THE CASE FOR ECONOMIC RESTRUCTURING POST-COVID-19 IN THE CARIBBEAN

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Since the global crisis of 2008-2009, there has been less confidence in the primacy of markets to lead sustainable development among developing countries in general and small island developing States (SIDS) in particular. It is acknowledged that markets need discipline and an institutional context that can support private gains while reducing social costs and delivering less inequality. Prompted by declining competitiveness in leading sectors, and a commitment to addressing the United Nations Sustainable Development Goals (SDGs), governments in the subregion have been developing long-term plans aimed at economic change.

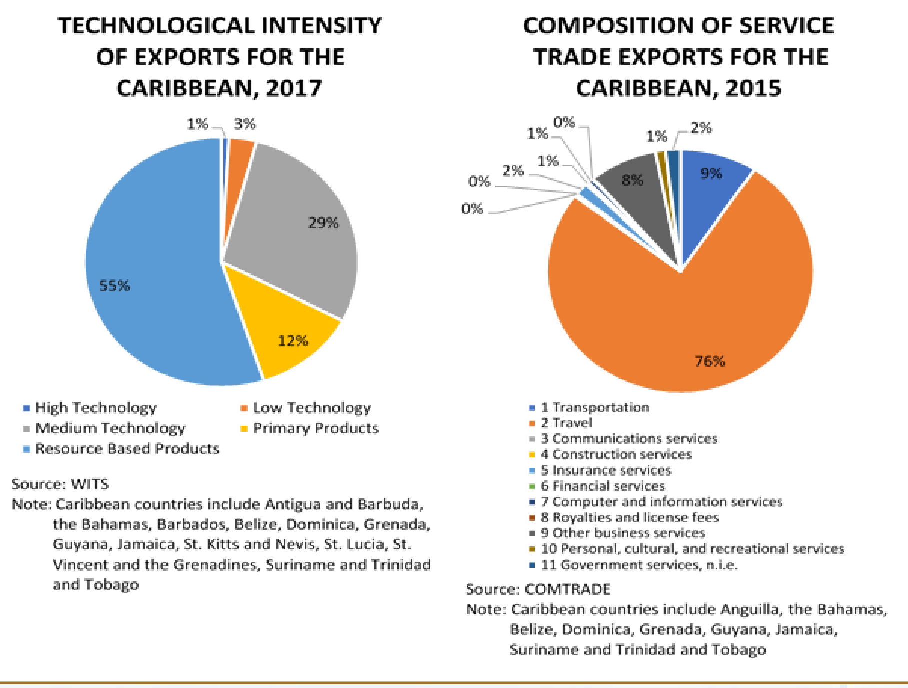
This article outlines some strategies to advance economic restructuring, which is now urgent in light of the economic and social effects from the COVID-19 pandemic, and food inflation aggravated by the war in Ukraine.

WHAT IS ECONOMIC RESTRUCTURING AND WHY IS IT NECESSARY?

The term economic restructuring connotes different things to different persons, but from an economic point of view, it has a distinct meaning. It refers to an increase in the share of domestic value added in existing products and activities, an increase in the number of sectors and activities contributing to overall output and productivity, and a strengthening of intersectoral linkages. Restructuring relates not just to the economy, though much of the emphasis is often placed there.

Changes in the economic landscape also imply reforms in the social and institutional architecture. This implies opening the economic space for new actors in business, setting rules that are clear and transparent, and as a corollary, increasing participation of all groups in sustainable development, including youth and women. This latter concern is very apt for small States where income inequality can be high, and many are left behind. In light of the COVID-19 pandemic and its aftershock, structural change is necessary at several levels. For example, most Caribbean economies rely on a single good or service for the bulk of their foreign exchange earnings, and this exposes them to negative external shocks when these sectors decline. In addition, the post-COVID-19 world will be characterized by increased interconnection, digitization and greater use of artificial intelligence in all processes.[1] Restructuring is necessary to sustain competitiveness in this changing environment. On the social front, the fallout from COVID-19 has demonstrated that the social security systems in the subregion are inadequate to address the needs of the most vulnerable. In addition, the current delivery of education and health are not robust enough to withstand such shocks. One of the lessons learnt from COVID-19, is that these social challenges have feedback effects on the economic system and as a result business as usual is untenable.

Technology Intensity of Exports for 2017 and Composition of Service Exports for 2015.



[1] Manyika et al (2013) refer to the coming technological changes as disruptive technologies and suggest that these are the technologies that matter. They identify among others, mobile internet, automation of knowledge work, the internet of things, cloud technology, advanced robotics, autonomous and near autonomous vehicles, next generation genomics, energy storage, 3D printing and renewable energy. Two areas are of considerable importance. Advance robotics will reduce the demand for a variety of service jobs and advances in renewable energy technologies will create efficiency for small states with these abundant resources

DIVERSIFICATION SETBACKS AND WHAT IS REQUIRED.

As was pointed out above, economic restructuring is more than economic change. However, a key element in such change is economic diversification.[2] In some countries, it means moving away from a narrow range of services (mostly mass tourism) and in others, it is reducing the reliance on natural resources such as hydrocarbons, primary agriculture, gold or bauxite production for foreign exchange earnings. In many countries, over time, there have been attempts at diversification and although in some cases there have been some success[3], the subregion remains largely reliant on primary production at the low end of the value-added spectrum.

Successful restructuring requires an industrial policy aimed at achieving greater competitiveness through increased productivity, greater intersectoral linkages and more access to decent jobs. Modern systems of production have changed significantly with the emergence of global value chains, the elevation of niche markets and the use of knowledge, information and innovation in all processes. Thus, underpinning any strategy for diversification in a Caribbean context must be investment in the domestic capital-making sector, and the utilization of capital services[4] for global exports. Diversification thus must take these economies in the direction of knowledge economies, while increasing their export capacity (Alleyne 2019). This immediately suggests not just reducing the cost of doing business (Brenton et al. 2009), but also raising the quality of the labour force through the development of real skills by way of both the formal and informal educational system.

Apart from the traditional school system which does not cater to a broad range of intelligences, there must be world class vocational training so that the youth have a menu of high-quality offerings to choose from. Given the high rate of youth unemployment, and limited entrepreneurial activity among youth and women, both of which fuel emigration among the best and brightest of the youth in the Caribbean (Alleyne and Solan 2019), much can be done in this area. Given the considerable sums spent on education in the subregion, the challenge is not more schooling but getting value for money (World Bank and UNICEF 2021, IDB 2015, Jules 2014).

At the core of restructuring, buttressed by an industrial policy, must be the development of a national system of innovation that is linked to the productive system, with joint participation in training by both the private and public sectors. Finally, there must be consistent investment in science, technology and innovation, and a removal of constraints on the creative industries and sectors.

WHO GAINS AND WHO LOSES

Industrial restructuring is good for growth - it is good for improving the social sector and should allow for greater participation of all in sustainable development. However, it will not simply be wished into being simply because it is desirable. Governments must take the lead in crafting industrial policies that calibrate new activities, with the requisite skills needed, and the institutional and financial support necessary for success.

The recent commitments to long-term plans and to investing in the critical SDGs is a necessary start, but this is not sufficient. Modern industrial policy covers a range of areas such as competitiveness policies, trade and inward foreign direct investment (FDI) policies, innovation, human resource training, upgrading the tourism sector, and single market economy (SME) development to name a few. The aim is to focus on those activities that have positive spillovers to additional sectors and activities (Stiglitz 1999).

It has often been suggested by opponents of industrial policy, that good industrial policy is - no industrial policy - on the assumption that governments are inefficient, and they create opportunities for rent seeking. The case made by Mariana Mazzucato (2011) however, is that the role of the government, in the most successful economies, has gone way beyond creating the right infrastructure and setting the rules. It is a leading agent in achieving the type of innovative breakthroughs that allow companies, and economies to grow, and not just by creating the 'conditions' that enable innovation.

While it cannot be denied that governments are often inefficient, industrial policy must aim to remove the constraints to service and activity expansion, including improving logistics and trade facilitation. Getting an expanded private sector on board is necessary and the system of innovation must also connect innovators with investors. There are a few firms in the Caribbean that are world class, but these do not represent the average performers, as overall productivity is low and informal business activity is high. Industrial policy must facilitate a reduction in informality and an increase in the number of firms that can provide global export services.

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[2] There is vertical diversification relating to firms moving up or down the value chain and horizontal which refers to including new activities and processes.
[3] The "domestic capital" cluster includes sectors such as education, healthcare, ICT, finance, engineering, architecture, and the creative industries, as well as the using industries such as tourism, travel services, wholesale and retail (James August 2018. Best and The Engines of Caribbean Growth and Development: Theory and Evidence, unpublished)
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SUPPORTING INSTITUTIONS

Industrial restructuring designed to move the economies of the subregion from low to high growth activities and raising incomes and productivity, implies institutional change as well. Policies that protect one sector versus another will fail. The tools of industrial policy must be transparent, and governments must be prepared to accept failure and move on, because the only blueprint in this process is in learning by doing.

Those institutions that are a success must be scaled up and should be an example for others to follow. This implies engagement with a broad range of stakeholders, so that the costs and benefits of policies can be properly assessed and understood. For example, budgetary processes aimed at identifying government priorities must be transparent and accountable by receiving submissions from the communities, including those most affected by a particular policy.

Industrial restructuring also implies the need for adequate finance to support new sectors, new entrepreneurs, and new institutional forms. Given the binding fiscal constraints facing governments in the subregion, the private sector would have to be incentivized if this process is to be a success. This requires the use of innovative financing mechanisms that are effective and efficient at financing agreed priorities. A big leap forward is possible with the improvements in the environment for existing and new business. Also, investing in e-governance can go a long way in supporting this effort.

CONCLUSION

This article makes clear that business as usual will not make the Caribbean resilient in light of post COVID-19 expectations. It urges industrial restructuring to embrace a whole-of-society approach and suggests key elements in that process. This includes an industrial policy that creates new business opportunities and reduces the cost of doing business. Investing in e-governance is important to creating efficient governance structures. In addition, the role of innovation and the unleashing of domestic creativity is very necessary for the provision of global service exports.

However, this development, which is suggested, is not instant coffee and has to be a long-term project in which the governments, the society and the development partners, are focused on clear and manageable goals and activities that are subject to continual monitoring and evaluation. ■

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