

# Development paths in the Caribbean



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## Abstract

This study analyzes the patterns of development in the Caribbean and gives particular focus to the challenges to and opportunities for sustainable development. The study is divided into two parts. The first part of the study examines trajectories for development in the Caribbean, while the second addresses the relationship between competition and integration.<sup>1</sup>

The significant development gains attained since independence have been threatened in the last decade. Slowing productivity growth, rising debt, increasing crime and social dislocation in recent years have adversely affected growth in per capita income and social welfare. The study therefore calls on policy makers to promote dynamic drivers of growth and development in the region. The key requirement in this regard, is the need to strengthen import productivity,<sup>2</sup> or the efficiency with which the region uses foreign exchange. This can be done by producing and exporting more high-value services such as education and the output of the creative industries. The sub-region also needs to strengthen its systems of governance by providing more opportunities for citizens to participate in decision making.

In addition, the region needs to address the inherent relationship between competition and integration by developing improved systems to cushion the negative impacts on weaker members of the integration arrangement. These could include a more robust development fund and capacity building to enable losers to benefit from regional trade and investment. However, regional integration should provide a platform for moving up the value chain, through research and development and innovation to produce more competitive exports.

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<sup>1</sup> In this study, Caribbean countries refer to English Caribbean countries plus Suriname listed in the Table 1 on page 8, unless otherwise stated. This study is based on two reports by Vanus James and Anthony Gonzales.

<sup>2</sup> Import productivity is a measure of GDP per unit of imports. It is in effect the reciprocal of the Keynesian marginal propensity to import and measures the efficiency in foreign exchange use, since foreign exchange is a scarce resource.

This study, which follows a *Review of selected areas of research on the Caribbean subregion in the 2000s: Identifying the main gaps* (LC/CAR/L.370)<sup>3</sup>, is the second publication commissioned by the French Development Agency (AFD) under its Framework for Action for the Caribbean Region.

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<sup>3</sup> The electronic version of the report can be found at <http://www.cepal.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/3/45443/P45443.xml&xsl=/portofspain/tpl-i/p9f.xsl&base=/tpl-i/top-bottom.xslt>

## I. Existing development trajectories

In the post-independence period, in line with the rising expectations of citizens, Caribbean policy makers have been searching for a suitable development model to deliver high growth rates and improved living conditions. During the last decades, the region has tried different development models, ranging from industrialization based on imported inputs and technology, to models of structural change which prioritized tourism and other services to open regionalism which blends regional integration with efforts to boost the export competitiveness of tradable goods and services. Nevertheless, after early gains, a slowdown in productivity growth, limited adjustment in traditional sectors and increasing social problems including crime and violence threaten these development gains.

An important issue is the need for development policy to reflect the critical challenges in the region. These include the need to increase import productivity or the efficiency with which foreign exchange is used, by using local domestic capital to produce high value added exports of goods and services. Secondly, policy makers must craft policies to deal with both the external current account imbalance on the one hand and internal imbalance, including high inflation and unemployment. Thirdly, the systems of governance need to be overhauled to limit the power of the executive and to increase the participation of citizens in decision-making.

Changes in these areas that would influence the structure and dynamics of the regional economy and society are critical for sustainable development. Moreover, by addressing these challenges and thereby raising per capita incomes and social welfare, the region would be better positioned to tackle rising crime and social dysfunction.

### A. Introduction

Caribbean economies have been searching for an appropriate model to promote sustainable development, especially in the post-independence period. In the early post-independence period development strategy was based on a variant of the Arthur Lewis model, which focused on industrialization to absorb the surplus labour in the region and to create more competitive exports. This required raising the savings rate sufficiently to provide the finance for investment in resource-based industries. Although heavy industry centred on petroleum did take root in Trinidad and Tobago and light industry developed in Jamaica, it was constrained by insufficient economies of scale and

high costs in the smaller countries. Therefore, some of these economies continued to depend on agriculture as the main engine of growth up to the 1980s. After the loss of preferences in the production of agricultural products, a number of countries promoted services, especially tourism and later offshore financial services and other services as engines of growth and development (see table 1). Alongside efforts at structural change, integration has been an important aspect of the Caribbean's development model and the current model of open regionalism seeks to leverage integration as a platform for accelerating international export competitiveness.

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

Country	Population	Total Area (km <sup>2</sup> )	Type of Economy
Anguilla	15,358	91	Consumer Service Export (Tourism)
Antigua and Barbuda	88,710	443	Consumer Service Export (Tourism)
The Bahamas	342,877	13,940	Consumer Service Export (Tourism)
Barbados	273,331	430	Consumer Service Export (Tourism)
Belize	307,000	22,966	Goods Export (Agricultural products and oil)
Dominica	67,757	751	Consumer Service Export (Tourism)
Grenada	104,487	344	Consumer Service Export (Tourism)
Guyana	754,493	214,970	Mixed – Goods Export / Consumer Service Export (Tourism)
Jamaica	2,741,052	10991	Mixed – Goods Export / Consumer Service Export (Tourism)
Montserrat	5,934	40	Consumer Service Export (Tourism)
Saint Kitts and Nevis	52,402	260	Consumer Service Export (Tourism)
Saint Lucia	174,267	617	Consumer Service Export (Tourism)
Saint Vincent / Grenadines	109,333	389	Consumer Service Export (Tourism)
Suriname	524,636	163,270	Mixed – Goods Export (Energy and bauxite/alumina)
Trinidad and Tobago	1,341,465	5,130	Goods Export (Energy)

Source: United Nations Statistics Division

Undoubtedly, the region has made some progress in the post-independence period, with a number of countries having achieved middle income status - and some high income status - based on improved growth in per capita incomes and social welfare. This has been marked by improved educational outcomes including increased high school and tertiary graduates owing to better enrolment rates, better health care services and greater levels of nutrition, among other indicators.

Nevertheless, the region remains saddled with a number of development challenges related to the slowdown in productivity growth in the last decade, weak export competitiveness in some sectors, expanding fiscal deficits and debt in addition to exposure to natural disasters and climate change related challenges. These problems have led to a lack of sustained growth in per capita incomes which makes it difficult to lift a large enough segment of the population out of poverty. Moreover, weak export competitiveness has led to chronic external imbalance, reflected in structural current account deficits in many countries, thereby aggravating the foreign exchange constraint and the capacity to import intermediate inputs and technology to fuel economic growth. Similarly, on the social front there has been growing inequality and severe crime and dysfunction in many societies in the region especially among the youth. Indeed, in some countries, the development gains of the past decades are threatened unless radical reforms are instituted to tackle these challenges.



An important aspect of the development challenge is the need to rethink the approach to development to ensure that it is embedded in the nature and logic of the regional economy. This demands a clearer understanding of the main drivers of the development process. Past theory has given primacy to increasing labour and capital productivity to increase the quantity and quality of production of goods and services, particularly for export to major markets. This growth in accumulation and productivity was expected to be financed by increasing the domestic savings rate and to be supplemented by foreign direct investment (FDI) that would also transfer knowhow, technology, managerial skills and provide established marketing networks. While all of these are necessary for changing the trajectories of Caribbean development, however, they are insufficient.

Growth in the Caribbean is constrained by the need to achieve a sustainable external current account balance. This means that raising domestic labour productivity is not sufficient for sustained growth. The region also has to increase import productivity or the efficiency with which it uses scarce foreign exchange resources. This can be done by investing in upgrading high-value export services such as education and health services, which requires research and development and innovation in these sectors.

In order for the region to achieve improved economic growth and social outcomes, three dynamical properties of the economy and society needs to be targeted. The first of these is an increased capital-intensity of exports, or capital/export ratio. This requires policies to increase domestic capital<sup>4</sup> in the economy. This would enable the region to shift from exporting primary goods and low-value added services to capital-intensive goods and high-value services such as education and health services, and the outputs of the creative industries. In effect, an improved capital/export ratio is an important driver of export productivity,<sup>5</sup> which is a crucial driver of sustained international competitiveness. In addition, an improved ratio of capital to import capacity leads to higher import productivity growth or accumulation of foreign exchange. Improvements in these ratios are critical to domestic restructuring and trade competitiveness, given the importance of imports and foreign exchange earnings to the growth process in the Caribbean.

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

Both regional integration and competition are critical to tackling the issues related to the dynamical properties of the regional economy and thereby promoting growth and development in the Caribbean. The challenge for the region is to determine what blend of competition and integration is best suited to boosting domestic and international competitiveness to deliver high growth and greater equity in their societies. Competition is essential for disciplining regional producers to improve their productivity and efficiency and hence achieve international competitiveness. Meanwhile, integration provides a vehicle for achieving greater economies of scale in production to facilitate economic diversification, as well as for functional cooperation in a number of areas.

There are, however, huge disparities in the levels of per capita income and in overall levels of development among countries, as well as the costs and benefits of integration for each country. Naturally in such a climate, there is reluctance to accept reforms that emphasise more competition, especially in the less developed countries, which perceive themselves as losers in a zero-sum game. It

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<sup>4</sup> Recall that domestic capital refers to the physical means of production produced within a country.

<sup>5</sup> Export productivity refers to the productivity level that is associated with a country's basket of exports, relative to its per capita income. It indicates whether a country is specializing in relatively high value added, technology-intensive exports, intermediate or low value-added primary exports.

is therefore essential to strengthen mechanisms for improving the capacity of these countries to compete and also to share the gains from integration across the region.

The evidence suggests that the extent to which CARICOM countries open their markets to regional competition is related to the degree of similarity in the content of their exports. Countries are generally unwilling to open markets if they produce similar products even though competition can boost trade and specialization, thereby leading to increased overall welfare in the common market. With the exception of the tourism-based economies, the high degree of specialization in small CARICOM countries, however, tends to make Caribbean countries less similar in their export patterns than would be expected. Very few CARICOM countries actually compete with each other in export markets, and in general there is a low degree of export similarity between countries.

Given the relatively weak competition in exports among the countries of the Caribbean, open regionalism becomes imperative because the level and type of competition required to drive global competitiveness must largely come from outside the integration scheme. Small integration schemes are therefore faced with the challenge of sequencing and blending regional and international competition in doses that would make adjustment socially acceptable and transformation desirable.

Confronting the challenge of international competition demands major reform and restructuring of Caribbean economies. This requires a major programme to raise the value added and quality of Caribbean exports through improved research and development, investments in technology and management. In addition, capabilities need to be enhanced by upgrading the human and institutional capital in the region to attract more technology-intensive FDI. The Caribbean also needs to adopt a strategic policy at the regional level to bolster competitiveness, including the identification of prospective competitive activities, the promotion of clusters and joint marketing.

This study therefore seeks to examine the nature of regional competition and integration in the context of new approaches to development for the twenty-first century and proposes measures that would minimize any conflict between them. The study will also consider the role of the state in development and deal specifically with the relationship between public institutions and private markets. The first part of the study, Section B, deals with development approaches in the region. The following section, Section C, evaluates development outcomes, including growth in real per capita income, employment and education and health outcomes. Section D looks at the outstanding development challenges, including inadequate structural change, crime and unemployment. Section E examines policies and paths to the future, while section F provides recommendations and section G concludes part I. In part III, section A analyses the relationship among competition, competitiveness and development. Section B evaluates the state of competition in CARICOM, especially its weakness as a driver of international competitiveness. Section C discusses the regional problematique and the state of regional integration, noting the differences in adjustment costs among countries and their impact. Section D deals with the challenges to regional competitiveness and sustainable development. Section E examines the role of emerging markets and South-South cooperation in diversifying economic relations. Section F assesses emerging development initiatives in areas such as food security and climate change, while section G provides recommendations and section H concludes part III.

## **B. Approaches to development**

Sustainable development in the Caribbean entails a multidimensional process of progressive change in economic, social, political and environmental conditions that improves the welfare and freedoms of citizens.

Sustainable development implies harmonious progress in the economic, social, political and environmental parameters of a society. This entails improved productivity in the use of resources, a change in the structure of the economy from lower value added, less competitive to higher value

added, more competitive sectors and activities, improved levels of education, healthcare and housing, increasing freedom of choice and action for citizens,<sup>6</sup> within the context of better environmental protection and management. Following the Millennium Declaration (2000), Caribbean countries have embraced the idea of human development, which is measured by a composite index that includes growth in per capita income, knowledge and longevity.

At the practical level, human development is manifested in lower levels of inequality and poverty, improved living and working conditions for women, and strengthened systems of good governance based on a robust mechanism for citizens to participate in government decision-making. Complementing these socio-economic and political goals has been a focus on the sustainable use of environmental resources and measures to reduce the production of greenhouse gases that lead to global warming.

Growth in per capita income is a key plank of development and past development models have proposed that the major economic problem is low and variable economic growth that is insufficient to raise per capita income on a sustained basis.

Caribbean policy makers acknowledge that sustained growth in per capita incomes requires high growth rates over a long period of time. The challenge is how to achieve this. Caribbean development theorists and policy makers have focussed on addressing constraints related to the structure of the economy, low productivity linked to a shortage of capital, skills and technology, small size and openness.

It has long been recognised that the Caribbean economy needs to advance the process of structural change marked by a shift from primary agriculture and mining to industry and high value added services. The engine of structural change in production is the change in the capital-labour ratio that affects the relative shares of different sectors and their levels of technology and change in the capital-import ratio that reflects the structure of trade. Both the structure of production and trade are crucial because Caribbean economies are balance-of-payments-constrained economies that need to produce competitive exports to generate the foreign exchange that is required to purchase imports, especially of intermediate goods, investment goods and technology. These foreign inputs are vital contributors to innovation and growth in Caribbean economies.

Nevertheless, development approaches have focused on importing equipment, technology and know-how from abroad by offering fiscal and other incentives, rather than developing indigenous productive capital. In many instances, these incentives have been quite costly in terms of revenues lost and the distortion of the incentive region between foreign and domestic investors.

However, structural change is influenced not only by the techniques of production and trade, but also by incentive structures and the role of government vis-à-vis the market. In the early post-independence period a number of Caribbean countries embarked on state-led development and structural change. Influenced by Lewis (1954), these countries developed import substitution policies to facilitate light manufacturing industries. Meanwhile, in Trinidad and Tobago, the government explicitly promoted heavy industry in the petroleum, iron and steel and other sectors. The impetus for active state participation in the economy stemmed from a weak private sector response and market failure in some sectors. In some cases, however, governments overreached and became involved in industrial activities for which were ill-suited. This led to inefficient production, rent-seeking and a slowdown in growth as state-led industrialisation became entrenched.

In the last few decades, development policy has swung back to market-friendly policies under the aegis of the Washington Consensus<sup>7</sup>. This policy package was guided by the mantra “stabilize,

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<sup>6</sup> Sen, A.K. (1999), *Development as Freedom*, Oxford: Oxford University Press.

<sup>7</sup> Further details on the Consensus <http://www.iie.com/publications/papers/williamson0904-2.pdf>

privatize and liberalize”<sup>8</sup>. Specific prescriptions included trade reform marked by lower tariffs to open the economy to greater competition and efficiency; tax reform to remove distortions that retard the flow of investment into productive activity, financial liberalization and privatization of state enterprises to improve their efficiency of operations, among other policies.

Nevertheless, the market-based reforms have not delivered the expected levels of economic growth and improvement in employment. Therefore, in recent years, countries have been searching for alternative approaches to development. The current approach is based on open regionalism, which entails important roles for the market, the state, regional integration and industrial policies to facilitate a more beneficial insertion into the world economy based on trade in competitive goods and services.

An important aspect of development theory in the region has been an acknowledgement of the role of growth in labour productivity and total factor productivity as drivers of sustained economic growth.<sup>9</sup> A crucial contributor to low productivity has been a shortage of capital and skills. This capital shortage has been viewed as the main cause of the concentration of economic activity and FDI in primary agriculture and mineral exports in a number of countries in the region. However, the capital shortage problem can be addressed by investment in developing domestic capital which is a key factor input in upgrading the quality of production and exports. The real problem is that past approaches to development did not target the growth and development of the domestic capital for use in domestic production and export and as the main driver of structural change.

Rather, governments focused on supporting private investment by developing supporting infrastructure and utilities and negotiating market access to third countries for goods and services. For example deep water ports were built in a number of countries to boost cruise passenger tourism and electricity generation and road networks were upgraded. Governments also promoted agricultural productivity growth by upgrading extension services to promote more efficient agriculture, consolidating landholdings to reap economies of scale and improving marketing arrangements to boost local demand for agricultural products. Policy was also focused on the development of small and medium sized enterprises by providing extension services, windows for soft credit and training.

However, development approaches have paid little or no attention to growth in import productivity and the growth of domestic capital for production and export as critical drivers of sustained competitiveness and development.

A major weakness of policies to increase productivity was lack of consideration of the importance of import productivity and the production and export of domestic capital in the growth process. Import productivity - a measure of the efficiency of the use of scarce foreign exchange- is a critical indicator of the ability of the region to address its balance of payments constraint. In addition, in the past education, health and copyright-based services were not treated as exportable services. However, some governments are moving in this direction. The main initiatives were from government in collaboration with the foreign private sector, in the form of the St. Georges University in Grenada and the Ross University in Dominica, both offering export-oriented programmes in Medicine. Since the 1990s, these programmes have widened to include many other areas of vocational and professional training and other reputable export-oriented universities have been established in Saint Kitts and Nevis and Antigua and Barbuda.

Caribbean countries have pursued regional integration to enable them to better integrate into the world economy and to address structural balance of payments current account deficits.

To address the structural current account deficit problem, especially in an era of trade liberalization and the removal of preferential arrangements, Caribbean countries have focused on

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<sup>8</sup> See Rodrik, Dani (2006), Goodbye Washington Consensus, Hello Washington Confusion? Harvard University.

<sup>9</sup> For example, see Downes, A., Holder, C., and Leon, H. (1990). The Wage-Price-Productivity Relationship in a Small Developing Country. *Social and Economic Studies*, 29(2), June: 49-77.

producing more competitive exports. However, this requires a concerted effort to strengthen productivity growth, technical change and a general upgrading of regional production systems. Therefore, in order to tackle the limitations posed by small size and limited economies of scale, policy makers have championed regional integration to relieve these constraints. The CARICOM Single Market and Economy (CSME) is now the established vehicle for promoting trade, labour market and financial integration and functional cooperation. The expectation was that regional integration would provide opportunities for learning the requirements for exporting and scaling up activities to achieve the scale required to benefit from external markets. As part of its widening, CARICOM has expanded into CARIFORUM which also includes the Dominican Republic. In recognition of the growing importance of South-South cooperation, CARICOM has forged trade and integration arrangements with Costa Rica, Brazil and Colombia. Given changes in the world economy, strengthened relations with these and other countries in the South hold great potential for sharing experiences and promoting trade, investment and technology transfer.

Development approaches have focused on internal balance, especially the control of budget deficits and high debt, all of which are now major challenges to long-term growth in a number of Caribbean economies.

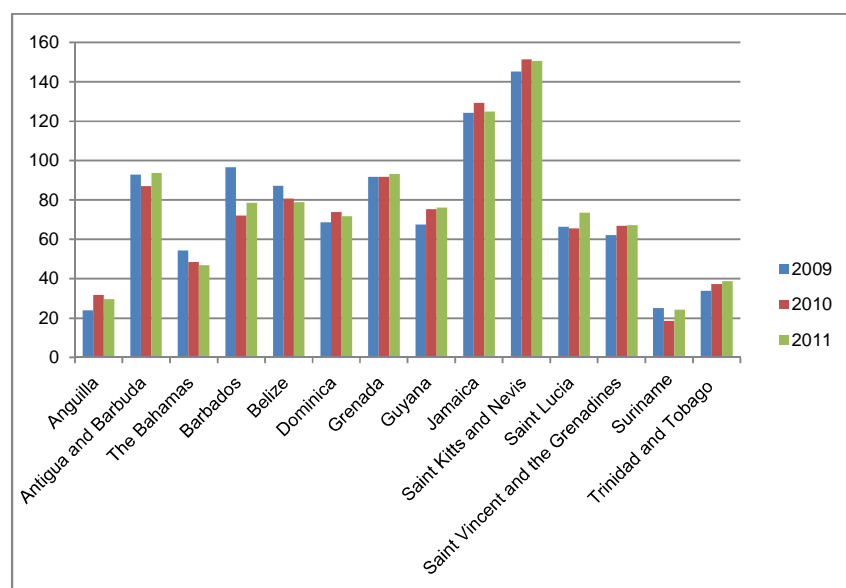
Caribbean development plans have identified increasing fiscal deficits, rising debt (see figure 1) and debt servicing costs as chronic economic problems. Indeed, the IMF noted in 2011 that five of the thirteen most indebted countries in the world were in the Caribbean.<sup>10</sup> High government borrowing to finance deficits might not only crowd out private sector investment in productive sectors, but often lead to higher taxes that distort incentives and reduce the welfare of citizens.

The debt problem has been linked partly to persistent trade deficits and the need to borrow externally to finance imports and social programmes. To address this, governments focused on reducing current account deficits by increasing the competitiveness of exports to reduce the balance of payments constraint and increasing public sector savings to reduce the need for public sector borrowing. This has entailed programmes of fiscal consolidation, in some cases under IMF programmes to contain growth in spending and to increase revenues in an effort to achieve sustainable debt levels. Going beyond this, however, policy must focus on raising the productivity of government investment, so that resources borrowed have a greater development impact.

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<sup>10</sup> IMF (2011), “Caribbean countries have several ways to enhance growth prospects”, Barbados Conference on the Caribbean, Hilton Hotel, Bridgetown Barbados, January 27-28.

**FIGURE 1**  
**PUBLIC DEBT AS PERCENTAGE OF GDP IN SELECTED CARIBBEAN COUNTRIES**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on national data

Approaches to dealing with unemployment, the demographic transition and the potential for social unrest are important planks of the regional development strategy.

Public policy continues to emphasise measures to deal with high unemployment, especially among youths. Strategies have also attempted to relieve the pressure on workers who are made redundant by technical change through redundancy payments, re-training and measures to link wage growth to productivity growth.

As a result of family planning and lower birth rates, the region has been transitioning to an older population age structure. Policy may increasingly have to focus on population ageing and the need for pension reform, including increasing the age of retirement and adjustment of the wage ceilings used to calculate pensions.

Governments have also incorporated programmes to address other social development challenges in their development plans. These programmes have aimed at improving basic facilities for education, medical care, housing, water and other services. In addition social safety nets have been developed depending on the availability of resources. Countries such as Jamaica and Belize have introduced conditional cash transfers that are tied to recipient families maintaining their children in school and ensuring vaccination and proper health treatment.

The modern conception of development in the region recognizes the need for significant political reform to balance competing interests.

Caribbean countries now acknowledge that the development process is fundamentally about improving well-being by widening and deepening choices. Success in this area can be measured by the composite indexes of income, education, and longevity, all adjusted for equity, governance, and environmental considerations.

However, to achieve improved governance, there is need for political reform to make systems of governance more democratic and participatory. The political system in the region provides for limited participation of the mass of the population in decision-making outside of exercising the right to vote in elections. Further, with limited checks and balances on government, there is little urgency to

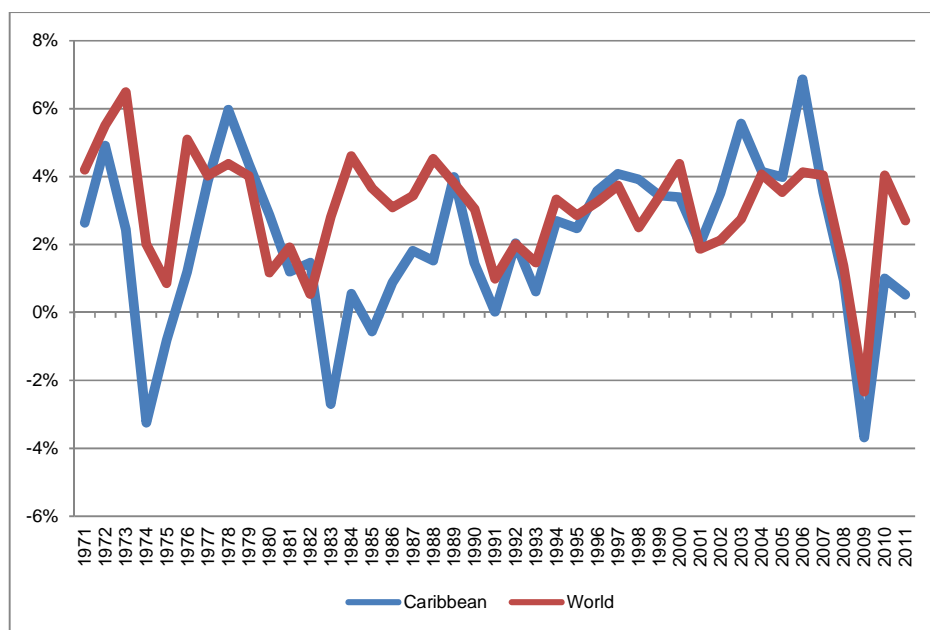
implement agreed decisions, leaving the region with a serious implementation deficit in domestic and regional policy-making. This is particularly evident at the level of CARICOM.

## C. Development outcomes

The measurement of economic development outcomes will focus on relative factor productivities, labour and import productivity, growth in employment, growth in output, changes in the shares of sectors in output, performance of the financial sector and impact of education and health outcomes.

The key indicator of economic development is the growth of gross national income per capita. The main drivers of this are the improvements in the competitiveness indicators of labour productivity, import productivity and the share of investible profit in national income, which must be investigated using the structure of industry (i.e. the sector shares in GDP and employment) as weights. These factors help to determine whether the region can achieve price and quality competitiveness in international trade.

**FIGURE 2**  
**GDP GROWTH RATES FOR THE CARIBBEAN AND THE WORLD**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on country and International Monetary Fund (IMF) data

Over the decades since 1970, per capita income growth was underpinned by substantial differences in the rate of growth of the economy and the average population growth rate. In Jamaica economic growth was marginally above the population growth rate between 1970 and 1999. In the decade 2000-2009 (see figure 2), the rate of economic growth slowed to only 0.83 per cent, again only slightly above the rate of population growth of 0.70 per cent. Therefore, very marginal economic growth occurred in Jamaica in the decades since 1970.

In Saint Lucia, economic growth was high and robust, averaging 5.24 per cent over the first three decades (1970-1999), well above the rate of population growth. This was clearly a period of substantial economic development. In the decade 2000-2009, the rate of economic development has slowed substantially, as the average rate of economic growth fell closer to population growth.

Meanwhile in Trinidad and Tobago, economic growth was positive but slow in the decades from 1970 to 1999, with economic growth averaging 2.44 per cent while population growth averaged 0.97 per cent. The rate of economic growth picked up sharply in the decade of 2000-2009, as the rate of economic growth outstripped the rate of population growth.

Except for Jamaica, other mineral export economies, enjoying buoyant commodity prices overall, tended to grow. Suriname's growth rate grew from 1.6 per cent in 1970-1999 to 4.5 per cent in 2000-2010. Its population virtually remained unchanged over the same periods. Dominica was an anomaly. After the decade of 1970-1979 when the population grew by only 0.6 per cent, Dominica experienced a decline of its population in the subsequent three decades. So, the per capita GNI grew partly because a significant number of persons migrated and the number of births steadily declined. Barbados experienced a decline in its average growth rate from 1.5 per cent per annum for 1970-1999 to 1.3 per cent in 2000-2009.

The structure of the Caribbean economy has changed over time. Specifically, the Jamaican economy appears to have restructured towards a service economy centred on tourism, the creative services, and the financial sector, but with some significant remaining role for its traditional specialist mineral export sector. In the case of Dominica and Saint Lucia, the evidence appears to show a decisive restructuring of the economy to a service oriented economy centred on communications, tourism and related services, with only a moderate and declining role for traditional export agriculture. In the case of Dominica, there has been a growing role for the capital services and associated copyright-based income. By contrast, Trinidad and Tobago, and to a lesser extent Suriname, have continued to evolve mainly as mineral-export economies, focused on energy and its derivatives. There has, however, been some limited growth in the manufacturing sector through investment of some of the foreign exchange surpluses into manufacturing.

With respect to import productivity - the ratio of imports/output - the evidence suggests that a broad distinction emerged over the decades between Jamaica on the one hand and countries like Dominica, Saint Lucia and Trinidad and Tobago on the other (table 2). On average, Jamaica's import productivity fell from 2.2 in the period 1970-1999 to 1.82 in 2000-2009. The importance of this observation is that the falling import productivity would create downward pressure on per capita income, unless there is a compensating increase in the rate of use of import capacity, an increase in the volume of import capacity per capita, and/or a lowering of the average price deflator.

**TABLE 2**  
**ESTIMATES OF ECONOMY-WIDE IMPORT PRODUCTIVITY, SELECTED COUNTRIES**

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

Source: Economic Commission for Latin America (ECLAC), on the basis of data supplied by the United Nations Statistical Division (UNSD)



In contrast, over the same periods, import productivity increased for Dominica (from 1.77 to 1.92), Saint Lucia (from 1.33 to 1.55), and for Trinidad and Tobago (from 2.33 to 2.51). Thus, over the long period, the development achievements of Jamaica rest on distinctly weaker economic competitiveness than those of Dominica, Saint Lucia and Trinidad and Tobago.

Most Caribbean economies have run structural balance of payments current account deficits. The persistence of current account deficits in countries such as Saint Lucia and Jamaica reflects the relatively weak competitive positions of these economies and should be cause for concern since the countries have been living above their means and accumulating liabilities for a long time. It is necessary for these countries to either adjust their standard of consumption downwards, slow their growth, or increase productivity, and hence competitiveness, as the basis for expanding exports and raising per capita income. From the standpoint of the current account balance, the most important common characteristic of the economies is that they have all generally failed to use their access to capital to address productivity growth and to transform their economies by increasing the production and export of the domestic capital services. In the case of Trinidad and Tobago, energy intermediates have grown, but like all the other countries, the positive services balance comprises largely travel and transport services linked partly to increasing activity in tourism, a consumer service export.

A real challenge for the region is that, given their standards of living as middle and even high income status, for some, labour and import productivities are far too low. This is reflected in relatively low export productivity (productivity of exports relative to per capita income) levels, where the Caribbean tends to export products that reflect those of countries at a lower standard of living. In addition, Caribbean unit costs tend to be far too high for their firms to undersell European firms in the markets in which they specialise. What is required in CARICOM is large scale investment to raise the resource productivities and this can only be done in a sustainable way by growing domestic capital faster than both labour and imports. Such a programme will require regional and international cooperation and greatly increased implementation of integration commitments.

Regional integration has a critical role to play in structural change and economic progress in the Caribbean. CARICOM has evolved from a limited common market to plans for a CSME. The CSME was aimed at the removal of existing barriers to the free movement not only goods, but services, capital, technology, and skilled persons. However, this experiment remains substantively incomplete. Recently, CARICOM Secretariat studies revealed that the CSME is operating at about 64 per cent level of compliance. CARICOM needs to move expeditiously to implement commitments and to leverage agreements such as the Economic Partnership Agreement (EPA) with the European Union and successor Caribbean-Canadian Agreement to secure improved market share in these markets.

Although the Caribbean had brought down poverty levels in the 1990s on the basis of moderate growth and income redistribution measures, the region is now in danger of losing the fight against headcount (absolute poverty). The Caribbean has high levels of headcount (absolute) poverty but has made significant improvements in levels of indigence (extreme poverty and hunger) over the decades. The indigence rate can be broadly compared over time and between countries, since it reflects the costs of the same objective physical standard across countries and time. It is comparable to Millennium Development Goal 1, which aims to “eradicate extreme hunger and poverty” and has as one of its targets “halving the proportion of people who suffer hunger” over the period 1990-2015. The region has been able to control extreme poverty by a combination of measures, including investments in education and healthcare, transfers and subsidies to poor households and improved access to affordable housing.

Indigence levels have fallen in most countries with the exception of Belize. In Dominica extreme poverty fell from 10 per cent in 2002 to 3.1 per cent in 2009, while Grenada experienced a similar drop from 12.9 per cent in 1998 to 2.4 per cent in 2008 and Trinidad and Tobago from 11.2 per cent in 1992 to 1.2 per cent in 2005 (see table 3). St Kitts also performed well in this area, reducing

the proportion of the population in extreme poverty from 11 per cent in 2000 to 1.4 per cent in 2008. Nevis succeeded in eradicating extreme poverty – reporting zero indigence in 2008, a significant improvement compared to the 17 per cent reported in 2000. The most significant improvement was for Saint Vincent and the Grenadines, which reported 2.9 per cent of the population in extreme poverty in 2008, down from 25.7 per cent in 1995. Meanwhile, the poverty rate in Jamaica tended to fall overall since 1989, while the level of inequality remained generally constant.

**TABLE 3**  
**POVERTY AND INDIGENCE RATES FOR SELECTED CARIBBEAN COUNTRIES**

Country	Year CPA conducted	Poverty Rate (& below Poverty Line)	Indigence (% in extreme Poverty)	GINI Coefficient
Anguilla	2002	23.0	2.0	0.31
Antigua & Barbuda	2006	18.3	3.7	0.48
Bahamas	2001	9.3	na	0.57
Barbados	1996	13.9	1.0	0.39
Belize	2002	33.0	13.4	0.38
	2009	41.3	15.8	0.42
BVI	2002	22.0	1.0	0.23
Dominica	2002	39.0	10.0	0.35
	2009	28.8	3.1	0.44
Grenada	1998	32.1	12.9	0.45
	2008	37.7	2.4	0.37
Guyana	1999	35.0	21.3	0.43
Trinidad and Tobago	1992	21.2	11.2	0.42
	2005	16.6	1.2	0.39
Turks & Caicos	1999	26.0	3.2	0.37
St. Lucia	1995	25.1	7.1	0.50
	2006	28.8	1.6	0.42
St. Kitts	2000	30.5	11.0	0.40
Nevis	2000	32	17.0	0.37
St Kitts	2008	23.7	1.4	0.38
Nevis	2008	15.9	0.0	0.38
SVG	1995	37.5	25.7	0.56
	2008	30.2	2.9	0.40

Source: CDB Poverty Assessment Reports 2000-2009, <http://www.caribank.org/publications-and-resources/poverty-assessment-reports-2>

## D. Outstanding challenges

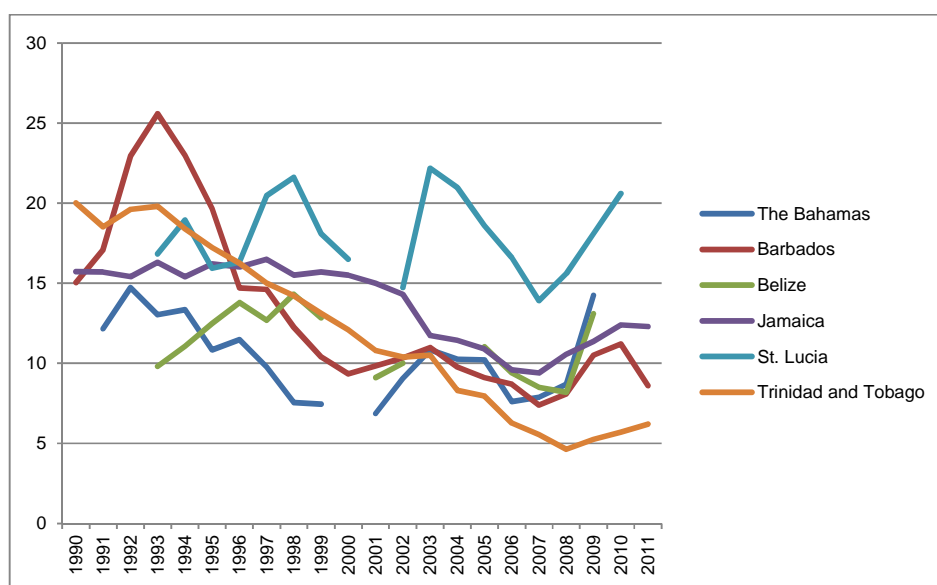
The Caribbean needs to rethink its development strategy to address the central problem of producing more competitive capital service exports to raise per capita incomes. In addition, social problems in the areas of education, healthcare, crime and unemployment also need to be tackled.

The Caribbean confronts a number of challenges in its attempt to catch up with rapidly improving economies of the world owing to structural constraints and the pursuit of inappropriate policies in the past. Radical reform is needed, beginning with the restructuring of production and trade to develop capital-intensive exports and to deal with social problems.

The central concern of the whole development thrust in the region has been to reduce unemployment and underemployment. The problem of open unemployment has been largely solved in

Trinidad and Tobago, but not in the rest of the Caribbean, where average unemployment rates still exceed 10 per cent of the labour force (see figure 2). Furthermore, in all countries, the problem remains largely unresolved for the youth, with average rates of unemployment equal to or greater than 16 per cent in all cases. There remains a substantial gender unemployment gap. In Saint Lucia for example, unemployment rates for males averaged 13.8 per cent in 1970-1999 compared to 20.4 per cent for females. The rates remained the same for males in 2000-2010, but increased to 23 per cent for females. In Jamaica and Trinidad and Tobago, female unemployment is roughly double that for males, and is still above 10 per cent though the rate has fallen over time. Only in Dominica and the Bahamas is the female unemployment rate below that of males.

**FIGURE 3**  
**UNEMPLOYMENT RATES IN SELECTED CARIBBEAN COUNTRIES**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national data

Although access to education and training has improved substantially in the Caribbean since the 1970s, quality remains an important challenge. The mean years of schooling of persons 25 years and over has generally been rising in the larger countries such as Guyana, Jamaica, and Trinidad and Tobago, and at worst have been stationary since 2000 in smaller countries such as Dominica and Suriname. The expected years of schooling have also been stationary. Despite the growth in the mean years, the relative position of the region on the education index has not been as high as necessary to compete on a sustainable basis for a strong position in the international economy.

The top rate of 9.63 mean years of schooling recorded by Jamaica is still below the highest rate of 10.00 recorded by China, Hong Kong Special Administrative Region (HKSAR) a successful small economy. Most countries are well below that performance, and some countries such as Belize, Dominica and Guyana are only slightly above the world average of 7.64 years. The rate of 7.23 years in Suriname is even below the world average. These deficits point to underinvestment in raising the quality of education and the skills to use technology, linked to underinvestment in technical and vocational education as well as to the failure to boost quality by investing in education for export.

**TABLE 4**  
**MEAN YEARS OF SCHOOLING IN CARIBBEAN COUNTRIES**

	Mean years of schooling						
	1980	1985	1990	1995	2000	2005	2010
Antigua and Barbuda	..	..	..	..	..	..	8.93
Bahamas	..	..	..	..	..	..	8.45
Barbados	6.31	7.35	8.09	8.59	8.68	9.18	9.34
Belize	7.26	7.56	8.00	8.46	8.07	7.70	7.96
Dominica	..	..	..	..	7.68	7.68	7.68
Grenada	..	..	..	..	..	..	8.55
Guyana	5.47	5.96	6.38	6.79	7.07	7.45	7.96
Jamaica	5.24	5.80	6.44	7.42	8.56	9.03	9.63
St. Kitts and Nevis	..	..	..	..	..	..	8.39
St. Lucia	..	..	..	..	..	..	8.28
St. Vincent and the Grenadines	..	..	..	..	..	..	8.62
Suriname	..	..	..	..	..	7.23	7.23
Trinidad and Tobago	6.98	7.20	7.45	7.88	8.34	8.81	9.24
Norway (global best practice)	9.07	9.98	10.84	11.14	11.52	12.71	12.63
World Average	4.83	5.38	5.92	6.51	6.91	7.26	7.64

Source: United Nations Development Program (UNDP), “2011 HDI Education Indicator: a new data set” [online], New York, UNDP, <http://hdr.undp.org/en/statistics/data/2011/>, 2011.

In general, poor health is not a significant constraint on the prospects for Caribbean development. However, there are still significant challenges related to the quality of healthcare, including the financing of healthcare. Crucially, health insurance coverage levels are inadequate to meet the needs of the population. Data from the Jamaica Survey of Living Conditions (JSLC) reveal quite low percentages of the population with health insurance. This ranged from 13.9 per cent of the population in 2001 to 21.1 per cent in 2009.

Aggravating the outstanding healthcare issues is the continuing challenge with relatively high adolescent fertility rates, measured by the number of births per 1000 by women between 15 and 19 years)<sup>11</sup>. Overall, measured in births per woman, total fertility rates have generally dropped in the years since 2000, as compared to 1970-1999. However, partly on account of the high adolescent fertility rates, only Trinidad and Tobago and Barbados report total fertility rates in line with those of more advanced economies such as Norway, Australia, Singapore, and Canada. Such a condition promises continuing difficulties in the medium to longer-term with efforts to reign in pressures on the healthcare system and to bring the standard of living in the Caribbean in line with the more dynamic economies of the world.

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

<sup>11</sup> For example, United Nations (2011) *World Fertility Policies 2011* shows that there is only one country in the Caribbean which thinks its fertility rate “too low” (Barbados), with three countries considering their rates “too high” (Dominican Republic, Haiti and Jamaica). The rest of the countries regard their rate as “satisfactory.”

The reality that Caribbean countries will have to confront is that quality issues in healthcare and education, as well as outstanding problems that cause the region to lead the world as centres of criminal activity cannot be addressed by simply repeating more of the same things that have been done with government-dominated education and healthcare systems. It may be necessary to introduce adjustments that open the education and healthcare systems to global competition. This ultimately means pursuing development by taking advantage of opportunities to grow labour productivity and import productivity in the sectors though trade in these services, especially through the pursuit of export markets for them. Furthermore, the region suffers from weak systems of governance.<sup>12</sup> To date, no substantive efforts have been made to modify the dominance of the executive over the legislative process across the Caribbean. With the possible exception of Barbados and its longstanding political traditions, the status of good governance remains mainly that of peaceful elections to change governments in the region. Social partnership arrangements which have proved so successful in other regions have not been effective in fostering genuine joint decision-making in the Caribbean. Even the strategy of using consultative arrangements and voluntary compliance to manage competing interests in different areas have had very limited success.

## **E. Policies and paths to the future**

In rethinking the paths to development, Caribbean policy makers need to focus on the dynamical properties of the economy and society, particularly the roles of import productivity, domestic capital and exportable capital services and governance systems that are required to facilitate their growth.

In general, governments in the Caribbean have relied on an orthodox view of policy that emphasizes two broad sets of initiatives to influence development. These are monetary policies that exert their influence through control of the money supply, and fiscal policies that exert their influence through changes in revenues (taxes and borrowing) and expenditures, including direct participation in enterprise. However, such policies largely address the changing variables of the economies over the medium term. There is therefore the need for an approach that focuses on the dynamical properties of the economy including the capital-labour and capital-import ratios underlying the resource productivities of the economy.

The common economic challenge of Caribbean societies is to transform inherited economic structures by strengthening or creating industries in which they have a comparative advantage and ensuring that resource productivity in those industries is raised to levels that allow them to compete globally to raise factor rewards and the standard of living of the population. Since the economies are very open and rely heavily on trade, this places substantial burden on the economies to adopt investment programmes that simultaneously raise labour and import productivity, thereby persistently lowering unit costs to allow exporting firms to undersell competitors in the countries with which they trade.

In practice this market penetration requires defining, financing and undertaking investment on a sufficiently large scale to produce and export output from the capital service sector, especially education, healthcare and the copyright-based industries such as music, radio and film, even as the domestic economy is being provisioned and the consumer sectors are growing as fast as they can. This is a substantial social challenge of catching up with a rapidly moving target, and success will require that all social sectors are brought into a well-constructed joint decision-making process so that the intent of all partners can be adequately synchronized.

There are three key dynamical socio-economic factors that should be targeted by deliberate policy to achieve progress in the region. The first dynamical property is an inappropriate economic

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<sup>12</sup> For instance, average of values of six Governance Indicators of the World Bank for the Caribbean was 4.2 in 2008, which was below the world average of 4.8.

structure marked by low investments in domestic capital to produce capital intensive exports of goods and services. Capital intensive exports not only help countries in the region to move up the value chain, but in doing so raise import productivity or the efficiency of foreign exchange use. This is essential for relieving the structural current account deficit in Caribbean economies.

The second dynamical property is a persistent inconsistency between policies to address balance of payments imbalances and internal imbalances such as unemployment and inflation. Measures to address the imbalances of payments on the external account often contradict policies to control inflation or address excess reserves or liquidity or unemployment. The third dynamical property is the weakness of governance arrangements, where the executive function tends to dominate the legislative process, at almost all levels of organisation. To address these challenges the region requires an investment program that grows the domestic capital sector faster than the consumer sector and faster than imports or exports, even as the latter are being encouraged to grow as fast as they can.

Importantly, mere market forces have proved unable to engineer the capacity to adjust, restructure and export competitively. To achieve the required restructuring of exports, a deliberate course of action, designed under suitable good governance arrangements, must be pursued to reshape the trends in the two fundamental parameters that affect the dynamic pathways of the region's economies – labour productivity and import productivity. The required path forward is to grow exports while raising import productivity to bring imports under control. This would have to be achieved through systemic innovation and restructuring, that is by growing domestic capital relative to both labour and imports. Given the fiscal constraint in the region, governments would need to pursue public private partnerships and build up domestic capability in the economy so as to attract the right type of FDI to help re-engineer the regional economy.

The attraction of foreign direct investment into the domestic capital sectors would also require removal of the current government monopolies in education, healthcare, and even culture, opening up these industries to the profit-motivated process of competition through innovation and change. Governments would also need to facilitate research, publication and related discourse as part of the development of original thought, and thereby cultivation of a systematic preference for quality over quantity, if the region is to produce and export knowledge on a competitive basis.

With respect to governance, an important test of the quality of the political system is its ability to promote development. In that regard, the issues of good governance is related to the need for a dynamic process that brings the productivity of labour and the productivity of imports in line with their respective local and foreign relative factors rewards in order to achieve competitiveness in chosen activities. This requires new modalities of political participation, and in particular compromises by an informed and responsible citizenry, to achieve the changes required to re-engineer Caribbean mixed economies. In addition, effective public policy requires an effective state with the capacity to learn from policy mistakes and with the willingness to implement decisions.

## **F. Recommendations**

### **1. Address the policy inconsistency by optimizing capital-output ratio**

Governments should recognize the policy inconsistency property during the planning process to clarify how it can be tackled by changing the capital-output ratio and the capital exports ratio.

The policy inconsistency relates to current account imbalance combined with unsustainable debt alongside high unemployment and inflation in some countries. In this situation, owing to inadequate measures to restructure the economies, policies aimed at expanding employment tend to lead to higher current account deficits. To help solve this problem, deliberate government policy is required to facilitate the growth and restructuring of exports to relieve the balance of payments

problem. This requires optimizing the trade and economic benefits that can be achieved under the CSME and the EPA and also increasing the productivity of all factors of production through improved systems of research and development, innovation and management.

## **2. Focus on restructuring the regional economy to produce capital service exports and less consumer services exports**

Efforts to restructure the economy should focus on growing capital service exports faster than consumer service exports

Given the current profile of industries, Caribbean countries can usefully start to invest in the following capital services: education, healthcare and copyright-based services and related products. Further, for the effective export of such services, CARICOM governments should move to reform and upgrade the ICT infrastructure and to encourage private competition in these sectors to promote technological modernisation.

Export of tertiary education services should focus on attracting foreign students and enterprises to the Caribbean education system. Many of these students and trainees would remain to invest in the region and many would return home to build brand loyalty.

Currently, significant success in this direction is being achieved in training in medical services. This should be expanded to include all other relevant disciplines.

To achieve this and to adequately target the development of enterprise generally and the capital sector in particular, Caribbean societies should reform the existing post-secondary system along two distinct lines: introduction of competency-oriented and problem-solving education and training which makes intensive use of the internet with the fastest possible broadband to enable full access to all potential national candidates.

## **3. Enhance the role of the private sector in the Capital Service Industries**

Caribbean countries should systematically displace some of government's involvement in the capital service industries by encouraging private enterprise that is oriented to the export of such services.

Countries should use market forces to engineer the required change in the structure of the economy to ensure an adequate link between technological progress, the growth of capital service industries relative to consumer supply industries, and the growth of capital service exports relative to total exports. For this, government would need to undertake appropriate partnerships with the local and foreign private sector to ensure a strong focus on quality as it promotes expanded investment in domestic capital for export. The example of the high-performing University of St Georges' model is useful, with the state establishing the institution and then opening it up for international investment collaboration that is having a major impact on the quality and creativity of both the local and international offerings at that university. Success would require several forms of state regulation to ensure quality, based on the requirements of individual countries in the region.

## **4. Implement existing Integration Treaties**

CARICOM should therefore do the following:

- Review the current practices that inhibit the implementation of the current integration treaties, with a view to establishing clear mechanisms to ensure their implementation or revision to enable successful implementation.
- Strengthen the capacity of the CARICOM Secretariat and other relevant regional institutions to drive the implementation of the integration treaties.

- Look to the high-growth and high-demand markets of Brazil, China, India, with which they share borders or solidarity and can engineer access through South-South Cooperation and Triangular Cooperation.
- Introduce a CARICOM-wide framework for attracting foreign direct investment to prevent race to the bottom type competition and to facilitate investment in the domestic capital export services sector. This would provide a platform for boosting export competitiveness in the OECD markets and also for securing a strong foothold in emerging markets such as Brazil, China and India. The region should prioritise the export of creative services and health and education services.
- The Caribbean investment framework should focus on cooperation to rationalize investment among member according to their development needs. An appropriately designed regional capital sector development authority should be established to promote FDI into the domestic capital-intensive export services sector. This authority can be managed through a partnership between regional governments and the private sector.

## **5. Ensure routine legislative oversight of the executive function**

Instead of relying on voluntary social partnerships, Caribbean societies should establish legislatures with the capacity and responsibility to ensure the rule of law, including the routine oversight of executive action.

Among the relevant steps are the following:

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

## **6. Draw on the advantages of political reforms to revisit the outstanding challenges**

Relying on the updated arrangements for the rule of law under joint decision-making in their legislatures, and an informed public, Caribbean policy makers should revisit ways to tackle the major challenges facing the region including:

- Unemployment and the viability of the social safety net.
- Problems of inadequate quality in the pre-school, primary and secondary education system.



- Inadequate quality in the healthcare system.
- High crime and personal insecurity.

Further, it is within that context, as distinct from the current ‘consultations’ approach, that governments would be able to address other outstanding social issues, such as:

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

## **G. Conclusions**

This report sought to examine the current state and trajectory of the Caribbean economy and specify the factors required to push the economy to its desired development targets. The evidence points to three dynamical properties that influence the development path: (i) an economic structure defined by a low capital/consumer ratio and a low capital/export ratio, a concentration of exports in consumer output or primary and low stage intermediates; (ii) a persistent inconsistency in the policy options faced by every one of the countries as they seek to address imbalances of payments alongside other internal imbalances such as unemployment or inflation; and (iii) a characteristic tendency for the executive function to oversee and dominate the legislative process, at almost all levels of organisation. These are the mutually-reinforcing properties that must be changed for sustainable development to be achieved. The region needs to embark on a programme of radical restructuring to increase the exports of capital services such as education, health and creative industries, intensify the skill and R&D content in exports and design participatory systems of governance to increase participation of the population in decision-making and thereby tap into the fount of knowledge of all the region’s people.

## **II. A complex relationship between Competition and Integration**

Caribbean economies are challenged by a lack of export competitiveness that is required to promote growth and development. Past efforts to restructure the regional economy has not yielded the expected results. Consequently, growth in productivity has stalled in many countries in the last decade and growth rates have been low and unstable, threatening the development gains of earlier decades, including improved social welfare. The real challenge for the region is to engineer a more dynamic and competitive economy that can deliver sustained high growth rates to raise the living standards of the population.

However, in seeking to advance the competitiveness agenda, the region has confronted a conflict between the strengthening of competition in different sectors and activities and regional integration. This stems in part from inadequate mechanisms such as structural funds to deal with the fall-out from competition in the weaker economies. This challenge needs to be tackled by providing better mechanisms for building capacity in disadvantaged countries to enable them to better benefit from the regional integration process.

Nevertheless, economic restructuring and regional competitiveness require more than getting regional integration right. In addition, the region needs to revamp its incentive framework for attracting FDI by focusing more on harnessing spill over from FDI to build human resource and technological capacity. In addition, the business environment needs to be improved to reduce the cost of doing business for firms and there should be an active search for new competitive activities that can drive growth in the region.

### **A. Competition, Competitiveness and Development**

Caribbean economies must achieve a balanced blend of competition and integration to promote international competitiveness, growth and development

The provision of competition entails policies and strategies that are geared to reduce and/or eliminate border and non-border trade barriers. Specifically this includes a modern industrial policy that minimizes the use of subsidies, transfers and other distortions; the establishment of conditions that

facilitate easy entry into and exit from an industry and regulatory frameworks that dissuade anti-competitive practices by eliminating monopolistic practices and other abuses of market power.

The basic objective of competition policy is to boost competition and rivalry among firms in order to maximize efficiency, to achieve economies of scale and to achieve greater innovation. In this way, firms can become internationally competitive and export more, which will promote faster growth. If this growth is well distributed and avoids environmental degradation it will promote sustainable development.

‘Competitiveness’ has been conceptualized in many different ways. Krugman (1994a, 1994b, 1996) has argued that as there is no clear benchmark when applying the concept of competitiveness to national economies and economies with little or no trade, it is elusive or meaningless and is a strange way of referring to the traditional concept of ‘productivity’.<sup>13</sup> Porter (1990) concurs on the idea of national productivity as the only meaningful notion of competitiveness.<sup>14</sup> In so far as it emphasizes diversification, innovation and value-added, this productivity approach appears appropriate for small developing countries, such as those of the region, as they seek to promote sustainable growth and development as well as strengthen their resilience.

The ideal link between competition, competitiveness and development is not easily attained and has to be judiciously implemented. For instance, some degree of imperfect competition that does not restrict new market entrants but allows for some degree of monopolistic earnings from research and development activities over a temporary period can be considered important for innovation. Determining the optimum amount of competition is therefore crucial.

Developing countries have generally been concerned about how to optimize the benefits of competition, while reducing its adverse effects. This requires a careful calibration of policy to determine the extent and the sequencing of liberalization<sup>15</sup> of sectors and activities. Indeed, in many cases, a strategic industrial policy that provides incentives for firms to build up their capacity to compete before facing the full onslaught of international competition is best suited to strengthening their competitiveness. Moreover, in cases where there are adverse spill over effects, such as higher unemployment owing to firms going out of business, these should be tackled by remedial measures.

## B. The state of Competition in CARICOM

Competition in CARICOM has not evolved to a level where it can provide the stimulus to regional firms to become competitive.

Competition, both regional and extra-regional, has not evolved to a level where it can provide the stimulus to regional firms to become competitive. Although the Revised Treaty of Chaguaramas requires the Member States to take the necessary legislative measures to ensure consistency and compliance with the rules of competition, only three countries - Barbados, Guyana and Jamaica - have enacted national competition laws and set up authorities to enforce them.

Moreover, even in the states where there is a competition policy it is not clear to what extent it is effectively enforced and embodies the necessary robustness to deal with the powerful anti-

<sup>13</sup> Krugman, P. (1994a) ‘Competitiveness: A dangerous obsession’, *Foreign Affairs* 73:2, 28 – 44; Krugman, P. (1994b) ‘The fight over competitiveness: A zero sum debate: Response: Proving my point’ *Foreign Affairs* 73:4, 198-203; Krugman, P. (1996) ‘Making Sense of the Competitiveness Debate,’ *Oxford Review of Economic Policy* 12:3, 17–25.

<sup>14</sup> Porter, M. E. (1990) *The Competitive Advantage of Nations*, New York: The Free Press.

<sup>15</sup> It should be noted however, that trade liberalization is a necessary, but not a sufficient condition for achieving competitive sectors and activities. Particularly in developing countries such as those in the Caribbean, liberalization needs to be complemented by strategic policies aimed at building capability to trade. The right institutions and mix of industrial policies are essential in this regard (see Rodrik and Rodriguez (2000)).

competitive business practices that exist in small economies. The resources are not available in the vast majority of states to undertake the required reforms, especially in the current tight financial situation.

Due to a lack of export similarity and weak competition within CARICOM, open regionalism, which combines competition with efforts to strengthen integration is imperative

The extent to which CARICOM countries open their markets to regional competition seems to be related to the degree of similarity in the content of their exports. Countries are generally unwilling to open their markets if they produce the same products even though in terms of creating trade and specialization this competition is expected to have positive effects for the overall welfare of the common market. In the case of the Caribbean, due partially to the high degree of specialization in small CARICOM countries, there is in general a low degree of export similarity between them. Research on this question has found that only few countries compete with one another in export markets, and that it is unlikely for member states to compete in similar products on the regional market.<sup>16</sup>

In this situation of low intra-regional competition, and generally in small integration schemes, open regionalism becomes imperative, as the scale and the type of competition required to drive global competitiveness must largely come from outside the integration scheme. Therefore over the longer-term, small integration schemes are challenged to sequence and blend regional and international competition in doses that would make adjustment socially acceptable and transformation desirable.

However, Caribbean countries have not been able to find the right mix of regional and international competition that would assist the restructuring process. Rather, they have been very cautious and over-protective in most cases, thereby engendering a slow process of growth and transformation.

### **C. The regional problematique and the state of regional integration**

Regional disparities in development, insufficient resources and asymmetric adjustment costs across countries constitute obstacles to the regional integration process.

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

Nevertheless, there are significant differences among CARICOM members in the approach to open regionalism. Regional disparities affect the key integration drivers: strong commitments to institution building; a sustainable political consensus on the goals of integration; and an equitable distribution of benefits. The majority of countries do not regard themselves as capable of competing at a free trade level on a fully reciprocal basis within the region, or even on an asymmetrical basis with countries outside the region. This poses a major problem for the integration scheme, which is forced to move at the liberalization pace of the slowest member, severely limiting the pace of global integration.

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<sup>16</sup> Lewis, D, and A Webster. "Export Specialisation in the Caribbean and its Implications for Trade Negotiations." *World Economy* 24, no. 6, 2001.

Even with the best of efforts, integration among small countries and micro-states, especially when those are insular, remains a costly exercise that goes beyond the means of the average participating country. The wide economic divergence among member states is now a major obstacle to advancing competitiveness and regional integration. It has led to an uneven distribution of the costs and benefits of integration. The CARICOM Treaty recognizes the need to address these disparities and, in 2008, created the CARICOM Development Fund (CDF), capitalised at US\$ 89.6 million and intended to help disadvantaged countries, regions and sectors to cope with CSME-related adjustment and promote business development. In the current crisis, however, the Fund, which was already limited, is now overstretched.

Meeting the requirements for adjustment to greater openness and competition now involves a significant amount of external donor assistance that has to be sustained over a long period of time. Donor assistance in the present economic climate is not likely to be forthcoming for Caribbean countries, many of whom are middle income countries, but who rely disproportionately on external donor assistance for development support for trade adjustment. Therefore countries would have to allocate some resources out of their already constrained budgets to accelerate their integration in the regional and global economy. Moreover, if resources are targeted at areas that facilitate the development of new competitive activities such as high value niche agro-processing and the creative industries, the return on investment could be high.

The regional integration movement as exemplified in CARICOM has not been able to widen and deepen at the desired pace to provide the required stimulus for development

The lack of uniform regional sectoral policies tends to create different responses at the national and international levels. Given the importance of trade and investment policy for building competitiveness, it is not surprising that competitiveness has been constrained by a slow and uneven process of trade liberalization. The latter process in terms of goods was certainly marked by the Uruguay Round, when CARICOM countries, with the exception of Haiti, set an average bound rate of 100 per cent for agriculture and 50 per cent for non-agricultural goods.<sup>17</sup> With the exception of Suriname and to a lesser extent Barbados, CARICOM countries had 100 per cent or near 100 per cent bindings. The overall average bound rate of the CARICOM was higher than the average for developing countries and that of the Central American Common Market (CACM) countries used as a comparator.

In addition, the first and second generation reforms accepted at the national level in the 1980s and 1990s have never been adequately supported and implemented at the regional level.<sup>18</sup> This has posed a major problem for CARICOM as countries tend to approach liberalization and integration into the global economy on the basis of sectors that are of interest to them.

The implication of this is that at the macro and regional level there is no coordinated and harmonized approach to openness. Examples of this abound. In the goods area, there are significant differences of opinion as to the pace of liberalization. Countries such as Trinidad and Tobago and the Dominican Republic (although the latter is not a member of CARICOM) tend to view greater liberalization as leading to greater competitiveness, while others do not see themselves in a position to compete. The Common External Tariff (CET) is therefore vigorously defended by these countries. Trinidad and Tobago consequently has forged ahead on its own by seeking greater market access and introducing more competition. It has taken steps such as application for suspension of the CET, for greater liberalization under the EPA, and the initiation of bilateral negotiation of Free Trade Areas, such as those with Costa Rica and the Dominican Republic (which are only partly accepted by some CARICOM members).

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<sup>17</sup> WTO bound rates indicate the desired level of tariff protection that a country can always resort to if it arbitrarily wishes to change its applied rates. In this sense they highlight the real level of protection.

<sup>18</sup> Not all of the second generation reforms were actually implemented at the national level.

The lack of a sustained political consensus on deepening the process of integration has led to slow and incomplete implementation of the CSME in CARICOM, which is the centre piece of Caribbean integration

Progress towards the establishment of the CSME has been slow. 1999 was the target date for adopting the major policies and measures establishing the CARICOM Single Market, but in many areas this target date was not met until 2006. Several contingent measures necessary for the CSME to function effectively are still to be implemented. The policies and measures for the single economy are still to be elaborated and adopted but decision-making and action in this area has come to a halt. In general, the CSME process has hit an impasse, with a reluctance to adopt stronger governance arrangements to guide the process and minimal participation in the Caribbean Court of Justice (CCJ). It is evident that both at the national and regional levels, various activities and strategies are necessary to make progress in implementation in this area.

Economic integration can therefore be regarded as having achieved only limited success. The uneven distribution of the benefits of trade and investment is largely responsible for this state of affairs as well as the growing disparities in income and wealth among the countries, not to mention other aspects of human development. It is clear that the economic process requires new governance arrangements at the centre, especially: an executive authority with powers to implement, question and propose; a regional legislative consultative body that functions effectively; adequate separation between the executive from the decision-making political bodies; and the entrenchment of decisions in law as they are made and enforced by a regional court such as the CCJ.

## **D. Challenges to regional competitiveness and sustainable development**

In trying to get the political economy of its competitiveness and integration right, the Caribbean still confronts a number of challenges related to sectors, institutions and emerging issues.

At a time of huge debt service ratios and fiscal imbalances, natural disasters and security threats are posing a challenge to building competitiveness. As an example, the recent spurt of crime is very costly for business and many businesses in the region regard it as the number one issue that affects their competitiveness.

The role of Brazil, Russia, India, China and South Africa (BRICS) as important new players in the global economic system implies greater global competition, since the global workforce has doubled as a result of the size of these countries and their entry into the global market. This new shift of economic power poses important challenges for the Caribbean region in moving up the value chain and finding niche markets.

These challenges needed to be addressed in an integrated manner to advance the competitiveness of the regional economy.

### **1. Diversification and industrial restructuring**

Diversification and industrial restructuring are key issues for all Caribbean economies as the high product and market concentration of exports produces high volatility of income as well as vulnerability to adverse shocks. Increasing concentration in the structure of the region's exports was visible over the period 1997-2006, when the share of the top 20 products in exports increased from 51 per cent to 71 per cent of the total exports. Among these products were four manufactures, four food products, six minerals and ores and six energy products. The United States is the main importer from the region, accounting for 40 per cent of imports, with the EU share at around 10 per cent. The share

of exports from Caribbean countries to Latin America and the Caribbean increased slightly, but nevertheless remains at less than 25 per cent.

Declining export competitiveness has translated into slow growth of exports and this has expressed itself in stagnant and low growth rates generally. Given the demand for imports, the current account deficit is the major constraining factor on growth. The implication of this for development is clear in so far as low growth rates have limited the distribution of income and employment creation. It has forced governments into excessive borrowing to maintain economic activity leading to burdensome debt levels and reduced capacity to manage economic shocks.

In general, the region has not been able to diversify industrial production and capture higher valued added production. Its lack of competitiveness in this area is largely related to its inability to restructure its economy to attract non-resource-based foreign investment, its small market size and the challenges it faces in developing adequate levels of human capital and innovation.

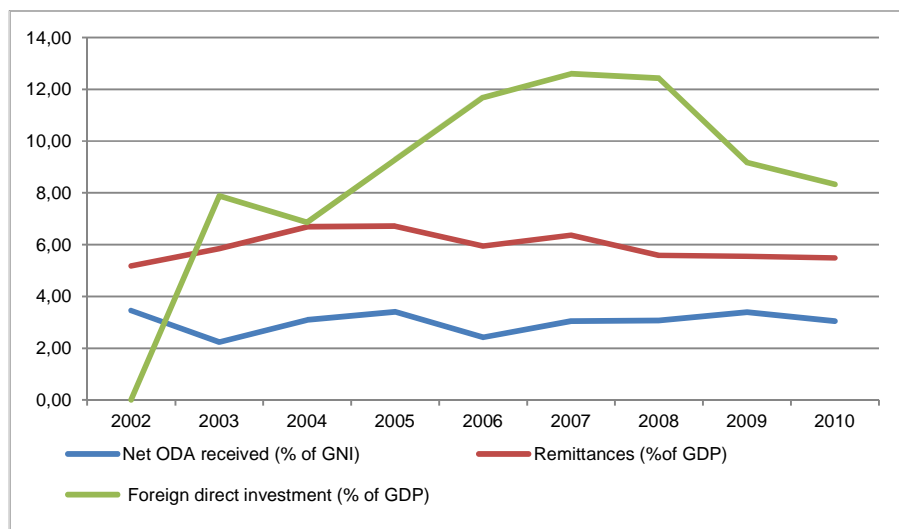
Outside the tourism and offshore finance sectors, efforts to diversify service products have not been very successful. Foreign investment in the non-tourism service sectors has not grown significantly in the last decade. This is evident in a key area such as telecommunications, where, even though the sector has been liberalized since 2000, resulting in considerable foreign investment in the basic infrastructure for mobile or cellular telephone services, export-oriented valued-added services have not emerged.

The cost and dearth of availability of infrastructural services (finance, telecoms, and utilities) and the inability to attract significant new foreign investment in new service industries are among the main constraints to the development of competitive non-tourism services.

## **2. Finance**

The Caribbean's access to international finance has become even more difficult in the wake of the global crisis. A number of developed economies have garnered a significant portion of available financing, effectively crowding out developing economies or at least increasing the cost of access for them. In addition, structural current account deficits mean that most countries in the region have not been able to bolster export receipts. Also, remittances have tapered off in some countries as unemployment and income uncertainty remains high for the diaspora in the advanced economies. FDI has also been badly affected by the uncertainty surrounding the global crisis, while official development assistance (ODA) is no longer an important source of finance in region as a most countries have been graduated from the 'soft window' of development finance institutions (see figure 4).

**FIGURE 4**  
**AVERAGE NET ODA, FDI AND REMITTANCES TO THE CARIBBEAN, 2002-2010**



Source: World Bank, World Development Indicators [online database], World Bank, <http://databank.worldbank.org/ddp/home.do>, 2013.

In addition, structural adjustment funds to allow countries and regions to adjust to increased competition in the market place are not available in the required amounts. The Caribbean Development Bank (CDB) and the recently-created Caribbean Development Fund (CDF) represent an attempt to address this problem but they are not sufficiently endowed. CARICOM therefore remains heavily reliant on aid for trade.

As most Caribbean countries have almost been fully weaned from official development assistance, they have had to access commercial credit, often on unfavourable terms. Therefore access to development financing remains an important impediment to the restructuring that is necessary to build competitiveness, especially for small and medium sized enterprises.

### 3. Climate change

Although the Caribbean has one of the lowest levels of greenhouse gas emissions after Africa, it suffers the effects of global warming more than any other region. Internationally, it is widely accepted that small countries as those in the Caribbean need significant and urgent assistance to adapt to climate change. With low-lying coastal areas, the region is prone to natural disasters. Caribbean nations are particularly vulnerable to the effects of sea level rise (SLR) and extreme events due to their relative isolation, small land size, concentrations of population and infrastructure in coastal areas, limited economic bases and climate-sensitive ecosystems (reefs, beaches, and mangroves), and limited capacity for adaptation. Indeed, the Caribbean has been ranked as one of the most high risk regions for fall-out from climate change.<sup>19</sup>

<sup>19</sup> Inter-American Development Bank, *Climate Change's Impact on the Caribbean's Ability to Sustain Tourism, Natural Assets, and Livelihoods*, Technical Notes, No. IDB-TN-238, 2011.



## 4. Infrastructure

The Caribbean countries are relatively well-endowed with physical infrastructural capacity for ports and runways. Access to improved water sources is generally regarded to be higher on average than that of East Asia and the Pacific and Latin America and the Caribbean as a whole. Areas of core infrastructural weakness lie in electricity, roads, and sanitation, where investment is low.

Transport costs are relatively high in the region, constraining the expansion of intra- and extra-regional trade. Even domestically, the transportation of goods suffers from the poor condition of existing roads, which are not properly maintained in most Caribbean countries. This, combined with inefficiencies such as port charges, renders import and export costs particularly high in Belize, Haiti and Jamaica. In general, according to the World Bank 2008 Doing Business Survey, the Logistics Performance Indicator, which measures key dimensions of logistics for developing and industrialized countries, indicates that the Dominican Republic, Haiti, Jamaica and Guyana are performing below the Latin America and the Caribbean regional average.

**TABLE 5**  
**AIRFREIGHT AND SHIPPING COSTS**

Region	Transport - Airfreight costs (\$)						Transport – Shipping costs (\$)					
	To London	To Tokyo	To NY	From London	From Tokyo	From NY	To Rotterdam	To Yokohama	To NY	From Rotterdam	From Yokohama	From NY
Pacific	798	507	599	1419	1135	1018	2717	2139	3248	3577	2619	3448
Caribbean	598	844	360	630	1082	406	2213	3388	2977	2440	3707	3187
SSA	462	680	520	896	1822	1250	1617	1666	2706	1931	1822	3344
LA	696	966	579	781	1584	890	1502	1470	1581	1497	2038	1520
South Asia	387	362	430	667	996	769	1012	804	2333	1314	1281	2598
Rest Asia	709	413	683	1119	420	745	892	597	2742	668	481	1976
OECD	446	686	527	485	1074	630	973	1260	2013	965	1521	2127

Source: L. Alan Winters and Pedro M. G. Martins, Beautiful but Costly: Business Costs in Small Economies. Economic Paper 67, London, Commonwealth Secretariat.

Some Caribbean countries have been making strides in improving the quality of infrastructure. As a whole, however, public services in the region remain below an acceptable level and are not comparable with developing countries such as Mauritius, South Korea, Singapore, and Taiwan.

## 5. Governance

Inefficiencies in governance continue to delay the integration process.<sup>20</sup> With the exception of the CCJ, no other regional body has been endowed with any form of supra-national decision-making power. There is no executive authority at the regional level with the capacity to implement and enforce decisions. The idea of converting CARICOM from a Secretariat to a Commission with some executive authority, as recommended by the Ramphal Commission in 1992, has been debated for twenty years, but is far from acceptance. Recently, the proposal to set up a Permanent Committee of Ambassadors to oversee implementation was adopted by CARICOM Heads of Government but its efficacy has been seriously questioned.

<sup>20</sup> CARICOM established a Prime-Ministerial Expert Group on Governance in early 2003.

One of the major deficiencies that significantly affect the regional integration process is the absence of common legislative instruments such as regulations and directives. In CARICOM Community decisions become law through a separate legislative or administrative decision by every member state. This process is subject to significant delays in implementation especially in a situation where efficient enforcement mechanisms are not in place.

In addition, effective governance has been stymied by the inadequate funding of regional institutions which rely heavily on donor support. The availability of such support over the last three decades has weakened the commitment of regional governments to finance their own institutions. Another downside to this donor funding is the proliferation of institutions which have not brought any noteworthy enhancement in the delivery of tangible outputs.

## **E. The role of the emerging markets and “South-South” cooperation**

Among the emerging markets, Caribbean countries have turned especially to Brazil, Venezuela and China. Brazil and Venezuela have been active in the region and to some extent rivalling each other for influence. Brazil has stepped up the opening of diplomatic missions throughout the region and has been offering a larger volume of financial and technical assistance to Caribbean states over the last two decades, a significant part of which has been focused on Guyana and Suriname. The CARICOM-Brazil Commission recently elaborated a vast programme of collaboration in fields such as education, agriculture and construction. Brazilian investment has also been seeking opportunities mainly in natural resource areas such as energy and mining.

Venezuela’s influence in the region has grown significantly due to its concessionary funding of oil imports, especially to the oil dependent Caribbean countries. Venezuela has now emerged as the largest donor to Caribbean states based on its oil concessionary facility. PetroCaribe loans to Caribbean countries have increased as the global market price of oil has climbed; credits grew from US\$1.17 billion in 2005 to approximately US\$4.5 billion by 2010. This is the largest single source of concessionary finance to Caribbean countries.

China has also been increasing its presence in the region through trade, credits and investments, which have increased significantly since the 1990s. It has been active in providing many loans with a strong grant element and labour for construction, as well as investing in regional minerals, tourism and agricultural industries like sugar. The Chinese private and public sectors are now more involved in the ownership of sugar production, tourist resorts and minerals. Direct flights to the region from Beijing are also underway in an effort to encourage Chinese tourism. By 2010, having grown by 24 per cent annually for the preceding six years, trade between China and the Caribbean had reached US\$ 7.2 billion.

Alternative regional mechanisms and alliances offer new sources of cooperation. In the context of stagnation within Caribbean integration, the rise of wider regional cooperation and integration schemes that go beyond the capacity of CARICOM or any other regional mechanism to deliver financial and technical resources, has caused a shift in alignment of some Caribbean countries. Two prominent regional cooperation organizations which have been growing in significance are the Union of South American Nations (UNASUR) and the Bolivarian Alliance for the Americas (ALBA).

UNASUR was established in May 2008. Its main objective is to integrate the entire South American continent at the political, social, cultural, economic, financial, environmental and infrastructural level, by promoting regional cooperation in areas that facilitate development, such as trade, infrastructure, energy, research, innovation, technological transfer and technological production. It seeks to transform the South American continent into a major geopolitical actor that will make the region a dynamic force in international relations.

Two CARICOM countries based in South America, Guyana and Suriname have ratified the UNASUR Treaty. It is argued that CARICOM can benefit significantly from the presence of these two members in UNASUR in the areas of trans-national crime, climate change and energy security, provided that CARICOM appropriately reforms its governance structure and develops a strategic agenda. Whether Guyana and Suriname can act as a bridge between UNASUR and CARICOM also depends upon the evolution of geopolitical dynamics in the region and the role of other groupings, including the newly formed Community of Latin American and Caribbean States (CELAC).

As continental countries, Guyana and Suriname themselves have the potential to benefit from improved regional infrastructure, environmental management, and human security, not to mention the much larger market for goods, services and investment that UNASUR will offer.<sup>21</sup> As the north eastern part of Brazil develops and attempts to forge new links with Guyana and Suriname, it is difficult to imagine the cost of non-participation in UNASUR for the two countries.

As compared to UNASUR, ALBA challenges existing modes of cooperation and integration in so far as it is heavily state-driven and seeks to address issues of poverty by laying more emphasis on income distribution and the meeting of basic needs. ALBA was specifically created by Venezuela and Cuba in December 2004 as an alternative to the Free Trade Area of the Americas (FTAA), which was under construction at that time. The principles on which ALBA is founded are, inter alia, special and differential treatment, energy and food security, environmental protection, preservation of cultural identity and the vital role of communications and transportation. Significant concessional financing has gone to social projects that relieve the poor and for the reduction of energy import costs.

The Caribbean countries that are ALBA members are Antigua and Barbuda, Cuba, Dominica, and Saint Vincent and the Grenadines. Other members are Ecuador, Venezuela, Bolivia, and Nicaragua. Paraguay and Guatemala attended the last summit as observers. The CARICOM members view ALBA as another source of diversifying their foreign relations and reducing their dependence on a few traditional partners.

Two key institutions in ALBA are the ALBA Caribe Fund and the ALBA Bank. The ALBA Caribe Fund supports social programmes geared to reduce poverty and is based on the PetroCaribe programme in so far as 25 per cent of the crude oil import bill is assigned to this fund. The ALBA Bank (BALBA) was agreed between Bolivia, Cuba, Nicaragua and Venezuela in June 2007 and established in 2008. It is geared to promoting integration and development as well as to reduce poverty. It targets an authorized capital of US\$ 2 billion and will start with subscribed capital of US\$ 1 billion.

Cooperation in health and education is also central to ALBA. There are roughly 2,000 Cuban scholarships per year for Venezuela and 5,000 Cuban medical scholarships for Bolivia. Bolivia is reportedly benefiting from 600 Cuban medical specialists and Venezuela has 15,000 Cuban medical professionals working in its Barrio Adentro mission. Under the programme Dominica sends over 100 students for training as doctors and nurses and 75 others for other training.

Declining Official Development Assistance (ODA) in the wake of the crisis has led Caribbean countries to diversify their sources of development assistance, most notably towards Venezuela and China. Worldwide, ODA has been on the decline since 1991<sup>22</sup>. It moved from US\$63 billion in 1991 to US\$35 billion in 1997, a 44 per cent decrease. ODA to the CARICOM, with the exception of Haiti, which has received above average flows, amounted to US\$ 444.7 million in 1991. ODA flows declined by 3.4 per cent on average between 1991 and 2002, but has rebounded to grow by 14.8 per cent from 2003 to 2010. As at 2010, ODA amounted to US\$598.2 million. Nevertheless, indications are that ODA has tapered off in the aftermath of the global crisis, and given the economic difficulties

<sup>21</sup> This market includes 400 million people and has a GDP of approximately US\$ 2.3 trillion.

<sup>22</sup> P. Desmond Brunton, "Aid effectiveness in the Caribbean: Revisiting some old issues", Staff Working Paper no. 3/00, Caribbean Development Bank

in major donor countries, it is uncertain whether these flows will return to past levels in the medium or even longer-term. Moreover, given scarce resources, donors are practising more careful Aid targeting, which means that middle-income countries, such as those in the Caribbean, will not be a major priority, as focus shifts to least developed countries. In light of this trend, Caribbean countries have had to diversify their sources of development assistance and they have turned mainly to Venezuela and China.

Venezuela has been the major donor to the region in the last five years. It started the PetroCaribe Facility in 2005, which was an extension of the Caracas Energy Accord of 2001. This was made available to 16 countries in the Greater Caribbean and finances a portion of the value of imports of crude oil from Venezuela according to a sliding scale: 25 per cent of the value of imports at prices of above US\$30 per barrel; 30 per cent at above US\$40 per barrel; 40 per cent at above US\$50 per barrel; 50 per cent above US\$100 per barrel. The balance is payable over 25 years at 1 to 2 per cent interest (different figures for the applicable interest rate are reported) and there is a grace period for repayment of 2 years.

While it is difficult to put a figure on China's assistance to the region, it should be noted that China announced, in the Third China Caribbean Economic and Trade Cooperation Forum in September 2011, that it would provide US\$1 billion in soft loans to Caribbean countries to finance infrastructure projects. China is also claimed to have provided US\$132 million to Caribbean countries in aid and soft loans in the years leading up to the 2007 Cricket World Cup.<sup>23</sup>

## **F. Emerging development initiatives**

### **1. Food Security**

The high prices recorded during the crisis have triggered a search for greater food security in the region. A number of policy measures have been put forward to improve food security. At the broad level, CARICOM has developed a Food and Nutrition Security Policy Implementation Strategy, but a work plan is to be formulated. Oversight and Coordination of the policy strategy will take place at the national and regional levels. The CARICOM Secretariat is charged with mobilizing resources for capacity building, public education and advocacy, consensus building, information for decision making, and monitoring and evaluation.

The Food and Nutrition Strategy could ensure higher food production, better health and nutrition. The response of Caribbean countries at the regional level has been mainly under the Jagdeo initiative which started earlier to boost investments in the agricultural sector. Progress on this initiative has, however, been slow as the expected investments have not been forthcoming.

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

### **2. Climate change**

CARICOM, Caribbean countries and the Caribbean Community Climate Change Centre (CCCCC) have participated in a number of major regional projects designed to strengthen institutional, national,

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<sup>23</sup> "Why is China spending billions in the Caribbean?" Efra Fieser, GlobalPost (Boston, MA, USA) April 22, 2011.

and human capacities.<sup>24</sup> The CCCCC has been working on a range of tourism and climate change initiatives.<sup>25</sup>

In July 2009, the CARICOM Heads of Government (HOG) adopted the Regional Framework for Achieving Development Resilient to Climate Change. This document noted that over the last three decades, the Caribbean region has suffered direct and indirect losses estimated at between US\$ 700 million to US\$ 3.3 billion due to natural disasters associated with extreme weather events. HOG also mandated the CCCCC to develop a comprehensive regional plan for implementation of this strategy in which priorities will be established and responsibilities allocated, in addition to an investment program, a governance regime and a monitoring and evaluation system.

It should be noted that CARICOM has always stressed the importance of a common regional approach to address the threats and challenges of climate change and of the full and effective participation of the region in the international negotiations on climate change.

## G. Recommendations

### 1. Measures to strengthen international competitiveness in CARICOM

- The outstanding gaps that need to be filled to boost competition in the region, including developing competition policies; implementing competition law and training of persons to the new competition regime should be addressed as a matter of urgency.
- To enable a better functioning of competition policy, the primary focus at this time must be on providing capacity building assistance to Belize, Suriname, and the OECS to draft and pass national competition legislation, and along with Trinidad and Tobago to enforce the legislation and establish national competition authorities.
- Support should be sought for the CARICOM Competition Commission (CCC) accelerate the implementation of its activities, particularly in its effort to harmonize Consumer Protection Policy and to develop Caribbean Competition procedures and rules in areas such as the treatment of monopolies, mergers and acquisitions and other restrictive business practices in the CSME.

### 2. Focus on enhancing the Framework conditions for full implementation of the Single Market:

- Development and implementation of a sanitary and phyto-sanitary measures (SPS) regime. The aim is to meet the new guidelines set by the WHO International Standards and Accreditation in the area of food safety.
- Member States should attach greater priority to the enactment of new legislation as well as assign the requisite technical and financial resources for the effective functioning of Caribbean Public Health Agency (CARPHA).

<sup>24</sup> The most important activities to date include National Enabling Activities supported by the U.N. Development Programme; the Caribbean Planning for Adaptation to Climate Change project (1998–2001) supported by the Global Environment Facility; the Adaptation to Climate Change in the Caribbean project (2001–2004), which helped establish the CCCCC in Belmopan, Belize; the Mainstreaming Adaptation to Climate Change project (2003–2009), with Global Environment Facility (GEF) funding through the World Bank; and the Implementation of Adaptation Measures in Coastal Zones project (2006–2011), with GEF funding.

<sup>25</sup> One of which is providing an evidence-based approach to the development and implementation of practical strategies to assist communities, the private sector, and national governments in building a sustainable and climate-resilient tourism sector.

- The implementation of new dispute settlement mechanisms at the national and regional levels as well as the provision of information in the interests of consumers should also be tackled with greater urgency.

### **3. Adopt the Draft Framework CSME Regional Integration Policy on Government Procurement**

- National consultations with all member states on the Draft Framework CSME Regional Integration Policy on Government Procurement needs to be completed and the policy to be adopted by the Council for Trade and Economic Development
- The approval of this Government Procurement Protocol should be backed by an adequate dispute settlement mechanism and assistance to certain member states lacking the funding and the requisite skills for legislative reform and appropriate administrative practices should also be provided.

### **4. Harmonize regional customs legislation**

- The region should harmonize its customs legislation and adopt appropriate measures for the promotion and export of goods and services, including effective trade information systems and trade facilitation programmes.
- The Single Administrative Document (SAD) for submission of customs declarations needs to be urgently adopted as well as the simplification of Import and Export Procedures and a framework to apply valuation procedures in accordance with Article VII of the GATT (1994)

### **5. Empower the Caribbean Development Fund to combat regional disparity**

In an effort to deal with regional disparities and to strengthen the capacity of weaker members to face up to the competition in the CSME the CDF, which was mentioned earlier, should be better capitalised to respond to the needs the less developed Member States.

### **6. Improve the business environment to attract investment**

- CARICOM countries need to enhance their capacity to attract investment by improving the business climate in areas such as doing business and skill development;
- In addition, the region needs to implement a Community Investment Policy and a CARICOM Investment Code to regulate of businesses in a more liberalized environment as a matter of priority.

### **7. Adopt a strategic regional competitiveness policy**

- In addition to promoting greater competition and a more effective single market, CARICOM needs to adopt a strategic policy at the regional level regarding competitiveness. Several areas such as clustering, joint research and development, joint marketing, training should be part of this new regional strategy as well as the identification of competitive areas.
- Potential non-tourism services areas of opportunity that should be further exploited include off-shore banking, education, financial services, energy services, entertainment, transport, information services and telecommunications.

- A policy which promotes a competitive and sustainable agricultural sector is needed. The implementation of the Community Agricultural Policy (CAP) as well as improvement of information, training, transport, storage, research and development, financing, technology transfer, risk management and marketing could alleviate constraints related to food production and security and expand rural incomes.
- Given competition primarily from countries outside the region, the Caribbean should develop a common tourism policy (investment, pricing, FDI policy) to benefit from synergies and to reduce the cost of marketing and other operations in the sector.
- The region needs to develop a modern strategy for boosting competitiveness in tourism through product differentiation (diversification and specialization) and enhancing the quality of service, given the decreasing market share in the sector<sup>26</sup>. Efforts to diversify the tourism sector such as health, sports, marine and heritage tourism are needed.
- A regional harmonized regulatory, legal and policy framework for air and maritime transport should be elaborated.
- Maritime assets should be expanded and modernized; larger scale, specialized vessels created; and seaports upgraded.
- At the same time small vessel and schooner services used for intra-regional trade in agricultural and other products require support in the form of training and other assistance.
- A plan and programme for the efficient use and management of regional air space are also required. The question of strengthening safety and security should also be addressed through technical assistance and training of inspectors and a regional safety management system.
- Given the high dependence on and cost of imported fuels in the Caribbean with the exception of Trinidad and Tobago and Suriname, renewable alternative energy—solar, geothermal, hydroelectricity has to be more actively pursued and interisland connectivity through the provision of proper incentives should be promoted.

## 8. Develop a regional strategy for engagement with emerging markets

CARICOM should craft a clear strategy to integrate with emerging markets in the south to provide an expanded market and to promote cooperation on technology, innovation and international negotiations.

- Initiatives have been taken to develop new markets and to foster greater investment and development assistance from the South. On the economic front, a major noticeable shift is the search for investment and markets especially in Latin America and Asia.
- Entry into organizations such as UNASUR which promote new opportunities can bring benefits to CARICOM itself. However, CARICOM needs to plan ahead to determine how it can better leverage integration with these groupings to promote regional development.

## 9. Develop climate change mitigation and adaptation strategies

Given the potential serious fall-out from climate change, including economic, environment and social impacts Caribbean countries need to include climate change mitigation and adaptation strategies in

<sup>26</sup> The market share of tourist arrivals of the Caribbean has slightly but steadily decreasing in recent years. According to UN World Tourism Organization, tourist arrival in 2011 in the region recorded 20.8 million which was 2.1 per cent of the total tourist arrivals in the world, compared to 2.6 per cent in 1990 and 2.4 per cent in 2005.

their development programmes, including a focus on green energy and building a green economy. Implementation of adaptation measures for such purposes will require assistance from the international community to strengthen both capacities as well as resources.

## **10. Develop a serious programme to achieve fiscal and debt sustainability in affected countries**

The severe threat to growth and macro-economic stability that is posed by fiscal deficits and high debt requires that affected countries develop robust systems for public expenditure management, revenue administration and collection and to reduce their need to contract debt.

## **H. Conclusion**

The Caribbean is searching for a development model to improve upon the gains that it has made. This model needs to create a harmonious balance between the need for competition to spur innovation and new tradable products and services and the need to deepen regional integration.

A model of open regionalism is imperative since the scale and the type of competition required to drive global competitiveness must largely come from outside the integration scheme. The region is therefore faced with the challenge of sequencing and blending regional and international competition in doses that will make adjustment socially acceptable. Caribbean countries have not yet been able to find the right mix of regional and international competition to assist the restructuring process and, as such, the current model has failed to spur sufficient competition to drive productivity growth and high value-added tradable services in areas such as telecommunications. In addition, regional integration has been floundering due to weak commitment to implement decisions that promote a more integrated and dynamic regional market.

In order to boost its competitiveness on the regional and international markets, the region needs a comprehensive competitiveness programme to raise productivity and efficiency in its flagging traditional agriculture, tourism and other sectors and to search for new areas of comparative advantage, including aspects of the creative industries. A role for government will be required to strengthen the business environment by improving the ease of doing business and, in some instances, to nurture sectors with promise through selected industrial policies. As a complementary factor, in order to add greater value to activities FDI must be better leveraged to harness technology and skill transfers for the development of domestic capacity through education and training and for the development of domestic capacity for R&D. At the same time, the region will also need to strengthen its competition policy framework, both to reduce anti-competitive practices and to improve consumer welfare.

Finally, the Caribbean must better leverage cooperation and integration arrangements with emerging markets in the South such as Brazil, India and China in order to benefit from technology transfers and greater market access for its products and services. Cooperation in this area may also be essential for confronting the existential threats faced by the region.