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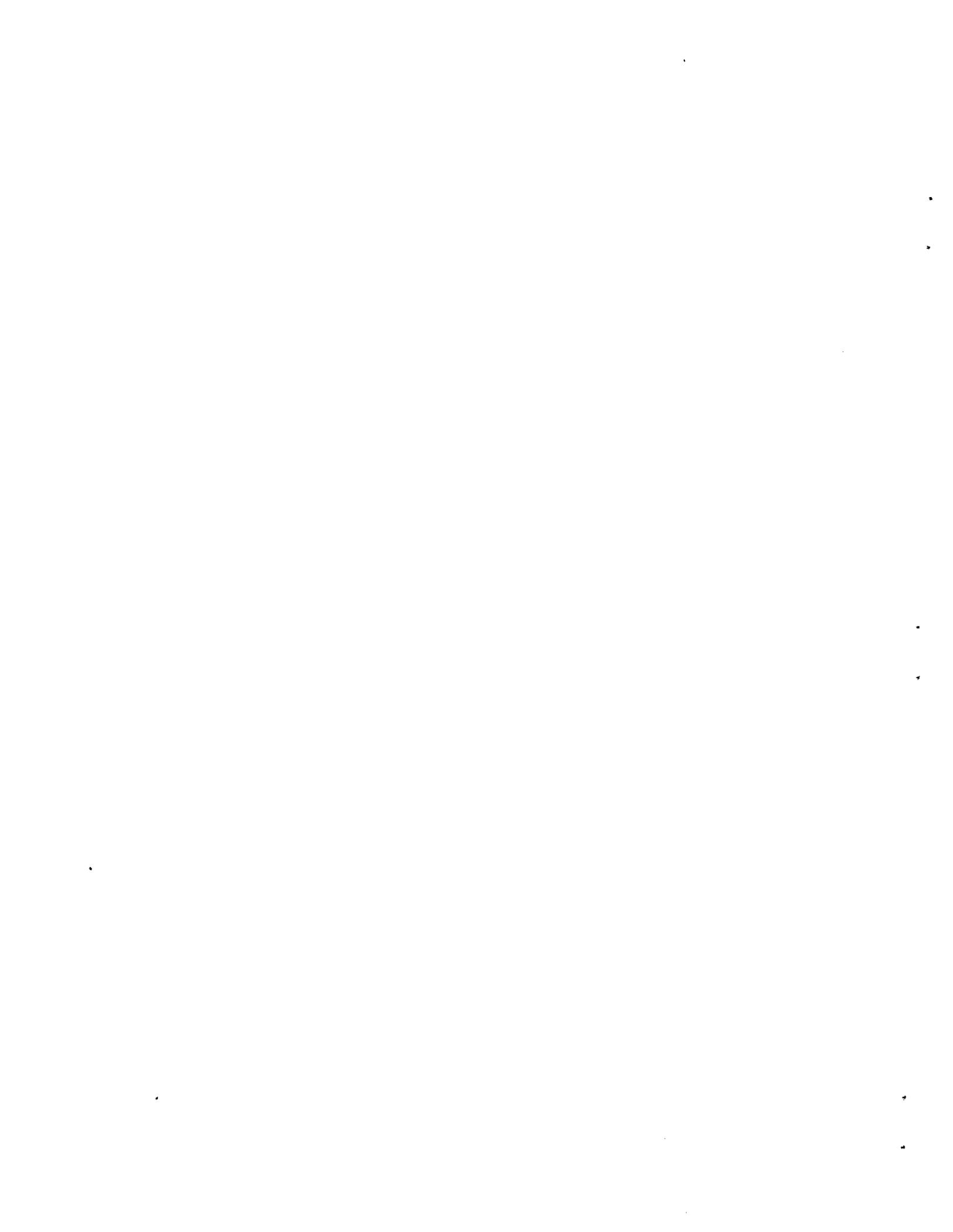
INDUSTRIAL DEVELOPMENT STRATEGIES
IN CARIBBEAN COUNTRIES



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INTRODUCTION

1. The Caribbean Development and Co-operation Committee (CDCC) was established by Resolution 358(XVI) of the Economic Commission for Latin America, subsequently endorsed by the Economic and Social Council at its July 1975 Session.
2. The basic function of the CDCC is to act as a co-ordinating body in matters related to economic and social development of the Caribbean region, including the formulation of proposals and measures directed towards co-operation and greater integration of the economies of the Caribbean countries.
3. At its First Session in November 1975, the CDCC adopted a Work Programme in which the general objectives of the Industrial Sector^{1/} were outlined. It was stated that the manufacturing growth would ensure a more rational use of internal resources and stimulate trade among the member countries, while correcting the external disequilibrium by means of import substitution and the expansion of exports to countries outside the area. Special consideration was given to the identification of industrial areas of complementarity and mutual co-operation, a process that should lead to the co-ordination of the industrial policy among CDCC member countries or group of countries with similar levels of development, keeping always in mind the commitment to spread out the benefits of industrialization to the relatively lesser developed countries.
4. At the Fifth Session of the CDCC in June 1980, the Secretariat put forward several activities intended to foster the industrial development on a regional basis and to share the experiences of the countries located in the area in the field of the industrial development.

^{1/} In this paper Industry and Manufacturing are used as synonyms and refer to the Major Division 3, of the International Standard Industrial Classification of All Economic Activities (ISIC), UN, Series M, No. 4 Rev.2.

One of these activities referred incidentally to the study on the industrial strategies in the Caribbean countries and their contribution to the achievement of the global social and economic objectives.

5. Many countries in the Caribbean region have made attempts to prepare and implement economic development strategies during the decade of the 1970's which include objectives and goals for the industrial sector. However, most of these strategies have not been satisfactorily accomplished and thus the objectives and goals proposed were not achieved.

6. In developing countries and especially in small and heavy external dependent economies the lack of an industrial development strategy, or of a realistic one, together with the absence of the required economic policies to implement it and the necessary political willingness, leads towards an erratic growth and an upsurge of some critical problems as the uncontrollable inflation, deficits in the Balance of Payment, weakness of the self-reliance, imbalanced "internationalization" of the manufacturing activity, unemployment and worsening of living conditions of a great sector of the population. For these reasons it is highly advisable for the Caribbean countries to improve their process of setting up of economic strategies and of the mechanism for their implementation and evaluation. In this aspect it is of great help to examine the experiences of other countries to endeavour to produce global and sectoral strategies on the basis of common collaboration.

7. Fully aware that each country is sovereign to define and adopt its own industrial development strategy, the main objective of this paper is to contribute to the creation or to the improvement of the mechanism of formulation and implementation of such strategies at national level as well as to promote the collaboration among the countries of the region in the field of manufacturing activity, joint ventures, research and development, etc., when they share common strategic objectives.

8. Besides, the study should provide policy-makers of the CDCC member countries with basic guidelines and characteristics of alternative strategies of industrial development, so as to help them to choose and foster industrial projects and activities along with strategic lines which they could deem more suitable and convenient for their countries.

9. It is also intended that this paper will contribute to the definition of industrial objectives with top priority and the specific requirements to achieve them, thus strengthening the regional capacity to channel the domestic efforts and the international co-operation avoiding scattered approaches and waste of valuable and scarce resources.

10. Although this paper refers to the Caribbean region, in terms of the CDCC member countries, the study has been elaborated on the basis of national monographs for selected countries, in which the manufacturing product is more representative within the economic activity. It should be mentioned that the manufacturing product of these selected countries account for 91 percent of the manufacturing product of all the member countries of the CDCC, which means that these countries are also representative of the region in terms of the manufacturing product.^{2/}

11. The CDCC Secretariat was fortunate in obtaining the valuable assistance of a number of professionals from several Caribbean countries who helped to assess developments in their own countries in their personal capacity. The Secretariat wishes to express its gratitude to these distinguished experts for their contribution, without renouncing exclusive responsibility for the text that follows, in accordance with the usual practice in this type of study.

^{2/} The monographs of the above mentioned selected countries are distributed as annexes.

SOME GENERAL FEATURES OF THE CARIBBEAN REGION

12. The total population of the CDCC member countries and Associated Member States is approximately 27.5 million (estimate for 1980). The population is concentrated in a few countries: Cuba, the Dominican Republic and Haiti account for almost 80 per cent of the total population; Jamaica and Trinidad and Tobago account for 12 per cent and the remaining twelve countries, with a population of 2.4 million, account for 8 per cent (see Table 1).

13. One of the main characteristics of most countries of the Caribbean region is the small size of the population which, without doubt plays an important role in determining an industrial development pattern and which could be considered an obstacle to industrial growth. On the basis of some projections, the population of most of these countries will vary very little in the future, e.g. in 1985 it is estimated that Barbados will have almost 270 thousand people; the hypothetical size of the stationary population of Jamaica and Trinidad and Tobago will be 6 and 2 million people respectively in the year 2065.^{3/}

14. It should be mentioned that in the world there are some developed countries with relatively small populations - such as Finland (almost 5 million), Norway (4 million), Denmark (almost 5 million), Switzerland (no more than 6.5 million) - which have attained high levels of development and industrialization. The Gross Domestic Product (GDP) per capita in 1978 was US\$6,125 in Finland and US\$9,200 in Switzerland and the industrial sector of these countries contributed almost 40 per cent to the formation of the GDP. This achievement has been possible as a result of the high efficiency of the manufacturing sector and the promotion and expansion of the exports of manufactured goods. The proportion of the export of manufactured goods in the total exports was 57 per cent in Denmark, 62 per cent in Norway, 77 per cent in Finland

^{3/} Survey of the World Development, 1978; IBRD, Washington D.C., August 1978.

TABLE 1

CDCC: POPULATION 1970-1980-1990

(Thousands)

	1970	1980	1990
<u>CDCC MEMBER COUNTRIES</u>	<u>22,458</u>	<u>27,179</u>	<u>32,699</u>
Bahamas	177	229	280
Barbados	239	253	274
Cuba	8,580	9,978	11,384
Dominica	71	80	88
Dominican Republic	4,523	5,946	7,536
Grenada	94	98	102
Guyana	709	884	1,080
Haiti	4,609	5,817	7,520
Jamaica	1,869	2,192	2,536
St. Lucia	101	115	127
St. Vincent	88	98	106
Suriname	371	350	406
Trinidad and Tobago	1,027	1,139	1,260
<u>CDCC ASSOCIATED MEMBER STATES</u>	<u>267</u>	<u>317</u>	<u>367</u>
Antigua	70	75	80
Belize	120	162	205
Montserrat	12	13	14
St. Kitts-Nevis	65	67	68
TOTAL	22,725	27,496	33,066

Source: Population Trends and Prospects (1950-2000) Caribbean Countries, CDCC/DD/80/5 12 March 1980

and 92 per cent in Switzerland in 1975 which illustrated that the external market has been the major dynamic factor in the demand for manufactured goods produced in these countries. For these countries, the small size of the population has not been an absolute hindrance to industrial development, but has determined a special pattern of industrialization oriented towards the external market and on the basis of internal conditions and potential.

15. The reference to the above-mentioned European countries is given as example and not as insinuation that the Caribbean countries should adopt or follow the pattern of those countries. The assumption is that each country must develop a pattern of economic and industrial strategy to suit its own conditions.

16. The GDP of the CDCC member countries, and Associated States (excluding Cuba and the Bahamas) was nearly US\$15 billion, at current prices, in 1980 (see Table 2). Three countries, the Dominican Republic, Jamaica and Trinidad and Tobago accounted for almost 76 per cent of the regional GDP in 1980, and 74 per cent and 78 per cent respectively in 1970 and 1975.

17. The regional average of the GDP per capita in 1980 was US\$888 (see Table 3). However, it reached almost US\$3,700 at current prices, in Trinidad and Tobago (four times the regional average) and in Haiti it was scarcely US\$230.

18. The Manufacturing Gross Domestic Product (MGDP) of the region was US\$2,453.2 million, at current prices in 1980. The concentration of this activity in a few Caribbean countries is even higher than the GDP. The Dominican Republic, Jamaica and Trinidad and Tobago accounted for 84 per cent in 1980 of the regional MGDP and this concentration was maintained through the past decade. In 1970 and 1975 the countries mentioned above accounted for 85 per cent and 87 per cent respectively of the regional MGDP (see Table 4).

TABLE 2

CDCC: GROSS DOMESTIC PRODUCT (GDP)
(Million US\$ at Current Prices)

	1970	1975	1980 ^{1/}
<u>CDCC MEMBER COUNTRIES</u>	<u>4,998</u>	<u>11,432</u>	<u>15,115</u>
Bahamas	-	-	-
Barbados	162	369	570
Cuba	-	-	-
Dominica	22	29	40
Dominican Republic	1,485	3,600	4,500
Grenada	32	39	60
Guyana	268	465	480
Haiti	411	821	1,320
Jamaica	1,402	2,890	2,900
St. Lucia	35	57	85
St. Vincent	20	31	45
Suriname	294	503	865
Trinidad and Tobago	867	2,628	4,250
<u>CDCC ASSOCIATED MEMBER STATES</u>	<u>98</u>	<u>179</u>	<u>240</u>
Antigua	22	31	75
Belize	53	107	120
Montserrat	7	7	10
St. Kitts-Nevis	16	34	35
TOTAL	5,096	11,611	15,355

1/ CEPAL Office for the Caribbean estimates.

Source: UN Yearbook of National Accounts Statistics, 1978

TABLE 3

CDCC: GDP PER CAPITA
(US\$ at Current Prices)

	1970	1975	1980
<u>CDCC MEMBER COUNTRIES</u>	<u>364</u>	<u>747</u>	<u>891</u>
Bahamas	-	-	-
Barbados	678	1,506	2,253
Cuba	-	-	-
Dominica	309	387	500
Dominican Republic	328	688	756
Grenada	340	406	612
Guyana	378	591	543
Haiti	89	159	227
Jamaica	750	1,414	1,323
St. Lucia	346	528	739
St. Vincent	227	333	459
Suriname	792	1,296	2,471
Trinidad and Tobago	844	2,429	3,731
<u>CDCC ASSOCIATED MEMBER STATES</u>	<u>367</u>	<u>613</u>	<u>757</u>
Antigua	314	424	1,000
Belize	442	-	741
Montserrat	583	538	769
St. Kitts-Nevis	246	515	522
TOTAL	365	744	888

Source: Table 1 and 2.

TABLE 4

CDCC: MANUFACTURING GROSS DOMESTIC PRODUCT (MGDP)
(Million US\$ at Current Prices)

	1970	1975	1980 ^{1/}
<u>CDCC MEMBER COUNTRIES</u>	<u>706.4</u>	<u>1,815.6</u>	<u>2,432</u>
Bahamas	-	-	-
Barbados	11	33	55
Cuba	-	-	-
Dominica	0.2	1	2
Dominican Republic	282	756	990
Grenada	1	2	2
Guyana	30	71	66
Haiti	41	90	180
Jamaica	224	492	470
St. Lucia	1	3	6
St. Vincent	0.2	0.6	1
Suriname	12	25	60
Trinidad and Tobago	104	342	600
<u>CDCC ASSOCIATED MEMBER STATES</u>	<u>6.5</u>	<u>18.1</u>	<u>21.2</u>
Antigua	0.4	1	3
Belize	4	13	13
Montserrat	0.1	0.1	0.2
St. Kitts-Nevis-Anguilla	2	4	5
TOTAL	712.9	1,833.7	2,453.2

^{1/} CEPAL Office for the Caribbean estimates

Source: UN Yearbook of National Accounts Statistics, 1978.

19. The average regional degree of industrialization (share of the MGDP in the GDP) in 1980 was almost 16 per cent (see Table 5). This regional average was only surpassed by the Dominican Republic and Jamaica. This situation remained unchanged through the 1970's.

20. External trade plays a very important role in the Caribbean region. To a great extent the growth of the GDP depends upon the trends of the exports. In some countries, the exports represent a high proportion of the GDP, for example, in Guyana 64 per cent in 1979; in Suriname 54 per cent in 1977; in Trinidad and Tobago 54 per cent in 1978 and in the West Indies Associated States 35 per cent in 1979. On the other hand, the import coefficient, which together with the importance of the total exports in the GDP shows the degree of the opening of these economies, reached 75 per cent in Barbados in 1979; 63 per cent in Guyana in 1978; 34 per cent in Jamaica in 1978; 92 per cent in St. Lucia in 1979; 53 per cent in Trinidad and Tobago in 1978 and 81 per cent in the West Indies Associated States in 1979.^{4/} The Dominican Republic by contrast has a more closed economy. In 1978 the total exports represented 13 per cent of the GDP and the import coefficient was 18 per cent.

21. However, one of the most serious problems related to the external sector is the asymmetric type of trade of most Caribbean countries. This situation is represented by the high proportion of non-manufactured goods in the total exports and, on the other hand, by the high proportion of manufactured goods in the total imports.

22. In Guyana, for example, the exports of non-manufactured goods represented almost 85 per cent of the total exports in 1978 while the imports of manufactured goods represented nearly 60 per cent of total imports. Among the exports of non-manufactured goods, bauxite, sugar and rice prevailed (almost 80 per cent of total exports in 1978). Among the imports of manufactured goods, raw manufactured materials, intermediate goods and capital goods prevailed.

^{4/} Economic Activity 1979 in Caribbean Countries (CEPAL/CARIB 80/5) CEPAL Office for the Caribbean.

23. In Jamaica in 1978 the exports of primary goods (mainly bauxite) and semi-processed goods (mainly alumina), represented almost 87 per cent of total exports. On the other hand, the imports of manufactured raw materials and capital goods represented 85 per cent of total imports.

24. In Trinidad and Tobago, the exports of petroleum products and crude petroleum accounted for nearly 91 per cent of total exports in 1978^{5/} while intermediate goods and capital goods accounted for nearly 83 per cent of the imports of that year.

25. The asymmetric external trade has been referred to as the result of the historical process in the Caribbean countries, the legacy of a former economic system which geared the domestic production of raw materials to the internal market and the domestic consumption of manufactured goods as well as the requirements of intermediate manufactured goods and capital goods for the domestic production to external supplies. In other words, it represents the economic function of this region within an obsolete international economic order and international division of labour, which has not yet been overcome.

^{5/} It should be mentioned that excluding petroleum, the most important exports of Trinidad and Tobago were manufactured goods, such as fertilizer, ammonia and petro-chemicals followed by sugar and cocoa beans.

TABLE 5
CDCC: SHARE OF THE MGDp IN THE GDP
 (Percentage)

	1970	1975	1980
<u>CDCC MEMBER COUNTRIES</u>	<u>14.1</u>	<u>15.9</u>	<u>16.1</u>
Bahamas	-	-	-
Barbados	6.8	8.9	9.6
Cuba	-	-	-
Dominica	1.0	3.4	5.0
Dominican Republic	19.0	21.0	22.0
Grenada	3.1	5.1	3.3
Guyana	11.1	15.2	13.7
Haiti	10.0	10.9	13.6
Jamaica	16.0	17.0	16.2
St. Lucia	2.8	5.3	7.1
St. Vincent	1.0	1.9	2.2
Suriname	4.1	5.0	6.9
Trinidad and Tobago	12.0	13.0	14.1
<u>CDCC ASSOCIATED MEMBER STATES</u>	<u>6.6</u>	<u>10.2</u>	<u>8.8</u>
Antigua	1.8	3.2	4.1
Belize	7.5	12.1	10.8
Montserrat	1.4	1.4	2.0
St. Kitts-Nevis	12.5	11.7	14.3
TOTAL	13.9	15.8	15.9

Source: Tables 2 and 4

QUESTIONS PERTAINING TO THE
INDUSTRIAL DEVELOPMENT STRATEGY
FOR THE CARIBBEAN COUNTRIES

26. One of the best known and most widely followed industrial development patterns is the so-called industrialization by import substitution. This pattern is based mainly on the adoption of tariff and tax holiday policies, which are intended to protect and benefit the manufacturing enterprises established in the national territory. These enterprises are supposed to supply the domestic market with manufactured goods which were formerly imported. However, other enterprises which are intended to produce and supply completely new commodities in the domestic market and not imported before, can also benefit from these incentives.

27. Together with tariff and tax holidays on benefits, local enterprises enjoy other incentives related to duty-free imports of capital goods, external economies (cheap basic inputs as water and energy, transport facilities, etc.) soft loans, advantageous internal relative prices and so on.

28. Obviously, the main dynamic factor or condition which allows the adoption of this pattern is the existence of a given market (certain level of population, per capita income and relatively equitable income distribution) and the possibility of keeping this domestic market in expansion. The reason for this condition is that the manufacturing enterprises established on the basis of protective tariffs can hardly participate in the external market.

29. "The system of investment incentives including tax holidays, duty-free imports of industrial inputs, high level of protection of local industry and quasi-monopolistic privileges in the home market tends to allow the survival of high cost inefficient firms that are not themselves able to compete in export markets and whose high selling prices adversely affect the country's export competitiveness in other sectors".^{6/}

^{6/} See TCDC News No.7 July-September 1980, which refers to a Report presented at the Meeting of the Caribbean Group, June 1980, Washington.

30. Theoretically the protective tariff policy should be able to develop industrial activity in the country and then, by means of gradual reduction of tariffs, the local manufacturing enterprises should undergo a process of adaptation to new and competitive conditions. But experience has shown during the last twenty-five years that this objective is unrealistic. The only enterprises that have shown a degree of competitiveness have been the subsidiaries of transnational corporations, which, taking advantage of the privileges offered by the host country, produce and supply the domestic market with high benefits and when adverse or non-convenient situations arise can easily divert their production to external markets.

31. Most of the Caribbean countries have given official encouragement to industrial development by means of investment incentives, tariff policies, income tax holidays for pioneer industries, free entry of raw materials and machinery, construction of industrial parks, permission for accelerated amortization and "loss carry over", etc. With the adoption of these measures it was expected that the industrialization should take off, but so far the industry is incipient and in some countries very weak and with uncertain future. If some indicators relating to the degree of industrialization (proportional importance of the manufacturing activity's share in the GDP) and the composition of the manufacturing product by branches are observed, as well as the asymmetric trade, we can say that most Caribbean countries are in a preliminary stage of industrial development, which may be described as the pre-factory stage. In this stage the demand for manufactured goods is small and under-diversified and is largely satisfied by means of imports. The domestic manufacturing activities are confined to cottage industries, thus determining the prevailing pattern of technology and type of products. However, together with these activities, in some countries there are also modern factories with up-to-date technology, producing mainly food, beverages, tobacco, wearing apparel for the domestic market and in some cases, also intermediate goods for export, and having some dynamic effects on the rest of the economy.

32. The few countries with a more advanced stage of industrialization, in which appear some types of basic industries, as steel-making, simple iron and steel transforming industries, chemical industries, oil refining, assembly of vehicles and so forth, face the problems of the assimilation of technology, the intensification of inter-industrial linkages (national integration) on the basis of high levels of efficiency and the expansion of the demand which comes mainly from the internal market. But as these industries are also protected by tariffs and obtain other kinds of benefits, the situation which characterized the import substitution or the inward-oriented model takes place in another dimension. Moreover, as there is no pressure for competition, the enterprises prefer to channel their annual reinvestments in other activities instead of in the same enterprises, which is another characteristic of this inward-oriented pattern.

33. "In development in depth, most of the annual reinvestment by entrepreneurs is made in their own enterprises, in the form of progressive modernization and consequent reduction in costs. The proportion of products manufactured in the country does not increase rapidly from year to year, but the efficiency of the existing activities does. In development in breadth, the most usual type in Latin American industry, profits are usually reinvested in new activities, the production of new items, which can replace those formerly imported, while the existing activities remain at a standstill as regards average productivity. Development in breadth appears to offer more advantages to the private entrepreneur, because in new lines of production, at least for the first few years, competition is very limited and the producer may have a virtual monopoly, whereas reinvestment in the same field continually increases competition, and also because it is easier to establish a wholly new production unit than to keep modernizing and improving existing plants, where routine is strongly entrenched. However, widespread development in breadth tends to increase and perpetuate situations of monopoly or restricted competition and the stagnation of traditional industries. This is apparently one reason why such

industries in Latin America are now faced with an urgent need to renew the obsolete equipment they have accumulated, and why their levels of organizational and operative efficiency are so low".^{7/}

34. Taking into account the above-mentioned comments, it appears that the possibility for long-term maintenance of the manufacturing development which is based on the import substitution of inward-oriented pattern is very limited. It should be emphasized that this limitation originated in the expansion restraints of the small national markets and in the low elasticity of demand which characterized the consumer goods whose production is stimulated by this pattern. On the other hand, if one assumes that the growth of manufacturing production is a function of capital formation (investment) and of the increase of efficiency and productivity, this pattern would then neglect the achievement of higher levels of these last factors, and this situation would also affect the manufacturing development in the long term.

35. It then seems appropriate and necessary to discuss new alternative patterns of industrialization for the Caribbean countries or the possibility of improving those presently followed. Fortunately, nowadays there is no longer the belief that the industrialization of the Caribbean region is economically impractical and undesirable. But the present commitment is to define the most suitable objectives and avenues to reach them. It is true that industrialization is not the only avenue through which the Caribbean region can solve its economic problems but it is also true that this activity could play a leading role in the global process of economic and social development.

36. In this context there are some relevant questions which require prompt attention and discussion. First of all, it should be mentioned that at the regional level, there have been certain efforts focused on the definition and implementation of common objectives, areas of

^{7/} See Problems and Perspectives of the Industrial Development of Latin America (E/CN.12/664) and The Process of Industrial Development in Latin America (E/CN.12/716/Rev.1)

complementarity, harmonization of incentives to industries, and regional industrial programming, many of them originated and carried out by the CARICOM Secretariat and supported by other regional institutions such as the Caribbean Development Bank. Within this exercise, the objectives that have been emphasized are the following:

- i) industrialization should contribute to the satisfaction of the basic needs of the population of the Caribbean countries;
- ii) along with industrialization, the countries are expected to achieve increased self-reliance by means of diversification of production, bargaining power and capacity for taking greater advantage of international economic relationships;
- iii) industrialization should create new sources of productive employment;
- iv) industrialization should be oriented to a greater utilization of regional raw materials.

37. It is important to note that these objectives correspond to a wider strategy or aspiration of the region. "The Caribbean countries share certain common characteristics which are responsible for the specificity of the process of development they are experiencing and of the perspectives open to them. Due to the size and structure these countries are in a weak position to control the rate of expansion of their productive systems. A development strategy suitable to their circumstances demands a peculiar emphasis on enhancing the sophistication of the inputs into the process, while establishing mechanisms for the adequate distribution of the outputs. Projected structural transformations in their internal organization must therefore be primarily geared towards the achievement of a more equitable society rather than merely a wealthier one. Without the achievement of more acceptable levels of equity, there are few possibilities of achieving sustainable growth, although recognition also has to be given to the alternative that without some growth, acceptable re-distribution will be very difficult to achieve. The pursuit of development from this angle, in a context historically unsympathetic to self-reliance and self-determination, rests on the

possibility of achieving significant advances in some basic social and economic factors".^{8/}

38. Despite the above-mentioned efforts, at the regional level there has been a lack of political willingness to implement a regional strategy which includes specific goals and a mechanism for mutual co-operation in industrial activity. So far, industrialization is still regarded as a national task lacking regional dimension. But even at the national level there has not been a satisfactory definition of the industrial strategy nor an evaluation of the outcomes and the obstacles related to the pattern of industrial and economic development followed so far.

39. It is possible that the definition of the industrial development strategy, both at the national and regional levels, and the political decisions to implement it would benefit if greater attention were given to certain basic aspects of the industrialization patterns, and discussions and analyses were carried out on the capabilities and convenience for the Caribbean countries to adopt a pattern in accordance with their own conditions.

40. Some of these basic aspects could be the following: the role of the private and public sectors as well as foreign capital in industrial development e.g. the role of the industrial development agents; the ability of industry to solve the problem of unemployment; the actual technological alternatives available to developing countries; the possibility and implication of the adoption of an export-oriented pattern on the basis of specialization; the limits to industrial development due to the size of national markets (for the inward-oriented pattern); the economic advantages and obstacles for taking faster steps towards a regional industrial complementation (multinational enterprises, joint-ventures, etc.). At least in the region there should be a forum where all these and other factors related to industrial development should be openly discussed and examined.

^{8/} Strategy for the Caribbean countries during the Third Development Decade (E/CEPAL/CDCC/61/Rev.1), 5 September 1980.

41. These aspects sometimes are not clearly reflected nor analyzed in depth in the industrial development strategies, for example, the role which both the public and private sectors have to play in industrial development. It would appear from some statements that the choice lay between one or another sector, that industry is an exclusive activity of the private sector and the social objectives underlying industrial development is a responsibility of the public sector or a concern only of governments. It is true that there is a great difference between managerial and industrial economics, the former concerned with the maximization of the profits of the firm and the latter concerned with the understanding of the existing system thereby being able to predict the effect of changes in variables within that system. However, a greater involvement of the private sector in the definition of the industrial development strategy and specifically in the definition and accomplishment of the social objective should be regarded as fundamental.

42. How an industrial development strategy could be successful in achieving objectives such as satisfying the basic needs of the population, reducing unemployment, contributing to a more equitable society if the contentions "the purpose of a business is to create a customer", and "profits are, in a sense, an indicator of the extent to which a business is serving its community" are supposed to reflect the thought of the dominant participant sector in the industrial activity?

43. Another example could be the aspect related to the limits imposed on industrial development and structural diversification by the size of domestic markets. At present, the growth and structural change of the industrial production in the Caribbean countries can be viewed in terms of three successive layers of products:^{9/} the first group is one which became economic at an early stage of industrialization as a result of a combination of factors - considerable labour intensity, simple technology, economical small scale production, and in many cases, the

^{9/} The Commonwealth Caribbean, the Integration Experience, World Bank 1980. The John Hopkins University Press.

high cost of transport from external production centres (clothes, low quality furniture, aerated drinks, cement blocks, tire retreads, etc.). The second group consists of consumer goods, requiring larger scale production and more technology than the first group (semi-mass production of shoes, margarine, beer, other alcoholic beverages, cigarettes, soap, various mixing and packaging operations for paints, fertilizers, cosmetics, pharmaceuticals and paper products). Guyana and Barbados have reached this stage of industrialization, while one or two of these industries are to be found in some less developed countries. A third group consists of intermediate and consumer goods requiring still larger scale production and greater technology and can be divided into two sub-categories: basic mass consumption of intermediate products (woven textiles, cement, bottles, tin cases, structural steel items, etc.) and locally assembled consumer durables, which are the "screwdriver" industries covering such activities as the assembling of bicycles, domestic electric appliances and motorcars. Jamaica and Trinidad and Tobago have reached this stage, but they have not yet proceeded to more skill-intensive activities, such as light engineering, larger scale industries, such as the manufacture of pulp and paper, or of basic industrial chemicals. Manufacturing tends to depend heavily on imported inputs and few linkages have been generated within the domestic economy. There are two main reasons for this state of affairs: (i) neither raw materials nor intermediate industries exist locally; (ii) the incentive system currently in operation encourages imported manufactured inputs. The small size of domestic markets inhibits the establishment of intermediate manufacturing which, to be efficient, needs to operate on a reasonably large scale. It has been argued that the presence of heavy industries forms the basis for the subsequent transformation of the economies, but it would be very expensive for the Caribbean countries and would place a heavy burden on other sectors of the economy. Mature economies are able to display the full range of heavy industries only by virtue of their large size and/or of their specialization of production in the international economy.

44. Another aspect that should be widely discussed and examined is the so-called "internationalization" of the industry. This concept includes the external trade of manufactured goods, external financial flows, the transfer of technology and foreign investment oriented to the manufacturing sector. These are the main ties between local industry and international economy, and these ties expand as industrial development progresses. But a process of industrialization devoid of self-reliance could lead towards an asymmetric relationship with the international economy, which would be reflected in an imbalance between imports and exports (high participation of manufactured goods in the former and low in the latter), in the high dependence on external financing, foreign investment and technology.

45. A process of industrialization geared towards increased self-reliance should fully develop the local potential on a national and regional basis. There are many industries that have been designated as "sensitive" to area-wide bilateral and/or multilateral co-operation, for example:^{10/} sugar production and by-products; fruit juice processing; palm-oil processing; baby food production; forestry-based industries (timber, pulp and paper); fishery industries; glass industry; bauxite production and processing; cement production and charcoal processing.

46. Most of these areas of co-operation among the Caribbean countries were also identified by the Economist Intelligence Unit Limited which prepared for the Caribbean Development Bank, an "Eastern Caribbean and British Honduras Industrial Survey" in 1972 including several industrial development projects intended for the local market as well as for the external market. More recently the Caribbean Community Secretariat requested a consultant firm, to prepare a study on project opportunities in the region, which was discussed within the regional planning activity

^{10/} See Exploratory Mission to Prepare an Industrial Development Survey of the Caribbean, UNIDO/IOD.273, 8 June 1979, prepared by A. Khavkine.

of CARICOM. In this study about twenty projects were identified and some of them have already received financial support. These projects fall within the following areas of industrial and regional co-operation: food manufacturing; manufacture of wearing apparel; manufacture of footwear; manufacture of furniture; manufacture of glass and glass products; manufacture of cement, lime and plaster and engine rebuilding, etc.

47. It seems that the problem of implementing regional projects does not lie in the lack of projects themselves or feasibility studies, or financing but in the absence of an operational mechanism intended specifically to promote bilateral and/or multilateral industrial development projects between those Caribbean countries which share similar strategic objectives. This mechanism should be flexible (adaptable to changing and individual circumstances), and realistic (capable of identifying and implementing specific industrial projects of interest to two or more countries).

48. The Caribbean Development and Co-operation Committee would like to take this opportunity to recommend the formation of an ad hoc Caribbean Advisory Committee for the identification and implementation of industrial development projects. Participants in this Advisory Committee could include national institutions such as the industrial development corporations, the development financial banks, the manufacturers associations, government representatives from the Ministries and agencies concerned with industrial development, and regional and international institutions such as the Caribbean Development Bank, CARICOM, the CDCC, CARIRI, Caribbean Investment Corporation, the Caribbean Council for Science and Technology, the Interamerican Bank for Development, the World Bank and other international institutions interested in the industrial and economic development of the Caribbean region.^{11/}

^{11/} Other regional institutions could also be invited to participate, e.g. the Latin American Economic System (SELA); Association for Latin American Integration (ALADI); and national industrial development corporations of other countries with coasts in the Caribbean (Mexico, Venezuela, Colombia and Central American countries) if it should be considered convenient.

49. The objectives of the proposed Advisory Committee could be the following:

- i) By reviewing the existing requirements of the population (demand for consumer goods) and of the productive sectors (demand for intermediate and capital goods) to identify those on-going studies, programmes, plans and projects which might, for optimal implementation, benefit from specific inputs originating in two or more countries and from the markets of two or more countries of the Caribbean region;
- ii) By strengthening project identification and evaluation mechanism and capabilities, to implement the creation of multinational enterprises in the Caribbean region which will attain the necessary economies of scale and competitiveness required for participation in the regional and international markets;
- iii) By strengthening the co-operation among the participating institutions, to carry out joint activities that will benefit and improve the financing procedures and potential of the Caribbean region, and will foster investments by industrialized countries. It will provide opportunities for contacts between high level officials of financial institutions and industrialists from the Caribbean region, Latin American countries and from developed countries.

50. The above-mentioned objectives could be more easily attained if the common strategic targets were identified. It is generally accepted that industrialization leads to the integration of productive activities through the development of backward and forward linkages; to the creation of productive employment; to the more efficient utilization of local raw materials; to the strengthening of self-reliance; to the improvement of the position of a country's external trade and balance of payment; and to the generation of greater local value added. Most of these objectives have already been adopted by Caribbean countries, but more specific targets should be identified which if shared by two or more countries, will lead to co-operation and collaboration for their achievement. This co-operation could be implemented in terms of joint-ventures, import agreements for manufactured goods, free movement of labour force, financing, etc.

51. The specific targets could be defined for example as the initiation of local production of: (i) industrial and agricultural machinery and equipment in Trinidad and Tobago and Barbados; and (ii) office equipment in Barbados, Jamaica and Trinidad and Tobago, etc. The ad hoc Advisory Committee should implement the process through which these targets could be reached, by promoting feasibility studies and facilitating legal and economic arrangements among the public and private institutions or enterprises interested in participating in the production of identified manufactured goods.

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