

Current Situation and Economic Prospects of the
English-speaking Caribbean

Twelve years ago when I began my career in economic research few of us were sanguine about the economic prospects of the English-speaking Caribbean. We saw little opportunity for sustained growth at a rate which would enable governments to cut into the chronic unemployment problem. Nevertheless, I doubt there were many who anticipated the degree of economic collapse that we have witnessed within the region in the 1970s. The poor performances by Jamaica and Guyana in particular outweigh modest gains made by Barbados, the Bahamas and some smaller territories. Trinidad and Tobago benefitted from the oil boom but the results of its attempts to transform the oil surplus into a more lasting foundation for economic expansion are still unclear.

Terms of trade losses contributed to the region's woes. No country received external financing in a quantity or on terms which could compensate for that country's terms of trade losses. However, governments compounded the ill effects of external shock by rash domestic policies. Many of these policies have been chronicled elsewhere and their effects are still the subject of passionate debate. I do not intend to enlarge on this issue here. However, I believe one crucial aspect of the failure of economic policy was the general lack of recognition of capacity limitations. All developing countries, even those with relatively better educational facilities such as are to be found in the Caribbean, are

*CCMS Annual Monetary Studies
Conference*

(October 12-15, 1983)

critically short of trained man-power. Compared with the tasks to be undertaken, there are pitifully few managers, professionals, technicians and skilled personnel at all levels. I believe that this human resource constraint is the pivotal one for the rate of growth and development. Furthermore, Government is at a great disadvantage in attracting to its service those skilled personnel who are available. Its salary scales for such people are non-competitive and its merit system rewards seniority rather than productivity or capability.

The scope of effective Government policy is severely circumscribed by this human resource limitation. Examples of disastrous failure of Government policies because of poor administration abound throughout the Caribbean - the nationalised bauxite industry in Guyana, the exchange control system in Jamaica, the attempted re-organisation of the sugar plantations in that country and Barbados' public transportation system are but a few examples.

The evidence of economic malaise throughout the Caribbean is to be seen in the declining real output during the 1970s in Jamaica, Guyana and some LDCs. Traditional agricultural and mineral production declined throughout the region. The decline was widespread, affecting sugar, bananas, bauxite and petroleum. The newly emerging sectors (manufacturing, tourism) also showed some weakness although they recorded overall expansion. Unemployment increased everywhere and the proportion of jobless is higher now than at the beginning of the 1970s. Several countries,

of payments deficits and depreciating exchange rates; there have been occasional bursts of inflation everywhere.

Current Situation

In spite of feverish attempts to boost exports using foreign financing where available, the prospects for the Caribbean region are not encouraging. In Barbados, a revival in tourism has arrested economic decline but the resurgence is narrowly based. The diversification of tourism markets which was successfully achieved during the 1970s now seems threatened. The U.S. segment was the only one to record healthy growth in 1983. Manufacturing exports continue to expand but again the growth is narrowly based with a few companies accounting for all the dynamic effects. Unemployment is still too high although inflation has fallen with the easing of foreign price pressures. The balance of payments equilibrium is still touch and go.

The Guyana economy is in a shambles. The country is impoverished and the prospects for growth of any kind are non-existent. There is little that may be called economic management, indeed management of any kind. The exodus of competent professionals and skilled technicians is now virtually complete.

Jamaica enjoyed a year or two of artificial expansion based on heavy short-term capital inflows in 1981 and 1982.

However, the de-industrialization which characterised the final years of the Manley regime could not be reversed in a short period, in the best of circumstances. The capital stock of the country had been allowed to run down; to maintain competitiveness in today's dynamic world a firm needs not only to maintain but to update capital equipment by importing newer technology. Even if the process of re-capitalisation had begun on the day Seaga took office it would have been two or three years before the effects could have made a substantial impact. In fact, re-capitalisation could not have been co-terminous with the beginning of the Seaga regime. Investor confidence cannot be established by fiat; businessmen must return, look around, and make their own determination about economic prospects before they will consider preparing new investment plans. In the best of circumstances, therefore, economic growth in Jamaica would have been a medium-term affair. In fact, much of the financing received in the first two years of the Seaga administration went for consumer spending rather than for investment and the decline in available financing has left the country in much the same condition as in 1980.

The Government of Trinidad and Tobago used oil revenues to fund an ambitious development programme for heavy industry. There is a question mark hanging over some of the large enterprises which have been established (for example, the steel complex) but it seems that others (such as fertilizers) are beginning to do well. Falling oil production and weak oil prices have resulted in falling

reserves for the first time in many years. This has produced some consternation in official circles and no doubt accounts for the truculence of the Trinidadian government in discussions of regional issues.

The economy of the Bahamas is more closely linked to that of the United States (via tourism and financial services) than any other. The Bahamas has therefore reaped greatest benefit from the U.S. economic revival.

The performance of the LDCs has been erratic, with St. Lucia, Grenada and Antigua apparently holding their own and the others doing rather poorly. Under-developed infrastructure and scarcity of human resources are among the smaller territories more intractable problems.

Regional integration mechanisms have been threatened by several governments' defensive economic measures and by economic failures in the countries which account for the largest segment of the market. The Caricom payments mechanism which was a model of simplicity has been sabotaged by Guyana's bankruptcy and by the facility's failure to observe precautions against over-exposure.

Exchange rate issues have also been a bone of contention. The different economic circumstances of regional member countries mean that differences in exchange rates and exchange rate movements are inevitable. A unified exchange rate is impossible where there are no mechanisms for transferring factors of production or finance

to equalise economic circumstances throughout the region.

Moreover, the policies and political complexion of regional member countries are so diverse that investment prospects could not be equalised even with such compensatory mechanisms. There is, therefore, always the possibility that devaluation will give one country a competitive advantage; that is something the region must live with. Jamaica had no alternative but to devalue in view of its parlous foreign exchange situation. Unfortunately, the Trinidadian authorities chose to retaliate by imposing import controls, clouding the prospects for regional trade.

In any case healthy growth of regional trade cannot be sustained. The expansion which took place in the 1970s was largely based on the growth of the Trinidad market but now that the oil boom is over that source will no longer provide the same stimulus.

The Outlook

The outlook is not encouraging. Mechanisms such as export promotion institutions and special finance schemes directed towards exports are clearly necessary. However, it will be difficult to sustain the export drive, as it is based on so few activities. The opportunities offered by new technologies are perceived by a few but they will be difficult to capitalise on because they require substantial organisational skills and a great deal of investment in

leaves no dependable surplus from this source and the only remaining leg the region has to stand on is tourism. I fear that will not be enough.

Under these circumstances what ought to be done? Continual investment in people is paramount. Specific initiatives have to be taken in the field of education. There are many things that could be attempted but in trying to do everything at once we may achieve little of anything. To take advantage of the opportunities offered by rapidly changing technologies, I believe we need a concerted thrust on a narrow front. We should seek a substantial breakthrough in selected activities and techniques in the hope that the gains to be made thereby can then be spread throughout the economy.

Governments should continue to promote export oriented efforts with the kind of institutions which are already in place. The major difficulty is the capacity of these organisations to perform the needed tasks. This issue can only be addressed by providing managerial and organisational skills of a high order.

The third task is to improve information flows at all levels of the economy. Economic growth requires investment; investors will lay out their money only if they are well-informed and confident about the economy's future. It is the business of

leading institutions, both in the private and public sectors, provide sufficient wealth of information that the potential investor may make his own choices. Individuals and institutions within the economy must also make choices about work, leisure and spending, all of which will affect the chances of balanced economic growth. While we do not necessarily believe that these decisions will always be made on grounds which economists might consider rational, we do believe that the area of debate can be considerably narrowed if there is a body of reliable, current ongoing information which can form the basis of negotiation and rejection.

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October 1983