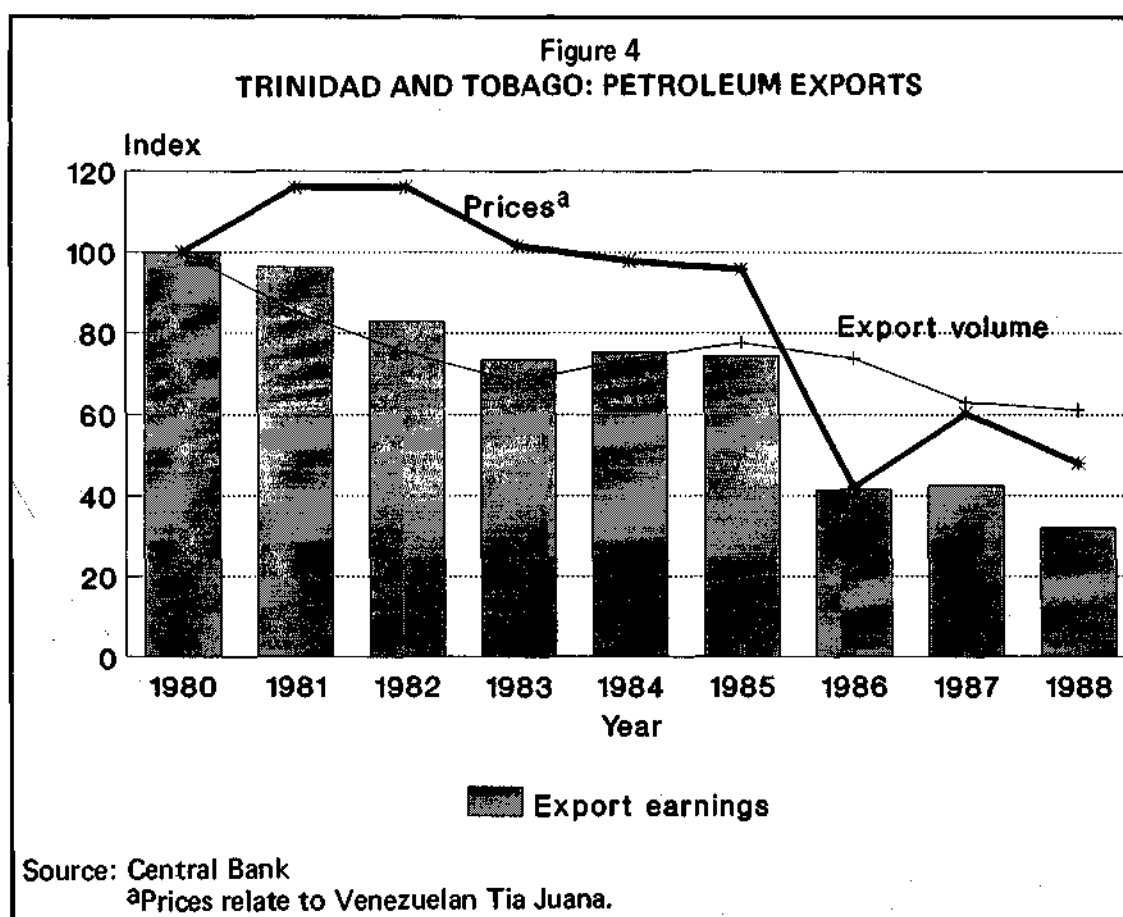
Minerals producers have fared badly over the survey period. As energy importers, the metals producers in the Dominican Republic, Haiti, Guyana and Jamaica were particularly hard hit by energy price rises. Conversely, they were beneficiaries as energy prices fell and regional producers regained some of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

While the metals producers benefited from the decline in oil prices, the *oil producers* were harmed. The situation in Trinidad and Tobago is

well known (figure 4). After 1982, prices fell and so did export volumes and consequently earnings. As a result, domestic activity has been reduced drastically, with consequences too familiar to readers to need repeating.

For the future, the long-run prospects of Caribbean minerals producers will be shaped by the rate of growth in the industrial countries (and consequently their demand for aluminium), the price of crude oil, and the extent to which Caribbean operations can be reconfigured to increase their energy efficiency. But in the final analysis, a development path cannot be predicated upon minerals exports alone. The terms of trade have been against minerals since 1950³ and the amounts of minerals used to

³ It is estimated that in 1950, 100 units of minerals could buy 100 units of manufactures, but by 1986, they could only buy 14 units of the latter.



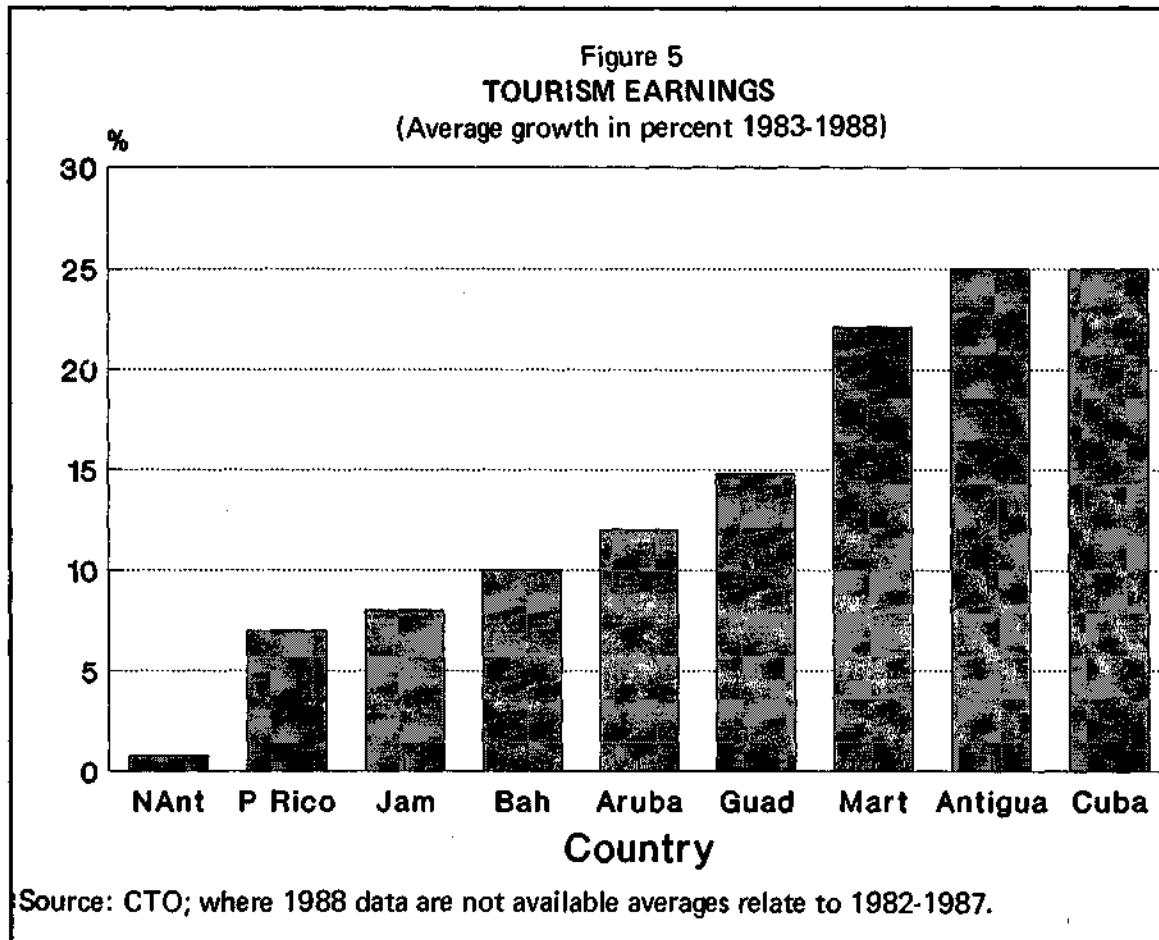
produce one unit of output have fallen steadily. In fact development is often measured by the quantum of value which can be added to each unit of raw materials. Minerals producers globally have grown much more slowly than, for instance, those countries specializing in manufactures. The expectations of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

Such prosperity as has been experienced in recent years has come from a steadily growing *tourism sector*. In the period under review all the countries in the region either already had a tourism sector or were trying to initiate one. For the region as a whole, growth in tourism earnings accelerated after 1985, with greatest growth recorded in 1987 at 17%. For the period

1983-1988⁴ growth averaged 10% per annum. The fastest growth (figure 5), was recorded by relatively new entrants to the market, such as Antigua, Dominica, the Dominican Republic, the British Virgin Islands, Martinique, St. Lucia, St. Kitts, and St. Vincent and the Grenadines, all averaging 15% or more, or by established destinations recovering from a past decline, such as Cuba and Grenada. Among the established destinations growth was average in the Bahamas, Barbados and Guadeloupe, and below average in Jamaica, Puerto Rico, Haiti and the Netherlands Antilles. Declines were recorded for Suriname and Trinidad and Tobago.

Note should be taken, however, of the warning signals provided by loss of the North

⁴Where data are not available for 1988 averages relate to 1983-1987.



American market share and declining productivity and profitability of many regional hotels. The spectre of inadequate regional competitiveness and productivity rears its ugly head even in tourism, which is also showing some rigidity in adjusting to changing leisure patterns.

In summary, the fact is that all our major merchandise export activities are in decline. Sugar is being phased out. Bananas have staged a comeback in output, but still depend on the preferential market in the United Kingdom. Since this market might not be guaranteed for long after 1992, the industry will need to develop

the means to stand on its own internationally. Minerals are of declining global importance, have unstable earning capabilities, and in the long run cannot be expected to sustain our economies. Only tourism has shown steady growth over the last five years.

This summary describes, in a nutshell, the cause of our difficulties in the recent past. It explains why over the survey period the fortunes of the Caribbean nations have not been as good as in some other regions. And indeed, their fortunes have varied even more significantly than would appear from the simple changes in GDP.

IV

The impacts on people

While an analysis of the economic indicators provides a useful picture of economic trends, it is nevertheless incomplete and says little about the distribution of the costs and benefits of such economic performance. To the varying fortunes of the economies need to be added differing rates of population increase from country to country and varying impacts of economic contraction, especially that of the reduction of government services on varying groups within each country. Table 2 illustrates the changing fortunes of Caribbean economies, but it has not been as easy to illustrate precisely how the poorest have been affected by these changes.

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

The decline in economic activity has quite obviously affected the lives of people in these countries. Jobs have been lost, and even for those

Table 2
CARIBBEAN COUNTRIES: SELECTED INDICATORS

Country	Size km ²	Population (1988)	Average growth population	GDP ^a	GDP capital (1974)	GDP capital (1988)	Debt capital (1988)
Antigua and Barbuda	440	82	0.8	7.8	689	3 399	2 915
Aruba	193	65	...	...	...	*7 500	...
Bahamas	13 942	243	1.8	4.3	3 362	11 447	607
Barbados	431	254	0.2	2.7	1 296	5 747	62
Belize	22 960	180	2.8	3.0	614	*1 226	78
Cuba ^c	110 860	10 414	1.1	2.8	2 112	2 582	661
Dominica	750	82	0.9	4.8	378	1 550	*71
Dominican Republic	49 000	6 888	2.5	2.2	639	810	220
Grenada	345	106	2.4	4.6	346	1 346	65
Guadalupe	1 780	300	...	...	...	*3 151	...
Guyana	214 970	756	-0.1	-1.4	538	455	2 249
Haiti	28 000	6 285	2.2	0.2	125	330	*121
Jamaica	11 424	2 374	1.0	0.9	1 038	1 219	318
Martinica	1 110	300	...	...	...	*3 717	...
Saint Kitts and Nevis	269	47	0.5	5.2	634	2 199	36
Saint Lucia	616	145	2.0	4.7	448	1 400	*26
Saint Vincent	388	114	1.3	6.2	310	1 210	*31
Suriname	163 265	404	1.0	-3.4	1 100	2 510	...
Trinidad and Tobago	5 128	1 234	1.4	-3.0	1 778	3 782	2 012
British Virgin Islands	150	12	1.4	7.0	...	9 492	...
Montserrat	102	12	0.5	5.2	886	3 997	...
Puerto Rico ^d	8 800	3 294	0.2	5.0	2 465	5 574	...

Source: ECLAC on the basis of official data.

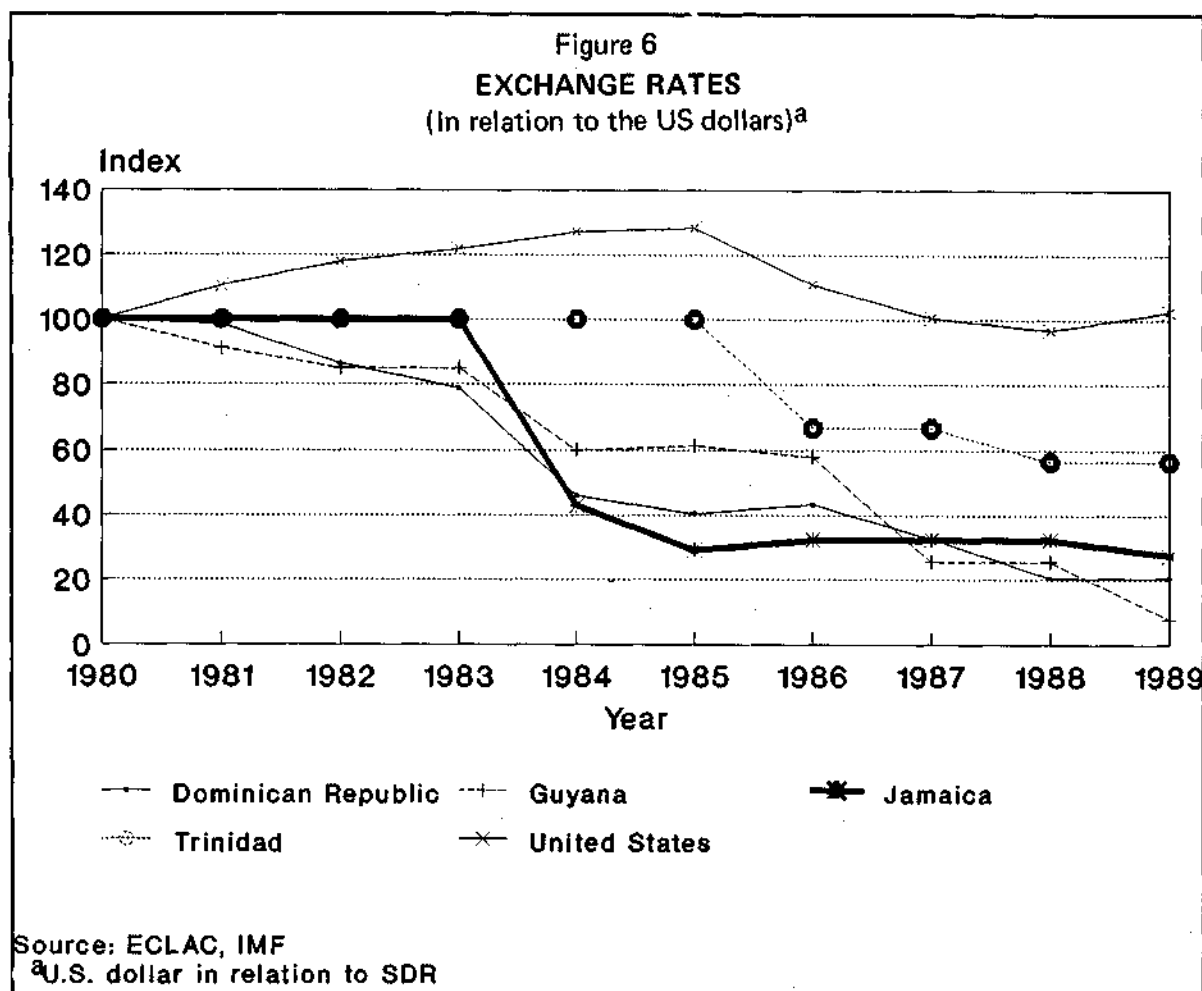
^a Average growth rate of real GDP for period 1983-1988; Suriname 1983-1987.

^b In current US dollars.

^c Global Social Product in millions of United States dollars.

^d GDP per capita figures relate to 1975 and 1988.

* Denotes latest data available, typically 1986 or 1987.



fortunate enough to retain their employment, standards of living have fallen. The most evident symptom of this decline has been the steady depreciation of the currency, which in small, open economies has a much greater impact on all sectors than in larger countries having a large reservoir of domestic production.⁵ The rate of depreciation for some of the low-growth or contracting economies is illustrated in figure 6. All the currencies are shown in relationship to the United States dollar, and the relationship of that currency to Special Drawing Rights is also illustrated for the period 1980-1989.

Just at a time when personal standards of living were falling in these countries, the

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

Any attempt at evaluating the social impact of expenditure cuts has nevertheless to be treated with care. While the quantum of funds has in some cases been reduced, the proportions allocated for personnel emoluments and materials have also been skewed in favour of the former, further reducing efficiency. At the same time, new means might be used to deliver traditional services in a more efficient manner or

⁵In Jamaica, for instance, domestic food production meets only an estimated 10% of domestic food needs.

to a more precisely defined target group so that a mere evaluation of expenditure might not signify reduced delivery. Finally, the backlog of social services might not be immediately quantifiable, as the deficiencies in health or education might not become observable until after a large lag; by then, however, rectification—if still possible—might be protracted. Attempts therefore had to be made to discern social trends despite the lack of precise data to measure them.

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

are discernible in health, education and nutrition, so that relative standards have fallen as compared with comparator countries having broadly similar incomes per capita. But absolute standards have also fallen in some instances, implying declining indicators in the same country over time.

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

V

Some lessons from the 1980s

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

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

Smaller countries are also denied some of the macroeconomic options available to larger countries and the policy framework will need to

be constrained accordingly. As a general observation, it is noted that the most open economies and those least subject to restrictions on the movement of goods and capital had the fastest growth. Those pursuing the most moderate fiscal and monetary policies, either through voluntary restraint or where central bank statutes required this, also had the most moderate rates of price increases, the most stable currencies and the lowest debt. The converse was also true.

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

Many years of effort are in danger of being eroded. Yet one of the main lessons of the decade has been the importance of blending human

skills and information in order to provide a flexible response to a rapidly changing environment. Any policies which downgrade the improvement of human resources will, therefore, render citizens less capable of facing the challenges of future decades.

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

The decade has seen an increased awareness of the finite nature of the environment. The

Caribbean region is also becoming painfully aware of its own environmental degradation, which afflicts in particular the high-growth economies, through the unsatisfactory disposal of solid and liquid waste. These practices threatened health standards, and the very growth which causes such degradation, since in the Caribbean growth is predicated on earnings from travel and leisure services.

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

VI

Sustained development in the 1990s

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

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

As a consequence, many of our resources remain idle, despite efforts to utilize them. Much of our scarce land remains unutilized, while some land which had been used for export crops has fallen into disuse as these crops are no longer profitable. Domestic savings are low and often

not productively invested. But the most intractable problem and the most obvious indicator of our reduced potential remains the underutilization of manpower, since in some cases 30% of the labour force is unemployed, with a significant portion of the remainder underemployed or employed only in low-productivity occupations.

1. *Enhanced economic efficiency*

In order to reverse current trends and better fulfill our potential for the coming decade, economic efficiency will need to be increased so that the region can capture a growing share of global trade. To do so will require a diligent search for non-traditional industries or activities that are sufficiently specialized to be remunerative in relatively small-scale trading operations appropriate to Caribbean capabilities. We will also need to have a better knowledge of global market trends, to show

greater flexibility in phasing-in and phasing-out activities, and to apply greater knowledge, skills and technologies in the items we produce. In order to penetrate the global market, we will need to increase the productivity of the economy as a whole, since this is the only sustainable way to increase living standards.

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

An evaluation of the factors of production leads us to conclude that many of our islands do not possess an abundance of highly arable land, neither do we have a surplus of cheap capital. Expectations of rapid growth predicated on the exploitation of raw materials have not been rewarded, partly because the region does not possess an abundance of raw materials, but also partly because rapid growth areas are now in services or in light manufactures which are sparing in the use of raw materials but intensive in the use of knowledge.⁶ This leaves us with the other two factors, labour and technology, which can usefully be linked as the latter is operationalized by labour through the use of tools.

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

⁶ A laptop computer using 20 lbs of plastics and silicon can cost as much as a 3 000 lb automobile today, or much more than a 5 000 lb automobile just one decade ago.

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

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

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

A greater premium therefore needs to be placed on human resource development. This is understood to mean the continuing process of improving skills and knowledge throughout one's productive life and to apply to *all* people. But it is something over which each of us has some measure of control, both for ourselves and our personal skills development as well as for coming generations. This has implications for our educational process, and requires a shift in attitudes not only of teachers and students but also of society at large, in the sense of making increased demands on the educational system.

The available evidence seems to indicate that those countries which have moved fastest to achieve productivity increases have been able to do so through good basic general education which simultaneously provides the foundation for the necessary high level of job flexibility. It

goes without saying that computer skills should begin at the earliest level and be regarded simply as an indispensable mind tool. They are also one of the keys to storing, sharing and, therefore, increasing information.

Links also need to be made early between the world of education and the world of work. Emphasis needs to be placed on helping young people to shoulder the responsibility for making themselves viable adults, and the educational process should be seen as preparation for viability.⁷ Good general education is also beneficial in widening career prospects and providing operational flexibility.

The best examples available to us show that specialized education is job-specific and often comes as on-the-job training. Team work, the sharing of information and job flexibility⁸ are also important components of the new high-productivity paradigm.

⁷In the Federal Republic of Germany education is, in principle, compulsory until the age of 18 years. In practice, 40% of the 15-18 years age group attend school full-time. The rest undergo a dual system of professional training through apprenticeship, financed by private firms and federal grants. The purpose of apprenticeship is primarily to "teach correct behaviour, accuracy, neatness, reliability, punctuality" —in short to inculcate a work culture. Apprenticeship is the usual route to professional success; nine out of 10 apprentices end up with a diploma and 15% pursue higher education. Over 90% go beyond the diploma and a further 15% of those pursue higher formal education.

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

⁸Flexible specialization is a further model which features networks of small firms competing with each other, yet co-operating in sharing information and expertise. Knowledge is rapidly diffused both between firms and within them, giving rise to mutual adjustment, learning and innovation, so that workers, firms and entire districts are able to respond quickly to changed markets and technologies. (The basic concept which emphasizes the issue of flexibility is valuable for all enterprises of the future and puts a new emphasis on vertical disintegration spin-off activities and new start-ups and was developed by M. Piore and C. Sabel.) The model is, however, particularly attractive for the Caribbean since flexible specialization is especially useful where consumer demand becomes disaggregated and diversified and where small-scale operations and diversified products are involved (see A. Poon, "Flexible specialization and small size: the case for Caribbean tourism", presented at the Second Conference of Caribbean Economists in May 1989).

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

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

The foregoing elements, when brought together, will contribute to the development of a culture of entrepreneurship which should pervade public and private sector workers, technicians and professionals as well as institutions such as trades unions, chambers of commerce and manufacturers' associations. This culture will be receptive to new ideas and the incorporation of technological change and make productivity increases a self-generating process.

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

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

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

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

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

interest, and generally preserve a measure of stability in the economy at large.

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

It goes without saying that the process of globalization which has accelerated so rapidly in the past two decades will continue.⁹ This region which has historically had a global orientation, will need to re-learn how to interface effectively with the wider world community. This knowledge is necessary in order to understand our markets, be sensitive to market shifts and be responsive to new intellectual and technological currents.

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

Co-operation can be beneficial to small producers in helping them to penetrate global markets. Regional competition can be used as a mechanism for strengthening enterprises to enable them to compete globally. Co-operation in joint marketing might also present a viable

⁹Peter Drucker, in an article entitled "The changed world economy", published in *Foreign Affairs* (Spring 1986), stated: "any country or business that wants to prosper will have to accept that it is the world economy that leads and that domestic economic policies will succeed only if they strengthen, or at least do not impair, the country's international competitive position". The comment was made in respect of both large industrial countries and developing nations.

option, especially in areas such as light manufactures and tourism. A policy to encourage regional joint ventures and interregional investment can also be useful in reducing the risk faced by the Caribbean investor who has to locate all his assets in one small territory. Since the perception of risk provides the strongest motivation for capital flight, such a policy might serve to increase the quantum of resources retained in the region.

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

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

2. Enhanced social cohesion

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

At the level of ideas, the traditional dichotomy between growth and equity is slowly being reconciled by an emerging consensus that both growth and equity are essential and mutually supportive. Here, the real issue is how

to distribute the available wealth in a way that advances the goal of social cohesion. Questions of equity naturally become more acute in times of economic contraction, yet redistribution becomes politically more difficult with a shrinking pie. The resulting social antagonisms endanger the social cohesiveness necessary for a properly functioning economic system. Explicit policies are therefore needed to use contracting resources more efficiently, and to provide a safety net targeted precisely at the most marginalized segments of the population and focusing on areas such as health, nutrition, retraining and employment.

Many of the assumptions on which the social services in the region were built, and particularly that which emphasized the provision of free and comprehensive social services to all citizens, are currently being called into question. These assumptions are regarded by some as unrealistic, while others also regard them as an inefficient way of delivering social services to the public at large. At best such delivery will need to be held in abeyance while the economies are in a process of contraction and restructuring, and priority must be given to meeting the needs of the poorest people while those that have the capacity to do so will need to fend for themselves.

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

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

natal clinics or the outpatient departments of hospitals.

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

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

3. *Environmentally sustainable policies*

One does not need to be an economist to understand that a society cannot for long consume more than it produces. Deficits result in a debt which has to be repaid by future generations, often at the cost of their own development. This relationship is common knowledge although, as we know, that knowledge is often ignored. Yet economists have been curiously silent about the rapid consumption of our natural environment. They have tended to regard development as a process of conquering nature and to correlate growth with the rate of consumption of our natural physical assets.

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

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

A number of issues need, therefore, to be placed high on the policy agenda for the coming decade, so as to restore our environment to health and to preserve it for future generations. They should include:¹⁰ orderly land use planning; measures to stop the degradation of the coastal and marine environment; prevention and mitigation of the effects of oil spills; solid and liquid waste management; prohibition of the dumping of extra-regional wastes; water quality and supply; forest and watershed management; preservation of genetic resources; and the preservation of historic and cultural resources.

¹⁰For a complete list of the issues defined as priorities see "The Port of Spain Accord on the Management and Conservation of the Caribbean Environment".