IMPROVING COMPETITIVENESS FOR CARIBBEAN DEVELOPMENT

REPORT OF THE
CARIBBEAN TRADE AND ADJUSTMENT GROUP

Prepared at the request of the Regional Negotiating Machinery and the Caribbean Community Secretariat
# TABLE OF CONTENTS

**PREFACE**

Chapter 1: **INTRODUCTION AND SUMMARY**

Chapter 2: **INTERNATIONAL TRADE NEGOTIATIONS AND COMMUNITY POLICY-MAKING**

Chapter 3: **MAJOR CHALLENGES AND OPPORTUNITIES**

- **Agriculture**
  - Sugar
  - Rum
  - Bananas
  - Rice

- **Manufacturing**
  - Textiles/Apparel

- **Mining**

- **Services**
  - Tourism
  - Financial Services
  - Telecommunications
  - Information Services
  - Entertainment Services
  - Health Export Services

Chapter 4: **MACROECONOMIC ADJUSTMENT**

- Fiscal Reform
- Exchange Rate Management and Regional Monetary System
- Capital Markets

Chapter 5: **COMPETITIVENESS, PUBLIC AND PRIVATE SECTOR DEVELOPMENT**

- Competitiveness and Human Resource Development
- Labor
- Public Sector Modernization
Private Sector Development
The Informal Sector
Caribbean Diaspora
Infrastructure

Chapter 6:
GOVERNANCE AND INSTITUTIONS

Governance
Justice Institutions
Civil Society
Regional Institutional Arrangements

Chapter 7:
FINANCING ADJUSTMENT AND RECONSTRUCTION

Appendix 1 Members of Caribbean Trade and Adjustment Group
Appendix 2 Priority Recommendations
Appendix 3 Matrix of Recommendations
Appendix 4 Contributions Submitted for the Caribbean Trade and Adjustment Project
Box 1 Lessons from East Asia
Box 2 Growing Faster with Knowledge
Box 3 ISO 9000: Signaling quality and improving productivity
Box 4 From reliance on trade preferences to the successful marketing of branded products- The case of Appleton Jamaica Rum
Box 5 Barbados Labor Market Relations
Box 6 Standing up to Crime (Cali, Colombia)
PREFACE

In October 2000, the RNM and the CARICOM Secretariat jointly undertook an evaluation of developments in respect of the major international trade negotiations in which the Caribbean Community was involved, and of their implications. One of the conclusions of that exercise was that a Caribbean Trade and Adjustment Group (CTAG) should be established to examine in greater detail the trade and adjustment issues arising for the Caribbean out of these international trade initiatives.

CTAG, the composition of which is listed in Appendix 1, was appointed in November. The Group met in Barbados and Washington D.C. in February and August 2001, respectively. It invited a number of experts and regional and international institutions to submit contributions. The contributors, listed in Appendix 4, included, among others, representatives of the public and private sectors, and civil society. Representatives of CTAG also undertook missions to most of the Caribbean member States and consulted with public and private sector agencies, trade unions, and non-State organizations.

The Chair wishes to thank the Inter-American Development Bank (IDB) and the Canadian International Development Agency (CIDA) for their financial support to the project; the Office of the Executive Director for the Caribbean at the IDB for its assistance in organizing the Group’s work in Washington D.C.; and all those who contributed to the exercise, in writing or orally, in particular Havelock Brewster, who carefully assessed the contributions and drafted the report. He also wishes to place on record his appreciation for the work of the other members of CTAG who took time out of their busy schedules to deliberate the issues, not only in the formal Group meetings, but in numerous bilateral discussions, and of the secretariat that served the Group so well.

Richard Fletcher
Chair, Caribbean Trade and Adjustment Group
Washington D.C.
August 2001
Chapter 1

INTRODUCTION AND SUMMARY

The Caribbean, for its size, has become probably the most over-researched community in the world. Practically every international and regional organization and academic institution has produced steady and copious outputs of research on the Caribbean, ranging from general studies like the CGCED’s “Toward A Caribbean Vision 2020” and the Commonwealth Secretariat’s “A Future for Small States: Overcoming Vulnerability” to specialized sectors studies on, for example, telecommunications, health, justice, and gender. In a way, it is a little surprising that Paradise, as the Caribbean is popularly known abroad, should be considered so greatly in need of research.

And thus perhaps not surprising that archives rather than actions, talk rather than deed, seem to be the dominant mode of engagement in the Caribbean, not only at the regional, but at the national level as well. The West Indian Commission in its report Time For Action (1992) proposed as an answer to this peculiar state of affairs that there should be established “Community machinery, which will enable important decisions to be more readily taken, and when taken, implemented without delay or dilution”. Evidently, the origin of the problem of inaction lies much deeper than the lack of institutional machinery (if that was indeed the case). CTAG has not come up with any definite answers to this problem, nor was it asked to do so. But it did put to many interlocutors the question: “what could this exercise do that would make a difference?” While this elicited mostly complex political and sociological responses, an immediately useful observation advanced was to the effect that the proposals and recommendations contained in reports over the last decade or two lacked a sense of craftsmanship. Often, it was argued, they were too vague, shapeless, and timeless to be a useful guide to action; devoid of appreciation of how to move from one step to the next; maps without contours. Overcoming inertia and skill in crafting recommendations amenable to action are two issues that probably now deserve more attention.

This reconnaissance was undertaken, in response to a request that the implications of on-going and forthcoming multilateral trade negotiations, and the kind of adjustments needed in the Caribbean should be looked at in greater detail. Given the short time before the impact of these events would begin to take effect, this report was conceived as a wake-up call to the urgency of the issues facing the region that could form the basis of a blueprint for action.

Presently, nothing resembling a Regional Development Strategy (RDS) exists. This inhibits both the derivation of an international trade policy that is in harmony with and advances such a strategy, and the rationalization of priorities in a situation of very scarce resources. For example, the relative emphasis to be given to primary production, manufacturing, and services by the
region and its component parts cannot be adequately determined. Nor, given the breath of the issues to be tackled, can the desirable allocation of capital – not only financial capital, but perhaps more difficult, the political capital that must be expended in legislative and executive decision-making, and in implementation. The absence of a RDS also makes it difficult to prescribe what approach should be adopted to the inevitable asymmetry in the distribution of the net benefits of a market-driven type of integration in the Caribbean. Such an issue comes to the fore, for example, in respect of a common sugar policy, or regional strategies for the tourism, entertainment and health export services sectors.

The report addresses the supply side of development but implicit in all of this is the assumption that the adjustments and reconstruction to be undertaken will be for the benefit of people – that they will expand employment, reduce poverty, improve living standards for the society as a whole, in urban as well as rural areas, will lead to greater inclusiveness and security, and diminish the incidence of inequality. A complete examination of the development problematique, and the means by which the goals are to be realized, are beyond the present exercise – another reminder of the pitfalls in undertaking a task such as this abstracted from the normative standards of a regional development policy – but they need to be benchmarked nevertheless.

The report thus focuses on the main challenges and opportunities arising out of the multilateral negotiations and the range of adjustment policies and actions that are needed. The methodology is based on surveys of pre-existing research and other material, extensive consultation with the social partners in most of the CARICOM States, and the deliberations of CTAG. Much of the ground covered was gone over by the West Indian Commission, often in much greater depth. However, severe aspects are introduced in this report that did not feature significantly in Time for Action, for example, rice, textiles/apparel, financial services, telecommunications, informatics, entertainment services, health services, private sector development, the informal sector, civil society, macroeconomic reform, infrastructure, financing for adjustment and reconstruction. Most of these areas have benefited from research undertaken since that report was published. In areas common to both reports, such as sugar, bananas, mining, exchange rates, capital markets, governance, justice, regional institutional arrangements and international trade negotiations and community policy-making there is a good deal of convergence. But there are also noticeable differences. For example, Time For Action contained resonances of the past in its implicit expectation of an indefinite future for non-reciprocal trade preferences from the European Community. This naturally affected the policy approach to such issues as sugar, rum and bananas, to the fiscal implications of trade liberalization, and indeed to the parameters of Caribbean Community international trade policy and negotiations.

Some facts have changed as well, for example, the revitalization of the bauxite/alumina industry in Jamaica, and its virtual collapse in Guyana, developments in respect of exchange rates in the individual CARICOM States, the application of restraints on the off-shore financial industry, and actions to liberalize the monopolistic telecommunications industry.

The theme running through this report is improving competitiveness - in traditional and
emerging industries. Competitiveness is a many-sided and complex phenomenon. The competitiveness of a firm is directly determined by its own productivity and cost of operation. But, these are in turn affected by a wide variety of factors, such as the stability and competitiveness of exchange rates, the efficiency and predictability of the tax system, the effectiveness of delivery of public services, the quality and diversity of entrepreneurship, the orientation of trade unions and labor policy, the adequacy of the physical infrastructure, the availability of research and development facilities, the reliability and honesty of governance and the administration of justice, and the inclusiveness of society. This report therefore devotes time to all of these concerns, and more, after reviewing the prospects facing the main productive sectors.

Adjustment to the changes that lies ahead is not going to be painless. Major disruptions are forecast for the traditional sectors - export agriculture, import substitute manufacturing, retailing, and customs revenue. Even commodity-type tourism and offshore finance are under threat. Improving competitiveness and seizing the new opportunities opening up for access to markets worldwide, especially for a variety of services, are thus the key to the future development of the region. While an enormous and difficult task lies ahead, CTAG was encouraged by the number and diversity of indigenous success stories found all over the region, even in the smallest and poorest of the Community States, and sometimes under unfavorable macroeconomic and political circumstances. Impressive successes are found in sectors as diverse as luxury hotels and tourism, branded alcoholic products, finance and insurance, processed agricultural products, traditional and non-traditional export agriculture, fisheries, infomatics and retirement communities. CTAG felt optimistic about the capacity of the region to adjust, to replicate and extend these successes many times over – given an enabling political leadership and the will to succeed. Resourceful, healthy and literate people, substantial and diverse natural resources, abundant water, a benign environment, untapped capital and open world markets are all in place and ready to go. The Caribbean is envied by most places on earth for its good fortune.

The trajectory of **Time For Action** remains, on the whole, in place. That report took its cue from the observation in the Trinidad and Tobago report “The West Indies Beyond 1992” that the Caribbean was in real danger of “becoming a backwater at a time of historic change when the central reality in international affairs lay in the fundamental restructuring which was taking place in the world”. The historic change referred to at that time seems relatively mild compared with the sea change that now engulfs us.
At that time, reference was made to the disintegration of the Soviet Union, the adoption of market mechanisms across the world, the European Economic Community’s intention to establish a common currency and single market, and achieve closer political integration, the uncertain outcome of the Uruguay Round of GATT multilateral trade negotiations, the possible accession of Mexico to NAFTA, and the march of Japan towards economic and financial pre-eminence.

Now, the World Trade Organization (WTO) has come into existence with a whole new architecture, extending its disciplines of non-discriminatory liberalization to services, intellectual property, and investment. Market economics, free trade, and globalization have become the new mantra for how economies should be properly managed and development attained. The European Union has become a reality, with plans for further accessions, and it has established the Euro as its common currency. Russia has joined the G7. NAFTA is giving way to the Free Trade Area of the Americas (FTAA), now actively under negotiation. Japan languishes in a state of semi-permanent stagnation and financial collapse, while the United States has witnessed a decade long period of boom powered by one of the most extraordinary periods of technological innovation in history. Globalization and Capitalism, after the triumphalism of the 1990’s, are revealing more clearly their dark sides – the alarming rise in inequality between and within countries, poor and rich, environmental degradation, the rapid spread worldwide of HIV/AIDS, and illicit drugs, and the corruption of indigenous cultures. They are now generating a violent backlash among civil society groups.

CTAG was impressed by the fact that there are large areas for policy-making that could make a big positive difference to economic performance, without requiring significant amounts of finance. Action in these areas depends essentially on the deployment of political capital. Equally, it was encouraged by the fact that while there are huge human resource and skill deficits, the international community has at its disposal the means to respond, and is ready to do so in respect of well-constructed technical cooperation programs. Large amounts of finance will however be needed for adjustment and reconstruction of the productive sectors, and especially for new and renovated physical infrastructure.

CTAG agreed on a **limited number (seven) of priorities** that should be put to Heads of State. First, the Community should **define a coherent approach to international trade policy and should rationalize and strengthen its institutional capacity in this respect**.

Second, the **CDB should be transformed into the premier development financing institution of the region, with a substantially greater capitalization**. While some grant finance has already been put at the disposal of Caribbean countries through the ACP-EU Cotonou Partnership Agreement, for restructuring of the bananas, rice and rum industries, a renovated CDB represents the best prospects for mobilizing much of the finance needed for broad-based adjustment and reconstruction.

Third, a plan for **revitalizing and improving the competitiveness of traditional agriculture**
should be put in place, with priority given to a Common Policy for Sugar, a Common Policy for Rice, and Implementing the EU Frameworks of Assistance to the Banana Industry.

Fourth, a Caribbean Tourism Development Strategy should be approved and implemented, providing for such features as marketing the Caribbean Brand, facilitation of movement of tourists, financing a human resource development program, regional minimum standards, protection of the environment and local communities, and tourism research.

Fifth, a Program of Competitiveness should be established, using the Business Schools of the Universities as the institutional base, and initial support from the World Bank, the Inter-American Development Bank and the European Investment Bank. This Program would initially concentrate on enterprise case-studies, particularly of successful businesses, and move on to organizing self-financing advisory services for improving competitiveness.

Sixth, a Caribbean Economic Forum (CEF) should be organized by an appropriate regional private sector body with the aim of bringing together Caribbean and multinational corporations, the public sector, and the multilateral financial institutions. The intention is that CEF would be patterned after the Davos (World Economic) Forum, would be initially supported by the World Bank as a successor to the CGCED, and would become a self-supporting institution.

Seventh, a Human Resource Retention and Development Program should be prepared on a region-wide, sector comprehensive basis, and selected international organizations and bilateral partners invited to participate on a long-term coordinated basis.
Chapter 2

INTERNATIONAL TRADE NEGOTIATIONS AND COMMUNITY POLICY-MAKING

The Caribbean Community is currently involved in three major international trade liberalization initiatives – the recently concluded ACP-EU Cotonou Partnership Agreement and follow-up negotiations for ‘New Trading Arrangements’, the FTAA negotiations, and the forthcoming WTO multilateral round of negotiations, together with the ‘built-in agenda’ negotiations currently proceeding on agriculture and services. Similar trade liberalization initiatives are also proceeding at the CARICOM level and bilaterally with other countries of the wider Caribbean region and with Canada.

The ACP-EU Cotonou Partnership Agreement (CPA), signed in June 2000, envisages the progressive removal of barriers to trade between the partners within new WTO compatible trading arrangements. To facilitate the transition to such new trading arrangements, the non-reciprocal trade preferences applied under the fourth ACP-EU (Lome’) Convention will be maintained for all ACP countries during a preparatory period ending 31 December, 2007. During that period Economic Partnership Agreements – essentially free trade areas between individual ACP regions and the EU – will be negotiated, formal negotiations being scheduled to commence in September 2002.

While the status quo essentially remains in respect of trade relations with Europe, at least up to the end of 2007, the stage is set for radically different trading arrangements thereafter. Whatever form these arrangements take, so far as the Caribbean is concerned, whether an EPA or some alternative, they will necessarily entail reciprocity, non-discrimination, and implementation of the commitment already given to the progressive removal of barriers between the parties.

In the meantime, the EU has announced duty and quota free entry for all least developed countries (LDCs) for ‘everything but arms’ (the so-called EBA Decision), which is to be phased in for bananas (between 2002-2006), rice (2006-2009) and sugar (2006-2009). The effect of this Decision will be to erode the benefit of preferences to non-LDC ACP States, especially the Caribbean States.

At the Summit of the Americas in December 1994, the Heads of State of thirty-four Western Hemispheric States committed themselves to create a Free Trade Area of the Americas (FTAA), in pursuit of prosperity through open markets, hemispheric integration, sustainable development and the progressive elimination of barriers to trade and investment. The negotiations, which are expected to be concluded in 2005, have reached the stage of (mostly bracketed) draft texts covering a variety of issues pertinent to the liberalization of market access for goods, services and investment. CARICOM is now in the process of preparing an effective negotiating strategy for subsequent rounds of the negotiations, addressing in particular the
peculiar needs and challenges of small, vulnerable economies.

All CARICOM countries, except the Bahamas, are parties to the World Trade Organization (WTO) Agreements concluded in 1994 (covering trade in goods, services, intellectual property, dispute settlement and trade policy reviews) and are thus committed to a fair, (most-favoured-nation) non-discriminatory and progressively liberalized multilateral trading system, subject to the flexibility applicable to developing countries in implementing their commitments.

Following the collapse of the Third Ministerial Conference in Seattle and the failure to convene a new multilateral round of trade negotiations, negotiating activity in the WTO has been concerned primarily with the ‘built-in agenda’ derived from the conclusion of the Uruguay Round in 1994. This comprises negotiations mainly in agriculture and services. CARICOM has formulated a joint position in respect of both issues, emphasizing as regards agriculture the need of the smaller developing countries for adequate time and the institution of meaningful and flexible policy instruments to facilitate adjustment to a more efficient and diversified production.

In respect of services, the CARICOM partners emphasized retention of the existing architecture of the General Agreement on Trade in Service (GATS), including the principle that subsidies in the GATS should take into account the need for appropriate flexibility for developing country members, and particularly small developing countries to encourage the development of domestic services capacity.

Although a Fourth Ministerial Conference is scheduled to be convened in Doha, Qatar in November 2001, there is some uncertainty about the launch and scope of a new round of multilateral trade negotiations, with the European Union remaining committed to a comprehensive round, bringing into the WTO framework investment, competition policy, trade-related environmental issues; Japan being keenly interested in a multilateral investment framework and strengthening anti-dumping rules; the US possibly insisting on labor standards and environmental issues; and many developing countries holding the view that the first order of business should not be a new round, but addressing the imbalances of the Uruguay Round agreements, and particularly the specific issues raised and grouped together as implementation issues.

In CARICOM itself, the basic principle of trade policy has been the progressive liberalization of market access and the operation of a common protective policy in the form of a common external tariff on extra-regional imports. The region has sought to deepen the process of economic integration through the creation of the Caribbean Single Market and Economy (CSME), the centerpiece of which is Protocol IV on Trade Policy. The identified goal of Community Trade Policy is the sustained growth of intra-community and international trade, and the mutually beneficial exchange of goods and services among member States and between the Community and third States. In fulfillment of that goal, the objectives to be pursued include full integration of the national markets into a single unified and open market area; the widening of the market area of the Community; active promotion of the export of internationally competitive goods; and securing the most favourable terms of trade for goods exported to third States.
Community trade policy has often been thought of as helping to stage the process of opening up globally – as a stepping-stone to globalization – orchestrated under conditions in which the participating countries have more effective control of the agenda than they would have in larger negotiations. However, it has so far yielded disappointing results. Trade restrictions, tariffs as well as quantitative and other barriers remain relatively high, while levels of external protection are far from common and substantially higher than those applied in other developing countries of the hemisphere. The intra-CARICOM share of total imports is still well below potential and highly concentrated. It has been virtually stationary over the last decade. Some progress has been made in respect of the trade aspects of the CSME, but the macroeconomic, fiscal, monetary and exchange rate harmonization objectives remain a dead letter.

Community trade policy has also aimed at widening the process of regional integration by concluding trade agreements (as well as taxation and investment agreements) with several area countries, including Colombia, Cuba, the Dominican Republic and Venezuela, and embarking on ‘enhanced trade arrangements’ with Canada.

The framers of trade liberalization agreements, both on the multilateral and regional level, have recognized that developing countries would experience difficulties in fulfilling their obligations, and as such generally have included special provisions for transitional adjustment, such as different timetables, safeguard measures, temporary exemptions, financial and technical assistance. Experience with these agreements illustrates the scope for negotiating novel and customized approaches to adjustment, such as the programmable aid, trade development, macroeconomic reform and investment and technology promotion provisions of the Cotonou Agreement.

A large and complex task of international and bilateral trade negotiations and implementation follow-up lies ahead of the Community, in a situation of woefully inadequate resources, expertise and experience, at the national and regional levels. This is a compelling argument for using the limited resources available in a much more productive manner. This is far from the case presently. Often numerous national and Community officials are found in international trade meetings all over the world, at great cost to their institutions. Moreover, frequently these officials have little or no specialized expertise in their fields, and no particular function to perform. This wasteful situation is compounded by the fact that in Geneva and Brussels alone there is some fifteen Missions from CARICOM States (the Community has no representation in those locations).

The approach to international trade policy and negotiations is also handicapped, as mentioned earlier, by the absence of a regional development policy. Ideally, trade policy should be a derivative of development policy. The effect of its absence is apparent in many respects. For example, the agenda is mostly set for the Caribbean, rather than being influenced by what is in its best interest. Instances abound in all the major negotiations, including bilateral ones, in respect of such issues, as reciprocity, special and differential treatment, transition, competition policy, safeguards, compensation and adjustment.
The absence of a regional development policy also means that Caribbean responses to the various negotiating initiatives are being fashioned in an ad hoc, fragmented manner, without a clear point of reference to the common principles and basic objectives to be pursued. This is evident, for example, in the separate and uncoordinated manner in which the agenda for the Community’s goals are being set in respect of negotiations on future trading arrangements with the EU, the FTAA, and the WTO. While of course the outcome of any given negotiation is likely to fall short of the ideal, such principles and objectives would be both a guide to negotiating strategy and to assessing the trade-offs that have to be made across the various initiatives and their components.

The governments’ response to the external negotiating needs of the Community in establishing the Regional Negotiating Machinery is presently under review. Independently of this, a few suggestions could be made that would bring some improvement to the present situation. Firstly, priority should be given to shaping a more coherent approach to the formulation of international trade policy. Given that a regional development policy does not exist, and probably would take considerable time to prepare and reach agreement on, the approach, in these less than ideal circumstances, might be to agree on a limited number of basic development objectives and derivative international trade principles to be commonly applied, to the extent feasible, to all international trade negotiations.

Secondly, a reformed RNM should conduct its operations in a framework that formally incorporates the relevant government institutions, national and regional, that are responsible for policy-making, and should conform to procedures established for reaching consensus on regional policy and negotiating positions.

At the inter-governmental policy-making level two options are open. The first is to leave international trade policy as the responsibility of the CARICOM Council on Trade and Development (COTED), and ensure that the recognized procedures for policy formulation and coordination are followed in the future. The second and more ambitious option is to designate international trade policy at all levels — policy formulation, negotiation, and implementation — as an exclusive Community responsibility. This would of course require special inter-governmental (legislative) and Community Secretariat (executive) arrangements. It is the approach that that the 300 million European Community has adopted — itself an interesting commentary on the state of affairs in a Caribbean Community of 5.6 million fragmented into 15 States. This option responds to a concern expressed all over the region that at all levels the demands of trade policy exceed the capacity of Caribbean national administrations — research, economic, commercial and legal; policy formulation; negotiation; implementation; and evaluation. Even the largest of the Caribbean States lack these capabilities, while it would be extremely cost ineffective to try to remedy the shortcomings on a national basis. The smaller Eastern Caribbean States are especially disadvantaged in these respects and may be the natural place to launch an initiative such as this.

At the level of implementation in particular, as exemplified by the CSME experience, even when
policies are agreed and Community decisions made, legal and practical implementation at the regional level remains defective, whether for reason of inadequate technical capacity or political inconvenience. It is now clear that core decisions of the Community cannot be left to a process of ratification in fifteen separate national administrations, with virtually unlimited discretion in respect of implementation thereafter.

In terms of the external multilateral trade representation function, the corresponding options are: First, to institute **coordination arrangements at the level of COTED**. The Prime Ministerial Sub-Committee on External Negotiations Decision on “CARICOM Coordination/Cooperation at the WTO” (November 23, 2000) is a step in this direction. These arrangements would involve the appointment of regional spokesmen (and alternates) at the ministerial and official (national or regional) levels for the various issues under negotiation; rationalizing participation in meetings - especially those convened abroad, so as to avoid wasteful duplication; ensuring that delegations are composed of persons with specialized expertise and motivated to facilitate change; and accelerating the flow of information to national administrations and pertinent regional institutions.

The second is to **make external representation to the European Union in Brussels and to the WTO, UNCTAD, ITO and WIPO in Geneva a Community responsibility**. This would entail working out a system of rotation among the member States for the Heads of Missions and missions staff (similar in effect to the arrangements that have been in place at the IDB for many years.) Whether or not international trade policy is made an exclusive Community responsibility this rationalization of external multilateral trade representation would make good substantive and economic sense and can be implemented quickly.
Chapter 3

MAJOR CHALLENGES AND OPPORTUNITIES

The international trade liberalization initiatives reviewed and the more general globalization trends present both challenges and opportunities for the Caribbean. The obligations to be assumed under New Trading Arrangements between the ACP and the EU, the FTAA, and any new WTO Round will probably enter into force between 2005 and 2008, but are likely to provide for varying phasing-in periods. There is therefore not much time left to begin putting in place the adjustments needed. This chapter will point to the major challenges facing agriculture, manufacturing, mining, and services, and outline the options available for addressing them.

Agriculture

The prospects for extra-regional exports of traditional agriculture, mainly sugar, bananas and rice, are poor. The growth of demand for these primary commodities is close to zero, while prices continue to be very unstable. Most importantly, the loss of preferences in major markets and the more general global trade liberalization trends will put intense competitive pressures on Caribbean exporters. Indeed, the productivity/cost deficit that would have to be made up is so large that serious doubts exist about the prospects of survival of large portions of these industries, in the absence of substantial government support.

Agricultural diversification for extra-regional export markets has been the beneficiary of considerable research, policy-action, trade preferences and resource allocations over several decades. Results across the region have been uneven. In most countries they have been disappointing and this has been attributed to the small-scale of operation and low technology used. Jamaica has been the most successful exporter of non-traditional crops, mainly yam, sweet potato, papaya, avocado, hot pepper, ackee, and specialty coffees. The sector has benefited from duty-free access to the US market under CBERA, USDA pre-clearance facilities, and from government assistance such as for fumigation and cold storage.

Even in these relatively favorable conditions, let alone those in the other CARICOM counties where export performance lags far behind Jamaica’s, there is apprehension that the sector will not be able to withstand the competitive pressures unless structural transformation (basically large-scale, high technology production) is permitted to occur and redistributive mechanisms put in place.

In respect of intra-regional exports, there should in principle be good prospects. Differences in physical endowment, productivity and cost of production suggest a competitive advantage for such countries as Belize, Guyana, Jamaica, and the Windward Islands. The realization of these gains depends on the lowering of intra-regional protective barriers and improvements, to the regional maritime transport services. They also depend on the trade policy stance to be taken in regard to extra-regional imports. The alternative would be to go the route of a common policy for intra-regional agriculture (similar to that envisaged for sugar and rice), putting in place
mechanisms (such as common external protection at appropriate levels) intended to reserve the market for designated domestic agricultural products exclusively for CARICOM producers, as a precursor to structural transformation.

**Sugar**

Barbados, Belize, Guyana, Jamaica, St. Kitts and Nevis, and Trinidad and Tobago produce sugar for export. Total production in 1999-2000 amounted to 871,579 tonnes, of which 81 percent was exported. Exports were distributed as follows: EU Sugar Protocol (SP) and the Special Preferential Sugar Quota (SPS) – 85 percent, US Quota – 4.4 percent, CARICOM – 5.4 percent, World Market – 5.0 percent. Total CARICOM consumption was about 200,000 tonnes.

In the principal preferential market (EU SP) prices in terms of US dollars have been variable and have declined by 33 percent since 1994. The average price paid for EU SP sugar in 2000 was US 22 cents per pound, the average world market price being US 9 cents per pound. By comparison, the cost of production in CARICOM countries ranged from US 54.7 cents in Trinidad and Tobago to US 15 cents in Belize. Only Guyana (US 18.2 cents) and Belize produced sugar below the EU SP price. While the world price is not likely to represent the hypothetical world market free trade price, the consensus seems to be that an internationally competitive cost of production would average about US16 cents per pound. Trinidad and Tobago’s cost was therefore 3.5 times the internationally competitive cost, and Jamaica’s 2.5 times.

Thus only Belize and Guyana have any real prospect of being internationally competitive, and even in these cases substantial investment in rationalization, relocation, and field and factory productivity improvement would be needed. Nevertheless, the only country that has taken a decision to close the sugar industry is St. Kitts and Nevis. In Barbados, Jamaica and Trinidad and Tobago a mixture of considerations ranging from ecology, landscape preservation, water conservation, employment, rural cohesion and stability, and foreign exchange earnings have constrained making a purely cost-based decision in respect of the future of the industry. Moreover, in Barbados and Jamaica it is believed that with sufficient capital investment in rationalization and productivity improvement, and in diversification to higher value-added products, the industry, more broadly viewed, could be made competitive.

There are basically four options facing CARICOM so far as the export market is concerned. The first option would be to organize a process of gradual adjustment in accordance with regional competitive advantage. This would entail a gradual process of reducing production for export in Barbados, Jamaica and Trinidad and Tobago, beginning in 2006 when the EBA Decision, and perhaps also the abandonment of the EU Common Agricultural Policy under which sugar is subsidized, would begin to take effect. Such an adjustment process would involve not only expanding export production in Belize and Guyana, but organizing a regional adjustment (or integration) fund with external support, that could, in part, be devoted to aiding the transition in those countries abandoning sugar (for example, compensation for acreage reduction) and assistance in launching alternative activities. There has so far been little interest in such a
planned process of adjustment based on regional competitive advantage, though it may have been negatively viewed since it has not before been linked to support for adjustment.

The second option is simply to let the market eliminate uncompetitive exporters. This most likely would entail a much more abrupt adjustment and one therefore that would be more painful in socio-economic terms.

The third option is to recognize explicitly that the social benefits of the sugar industry justify some government subsidy. This is essentially a matter of social cost-benefit analysis that so far has not been attempted in any formal sense. If such a course were to be followed it would be desirable to set limits to subsidies in terms of size and time and determine the most efficient means of administering them – for example, subsidies to sugar have been more or less uncapped, and have been administered by the most inefficient means of accumulated debt to meet the industry’s financial losses.

The fourth option is to undertake the capital investment needed, particularly in Jamaica and Barbados, to revitalize the industry, improve productivity, and diversify into higher value-added products like specialty sugars, branded rums, food preserves, agro-tourism and entertainment, bagasse fuel and co-generation of electricity. In Jamaica, it is estimated that the capital investment needed is of the order of US$100 million, but it has not so far been demonstrated with any real conviction either that international competitiveness eventually can be attained across the industry (some portions are actually competitive), or that investment of that magnitude in sugar could be justified from the standpoint of opportunity costs. As regards diversification into higher value-added products there seems to be little confidence that the private sector has any real interest in pursuing these opportunities. Evidently, governments would have to take the lead in stimulating external financing and organizing public-private sector joint ventures.

In respect of the internal CARICOM sugar market, a position has recently been adopted by COTED intended to reserve this market exclusively for CARICOM producers. This is to be attained by applying a Common External Tariff at an appropriate level, and organizing a CARICOM plan to refine sugar in the most efficient location to meet the total consumption requirements of the region.

Governments should now authorize a regional task force on the sugar industry to design a comprehensive CARICOM Common Sugar Policy, extending the work that has already been done on the internal sugar market to the medium to long term future of the industry’s production for the export market. The issue is now urgent since in five years’ time the industry will come under intense competitive pressure. The strategic directions are clear and well thought out in Belize and Guyana, but they are less so in Barbados, Jamaica and Trinidad and Tobago. In Jamaica, the government recently organized a task force to report on the future of the industry. While national strategies are desirable and necessary they cannot be a substitute for a comprehensive CARICOM Common Sugar Policy, if the region’s oldest export industry is to survive and thrive in the new competitive environment.
**Rum**

From The Bahamas in the north to Guyana in the South, the Caribbean is dotted with distilleries. The rum industry in the Caribbean employs over 10,000 persons, and earns on average in excess of US$215 million per annum. With relatively small domestic markets, most of the rum produced in the region is destined for export. Caribbean bulk (commodity) rum has enjoyed preferential access into the US, Canadian and European Community markets, under provisions of various trade agreements. However, in March 1997 the European Community and the United States concluded an agreement to eliminate the duty on certain spirituous beverages, including rum, by 2003. The effect of this on Caribbean rum was partially lessened by the provision for the retention of tariffs on rum below specified price levels.

In order to meet the competitive challenges of liberalization, and in particular the erosion of preferential access, there are several problems that Caribbean distilleries will have to address. A significant proportion of the distilleries is old and need equipment upgrading. Distilleries need technical assistance, advice on best practices, feasibility studies, and access to finance to renovate plant and train personnel. The West Indies Rum and Spirits Producers Association (WIRSPA) needs to be strengthened to permit it to better defend the industry’s interests in ongoing and future trade negotiations, and to help in the promotion and development of the industry. Aggressive marketing is now required to retain and expand existing markets. Such marketing might well be linked to tourism and the unique nature of the region or country of origin of the product. Also, increasing importance is presently being given to environmental standards. Existing plants, whether or not they are upgraded, will have to put in place the required practices to ensure that distillery waste is properly treated before it is discharged. The cost of a digester for the average distillery now runs to some $4 million.

Most of the rum exported from the Caribbean has been in the form of bulk rum. Given the intensification of competition, Caribbean rum producers have to be more focused on the promotion of branded products. There are already several successful examples (in Barbados, Guyana, Jamaica and Trinidad and Tobago) of the penetration of Caribbean branded rum in the various export markets.

As a result of intensive lobbying efforts by WIRSPA and the strategic alliances they were able to establish the Caribbean rum industry succeeded in securing a special Declaration on Rum as part of the ACP-EU Cotonou Partnership Agreement. This provided for a sector-specific integrated program of assistance to the ACP rum industry. This Declaration not only guarantees duty free access without quantitative limitations for rum, but places substantial financial assistance at the disposal of the rum industry for improving its competitiveness, creation of rum brands, strengthening marketing capacity and moving from bulk to higher value-added branded rum, among other measures. The task now is to take full advantage of this offer by the EU – to prepare and submit to the European Commission rum sector development proposals for implementation as soon as possible – and to monitor and evaluate their progress.
Bananas

Bananas are produced for export in Belize, Jamaica and the Windward Islands under EU tariff-quota protection. Over the years, this protection as well as the relatively high prices in the 1990’s vitiated the need to be internationally competitive. Thus, from 1993, with the introduction of the new quota system under the EC’s Common Market Organization for Bananas, to accommodate dollar bananas for the newer EU members, there has been a progressive decline of exports from the Windward Islands and Jamaica. In St. Lucia, for example, the biggest Windward Island producer, exports have declined since 1992 by nearly 50 percent. In St. Vincent and the Grenadines banana export earnings have declined by 65 percent over that period, and in Jamaica exports have declined by 34 percent since 1996.

The EU/ACP banana regime was found to be WTO-illegal in 1997 as well as the revised scheme implemented in 1999. On April 11, 2001 the United States Government and the European Commission reached agreement on a new regime for bananas allowing for a tariff-only system by 2006. During the transition, bananas will be imported into the EU through import licences distributed on the basis of historical trade. The new system took effect from July 1, 2001. Moreover, the cut in the ACP quota to accommodate least developed countries under the EBA Decision, and the increase in the non-ACP quota, are likely to lead to further reductions in prices.

The general consensus is that except for Belize, the Caribbean banana industry is not competitive and would not survive, at least at its present level, beyond 2006 when guaranteed quotas would disappear. Wage levels are too high, and productivity and quality too low to withstand Latin American competition, even with some restructuring and productivity improvements in place. Belize is an exception, however. With some restructuring and strengthening of alternative direct marketing arrangements, its non-unionized industry, largely dependent on Central American migrant labor, is considered internationally competitive, and capable of substantial expansion.

Given the importance of the industry in respect of employment, rural stability, and foreign exchange earnings there is no alternative to a planned process for downsizing the industry. The adjustment time is short. By 2006, the full effect of competition will begin to be felt. The EU has made additional financial and technical assistance available for restructuring the industry, improving productivity and marketing, and diversification. The successful implementation of such measures could in time ensure the competitive survival of the more efficient parts of the industry. Efforts are proceeding in the Windward Islands with the Production Recovery Plan, the Windward Islands Action Plan, and such institutions as the Banana Industry Trust in St. Lucia. In Jamaica a ten-year Country Strategy intended to improve competitiveness has been prepared for EU funding, under the Framework of Assistance. The ongoing Banana Support Programme has also just announced an allocation to launch a major diversification into plantains.

The primary need now is to ensure that these programs are fully developed and implemented; that efficient and rapid use is made of the financial and technical assistance available from the EU. This requires vigilant Monitoring and Evaluation of the Framework of Assistance to the
**Banana Industry.** The alternative to a planned process of accelerated adjustment to the industry is its abrupt and near-total collapse following the implementation of the tariff-only system in 2006, with the attendant social and economic upheaval that this would entail.

**Rice**

Rice is exported mainly by Guyana and Suriname. Under the ACP-EU Cotonou Agreement these exports benefit from preferential access to the EU market – a tariff-quota for direct shipments (160,000 tonnes) and a tariff-free quota for shipment via the OCT (35,000 tonnes). In Guyana 14 percent of the population is dependent on rice, which also accounts for 14 percent of total export earning. In Suriname rice accounts for 10 percent of the GDP, 12 percent of employment and 27 percent of export earnings.

Both Guyana and Suriname now face a very difficult problem of adjustment in respect of rice. The EU market has been virtually closed to increased imports from ACP countries. The proposed reform of the EU rice regime – which will entail the application of a fixed rate of duty on imports of the husked Indica rice exported by Guyana and Suriname – will severely erode the competitive position of Caribbean exports. This will compound the negative effect of declining prices – from US$412 a tonne in 1996 to US$230 in 2000.

The damaging effect of this development has now been further worsened by the EU’s EBA Decision, according to which, in respect of rice, least developed countries will receive an annual duty-free quota (beginning in October 2001), to be increased by 15 percent annually up to 2009. Thus, from that year least developed countries will have duty-free and quota-free access to the European market. The main potential beneficiary of this decision in respect of rice are Bangladesh, Cambodia and Myanmar (should it be reinstated for GSP benefits at some future date) and indirectly regional-group developing countries and the EU itself with which these least developed countries can meet the cumulation of origin principle.

CARICOM itself derives one half of its imports of rice from extra-regional sources, mainly the United States, despite the fact that CARICOM has the capacity to be self-sufficient in rice. A substantial quantity of imports from the US – mainly by Jamaica – enter under the US Public Law 480 – food aid scheme. Thus, ironically, while the liberalization of markets otherwise is the origin of adjustment problems for CARICOM, in the case of rice the failure of the EU, the US, and CARICOM itself to liberalize their markets for this commodity has created a very difficult situation for Guyana and Suriname. CARICOM needs to create an Intra-CARICOM Common Rice Policy, with the aim of reserving the regional market for Caribbean producers.

The best option that these producers now have is to diversify their export markets. The target destinations are the Caribbean, Central America and South America, especially Brazil. As in the case of bananas, the EU has made sector-specific financial and technical assistance available to improve productivity, marketing and quality enhancement, and product diversification. Specific projects need to be developed to take advantage of the EU Assistance Program.
Manufacturing

The main successes in exporting manufactures come out of Trinidad and Tobago and Jamaica. The latter’s principal export is textile/apparel, the prospects and problems of which are discussed in the section that follows. For CARICOM as a whole the forecast is for a continuing diminution of the share of manufacturing in GDP and exports, as the CET progressively declines, and as the liberalization initiatives under the WTO, the FTAA, and the reciprocity-based New Trading Arrangements with the EU begin to take effect in five to seven years’ time.

The Trinidad and Tobago manufacturing sector can be divided into the energy-based sector and the non-energy based sector. The energy sector accounts for a significant portion of the country’s GDP, and there are a number of concessions available for manufacturers, including customs duty concessions on specified inputs, as well as relief from corporation tax. Due to the large size of capital required in this sector most of the companies have some percentage of foreign investment. Trinidad and Tobago has emerged as a global player in the petro-chemical industries, and is among the world’s largest producers of methanol and ammonia. In the non-energy sector the cement, iron and steel industries are important contributors to the GDP. The light manufacturing industry accounts for approximately 8% of GDP and provides employment for over 50,000 persons. Although the Trinidad and Tobago home market may seem large by CARICOM standards, successful manufacturers tend to be those who have been able to effectively export their products to both regional and extra-regional markets. For example, in 1999 the beverage and tobacco industries exported TTS491 million, out of a total manufacturing sector export value of TTS3,076 million.

The Trinidad and Tobago manufacturing sector evolved from a period of high protectionism to become a competitive force in the region. In the early 1980s the protected industries received a wake-up call with the liberalization of the market. This action resulted in the demise of several companies, particularly those associated with assembly – motor vehicle assemblers, as well as assemblers of radios, television sets, gas cookers and refrigerators have all gone out of business. To survive the manufacturing sector had to retool its operations, maintain better quality control, and reduce costs. The sector also benefited from a competitive exchange rate and low energy costs. But a good part of its success has also been due to highly successful marketing strategies, and the close relationship between manufacturers and distributors. They have been successful in filling niches, for example Ven Caribbean Paper Products of Arima; exports of toilet paper to Carnival Cruise Lines.

The sector has also benefited in particular from having a pro-active manufacturing association, which has been in existence for 45 years – Trinidad and Tobago Manufacturing Association (TTMA). The organization has some 350 members and represents about 69% of the industry. It promotes, encourages and assists the growth and development of the manufacturing sector, represents the industry in dealing with the Government, monitors legislation affecting manufacturers; generates market expansion through local, regional and international trade fairs, exhibitions and foreign trade missions; promotes the use of modern methods of manufacturing and education for all of its members; assists members with the maintenance of required standards.
of safety, labor relations, wages and benefits, communications, public relations and advertising; securing new markets for raw materials and finished goods; and sourcing investment partners for its members. For example, it is currently exploring new opportunities for Trinidad and Tobago manufacturers in Brazil and Costa Rica and promoting a bigger role for Eximbank (the Export-Import Bank of Trinidad and Tobago) in financing manufacturers’ needs for export-related purposes.

While the Trinidad and Tobago manufacturing sector has been relatively successful, it faces serious problems. In particular, manufacturers are concerned about the uncompetitive level of commercial bank interest rates. Local manufacturers face interest rates of 15-17% while, US manufacturers can get credit for 8-10%. Another concern of manufacturers is the appreciating value of the Trinidad and Tobago dollar, which is already having a visible effect in eroding price competitiveness. There is also a growing shortage and thus greater competition for skilled labor. Priority needs are for good industrial skills training program and incentives for retooling and research and development.

The Textile/Apparel Industry

The biggest Caribbean export of light manufactures is apparel, originating presently almost entirely from Jamaica. This export industry grew rapidly from a gross value of US$10 million in 1980 to US$570 million in 1995. Since then it has declined to US$360 million, and employment, mostly female, has fallen from 50,000 to 7,888. The industry was stimulated by the preferential arrangements (quotas and managed access) offered by the United States (the Bilateral Textile and Apparel Treaty of 1994, the CBI and the CBPTA) and Canada (the CARIBCAN Agreement), as well as by the generous incentives, ranging from tax exemptions to infrastructure assistance, offered by the Jamaican Government in the framework of Export Free Zones (EFZ).

The industry has declined - to the point where even quotas have been unfulfilled – under the impact of NAFTA, the phasing out of the Multi Fibre Agreement, and the entry of Mexico and other international competitors, including the Dominican Republic and Central America, into the US market, as well as of serious failures of competitiveness. These failures include rising costs for labor, electricity, rent outmoded technologies, inadequate product differentiation, the scarcity and high cost of capital, and the effect of criminal activity.

The Jamaican Government has put in place a Special Assistance Program to improve the industry’s competitiveness and local value-added. It provided for competitive sourcing of finance, technical assistance and training, security strengthening and audit grants. Nevertheless, the programme remains inadequately implemented, while the industry continues to decline. As global liberalization proceeds, the FTAA goes into effect, and New Trading Arrangements with the EU, including the EBA Decision, come into force, competitive pressure on the industry will intensify.
An Integrated Program of Structural Adjustment for the Textile/Apparel Industry has to be contemplated if the industry is to survive and regain its momentum. Such a program would have to include consolidation and rationalization in order to benefit from economies of scale and scope; backward integration to the textile industry, including to the design stage, consistent with the range and specification of apparel output; comprehensive technological upgrading; major improvements to marketing, including putting in place the credit and other requirements for the practice of e-commerce; capital financing on affordable terms; and crime prevention. Within this failing industry there are however successful ventures. The main lesson to be learnt from them are the importance of international exposure through international trade shows and exhibitions, mastering of state-of-the-art technology, exploring the uniqueness of Caribbean products and individuality of marketing strategies, and fostering a new breed of highly motivated, confident risk-taking entrepreneurs.

Mining

Mining takes place mainly in Jamaica (bauxite/alumina), Trinidad and Tobago (oil and gas) and Guyana (bauxite, gold and diamonds). It has been the activity most integrated into the world economy through ownership by multinational corporations. Globalization has thus been a fact of life of the mining industry from its inception. Traditionally, globalization issues in the mining industry were concerned with ownership; the distribution of benefits from the industry, including, such issues as transfer pricing and taxation; downstream processing; energy generation; and the instability of export prices. Contemporary issues that seem most prominent in the context of globalization are competitiveness; industrial policy and regulation; environmental protection, including human settlements; and sustainable development.

Competitiveness in the mining industry is largely determined by the physical characteristics of the endowment, export price stability, and to a lesser extent, industrial incentives, exchange rates and wage rates. In the Jamaican bauxite/alumina industry, competitiveness has been aided significantly by waiver of duties on capital expenditure; limited tax holidays, customs duties exemption and accelerated depreciation, and more recently, by tripartite collaboration (industry, trade unions, government) linking wages, productivity and taxes. In Guyana, the physical endowment, which imposes huge overburden and transportation cost, compounded by obsolete plant, renders the industry largely uncompetitive, and there seems now to be no viable alternative but to exit much it. At the same time, there are good prospects for oil, precious metals and gems, but these are beset by border conflicts, environmental and human settlement problems, and pollution. In Trinidad and Tobago, the level and stability of international oil prices over which the country has little or no control largely determine competitiveness in the oil and gas industries.

The governments concerned now need to define Policies and Regulations for the Mining Industry. In particular, there should be a Clear and Effective Legal Framework, which provides for security of tenure, clear and transparent tax codes, and access to mineral resources. To get foreign companies to venture into the mining industry will require, inter alia, a stable political environment, predictable and equitable tax regimes and profit repatriation rules, and, in
some cases, industrial concessions.

Policies should also aim to promote **Small-Scale Domestic Mining Companies**, which can exploit the possibilities of small, often, more complex ore bodies. This can be facilitated by making local banks aware of, and knowledgeable about, the opportunities for making loans to properly managed mining ventures; training local professionals for work in medium and small-scale mining enterprises; strengthening management and technical training for mining in local educational institutions; and fostering an entrepreneurial spirit in the local mining community.

It is now also very important to incorporate in mining policy **Elements of Environmental Protection** to preserve the flora and fauna, as well as protect the people inhabiting the surrounding areas. Mining activities, either the extraction and/or processing, inevitably result in some environmental degradation. Environmental policies should aim at limiting such damage – including emissions and effluent - and at some form of restoration at the closure of the project. In addition to appropriate environmental legislation, there is need for the competent **Environmental Regulatory Agencies to provide detailed rules and standards of reference to monitor enterprise performance**, to identify and correct unacceptable environmental and social performance, to ensure compliance with required standards, to introduce the necessary mitigatory and remedial action, and to better integrate mining projects into local communities.

Where public mining institutions exist, they should be given adequate human and financial resources to administer and enforce the new policies. Further, functions such as exploration, development, production and mining services that previously were often performed by public institutions should be left increasingly to the private sector.

In the mining industry, there is one irrefutable fact that must be taken into account in formulating policy: the industry uses finite non-renewable resources. For the successful operation of the mining industry and to ensure a sustainable contribution to the domestic economy as a whole, a functioning partnership among the government, the private sector, the local community and civil society is essential. Effective communication with local populations would enable governments to be better address their environmental concerns and ensure direct and sustainable economic linkages between the enterprises and those communities.

**Services**

Unlike primary commodities and manufacturing, services offer substantial growth opportunities to the Caribbean. Services are not only the fastest growing component of the world economy but for most developed and some developing countries as well account for the greater part of the GDP. The expansion of trade in services has been due to such global trends as advances in information technologies and telecommunications which have allowed services to be more tradable; the unbundling of production and consumption which allows for more specialized producer service inputs; and the outsourcing of non-core producer service inputs.

Reflecting the importance of services in the world economy, this sector was included in the
Uruguay Round of multilateral trade negotiations, and resulted in the General Agreement on Trade in Services (GATS) as one of the new agreements incorporated into the new World Trade Organization (WTO). The general principles and obligations of the GATS affect all WTO members. These obligations include the most-favoured-nation (MFN) obligation, which states that each party “shall accord immediately and unconditionally to services and service providers of any other Party, treatment no less favourable than that it accords to like services and service providers of any other country”. There are listed exemptions to the MFN clause which are normally to last no longer than ten years. The general obligations also call for transparency, including the publication of all relevant laws and regulations. The GATS covers trade in all services except those supplied in the function of government services.

In addition to the general obligations, countries have scheduled specific commitments in their respective national (or regional as in the case of the European Union) schedules. These commitments were made subject to market access and national treatment provisions. In the case of market access, each party “shall accord services and service providers of other parties treatment no less favourable than that provided for under the terms, limitations and conditions agreed and specified in its schedule”. The national treatment provision contains the obligation to treat foreign service suppliers and domestic services suppliers in the same manner.

In the GATS the Member States of CARICOM individually set forth their commitments. As expected, the level and depth of commitments by the Member States vary. For the CARICOM countries, the development of their service sectors is a necessary step for their continued economic development, especially in the light of difficulties they now face in the export of their primary and manufactured goods. CARICOM members’ trade agreements signed after the conclusion of the Uruguay Round also addressed trade in services, generally however with limited coverage of the area or inclusion of a commitment to negotiate the issue in the future. Specifically, there is usually reference to the GATS and the undertaking that future agreements in services will be GATS-compatible and GATS plus in nature. For the ensuing negotiations on services in the WTO CARICOM has adopted a joint position endorsing retention of the existing architecture of the GATS, including the principle that subsidies should take into account the need for appropriate flexibility for developing countries, and particularly small developing countries, to encourage the development of domestic services capacity.

For the region, the North American market is a primary target. However, the region faces competition from within that market, as well as from other developed and developing countries. In addition, Caribbean service providers still face a multitude of difficulties to trade. Such problems include: difficulty in obtaining information on key trade shows, finding reliable and compatible foreign partners, getting packaging and marketing right, meeting US consumer quality expectations, overcoming credibility issues and signing first contracts. Similarly, service suppliers wishing to enter the Caribbean market also face restrictions, including: restrictions on foreign direct investment, labor mobility, inadequate intellectual property legislation and institutions, and residual exchange control.

The development of a service export strategy involves developing the capacity to produce the
service exports, improving the quality of the service exports and their cost competitiveness, and building linkages and reputation. Such a strategy requires the development of human resource capacity to meet and exceed international service quality standards; the incorporation of information technology; a modern and liberalized telecommunication infrastructure; work permit liberalization; and development of the financial system. The overall image of the country (security, level of education, attitude of the population), as well as the quality and safety of service being exported (reliable services, efficient and safe airlines, adequate tourist facilities) are essential components of the capacity of a country to export.

**Tourism**

The Caribbean region already is highly dependent on tourism, with this sector contributing a third to a half of GDP for most Caribbean islands. In Antigua & Barbuda and the Bahamas tourism contributes 74% and 89% of GDP respectively. This sector earns almost US$18 billion a year and generates over half a million jobs directly and indirectly in the wider Caribbean region. However, the 33 Member States of the Caribbean Tourism Organization (CTO) with 20,320,600 visitors in 1999 accounted for only 1.3 percent of international stay-over visitors and 5.2 percent of international tourism receipts. There is thus enormous potential for growth.

However, the Caribbean’s share of its largest market, the United States, has been declining with the growth of US domestic tourism and the switch to Asia/Pacific and Middle East destinations. Canada, once a major source of visitors, now represents only 6% of stayovers. Caribbean countries however have been able to penetrate successfully the European market. Additionally, the intra-Caribbean market has begun to show promise and currently accounts for over 1.3 million visitors, representing 7 percent of arrivals.

The cruise industry represents 39% of Caribbean total arrivals and accounts for some 10% of visitor expenditure. However, this sub-sector has been declining, with the Caribbean receiving only 45% of the total berths marketed out of the USA as opposed to 57% in 1990. The cruise lines have been aggressively diversifying their destinations into Europe, the Pacific, Asia and Alaska in the summer months and returning-full capacity to the Caribbean in the winter. When they do so at discounted rates at the height of the winter season they pose a serious alternative to the land- based business.

Not only is the Caribbean now trailing as a dynamic tourist destination but the benefits accruing from tourism are increasingly negated by “leakage”, that is, low retention of the revenue generated by total sales to foreign tourists within the region. Leakage occurs primarily from: the import of materials and equipment for construction and consumable goods such as food and drink; the repatriation of income and profits earned by foreigners; the interest payable on foreign loans; overseas promotional expenditure; and the limited capacity of tourism service suppliers to negotiate profitable prices for their services.

Trade in tourism services fits neatly into mode 2 of the GATS (consumption abroad). Trade in this sector has been greatly facilitated by developments in the information technology sector.
Information in print, video or electronic form as well as the word of mouth of a previous visitor are what can persuade the consumer to travel, frequently long distances, to consume a product at a destination he may not have previously seen. Countries with access to the relevant software, hardware and skills inevitably will increase their competitive advantage in tourism over those that do not. The new technologies are already improving the efficiency of information distribution and the quality of service; creating new services such as ticket-less travel, interactive media and new point-of-sale area access; making it easier to track who is requiring information and where they are based; and connecting product suppliers, consumers, travel agents and marketers to the same information and so facilitating a quicker closing of a sale. The new technologies are also making it possible to supply individual tailor-made holidays that are cost competitive with mass standardized and rigidly packaged options.

However, investment in tourism education and training by both the public and private sectors in the Caribbean region has never been commensurate to its needs, let alone its potential. There are enormous differences in the way in which various educational institutions position the study of tourism in their curricula. The Heads of Government mandated the CTO in 1998 to establish the Caribbean Tourism Human Resource Council (CTHRC) with a remit in the area of delivery of training, curriculum and materials development, and quality standards in certification, articulation and equivalencies. Investment in training would ensure that there is capacity to manage the tourism industry in an effective, profitable and sustainable manner, and also provide quality services to an increasingly demanding international clientele. To effectively use the advances in information technology changes in the international environment must be consistently monitored. The Caribbean would have to strengthen its information/intelligence base if it is to be able to anticipate changes and identify policy instruments to address/control any foreseen adverse impacts. The major challenge facing the industry is to compete on the world stage by creating products that correspond to consumer preferences.

To attract more visitors to Caribbean countries, an effective marketing and promotion strategy is indispensable. The traditional role of governments in tourism marketing has been to provide funds to market the destination. Personnel reporting to a “Tourism Authority” or “Board of Tourism” usually carry out the marketing activity. The role of the private entrepreneur, on the other hand, has been to do “product marketing” where activities are focused on the products that the entrepreneur or his agent wishes to promote for sale, and to convert that market demand into a sale. The marketing role of the Caribbean Tourism Organization (CTO) is to market the Caribbean region as a single destination under the Caribbean Brand. CTO’s mandate is to do this by carrying out on regional scale activities that are similar to those undertaken by governments at the national level for destination marketing.

A new appropriate marketing organization should accommodate joint public/private sector operations guided by the following principles:

- A single public/private sector entity that presents the destination in a coherent manner and according to an agreed national strategy, using not only the traditional means but the Internet as well.
An adequate budget to which both the public and increasingly the private sector contribute. This budget should be approved in the context of a strategic plan.

- Highly trained personnel selected without reference to any personal affiliations.

- A procedure that reduces bureaucracy and allows the Directorate of the organization to spend the available funds in a flexible manner that responds quickly to the needs of the market.

- A Directorate that is ultimately responsible to Government for the use of funds.

- A CEO, chosen by the organization’s Directorate on merit, and rewarded at market rates, who combines vision with the ability to give clear leadership and direction to the organization, and is held accountable for achieving set targets.

- The ideal new structure for each country should emerge from a dialogue between public and private sector stakeholders.

The future will call for a major joint public/private sector effort to promote the Caribbean Brand in as many markets as possible, starting with a number of well-chosen target markets and expanding efforts as funds become available. Additionally, the marketing reach can be greatly enhanced by the use of the Internet at both national and regional levels. But governments and the private sector must be prepared to invest in upgrading and maintaining their sites and in training personnel so that the region remains on the cutting edge of competition.

In addition to an effective marketing agency, each country needs to restructure its ministry or equivalent tourism agency to be able to deliver a strategic and sustainable tourism development program. Government affects the tourism sector in policy-making, planning, setting of standards and regulation of several aspects of the industry, enabling and facilitating tourism activity across a diverse number of areas (services, infrastructure, legislation, negotiation, etc.). However, the growing importance of tourism services has not been met with a corresponding reallocation of resources towards the management of the industry at the public sector level. While the Ministry of Tourism or the relevant public sector institutions are in need of upgrading, there is nothing to suggest that handing over the responsibility to the private sector would result in any improvement. A review of the relevant public sector entities should be accompanied by a review of the Caribbean Tourism Organization.

Facilitation of the movement of the tourists is a necessity. However, the consolidation of many companies in the tourism sector, including tour operators, airlines and cruise lines has occurred in the past five years. The result of consolidation, for example of airlines in North America and Europe, has been fewer flights to the Caribbean region. For example, it is estimated that Pan Am carried about 14% of the passengers to Barbados, 17% of all seats to the Bahamas and 60% of all seats to the Turks and Caicos in 1991, the year in which it ceased operations. Additionally, the consolidation of cruise lines has resulted in an increasing emphasis on mega-ships, carrying
several thousands passengers at once to fewer and fewer destinations. Also, the horizontal and vertical integration of tour owners, especially in Europe, has resulted in Caribbean hotels having less control over their own inventory and has weakened their efforts to negotiate fair rates for their rooms. But there is at the same time a need to facilitate the free circulation of tourists in the region by removing useless hindrances to their movement, such as, the use of numerous different, complicated immigration forms, and inept and discourteous customs searches.

Adequate financing is needed to develop human resources, acquire the related information technology, appropriately market the region and restructure the national and regional tourism organizations. Capital investment is also needed for new accommodations; improvements to essential infrastructure; and upgrading, expanding and refurbishing existing hotel plant, amenities and attractions (with emphasis on the preservation and development of the region’s historic buildings). In 1998 the CTO presented an investment study, which estimated the immediate investment needs of the CTO membership at between US$3 and 4 billion, and argued the case for a specialized Tourism Investment Fund. New strategies have to be used to attract foreign capital, and more chain hotels that bring with them the added benefit of powerful marketing reach. Local resources for tourism investment have to be mobilized as well. To this end the Caribbean Hotel Association (CHA) and the CTO organized a major international conference highlighting the investment opportunities in the region. Governments can assist this effort by making it possible to access capital at interest rates that are affordable for tourism ventures, through the use of fiscal incentives, by encouraging the banking sector to offer longer-term loans, and by suitable taxation policies.

The development of some level of minimum standards, possibly on a regional basis, is essential to maintain the quality of service offered to tourists. Some positive movements have been made with Trinidad & Tobago introducing a Tourism Industry Certification Program (TTTIC). This program seeks to improve and standardize the quality of tourism products and services consistent with internationally recognized standards. Additionally, Jamaica has had strict industry certification for more than ten years.

Tourism brings with it many economic benefits, as well as improvements in international relations, the environment, cultural enhancement, and local historical appreciation. However, tourism can also create problems with local communities, degrade the environment, and worsen health problems, and criminal activity. These negative externalities need to be addressed in any tourism export strategy. For example, the meaningful involvement of local communities in the sector will result in the creation of a destination where visitors feel welcome.

Given developments on the global level, especially the ongoing GATS negotiations, the implementation of a Caribbean Tourism Development Strategy must now be taken seriously by governments, in collaboration with the private sector, and as a matter of urgency, if this lifeline is not also to sink. Heads of Governments already (in 1998) approved one aspect of such a strategy - in the area of human resource development –. Most Caribbean countries already have national tourism development plans (Jamaica is now completing a Master Plan for Sustainable Tourism Development). However, as Prime Minister Ingraham of the Bahamas said at the last
Conference of Heads of Government, “individual territories often enter the same marketplace to undertake the same research, uncovering the same fundamental facts.” Much of the attraction of the Caribbean as a tourism destination resides in its regional ‘commons’ – the Caribbean Sea, unpolluted water and atmosphere, variety of wildlife, diversity of ecology, culture, and society. Each country cannot go it alone, regardless of what takes place in the neighbourhood. The Caribbean could not long survive as a dynamic tourist destination unless a sustainable regional development strategy is put in place. Paradise cannot be an enclave in hell.

**Financial Services**

In the GATS, financial services include two broad categories of services: insurance and insurance related services, and banking and other financial services. Many benefits can be expected from the liberalization of trade in financial services. In particular, there should be improvements in the efficiency and institutional development of financial sectors through increased competition, skills and technology transfer, better risk management and risk diversification across borders, transparency and information.

Several features of the financial sector in the Caribbean have been identified as pertinent to any assessment of the industry and thus to any strategy. These include: the high degree of concentration of firms in virtually all segments of the region’s financial sector; the relative smallness, fragmentation and inherent fragility of Caribbean economies and their financial markets; the dominance of indigenous financial firms; past policies that have resulted in foreign firms being relatively less aggressive in the Caribbean; and the region’s commitment to a single market and economy.

The financial system in the Caribbean is composed of commercial banks, insurance companies, near banks, credit unions, stock markets, social security systems, finance companies, mortgage banks, development banks, and offshore financial centers. In each economy, the services offered by these institutions are varied and are at different levels of development. Several factors affect the competitiveness of the financial services industry. They include scale and scope economies, financial multi-products and conglomeration, switching costs, reputation, substitutability of financial products, and the capital cost of branching.

The financial sector in the Caribbean region is dominated by commercial banks. Banks in the region are typically involved in most segments of the financial market except in mega-projects. Indigenous banks now dominate, both numerically and in terms of total assets, commanding approximately two-thirds of total assets. Foreign commercial banks also have a strong presence, either in the form of branches or subsidiaries. Typical features of the Caribbean banking sector are the high-unremunerated reserve requirements combined with high excess liquidity, a common feature of underdeveloped financial systems. Additionally, interest rates and spreads are generally higher in the region than in North America. However, comparison of standard profitability ratios such as the rate of return on assets and on equity between most regional and international banks indicate that rates in the region are not out of line with those in developed countries. The Caribbean financial sector therefore reflects certain peculiarities, several of which
are disadvantageous in an era of globalization.

The Caribbean region has had a growing and vibrant offshore financial sector, which is the result of individuals and companies taking advantage of lower tax rates. The success of the sector has been placed in jeopardy with the OECD Report on Harmful Taxation Competition and the ensuing threat to retaliate against countries identified as engaging in harmful tax practices, which includes several Caribbean countries.

Responsibility for the regulation and supervision of the financial system rests with the Ministers of Finance, with the Central Banks having the responsibility for promoting monetary stability and a sound financial system. Banks are supervised by the regional central banks, while insurance companies, credit unions, and other non-bank financial institutions are under the supervision of various governmental departments. The securities industry has been to a large extent self-regulatory, but recent efforts have been made to establish SECs. With the exception of the OECS, the offshore banking sector is also regulated by the central banks in the CARICOM region. In most of the countries, the regulatory standards are adequate for commercial banks, but they do not extend adequate coverage to the non-bank sector. Often, regulations are not well supported with supervision. A few Caribbean-based banks now operate in more than one country, and there are no arrangements to coordinate supervision across borders.

To deal adequately with the liberalization of the financial sector major improvements to the regulation and supervision of the industry will be necessary. These improvements do not automatically imply over-regulation. Instead, incentives to appropriate market behaviour need to be put in place to ensure a high quality of institution through self-regulation - both banks and depositors should have stakes in potential financial losses, beyond minimum defined levels of protection provided by governments. Revisions of the regulations could include the adoption of international banking standards; setting of clear bank crisis procedures; establishment of limited deposit insurance; and improvement of consolidated supervision of non-bank financial institutions. Attempts to develop appropriate legislation and regulation by some Caribbean countries have unfortunately been hampered by factors such as tardiness in making revisions to the laws in keeping with developments in the financial sector; delays in having the necessary corrective action for violations of laws and regulations taken especially in relation to government-owned financial institutions; a limited number of adequately trained supervisory personnel; ineffective supervision of some financial entities and the introduction of deposit protection mechanisms only after problems in the financial sector have arisen.

With liberalization, there is also the opportunity for local service suppliers to expand their market base, both within and outside the region. For example, certain national commercial banks have acquired financial companies in other CARICOM States and this trend is likely to grow. However, if indigenous Caribbean banks, and other financial institutions are to play an even greater role in the region, then the conditions for entry in some countries, including legal and other requirements, will need to be reviewed and removed if necessary. More cost effective cross-border supply of services should be positively encouraged.
Financial institutions have to look closer at the provision of new services, especially for attracting longer-term funds. Possible growth areas are custodial services; guarantee commitments; money market transactions; capital market transactions; money brokerage, and asset management. Joint financing of projects or syndicated lending can facilitate domestic financial institutions combining with foreign ones in the supply of capital and financial services to regional businesses. In this way much more resources are likely to be available to the region. Foreign financial institutions might also be encouraged to enter into certain areas, like insurance and asset management.

The financial services industry is also affected by developments in information technology. The reach of the Internet means that banking, insurance and brokerage services can be purchased from anywhere in the world. This is likely to affect international trade in financial services at the retail level. The Caribbean should learn from the experience of those countries that are at the forefront of electronic commerce in financial services. This is particularly necessary in view of the weakness of regional supervisory institutions and their monitoring and intelligence functions. Fiscal incentives and/or targeted business development programmes could be designed to assist service providers to increase their regional networking and establish regional partnerships, regional firms, franchises and strategic alliances to enhance their access to the regional market.

To understand the complexity and vulnerability of the financial system a Program of Study Based on the Use of Macroeconomic and Prudential Indicators of Bank Fragility need to be undertaken, including the preparation of a Relevant Data Bank (including indicators that are not currently available to the public, such as risk weighted capital ratios, the percentage of non-performing loans and the extent of provisioning for impaired assets). Additionally, a Comprehensive Inventory of the Range and Scope of Offshore Financial Activity in the Caribbean, including a careful record of the regulatory frameworks under which each different activity operates, should be prepared immediately. This basic documentation should enable the preparation of Regional Guidelines for the Development, Supervision and Regulation of Financial Services in the Caribbean. Some work is already being undertaken in some of these areas with the aid of international institutions, such as the IMF sponsored program on Financial System Soundness in the Caribbean, but it needs to be expanded and accelerated.

**Telecommunications**

Telecommunications play an important role in the facilitation of international trade and economic development and have achieved very high rates of growth.

Across the world, national telecommunication monopolies are facing more intense competition and many have been privatized. Benefits from liberalization of the telecommunications industry include lower costs to consumers, better access to networks, new and better services, and new revenue sources for governments, and development of the telecommunications infrastructure. Access to telecommunications infrastructure networking now plays a major role in helping developing countries participate more equitably in international trade. Competitive, high quality telecommunications are these days indispensable for the development of the information industry
and other data communications business, and for the successful operation and marketing of practically every enterprise, and more especially so those that are export-oriented.

The telecommunications industry in the Caribbean consists of private and government-owned monopolies, with the exception of paging services, some fixed based mobile services and Internet service providers. Cable and Wireless is the dominant supplier of telecommunications services in the Caribbean region, though some decentralization is being introduced. Liberalization of the telecommunications market in CARICOM is, occurring in various sub-sectors not covered in the licensing arrangements with the incumbent monopoly service provider, including voice telephony, data transmission, and cellular and other mobile phones. In the Caribbean, other issues are arising in respect of the expansion of Radio Services; the less than acceptable telephone penetration rate that is leading to the expansion of the wireless services; the high level of dependence on international telephone traffic that calls for strong policies regarding declining accounting rates; and the increasing use of computers and the Internet.

Liberalization of the telecommunications industry needs, however, to be accompanied by modifications to the existing laws and regulations governing the industry in Caribbean countries, for example, in respect of fair-trading practices and licences appropriate to an era of competition. New capability exercises for Independent Regulators should also be introduced. The Bahamas, with its new PUC Act, is attempting to set policies for the privatization of its state monopoly BATELCO. It is an important example to build on – since it is the first experience of a PUC guiding new private investment and regulatory policy.

The WTO Agreement on Basic Telecommunications of February 1997 contains some guidelines for regulatory reform, including that Governments should:

- Prevent anti-competitive practices;

- Assure that interconnection networks or services are made available to suppliers at any technically feasible point in the network;

- Have “the right to define the kind of universal service obligations”, that will be in accordance with other principles of a competitive, non-discriminatory, transparent, neutral nature;

- Guarantee the availability of licences, and be clear with respect to the criteria and the period of time required for the application for a licence and the terms and conditions for the granting of individual licenses;

- Separate the regulatory body from any supplier of basic telecommunications services; and

- Ensure that any procedures for the allocation and use of scarce resources will be carried out in an objective, timely, transparent, and non-discriminatory manner.

According to the WTO Reference Paper on Basic Telecommunications, the separation of
regulatory bodies from government is a necessary element of regulatory reform. Transparency is also a fundamental principle in reforming the telecommunications industry, as this will allow firms to make long-term economically efficient decisions. Regulations must take into account interconnection policy. This requires incumbents with essential facilities to share existing networks with new entrants on economically efficient terms by allowing them, for example, to choose among the dominant carriers’ network features. The contracts of new entrants must include the interconnection obligation of the dominant operator, the principles under which terms of interconnection will be negotiated, and the process and timetable for a regulatory decision if the parties fail to reach an agreement.

Deregulation of the telecommunications industry is likely to adversely impact on labor, with old skills becoming obsolete and new skills emerging. Thus, in conjunction with privatization and deregulation a labor policy needs to be defined.

The liberalization process globally and in the Caribbean presents opportunities for the indigenous private sector to be stakeholders in the provision of telecommunications and related services. It should, for example, seek value-added services for competitive investment opportunities; create training and education opportunities for developing entrepreneurship; work for the rapid dismantling of monopoly telecommunication services; and focus on IT applications, especially those related to the Internet and E-Commerce.

With the investments by European firms in the Latin American telecommunication sector, the opportunity arises to replace monopoly interests by a wider group of European telecommunications competitors, in tandem with the development of small and medium size enterprises in the Caribbean. The region can also take advantage of the opportunities offered by the European Union, other countries and institutions to advance the telecommunications sector through technical exchanges, internships, and research and development.

In the liberalization of the telecommunications industry, Caribbean governments need to address the issues of the sequencing of privatization and competition, information asymmetry, contestable market, the independence of regulatory bodies, market size and consumer needs. The development of an efficient telecommunications industry would be facilitated by the preparation of a socio-economic development plan for the industry that would include, for example, the requirements for competition policy based on WTO disciplines, models of cost structures, and programmes for investment promotion, and improved service delivery. A Harmonized Telecommunications Policy for the Caribbean cannot be further delayed. The Memorandum of Understanding concluded between OECS States and Cable and Wireless is a step in this direction.

**Information Services**

The information services industry in CARICOM is in its infancy. There are a total of 204 firms, employing 11,386 persons – more than half of these in Jamaica. Trinidad and Tobago and Barbados rank next with 2000 and 1423 employees respectively. However, throughout the
Caribbean high hopes are pinned on this industry. It is felt that the Caribbean can offer substantial advantages as a location for these industries, for example, relatively low wage rates, an educated work force, relatively good quality and reliable infrastructure and public utilities – electricity, air transportation - stable political systems, agreeable and affordable quality of life, proximity to North America and use of the English Language.

Notwithstanding these apparent advantages and a generous package of tax and other incentives, Barbados has experienced a fall in employment in the industry of 50 percent since 1996, even though the number of firms has somewhat increased. Important lessons can be drawn from the experience of Barbados about the future of the information services industry in the Caribbean. First, firms will exit the industry once the level of wage rates ceases to be sufficiently low to maintain the profitability of lower end information service activities such as data entry and call centers. Second, synergies are unlikely to develop between foreign and local firms, such as outsourcing to the latter repair and maintenance, software design facilities or even the processing of confidential financial data. Third, moving to the higher value-added end of the information services industry involves not only a very high level of technical sophistication that is capital and training intensive but also the capacity to keep abreast of technological changes in an industry that is subject to very rapid obsolescence. Fourth, with large and continuous reductions in international telecommunications rates, and greater demand for numeracy than for literacy, it seems that neither geographic location nor the English Language is necessarily a significant advantage to the Caribbean.

There are furthermore several disadvantages to location in the Caribbean – the very high cost of telecommunication (which is being addressed by decentralization of the regional monopolist, Cable and Wireless), the small size of the domestic market, bias in investment incentives in favour of foreign firms, the dearth of skilled labor at the higher end of the informatics industry, the scarcity and high cost of venture capital, and a lack of vigorously enforced intellectual property rights legislation. There are, nevertheless, a few local successes in the industry, and in these cases the underlying causes can be traced to strategic alliances of various kinds with international companies, and an emphasis on high quality of service and extensive training.

National information and communications technology (ICT) policies are now being developed with support to several countries from the Inter-American Development Bank focusing on the formulation of a coherent framework strategy, with the Jamaica ICT project as the prototype. The main elements of such national framework strategies would include:

- Pursuing efforts to introduce competition into the telecommunications sector
- Establishing a responsible unit in government to lead the ICT strategy;
- The development of e-government as an essential strategy for the promotion of ICT;
- Implementation of programs to encourage connectivity in low-income areas;
- Training programs in ICT, such as those offered by the Caribbean Institute of Technology; introduction of computers and online learning in all schools;

- Establishment of a legal framework that would provide an enabling environment for e-commerce, e-business and e-government.

Regional policies and facilities can enhance the cost-effectiveness of ICT strategies by permitting economies of scale and externalities to be realized. Examples of regional approaches are: the use of regional, in preference to a number of national regulatory agencies; the application of regional best-practice methodologies; harmonization of electronic commerce legislation under the principles established by UNCITRAL or other principles that could make the Caribbean a more attractive destination for foreign direct involvement and ICT services; ICT regional training programs, using where effective distance education modalities; marketing the Caribbean as a prime location for export-oriented services. Apart, therefore from the formulation of National ICT Development Strategies or Plans CARICOM should put in place a Regional Information Services Policy, focusing on the abovementioned elements.

### Box 2
Growing Faster with Knowledge

Three indicators related to knowledge correlate significantly with growth rates of education, openness to trade, and availability of communications infrastructure. These three partial proxies for knowledge are by no means all there is to gauging access to knowledge or the ability to use it, but they do provide a rough approximation. The impact on growth can perhaps be as much as 4 percentage points for a country that moves from significantly below average to significantly above the average on all these ratios. Below, a comparison is given for related measures of these three proxy variables for Singapore, Jamaica and Trinidad and Tobago.

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<td>Singapore</td>
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<tr>
<td>Jamaica</td>
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<td>Trinidad and Tobago</td>
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Nevertheless, a few words of caution would be in order. The long term future in the lower end of the infomatics industry, including data processing and call centers, may be doubtful, given the level and growth of Caribbean wage rates and the foot-loose nature of these enterprises. The sustainability of higher end informatics in the Caribbean also raises certain questions that
governments need to think about such as the kind of infomatics niches that would be appropriate for the region, and their investment in training and research facilities and infrastructure like industrial/infomatics parks. It would therefore be helpful if an Evaluation of the Prospects of the Infomatics Industry in the Caribbean could be organized. For one thing, the effectiveness, cost-efficiency and sustainability of stand-alone local (national or regional) training and research facilities, in preference to using external facilities or strategic alliances, is far from clear. For another, best-practice in the infomatics industry is a rapidly moving target. Can the Caribbean keep up? In which niches? How competitive can Caribbean telecommunications become in comparison with high-density areas? Can regional infomatics marketing be any more successful than regional tourism marketing?

**Entertainment Services**

The entertainment sector in the Caribbean region is comprised of numerous elements, of which the major services are festivals of Trinidad style carnivals, jazz festivals, music, film and other audio-visual production. The ability to sell these entertainment products and services to the wider international market has been developing, with varying degrees of success. Additionally, the local-version of this music, and Carnival-related festivals, has positively impacted on the tourist industry, increasing visitor arrivals, hotel occupancy, and gate receipts.

The most visible export of the region is the Carnival-type festivals that have sprung up all over the world. Further, the numerous Carnivals offer entertainers a wider market, with the increased number of engagements that they can secure abroad. However, the growth in festivals has tended to be unplanned and disorganized.

The benefits to Caribbean entertainers come mainly in the form of live performances, since the structure of the international music industry is a major barrier to their entrance into the mainstream North Atlantic market, although there has been some limited success. While there is a market among the Caribbean diaspora, due to piracy, Caribbean entertainers earn limited income from the sale of their recorded material in the metropolitan markets. They also suffer from piracy within the region. The region has a net deficit in terms of payment of royalties. This is partly due to the absence of local content rules, as well as failure to monitor the broadcast of Caribbean music.

All Caribbean countries have cultural institutions, such as Ministries of Culture and Cultural Commissions, with varying capacity to support the development of art forms. For effective promotion of Caribbean entertainment services, these agencies need to take on a more pro-active role, for example, by establishing a stronger commercial presence. Development teams could move into areas in which Carnival is not as yet celebrated to identify possible opportunities. Development teams could make strategic investments in the broadcast media so as to increase airplay and situate Caribbean music in the mainstream of major markets. Agencies could be established to work with national collecting societies in the main foreign markets for Caribbean music to ensure that the performance and reproduction of Caribbean musical and other works are adequately monitored and licensed, and that the practices of foreign collecting societies are not
disadvantageous to Caribbean rights owners.

The development agencies should assist firms in exploiting the advances in information technology, and in transacting business through the Internet. They could begin by promoting and even selling the works of Caribbean entertainers on their websites. These agencies should anticipate changes in technology and advantageously position service providers. The improvement of the postal infrastructure will also create opportunities for service providers in the various entertainment sub-sectors to market their services cross-border, for example, through market research reports, entertainment contracts and distance training. Governments can assist with the registration of artists and supporting personnel so as to facilitate the issue of work permits for engagements abroad. The region needs to attract foreign investment in film and other audiovisual production. Such investments must ensure that local personnel not only receive employment but training as well.

Entertainment services generate a wide range of employment opportunities: for performance artistes, manager/producers, sound engineers, legal services, promotion and marketing, and a variety of technical services. Interviews conducted by the UWI in 1994, identified problems of weak organization, the relative absence of a commercial and business focus, financial fragility, absence of promotional activities and rudimentary marketing. The corresponding training needs are in the area of product development, marketing, organization and management, financial management, inventory management, capital maintenance, contract management, and copyright law and administration. The UWI developed a MIF proposal for addressing these needs targeted at personnel in the industry, the public and private sector, and trainers in tertiary institutions. This proposal should be revived.

CARICOM needs now to adopt A Regional Strategy for the Development of Entertainment Services. It should include measures such as: the adoption or updating of national intellectual property rights legislation, as well as regulations affecting foreign investment in cultural industries; the enforcement of local content quotas for the media; where possible, financial assistance through fiscal incentives, development and training of human resources involved in the entertainment sector; the development of supporting institutions; and effective use of the media to implement development and reform, and to advertise domestic cultural products and services.

The required strategy for the entertainment industry should include such common policies as: specific agreements relating to taxes, intellectual property, foreign investment and multinational corporations; antitrust regulations or competition policy; coordination of investments and mixed funding schemes; mechanisms to expand export activities and develop new markets and distribution channels; joint positions for global negotiations; and support for international initiatives affecting the industry.

From a negotiating standpoint, the best strategy for the region is to adopt the provisions relating to cultural exceptions in the rules of the WTO. The Caribbean could learn much from Canada’s position on the protection of cultural identity, and the rest of the region could emulate Barbados’
position on standards.

**Health Export Services**

In the Caribbean region, over the years, the standard morbidity and mortality data show that health has been improving. The majority of infectious diseases in the region have been brought under control, and until recently chronic diseases such as diabetes, cardiovascular diseases, including hypertension and various cancers, were the main concerns. Now, however the high incidence of HIV/AIDS has rapidly become the major health problem for it causes not only great individual and social pain and suffering, but has severe economic consequences. Substantial additional support to combat this disease has recently been made available by the World Bank, and the Caribbean Development Bank.

There are three major areas in the reform of the health sector:

- The organization of services - the key question is how to extend the coverage of services to the entire population on moral, ethical and political grounds.

- The financing of services - the challenge is to find some form of financing that accepts the role of the public sector in providing services and at the same time ensure that there is a basic package of clinical services available to all citizens.

- The role of the ministry of health - there is increasing evidence that the ministry should be less and less involved in the delivery of care, but should exercise a steering or regulatory role and ensures that the services are delivered.

Globalization and technological advances are transforming the world’s health services sector. Trends in the health services sector include: relative shortage of health personnel in some developed countries, aging population in developed countries, increased mobility of consumers and service providers, and increasing medical costs and decreasing public health care budgets.

Even though there is a growing market for health care services, especially with the aging of the OECD populations, the Caribbean region still faces barriers in the supply of health services. One very important barrier is the non-portability of health insurance, which hinders the movement of patients and retirees wishing to be treated abroad. For example, conditions in insurance contracts in the US and Canada stringently limit coverage outside these countries’ borders. Lack of information among insurers, insured and the health care providers has been the main reason leading to non-portability. Accreditation and harmonization could ensure quality and thus enhance portability. Without the portability of insurance, only services not covered by insurance could realistically be considered. In the CARICOM region, health service exports consist mainly of emergency services to tourists. Moreover, given that Caribbean nationals often leave the region to obtain more complex health services, potential patients may have serious concerns (that may not be unfounded) about obtaining health care in the region.
There are four main types of health services in which the Caribbean region can attract foreign users: specialized hospital treatments; medical and dental outpatient treatment; long term care for the elderly or disabled, and services for health enhancement; and use of spas and hot springs.

For the CARICOM region, health tourism has greater potential than conventional health services. The region has non-price advantages in spas and retirement communities, and potentially cosmetic surgery and addiction treatment. While the region has a reasonably good supply of qualified medical doctors and nurses, specialized skills for cosmetic surgery or addiction are not readily available. For retirement communities and cosmetic surgery, the inability to rely on the local public health facilities as a backup is a serious constraint.

The information technology revolution has resulted in the development of telemedicine. Telemedicine was seen as a promising way of addressing issues such as equity, cost containment, optimizing the use of expensive technology and specialized medical services, upgrading of health treatment, improving access of patients in remote areas to primary and specialized health services, and regional sharing of knowledge and cooperation. Before telemedicine can make a major impact on international trade in health services, there are major hurdles to overcome including: the substantial investment needed in the required technology and equipment, quality, liability, scientific reliability, recognition of qualifications, standards and licensing, insurance coverage, and confidentiality of information. Telemedicine could also impact on other modes of supply of medical services, since by receiving cross-border consultations, patients would be less likely to travel abroad, and medical professionals and students would have access to medical education from foreign countries without the need to move abroad. The Internet would also allow people to participate in their health care system, and thus enhance any collaborative action in public health issues. However, the use of telecommunications to access Caribbean expertise or the processing of samples and medical diagnostic data is unlikely to be a major enterprise.

A significant factor in the supply of health services is the outflow of health personnel to developed countries. Indeed there is active recruiting of Caribbean nurses from the USA. In this case there needs to be a comparison on the value of the remittances made by these professionals versus the investment the respective governments have made in creating valuable human resources. Ultimately, it is the conditions in the home country, which accounts in large measure for the decision whether to stay abroad or return home. However, measures have been suggested to address this migration issue: compensatory arrangements for loss of personnel, reimbursement of training costs to developing countries, incentives to encourage health personnel from developing countries to remain in their home countries and trainees to return, and creation of regional training facilities. To fill the gaps in the health sector the region has had to attract doctors from other countries. At another level the region can also provide education of foreign students in health services at the University of the West Indies and/or at the numerous “offshore medical schools”.

The promotion of exports of health services requires the designing of strategies to improve domestic capacity, identify excess supply of health services and potential markets for such services, and overcome internal and external barriers. The key elements of an export strategy for
the health service sector are: identification of niches and target markets; development of marketing; improving accessibility of health institutions to foreign patients through agreements with insurance companies that guarantee the portability of insurance; and clear definitions of liabilities among providers of health services and insurance in the exporting and importing countries. CARICOM Health Ministers should now prepare an Implementation Strategy for the Promotion of Caribbean Health Export Services, with the aid of PAHO.
Chapter 4

MACROECONOMIC ADJUSTMENT

Fiscal Reform

Concern about the impact of trade liberalization on government revenue has been accentuated by the recent tendency for fiscal deficits to widen, after a significant decline in the early 1980’s to the mid 1990’s. Trade liberalization affects government revenue in several ways, depending on the starting point of the liberalization, the nature and structure of the trade restrictions, the impact on the volume of imports and the overall macro economic effect.

Initial studies suggest that the trade liberalization process will in time have a substantial negative fiscal effect, especially in those countries of the OECS that have abandoned income taxes and are heavily dependent on custom duties for government revenue. The estimates indicate that the percentage decline in customs revenue for a 50 percent multilateral liberalization is about 42 to 45 percent for each CARICOM State. This effect may of course be partially offset by any longer term growth benefits of extra-regional export expansion on the size of the taxable base (import volume) for customs duties. Any revenue loss from import duties provides an incentive to develop or reform non-trade taxes. Barbados, Jamaica and Trinidad and Tobago have already put consumption/value-added taxes into effect, and the OECS and The Bahamas have organized studies on such alternative taxes.

The need for fiscal reform in the Caribbean derives from the revenue-depleting effect of the trade liberalization process, as well as from increasing reliance on public savings to pay for investment expenditure, particularly with declining flows of concessional finance; the fact that lowering direct taxes may improve the incentive for private savings and investment; and, in some countries, high debt servicing cost.

The Caribbean region, in comparison with other developing countries, has strong revenue systems due to taxes on mining activity, continued high taxation of imports through customs duties and consumption/value-added taxes, and improvements to the tax system and tax administration. However, high tax rates, inequity in the tax burden and ineffective enforcement of tax laws have encouraged non-compliance and resulted in high accumulation of arrears.

Governments continue to play a major role in all Caribbean territories, even though there has been a rollback of public sector involvement in commercial activities over the last decade. Several countries continue to have a very high external debt and public sector deficits, which affect the amount of resources that have to be diverted from other uses towards debt service. Most countries have adopted significant tax reforms and enhanced the administration of the public finances. There continues to be room for improvement and fundamental reforms, however, in several important areas, given the centrality and size of the governments in the economies, the fact that fiscal activity is more amenable to control than private sector behavior,
and in the light of the ongoing process of trade liberalization. The following are the principal options for fiscal reform:

- Caribbean governments need to increase reliance on public savings in order to finance growing infrastructure needs, particularly as the availability of foreign grants continues to decline. While some countries have improved their international credit rating and increased their access to foreign commercial borrowing, such resources come at a high cost and access is contaminated by events in other emerging markets.

- Meaningful trade liberalization implies effective reduction in tariff protection. Since Caribbean countries are in the more advanced stages of trade liberalization, this is likely to have a real impact on import duty collections, on which some countries (particularly the OECS territories, The Bahamas and Belize) rely heavily. Offsetting revenue measures would need to be introduced or strengthened, notably broad-based taxes (such as VAT or general sales or consumption tax at a moderate rate with only few exemptions). In this regard, valuable lessons can be drawn from the successful experiences of Barbados and Trinidad and Tobago in introducing and administering the VAT.

- In light of the increasing integration of the Caribbean economies, harmonization of indirect taxes would ease administrative burdens and increase efficiency in the regional tax systems.

- Customs reform should incorporate simplification of tariff bands, transport valuations and advances in computerization of transactions. This would help to facilitate trade by reducing processing times and would also reduce tax evasion. Reform in the customs area should, in fact, be one aspect of the overall simplification and streamlining of the tax regimes in order to reduce discretion and rent-seeking.

- For reasons of efficiency and equity, governments should explore the scope for extending more effectively the formal system of taxation to the self-employed and parallel economy.

- There is a case for lowering direct taxes in some countries to improve incentives for private savings and investment. Depending on the overall fiscal position, the timing of such reduction may need to be phased over a few years.

- Caribbean tax systems rely on tax incentives, especially tax holidays and tax exemptions. Tax incentives encourage hit-and-run investments. Investors interested in the long haul prefer stable political and economic environments, with high quality public services and workforces and a well-structured and administered tax system with generous capital allowances and loss carry-forwards. The incentives also weaken public revenues, distort economic activities, and impose inequitable burdens on different producers and industries. Tax incentives should be reviewed and removed where ineffective. Harmonization across countries and all incentives to investment, as envisaged under CARICOM, is also a priority.

- Setting of public utility rates (fuel, electricity, and transportation) to assure increased cost
recovery can increase public revenues and promote greater commercialization of the public sector. Support to public entities should be transparently laid out in the governments’ budgets and particular care should be paid to acquisition of debt by those bodies.

- Windfall taxes or funds set aside from excess revenues at times of high commodity prices (for example the use of an Oil Stabilization Fund in Trinidad and Tobago) can play a vital role in smoothing revenues during periods of volatility.

- With respect to expenditure, civil service reform is important. Average public spending on wages in the Caribbean takes up a significant proportion of budgets and rose from 30 percent of central government expenditure in 1994 to 42 percent in 1998. In one country it is as high as 75 percent. Meaningful civil service reform entails restructuring wage scales to compensate highly skilled employees more in line with their productivity and private market value, while at the same time cutting excess employees. In view of existing high unemployment rates, most governments have been reluctant to engage in large-scale reductions in the public sector workforce but maintaining a bloated public sector is not sustainable and it would be preferable to use the resources for retraining. Public sector wage negotiations also set the tone for settlements in the private sector, (particularly in a country like Barbados), a major determinant of international competitiveness.

- Reform of the public sector should include the rationalization of operations of para-statal and public enterprises. This rationalization can take the form of divestment of government owned assets, especially loss-making enterprises; and where para-statal bodies are established to provide assistance to the private sector generally, reducing the size of their establishment and outsourcing services as and when required. Where necessary the privatization of these enterprises should be accompanied by the creation of a competitive environment within an appropriate and transparent regulatory framework.

- The high levels of spending on public sector programs should also be examined and projects vigorously prioritized. Diseconomies of scale in infrastructure also create major distortions in the per capita cost of services, and this puts severe pressure on the economy to generate sufficient income to defray investment costs.

- The current financial situation of social security systems in the region tends to be strong, given their relatively recent establishment, a young population, and conservatism in the level of benefits paid out. However, in a number of countries, governments have tended to use the surpluses of social security funds to finance current expenditure. With the projected aging of the populations and consequent demands for higher level of benefits to be paid to the elderly, the social security systems are likely to confront increased financial strains.

There is thus a wide-ranging agenda for fiscal reform ahead for Caribbean governments. There has been some progress in some States but, but on the whole, reform has been slow, patchy and in some respects retrograde. Moreover, despite the commitment to the creation of a single economic space there are as yet few signs of any real interest in regional fiscal harmonization.
Each State is going it alone, without regard for congruence. It is proposed that, with the help of the IMF, the CARICOM and the OECS should collaborate in preparing the Council of Ministers of Finance and Planning (COFAP) a **Plan for Caribbean Fiscal Reform** that would include not only national agenda for budgetary management and tax administration, but an approach to regional fiscal convergence.

**Exchange Rate Management and Regional Monetary System**

The member States of CARICOM presently employ varying exchange rate systems. OECS members use a common currency, with the Eastern Caribbean Central Bank as the central bank for the sub-region. Guyana, Jamaica, Suriname and Trinidad and Tobago all officially use floating exchange rates (with certain technical differences). Barbados, The Bahamas and Belize have fixed exchange rates (pegged against the US dollar).

In the context of adjusting to a liberalized world economic and trading regime, and putting in place the Caribbean Single Market and Economy, the question arises as to which exchange rate system, including dollarization, would be the most advantageous. Each country claims full satisfaction with the system it presently operates, and in most cases its retention has assumed the status of a political mantra. The question would therefore be essentially a theoretical one were it not for the simultaneous commitment of these countries to a single economic space.

The advantages and shortcomings of these different exchange rate systems are well known. They do not however appear to be amenable to a single incontrovertible conclusion. The less doctrinaire approach to exchange rate regimes has recently been summed up in an IMF publication as follows: “the perceived need for greater flexibility has probably resulted from the increasing globalization of financial markets…(which) in turn imposes an often strict discipline on their macroeconomic policies. An exchange rate regime pegged to a single major currency has the advantage of simplicity, transparency and predictability with respect to the value of the domestic currency in international transactions. However, fixed exchange rates are quite demanding in respect of other policies, (for example fiscal, incomes and monetary policies), which have to be more flexible in order to accommodate the fixity of the exchange rate. They also operate as a strong incentive to improve productivity.

Flexible exchange rates offer the possibility of allowing large adverse shocks to be more easily absorbed than a pegged exchange rate regime. Developing countries with floating exchange rates, including those in the Caribbean, have however practiced some degree of management, thereby placing more of the weight of adjustment to macroeconomic shocks on movements in interest rates and international reserves than on variations in the exchange rate.

The distinguishing feature of the currency board arrangement (CBA) – which is rarely explicitly present in conventional peg regimes – is the legal commitment to exchange domestic currency for a fixed amount of foreign currency on demand. The main weakness of the CBA is the constraints on exchange rate flexibility through its rigid rules.
As regards dollarization, the basis arguments in favour are that without a domestic currency there is no possibility of a sharp depreciation, and sudden capital outflows motivated by fears of this are thereby eliminated. Elimination of the exchange risk premium would lead to a lowering of domestic interest rates, and by fostering closer integration with the US and the world economy would lower transaction costs and assure stability of prices in dollar terms. The main disadvantage of dollarization, like that of the CBA, is loss of the exchange rate instrument, but with the important feature that it is extremely difficult to exit. Also, there is no seignorage accruing to the domestic monetary economy, and no lending of last resort to the domestic banks is possible.

As mentioned earlier, there is no agreement on the optimal exchange rate regime for the Caribbean region. Both fixed and flexible exchange rates are said to have been compatible in practice with good economic performance. This is best illustrated by the experience of Barbados and Trinidad & Tobago. The Bahamas, Belize and the ECS have also performed relatively well with fixed exchange rates. On the other hand, both Guyana and Jamaica are satisfied with the performance of their floating exchange rate regimes. In Guyana it has been compatible with very high growth rates and relatively low interest and inflation rates, and in Jamaica, while not immediately stimulating GDP growth, its managed floating rate has been consistent with reducing interest and inflation rates and building net international reserves. The Bank of Jamaica states explicitly that it “sees its current managed float as being optimal for Jamaica in its present context and given its economic history over the last several decades.” It “also rejects the extremely rigid options of a currency board and dollarization as representing a sub-optimal price of policy failure”.

The implications of this apparently incompatible situation for regional monetary integration inspired by the objective of creating a single market and economy (SME) are not very encouraging. In addition, it is questionable whether Caribbean countries meet the criteria that would define an optimal currency area, such as a high degree of capital and labor mobility, openness, high share of intra-regional trade, and low degree of product diversification. There is clearly an absence of real political will for monetary union. Policy divergencies continue to vitiate the objective of convergence. On the whole, therefore, regional monetary union must be looked upon as a long-term aspiration. While there is a sub-set of CARICOM member States sharing the same orientation in respect of the exchange rate regime (Barbados, The Bahamas, Belize, OECS States) that might, for that formal reason, be regarded as eligible for monetary union, the more fundamental substantive rationale for creating a monetary union out of that sub-set of countries does not seem compelling. The pragmatic option therefore, at the present time, is to continue to pursue the goal of closer convergence (which should now include a target for fiscal deficits), driven by intensified efforts to create the CSME.

However, a strong rationale for a single economic space is the need for a single market for investment, to achieve the scale and capture the synergies necessary to produce internationally competitive firms. Already, there are a few firms that may be considered beacons, pointing the way in this direction. A common currency is potentially a vital pillar in the unification of the Caribbean investment market. It may be achieved, under the conditions already agreed by
Box I
Lessons from East Asia

The success of East Asia provides some notable lessons on successful development strategies.

- **Savings.** All the East Asian countries had much higher savings rates than other developing countries. From 1990 to 1997, for example, gross domestic savings in the countries of East Asia and Pacific were 36 percent of GDP, compared with 20 percent in Latin America and the Caribbean and 17 percent in Sub-Saharan Africa.

- **Investment.** The East Asian countries managed to invest these savings productively, so that the return on capital investment remained higher that in most other developing countries) at least until the mid-1990s).

- **Education.** These economies invested heavily in education-including female education. The investments paid off in contributions to growth.

- **Knowledge.** The East Asian countries managed to narrow the knowledge gap with high-income countries by investing heavily in science and engineering education and by encouraging foreign direct investment.

- **Global integration.** The experience of East Asia’s economies shows that development countries have a greater ability to enter global markets for manufactured goods than many believed possible several decades ago.

- **Macroeconomic policy.** The East Asian countries implemented sound macroeconomic policies that helped contain inflation and avoid recessions. Indonesia and Thailand had positive real GDP growth from 1970 until 1996. Over that same time period Malaysia and the Republic of Korea each had only one year of negative real GDP growth.

Each of these points opens up a number of new issues. For instance, the high savings rate might have been generated by personal preferences, government policies, or a combination of the two. And while these countries invested their savings well, many others do not. Nonetheless these elements of overtly successful policies point the way toward a partial development agenda.

Failures as well as successes can provide positive lessons for development. Among the most recent (and sometimes spectacular) examples of such failures are Russia, some of the economies in transition in Central and Eastern Europe, and several East Asian countries affected by the economic and financial crisis of the mid1990s. Their experience point to other factors that can influence economic growth, including corporate and public governance and competition.

- **Legal frameworks.** A sound legal framework helps ensure that managers and majority shareholders in the corporate realm focus on building firms rather than on looting them.

- **Corruption.** Reducing corruption in the public sphere makes a country more attractive to investors. Many privatization efforts have been racked by corruption, undermining confidence in both the government and the market economy. The loans-for-shares scheme in Russia was so widely regarded as raising corruption to new heights that much of the resulting wealth is considered illegitimate.

- **Competition.** Competition is essential. It encourages efficiency and provides incentives for innovation, but monopolies may try to suppress it unless the government steps in.


Heads of Government, if all members are prepared to commit to currency board regimes before
acceding to the monetary union. In the meantime the Committee of Central Bank Governors could facilitate progress on this accepted community policy by launching a public education campaign on a Caribbean common currency.

**Capital Markets**

In the past decade there has been increasing integration in the world’s financial markets. Countries have facilitated the inflows of capital by the dismantling of restrictions, deregulation of domestic financial markets, and the introduction of market reforms. The purported benefits of financial liberalization include access to funds for consumption smoothing; inflows of investment; enhanced macroeconomic discipline; and increased banking system efficiency and financial stability. The downside of greater financial openness includes concentration of capital flows; domestic misallocation of capital; loss of macroeconomic stability; pro-cyclicality of short-term flows; herding; contagion and volatility of capital flows; and risk of entry by foreign banks.

In CARICOM countries there has been some liberalization of capital markets. The process has not been uniform among these countries. Reforms have included partial liberalization of capital controls, exchange rate stabilization, some rationalization of investment incentive regimes, liberalization of income and profit repatriation, some bilateral investment and double taxation agreements, the CARICOM Double Taxation Agreement and some cross-border securities trading.

However, if CARICOM countries are to secure an increasing share of the volume of international capital flows, a number of domestic structural and policy-related obstacles would have to be addressed. Some of the most important obstacles can be overcome only within the framework of regional integration.

Structural obstacles include the diseconomies of scale and scope of small financial institutions (e.g. limited intermediation, information gaps, absence of portfolio investment inflows), low human capital, legal and administrative deficiencies, inflexible labor market, small domestic market, small size of loans, inadequate physical infrastructure, public sector ownership (especially of banks, land, social security funds), and high telecommunications cost. Policy-related obstacles include land tenure arrangements in some countries, restriction on portfolio allocation, regulatory deficiencies, exchange controls, and inefficient tax regimes. External obstacles beyond the control of domestic authorities include the high-risk perception of small developing countries in general, vulnerability to natural disasters, and world economic conditions.

All this implies a very substantial agenda of reform. Some obstacles are amenable only to regional solutions. For example, in respect of the latter, a regional regulatory and supervisory infrastructure becomes inescapable for a single Caribbean economic space; the creation of a regional banking network would help to overcome some of the diseconomies of small banking systems; and consolidation of securities exchanges through cross-border mergers and joint ventures would facilitate mobilizing domestic regional and external resources. A Regional
Action Plan for the Liberalization and Development of CARICOM Capital Markets should now to be undertaken. Such a program of work should address both national requirements and elaborate proposals for development of the regional capital market. Some assistance toward this end has already been given by international institutions but the work needs to be expanded and accelerated.
Chapter 5

COMPETITIVENESS, PUBLIC AND PRIVATE SECTOR DEVELOPMENT

Competitiveness and Human Resource Development

One of the impressive features of Caribbean development is that in every country, outstanding business successes are found, stories of how local enterprises overcame severe obstacles and became internationally competitive. These successes, moreover, span a variety of sectors, and are not confined to entrepreneurs originating in any particular class of society. Since competitiveness lies at the heart of the problem of adjustment the most revealing insights into how the Caribbean can reposition itself into the evolving contemporary world economy would probably come out of continuing in-depth analysis and understanding of these experiences.

This project has not been able to undertake such an extensive exercise. What follows is the result of a preliminary case-study based on selected enterprises in Jamaica. Nevertheless, the experience of CTAG and the results of this Jamaican case-study lead to the conclusion that a Program for the Study of Competitiveness, based on analysis of individual enterprises and entrepreneurs and adjustment to globalization, should be organized, building on the initial work undertaken for this project at the Mona Campus of the University of the West Indies. Such a program would move on from the study of existing enterprises to providing advisory services on a self-financing basis to firms in trouble or wishing to expand. The proposal made here follows upon the conclusion of the IDB “Road to Competitiveness” seminar (Santiago, March 2001) and the announcement by IDB President Enrique Iglesias that the IDB will help the countries of Latin America and the Caribbean define strategies for competitiveness agreed upon by governments, the private sector, and civil society.” There can be no better basis for the design of these strategies than the real-life local contextual experience of how competitiveness has actually been attained. Such a program would seem to fit well into the mandate of the IDB’s Multilateral Investment Fund (MIF).
Box 3
From reliance on trade preferences to the successful marketing of branded products-
The case of Appleton Jamaica Rum

J. Wray & Nephew, the largest subsidiary in the Lascelles de Mercado Group is Jamaica’s largest producer of rums and spirits. Historically, this company had focused on the UK, market, and indeed, benefited from trade preferences in relation to its sale of bulk rum to that country. The principal focus of the company, in recent times, however, has been to build an international reputation with its branded products, de-emphasizing the bulk rum component of business activity and focusing on improvements in the quality of all its products, including its branded products. In 1996, for example, the company achieved ISO 9000 certification in record time.

The result is that by the late 1990’s, J. Wray & Nephew was selling its branded spirit products to more than sixty markets around the world. Appleton Rum, the company’s flagship product was the number one imported rum in Canada, Mexico and several Caribbean countries. The number one imported premium brands in Peru and the leader in the dark rum category in Italy. Coruba Jamaican Rum, another branded product, was the number one spirit of New Zealand, while the Company’s white over-proof rum was the number one selling high strength white rum in the world. In 1998, Appleton Jamaica Rum was recognized as the Best White Spirit in the World in the International Wine & Spirits competition. On the other hand, in relation to the strategy of de-emphasizing bulk rum sales, in 1998 the company withdrew from the commodity bulk rum market in Germany.

Source: Alvin G. Wint, Enterprise Competitiveness in a Small, Developing Low Growth Economy: Jamaica, Experiences, UWI-Mona, March 2001

The companies selected in Jamaica fulfilled the requirements of selected indicators of internationally competitive operations and ones that were profitable and for which data were readily available. Firms deemed successful showed the following characteristics:

- **Responsiveness to Liberalization, De-regulation and Competition:** Firms that were successful during this period were those with the ability to respond to changes in the environment.

- **International Benchmarking:** In both the goods and services sectors the successful firms were those which used international benchmarks to guide their productive activities. The benchmarking activity was aided by the fact that the leaders of the companies themselves had a significant reservoir of industry knowledge, and had personal links to individuals in internationally successful companies.

- **A Focus on Innovation, Marketing, Quality and Technology:** Innovation was a noticeable activity in many firms, from the continued innovation of the Jamaican-based all-inclusive hotel chains, to Lasco’s innovative approach to the development of soy-based drinks. In addition to product innovations, these firms also modified their approaches to the marketing of their products. Quality was an important focus, and several of the companies featured had symbolized their quality focus with a movement towards ISO 9000 certification, enhancing processing capabilities through technology acquisition and adaptation.
Workplace Transformation and Human Resource Development: In the response to liberalization, the companies focused on investing in their human resources. The focus of these programs was on integrating increased worker flexibility with up-skilling and improvements in workplace democracy and in training of the workforce. The programs were particularly successful where the companies were able to cooperate with their unions in the transformation process. For example, Sandals is moving towards the establishment of a corporate university.

Effective Risk Management: The successful firms managed their risks in various ways, from pursuing highly focused activities to diversifying into other activities, variations of products and geographic market diversification.

Adroit Corporate Leadership: The measures undertaken by these companies have had strong leadership.

Box 4
ISO 9000: Signaling quality and improving productivity

The ISO 9000 series of international quality management standards lays down detailed procedures for ensuring quality at all stages of production and requires strict documentation of adherence for firms seeking certification. In 1998 existing national standards of quality for manufacturing and services were adopted by the International Standards Organization (ISO) and published under the ISO 9000 name. ISO 9000 certification (which applies to the whole production process, not specific products) signals quality in markets, and international buyers often insist that their regular suppliers obtain this seal of approval.

A 1995 survey by the United Nations Industrial Development Organization cited demand from overseas customers as the main impetus for ISO 9000, certification by Asian and Latin American exporters. Among 93 major Brazilian enterprises surveyed in 1994, 55 percent increased productivity as a result of ISO 9000, 35 percent improved the standardization of processes, 31 percent increased employee participation in quality control, and more than 20 percent reported an increase in client satisfaction.

Indian chemical companies have also worked to obtain ISO 9000 certification to reassure their Western buyers about the quality of their products. In 1993 Sudarshan Chemical Industries became the first Indian chemical company to receive certification. The process took 15 months, and before applying the company had been working on total quality management for about five years. More than 95 percent of its deliveries are now on time (up to 70 percent). And the margin of error in its product quality has been reduced from 6 percent to 1 percent and that in new material quality from 4 percent to 1 percent.

There is an important role for the public sector in helping to develop the competitiveness of the region’s companies. Trade negotiation strategies, for one, need to be responsive to the pace at which firms will be able to respond adequately and positively to liberalization. Public sector strategies of improving macro-economic stability and infrastructure will assist in reducing enterprise risk. Public policies focused on the enhancement of the national scientific infrastructure and the development of standards is critical. So also are policies aimed at enhancing workplace flexibility, providing an environment conducive to the upgrading of workers, and creating training and leadership skills.

**Human resource development** occupies a central place in the drive to achieve competitiveness. CTAG’s view is that this could be the biggest shortcoming in designing a strategy for competitiveness. In every Member State, and more especially so the Eastern Caribbean States, Belize, Jamaica and Guyana, the deficit in respect of trained human resources is enormous. Moreover, it is endemic, spreading to all branches of activity – in primary – secondary – tertiary education; in virtually all business enterprises; throughout the departments of the public sector; in agriculture, industry, tourism, health and other services, construction, engineering, trades, and so on. Everywhere the paucity of trained and competent personnel is all too evident, and particularly in respect of modern computer-based technology. It is probably the most critical factor in expanding the absorptive capacity for investment in the region.

The only conclusion that could be made is that without massive investment in human resource development there would be only limited prospects for the Caribbean to reposition itself in the new world economy. Barbados is the country that seems most alert to the needs, although, even in this case, domestic resources would be severely stretched to meet all the needs.

It is equally clear, everywhere, that efforts to deal with this problem are not only small, patchy and sporadic but subject to all the disadvantages of very small scale, especially in respect of cost and quality. Evidently what is now needed, and needed urgently, is a **Comprehensive Regional Program for Human Resource Development**. CTAG would urge that the donor community join efforts in helping to support and design a coordinated regional program that is adequate and comprehensive enough to provide the foundation for transformation. An international financial institution such as the IDB could take the initiative by helping to prepare such a needs assessment, and coordinate the efforts of other partners.

**Labor**

In a rapidly changing economic environment labor organizations cannot escape reform. Reform has become necessary due to trade liberalization, including the erosion of trade preferences, and the reduced availability of concessional finance. Liberalized markets and advances in information technology are reducing the job security of workers, and modifying traditional production structures, in particular the growth of the services sector. The move towards the CARICOM Single Market and Economy will have implications for labor markets since it is hoped that eventually there will be free movement of labor within the region. At present, there
has been liberalization, to a certain degree, of the movement of graduates of recognized tertiary institutions. While there are ongoing reforms in different areas to cope with changes in the global economic environment, they have not been associated with reform of the labor market. This now has to be addressed if the region is to be able to compete effectively in the global trading arena.

Box 5
Barbados Labor Market Relations

Legal Framework
Four pieces of legislation provide a legal framework for labor relations in Barbados: (i) the National Insurance and Social Security Act of 1996 instituted the National Insurance Scheme, which, insures against unemployment, sickness, employment injury, maternity, and other events; (ii) the Severance Pay Act of 1971, which establishes that all workers are entitled to severance pay after two years of employment, if their job is discontinued for any reason other than voluntary termination or justified dismissal; (iii) the Shops Act of 1989 (revised June 1997), which establishes a minimum wage for attendants at retail stores; and (iv) a law guaranteeing a four-week paid vacation for all employees.

The Protocols
Since the early 1990s, labor market relations in Barbados have been conducted under the framework of successive economy-wide arrangements or “protocols” among representatives of the government, labor and business. These protocols were born out of the severe economic problems in 1991-91, with the realization that a restrained income policy was necessary in order to maintain the fixed exchange rate parity.

1. The first protocol for the Implementation of a Prices and Incomes Policy covered the period 1993 to 1995 and made provision for an economy wide wage freeze.
2. The second protocol (1995 to 1997) provided for a period of wage restraint in line with productivity changes.
3. The third protocol (1998 to 2000) maintained productivity guidelines for wage increases, and also emphasized issues of job security and training.

Private an Public Wages
Unionized labor accounts for 60 percent of the labor force. The government accounts for 20 percent of total employment and its wage settlements have a direct influence on private sector wages. Government wages as set in two-year contracts with the first year settlement generally being larger than the second; this accounts for the jagged pattern of public sector wages in the lower figure. Private sector wage contracts are generally longer and more staggered, resulting in a wage pattern that is close to the cycle of public sector wages changes but is much smoother.

There are several common characteristics to Caribbean labor markets. There is a high incidence of unemployment, with rates ranging between 7 and 16 percent. The distribution of unemployment is skewed towards the young and females. High levels of unemployment exist alongside a shortage of workers with high technical and managerial skills. This shortage of skilled workers is due to significant migration to Europe and North America. While these migrants contribute to the economy through remittances, these resources are mainly used for consumption rather than investment. Further, the view has been put forward that some sections
of the working class, due to historical and socio-political reasons, do not have the kind of work ethics suited to the new economy. In the region labor productivity growth is low and the link between wages and productivity weak. In some countries there is a history of conflictual industrial relations, with an absence of constructive dialogue between trade unions and management. This combative relationship leads to labor market rigidities and frequent work stoppages that adversely affect productivity and output while damaging the country’s image as a destination for investment.

In reforming the Caribbean’s labor market several issues have to be addressed. Governments would have to provide a more supportive environment to seize the advantages of globalization, while providing the public with information about its potential gains and pitfalls, and the consequential need for reform. Current labor market policy, and the institutions that support such policy also have to be reassessed. For example, such an assessment inevitably would result in some reform of the Ministries of “Labor and Manpower”. Complementary reforms that promote labor market flexibility, including unemployment relief and re-training, without lowering working conditions, have to be implemented.

In re-designing labor policy some difficulties must be anticipated, for example, in relation to taxation and welfare provisions, particularly as Caribbean countries liberalize the internal Community market.

Labor market reform must take into account that in many Caribbean countries the Government and the wider public sector are now the largest employers. But in the future, the size of the public and civil sector is likely to be much smaller, but with highly skilled persons earning correspondingly higher wages. Effective reform of the labor market would require that trade unions change their traditional modus operandi. Indeed, to develop policies and programs to ensure that local businesses are competitive in the global market place, worker representatives and business and government officials would have to work together in a more cooperative mode. Trade unions and workers would have to understand that in the future the ability to earn higher wages would have to be directly correlated with increased productivity. At all levels compensation would have to be performance related. Organized labor can no longer behave as if their actions affect only their members. All workers in both the formal and informal sector would be affected, as would the performance of the enterprise and the country as a whole. With the exception of Barbados and Jamaica, these new attitudes to business and workers’ interests have not yet taken root among the Union leadership. In some instances there is even a strong resistance to change. In one case, the Union leadership saw little prospect of change in a society in which distrust was all-pervasive.

All countries should ensure that they have an effective System of Tripartite Consultations (labor, management and government) with the aim of organizing such program as:

**National Skills Development:**

Workers and managers need to be equipped with the skills necessary to effectively participate in
the global market. This would entail not only having traditional schooling of high quality, but also a continuous educational and training process. More efficient use should be made of the available skills. In cases where managers and workers invest in upgrading their skills, there should be adequate payback periods to justify such investment. The work ethic of the workers has to be modified and management techniques improved.

**Business Development:**

Given the high levels of unemployment that presently exists in Caribbean economies, job creation has to grow at a faster rate. Programs to facilitate business development should target micro, small and medium-sized enterprises and incorporate training suitable to such activities. The critical skills needed are business enterprise development, evaluation of business opportunities, marketing, finance and production operations. These knowledge and skill requirements may be best satisfied through the kind of two-component program proposed by the UWI six years ago. The first component focuses on the training of trainers for delivery in technical-vocational institutes. The second component is the creation of a business advisory executive corps comprised of retired business executives. This proposal to the MIF should be revived. Government assistance can take the form of tax breaks, temporary derogations from particular regulations that are costly to comply with, subsidized credit, and free or subsidized advice. In developing business opportunities, the region can benefit from returning migrants, as potential investors or as workers who have benefited from foreign training.

**Institutional Development and Strengthening:**

Productivity enhancing compensation schemes, with particular emphasis on linking wages performance should become standard practice. Regional labor market information and statistics need to be expanded. The availability of national and regional statistics on labor (participation, structure, productivity, etc.) would assist policy makers in their analysis of the market and in the formulation of policy recommendations.

**Dispute Resolution:**

To reduce labor disruptions and facilitate inter-enterprise dispute settlement the existing industrial relations system needs to be renovated. Professional mediation should become standard practice and the services of trained mediators should be available throughout the region.

**Public Sector Modernization**

In the Caribbean governments are involved in activities that go beyond what can now be considered their core responsibilities - the maintenance of public order, necessary economic regulation, the provision of infrastructure, the improvement of human services, and the administration of safety nets for the poor. Modernization of the public sector has been influenced by the growth of the middle class, the diversification of the private sector, and pressure from
NGOs. The process needs public education and bi-partisan support for the reforms.

One of the factors that contribute to the successful modernization of the public sector is macroeconomic stability. But some CARICOM governments have experienced high inflation and devaluation, which have had the effect of reducing the quality of public services by distorting salary structures and sectoral allocations. Some countries also have large debts to service. Thus some, Caribbean governments often find that due to lack of resources they are either not providing the necessary services or the services provided are inadequate.

Financing the public sector is related to the tax base of the country. The unpredictable nature of the tax bases in the Caribbean requires that governments be more focused on the range of services they provide. This requires reform of the tax system; particularly broadening and lowering tax rates, including the use of consumption taxes. In some Caribbean countries wages in the public sector, especially at senior levels, are not comparable to those paid in the private sector. Thus there are numerous vacancies in the public sector. However, to bring wages closer to those in the private sector would increase government expenditures, in a situation in which debt burden of some Caribbean countries is already excessive. Thus, public sector reform is inevitably tied to efficient debt management, including the use of borrowing programs that are tailored to fit a medium to longer term debt service profile.

One major aspect of the modernization of the public sector in the Caribbean concerns the transfer of several activities, in part or in full, to the private sector. The appropriate form of transition to the private sector depends on the activity. The move towards heavier reliance on the private sector will involve diversifying and building capacity in the private sector to take on new tasks and employ a larger share of the labor force; training personnel exiting the public sector; and building capacity in the public sector to perform functions that are increasingly regulatory in nature. For this aspect of the reform process to be successful, it is vital to have the support of the public sector personnel. To encourage this support public sector employees should be given access to training, while appropriate incentives should also be offered.

The transfer of activities to the private sector and to NGOs will release financial and managerial resources. This would enable the public sector to focus on activities that only it can provide, such as the legal system, public health and safety, basic education, environmental protection, and administration. However, the problem with the public sector has not been primarily its size, but ineffectiveness and inefficiency in performing its tasks. To improve the services provided by the public sector expenditures would have to be kept at a sustainable level, sectoral allocation of public spending to encourage growth and equity would have to be improved and public institutions strengthened. In particular, the focus should be on core activities, allocating spending efficiently between wages and capital, and designing programs to complement private sector activities. The monitoring of public spending needs to be improved, with managers being held accountable, and timely and accurate financial and accounting information made easily available. Ineffective programs may have to be closed in order to provide funds for higher priority activities. Programs should be put in place, where possible, to recover costs for publicly provided services, while using targeted subsidies, where necessary, to ensure that the poor have
access to basic needs, whether provided by the public or private sector. Too often, several commissions are involved in monitoring the public sector. In the interest of efficiency they should be consolidated.

The mandate to reform the public sector should, in particular, require simplification of government decision-making, transparent legislation on financial and personnel procedures (appointment, removal and discipline of civil servants); evaluation and accountability of officials against clear performance criteria. Given the tendency of governments to interfere in the operation of public services, Parliaments should be strengthened, for instance by providing better information and making greater use of public accounts committees.

International institutions can make a substantial contribution to the reform of the public sector. Some have already undertaken general reviews of this sector and have contributed to various partial aspects of the problem. Often, even within a given sector, like the civil service or judiciary, the job remains incomplete. What needs to be done now is to prepare a comprehensive Regional Public Sector Modernization Plan which would include, for each country, and also at the regional level, a detailed reform agenda and timetable, and commitment to the resources needed, mainly financing, training and technical assistance.

Private Sector Development

A number of responsibilities fall on governments for creating an environment conducive to private sector development. But the private sector itself has certain responsibilities for ensuring its own growth and development. The first prerequisite for this partnership to work effectively is the establishment of a formal Mechanism for Cooperation between Government and the Private Sector. It should also include organized labor. CTAG was surprised by the pervasive, and often acrimonious misunderstanding that exists between the public and private sectors. The private sector frequently complained about the lack of transparency on the part of government and an absence of consistency in the application of policy. The public sector resented the failure of business organizations to cooperate in researching problems and formulating policy. There was evidently a high degree of distrust between the two partners. CTAG urges that high priority be assigned to remedying this situation. It is an environment in which development cannot thrive.

From the standpoint of the private sector, governments are expected to establish a regulatory and policy framework that supports stable macroeconomic system, clear and balanced rules of the game which protect the legitimate interests of consumers, workers, retirees and children, depositors, investors and producers, while ensuring equal economic opportunity for all, and safeguarding the environment.

Specific functions include:

- Defining legal jurisdictions and property rights in an unambiguous fashion to facilitate production, investment and conflict mitigation.
Ensuring the provision of specified public services, such as national defence, education and health services.

Assuring the availability of basic physical infrastructure such as transport facilities and potable water supplies.

Developing special programs to assist poor households, both to meet their immediate basic needs and to improve their own income earning capacities.

Carrying out the functions of taxation, budgeting and program implementation.

Establishing and strengthening the country’s judicial and electoral systems.

Continuously endeavoring to improve the quality of public administration.

Participating as a partner in selected production activities, normally as a transition measure.

Caribbean governments are a long way from satisfactorily fulfilling all these functions. In some instances the record is very poor. Given limited resources, all functions evidently cannot be simultaneously discharged in the desired manner. Public-private dialogue in the context of the formal cooperation mechanism proposed is therefore essential as a means of determining priorities and agreeing on standards. These priorities and standards will doubtless vary from country to country. However, in all countries emphasis was given to the need for greater transparency and the predictable application of rules. In one country, control of criminal activity, and threats to property rights, were among the highest priorities, as was the inefficiency of some aspects of the macroeconomy, the rate of interest in particular. In other countries the emphases were on political instability, inefficient tax systems, poor revenue collection, land reform and tenancy arrangements.

Governments too have expectations of the private sector in respect of its own development that are not always being satisfactorily fulfilled. The areas most frequently mentioned are inadequate entrepreneurship and risk-taking; excessive concentration on merchandizing; lack of competition; failure to take a fair share in respect of civil responsibility; absence of interest in and collaboration on policy-making and external negotiations; little or no investment in research and development and technological upgrading; poor and outdated management techniques, especially in respect of organized labor; tax avoidance and excessive reliance on tax incentives. Again, these are issues on which common ground and the way forward can only be found through a systematic process of dialogue among the social partners.

Beyond the public-private sector cooperation mechanism proposed, a salubrious environment for creating better understanding and initiating business activity and government policy-reform could be a sort of Caribbean counterpart to the Davos (World Economic) Forum. A Caribbean World Economic Forum could be a natural off-shoot of the World Bank sponsored Caribbean Group for Cooperation in Economic Development (CGCED) which has been in existence for
since 1977, could bring together the local public and private sectors, the research community, the regional and international institutions, prominent foreign corporate and government personalities. This is a project the business community might consider sponsoring, with initial government, multilateral and corporate support supplementing registration fees. If successful, it could, like the Davos Forum, be spun off as a separate not-for-profit, self-financing institution.

**The Informal and Small Business Sector**

The term “informal sector” was first used in the 1970’s, particularly in connection with development and employment policies. Definitions of the informal sector and the methodologies employed to measure it vary from region to region and from country to country, making a comparative analysis difficult. The nature and composition of the informal sector also vary among regions and countries.

In 1993, the 15th International Conference of Labor Statisticians (ICLS) adopted an international statistical definition of the informal sector. According to the ILO definition, “The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labor and capital as factors of production and on a small scale. Labor relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees”.

Activities in this sector range from shoe shine service and petty trading, which contribute very little to output, to those involving substantial investment in skills and capital such as manufacturing, construction and transport. A single common characteristic of each micro-enterprise in the informal sector is that each unit is independent in the sense that it is free to make its own decisions about business. The major features of the sector are: labor-intensive technologies, high levels of competition, low quality of the goods and services produced, limited capital and limited capacity for accumulation. The main source of capital originates from self-financing due to restricted access to assets, credits and other services.

The process of trade liberalization is based on the premise that with the fall in barriers to trade there will be increases in productivity and wages, thus expanding jobs and opportunities. However, evidence has proven this premise to be incorrect in certain cases. Indeed, while there has been job creation, it has been accompanied by job losses from corporate restructuring, mergers and acquisitions, the spread of globally integrated production by multinational corporations, and shifts to knowledge-based sectors. For those workers who fall out from the formal sector, the informal sector provides an employment refuge. Additionally, the reorganization process and move towards competitiveness in the work place can result in the decline in the quality of working conditions, both in the formal and informal sector.

While initially it was thought that most of the participants in the informal sector were unable to
acquire jobs in either the public or private sector, studies have revealed that there are numerous other reasons for participation in this sector. Among the reasons given are labor market flexibility (ability to choose own hours, place of work and activities); existence of profitable opportunities (niche markets to be exploited by offering tailored services); and non-compliance with regulations (avoidance of tax associated with compliance). Thus the development of the informal sector has not been a transitory phase. According to the ILO, an estimated 70% to 85% of all business activity in the Caribbean is conducted by enterprises employing less than 25 persons. The micro-enterprises in the region are found mainly in the following sectors: food and agro-processing, construction and maintenance, fishing; woodwork and furniture, light engineering and electronics, garments, handicraft, tourism and related services, and emerging technologies. However, there is little statistical data about the size, distribution of employment and performance of the informal sector in the Caribbean region.

The ILO summarizes survey studies on the sector thus:

- In Barbados it is estimated that there are some 6000 and 7000 micro and small enterprises. The Urban Development Commission study in 1997 estimated that there are 3600 self-employed persons in Greater Bridgetown with one half of them operating their businesses from home, 20% from mobile units, 11% from a sort of factory/commercial building and 5.5% through roadside vending.

- The statistical department of the Government of Grenada estimated that there are around 2000 micro and small businesses operating in the country and that nearly 3000 self-employed persons operate within the informal sector.

- The 1996 Micro and Small Enterprise Survey of Jamaica indicated that during the period 1983 to 1996 the number of non-agricultural micro-enterprises increased to 93,110. It was observed that during this period that micro-enterprise activities increased significantly while there had been considerable closure of small and medium enterprises.

- The 1996 National Baseline Survey of Small Business estimated that there were between 20,000 and 30,000 micro and small businesses in Trinidad and Tobago providing employment to nearly 50,000 persons.

In Jamaica, during decades of the 1980s and 1990s there was some liberalization of the trade regime and the foreign exchange market, accompanied by deregulation and privatization of companies, public sector retrenchment and the removal of subsidies and price controls. While there has been a corresponding growth in the labor market, with both males and females benefiting, the majority of the jobs that were created were in the informal sector. Indeed, labor force surveys of Jamaica during the 1990s classify between 35 and 40 percent as working on their “own-account”, that is to say, not receiving a salary but living on the proceeds of their activity.

The major areas where increased employment in the informal sector occurred were export-
processing manufacture, tourism, small-scale service industries, retailing, domestic service, and vending and hustling. The services sector in particular has been a major source of employment in the informal sector, while there has been some reduction of employment in the manufacturing and agriculture sectors. Women have been the main beneficiaries of this sector shift away from the goods sector. Productivity however, has not risen significantly in the service sector. It is possible that as growth takes place in the formal sectors, as firms respond with new technologies and greater efficiency, the self-employed sector will shrink. However, it is also true to say that growth in the informal sector can be partially attributed to the gradual decline in government employment.

The incomes and productivity of the persons involved in the informal sector can be raised through direct assistance programs aimed at strengthening their productive capacity, and the business environment in which they operate. However, another option would be to aim explicitly at integrating the informal sector into the mainstream economy. This would involve channeling more resources to the informal sector and improving the sector’s access to markets. This may also involve eliminating the anti-informal sector biases in government policy through modifications to policy and regulatory environment. In any such reform process, careful consideration should be given to the role that grassroots organizations could play as interfacing agencies, enabling governments to consult on the best ways of re-orienting its policies in respect of the informal sector.

However, there would be greater confidence in the future direction of policy in respect of the informal sector if policy-making could be based on adequate data and analysis. These are sparse in the Caribbean. Thus, while policy options are presently evaluated on the basis of existing knowledge and insights, it would be desirable to, organize with the aid of the international institutions, a Comprehensive Region-wide Program of Data Collection and Analysis of the Informal Sector.

**The Caribbean Diaspora**

A substantial resource available to the Caribbean that remains largely unexploited is its diaspora in North America and Europe. Many countries such as Israel, Ireland, and now increasingly Russia, China and India have effectively made use of their diaspora for development and political purposes. Like other living resources, however, it needs to be nourished if it is to produce. With one-way cash-cow exploitation it will soon dry up. This regrettably has been the Caribbean’s approach to its diaspora.

Throughout the years the nationals of the Caribbean have migrated to other countries, in particular to Canada, the United Kingdom and the United States of America. Whatever their initial reasons for departing from the Caribbean, these expatriates and other friends of the region can represent an important part of the Caribbean strategy in adjusting to liberalization and the new world economy. In addition to their contribution as tourists they are a significant source of foreign exchange through remittances. They are also potential investors. These persons fall into several categories, including young professionals, skilled working group, semi-skilled working
group, Caribbean millionaires and wealthy persons, disadvantaged Caribbean groups, and friends of the Caribbean. Many have also developed influential links of a political and economic nature within their adopted countries, such as with the Black Caucus of the US Senate and House of Representatives.

A fresh start and a new approach should now to be taken in respect of effective and sustainable relations with the diaspora. To begin with, Caribbean Consular Services in the big centers - New York, Miami, Toronto, and London – should be strengthened and should pool their resources with a view to developing synergistic relations with the diaspora. Caribbean governments and people have to approach this resource in the spirit of a joint venture, with full recognition of the reciprocal nature of the relationship. The partnership might be organized in the form of a Caribbean Diaspora International Foundation. This body would be funded by public and private sources in the Caribbean and abroad. Its functions would be to establish its legal framework, organize a data and research program, create a networking system, and develop a program of activities to support the diaspora and mobilize its assistance to the Caribbean.

**Infrastructure**

The quality of infrastructure is directly linked to the cost of producing goods and services, the quality of life of a country’s citizens, and thus also the potential for economic development. While the coverage of infrastructure in the Caribbean is considered good, a major problem has been its maintenance. Other problems of the infrastructure in the Caribbean are inadequate management; tariffs that are too low to support the services, accumulated debt, a history of political interference, and discontented customers. The state of the infrastructure is also affected by the region’s vulnerability to natural disasters, and the tendency of national governments to make decisions concerning major investment projects without appropriate hazard assessment and information on mitigation measures.

A major problem faced by Caribbean countries is acquiring the financing needed for capital and maintenance projects. Government revenues are needed on many fronts, and infrastructure may not be at the top of the list of priorities. International lenders and donor agencies also tend to prefer high-profile investments in showcase facilities. Hence, the other source of funding is the divestment of infrastructure through the selling of assets, either in part or whole, to the private sector.

However, the ability to attract private investment is hampered by several factors, including lack of appropriate legislation to oversee private sector owned or operated public utilities; insufficient skilled labor to manage public utilities; accumulated debt of most publicly owned utilities; under-priced public sector services; and a history of government interference. To attract private sector involvement in infrastructure, several conditions need to be met, such as, sound macro-economic management, and monetary stability; a stable and transparent legislative environment, with independent regulatory bodies and established rules of practice governing the relationship between the state and regulated industries; and the potential for generating sufficient revenues and adjusting prices and costs in accordance with marker conditions. However, the ability to
outsourcing infrastructure to the private sector varies. A range of options is available, depending on sector characteristics. A fundamental distinction has to be made between infrastructure for which it is possible to levy user-charges and those for which it is not, for social or environmental reasons.

To assist with the financing problems, a **Caribbean Infrastructure Investment Fund** was proposed some years ago in an IDB report. While initial capitalization, under this proposal, would be sourced from bilateral and multilateral funds, it would eventually take the form of collaboration between the government and the private sector. Recently, Caja Madrid of Spain, and the IDB launched a Latin American and Caribbean Infrastructure Fund, with equity contributions from other regional financial institutions. The CDB is expected to contribute $3 million. While this is a useful start, it cannot be a substitute for a Caribbean Infrastructure Fund, given that the region’s needs run to billion dollars a year.

One of the problems with infrastructure in Caribbean countries is that it is difficult to charge adequate fees/tariffs to support the services provided, in particular for water and power. Indeed, prices tend to be sticky – unable to move with costs, since revaluation of pricing structures often involves political bargaining over extended periods. Further, declining revenues are also the result of failing meters and inability to collect fees. Reform of the price setting mechanism needs to take into account the existence of monopoly practices and the social contract. A range of price setting options is available. Incentive compatible regulation should be the objective, maximizing the inducement to regulated industries to adopt behaviour that is both efficient and compatible with the public interest.

Another important problem with infrastructure in the Caribbean is interference by governments in the operation of public providers. A principle of Institutional Independence has been proposed to create creditworthy Caribbean public utilities, capable of financing themselves. This would entail legislative reform, requiring, for example, rules for the naming of independent boards of directors; financial disclosure obligations; clear hiring practices; efficient and transparent public markets; and price setting freedom for utilities, subject to compliance with the price review mechanism. It would also require the strengthening of local government through management training, and enhancing the capacity of local governments to raise revenue. Adequately trained staff to ensure effective compliance and enforcement of regulations is also a prerequisite.

The presence of a **Regional Infrastructure Advisory Agency** is essential for private sector participation in infrastructure projects. This would require the rewriting of national legislation, and the upgrading of staff and their ability to enforce compliance with these regulations. For example, to manage infrastructure costs, human settlements should not be allowed to develop haphazardly without proper land-use planning. These settlements should be planned efficiently. Such policies have to be coordinated with other measures, such as green taxes and development charges directed at major land users.

Another proposal to assist with the regulation of the infrastructure sector is the creation of a **Regional Infrastructure Advisory Agency.** This agency, would have only consultative
authority, and would offer a cost-effective alternative to national regulatory bodies. Further, it would have the desired credibility, since it would be independent of government influences, thereby facilitating private sector participation. A necessary complement to this service is **Harmonization of National Legislation on Environmental Protection** for example in respect of (“green taxes” and toxic waste management).

To improve the quality and provision of infrastructure, skilled and knowledgeable professionals are indispensable. It is thus proposed that a **Caribbean Infrastructure Information and Training Facility** be developed, in collaboration with the University of the West Indies. This facility would be devoted to improving management, maintenance, and information skills, as well providing support to national/regional regulatory bodies. It would act as a repository of knowledge, and conduct relevant research and analysis.
Chapter 6
GOVERNANCE AND INSTITUTIONS

Governance

Governance, defined as the traditions and institutions that determine how authority is exercised in a country, includes the process by which governments are selected, held accountable, monitored and replaced; the capacity of governments to manage resources efficiently and honestly, and formulate, implement and enforce sound policies and regulations; and the respect of citizens and the State for the institutions that govern economic and social interactions among them. Empirical analysis has shown that there is a direct and causal relationship between good governance and economic development, and that there are positive links between governance and foreign investment, and social outcomes.

In research on this issue in the Caribbean, five broad measures have been used to analyze patterns of governance. These were:

- Voice and participation - various aspects of the political process, civil liberties and political rights;
- Rule of law – the extent to which people have confidence in and abide by the rules of society;
- Political stability and political violence - perceptions of the likelihood that the government in power will be destabilized or overthrown by unconstitutional and/or violent means;
- Government effectiveness – the quality of public service, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government’s commitment to policies; and
- Graft- perceptions of corruption

Another important measure of governance omitted from this research is a measure of the capacity to effectively participate in and influence international organizations. Of note, in this connection, is the establishment by CARICOM Member States of the Caribbean Regional Negotiating Machinery to address external trade negotiations.

A review of the practices of the Caribbean reveals varying degrees of good governance. With regard to voice and governance, Caribbean states in general stand out among developing countries as having strong traditions of democracy and participation. Most of the Caribbean countries score above average on voice and accountability, with the notable exceptions of Cuba and Haiti. With respect to the rule of law, political stability and political violence, assessments vary widely, from very poor in Haiti, to well below average in Suriname and Jamaica, to well above average in Trinidad and Tobago, The Bahamas, and St. Lucia. As regards government
effectiveness, most counties fail to measure positively, reflecting a general discontent with the quality of services offered. Finally, Caribbean countries do not stand out as having any special problem with corruption, at least when compared with the rest of the developing world.

Research on governance points to the existence of circular causality, leading to virtuous circles or vicious circles. Policies should therefore be aimed at making the transition from a vicious circle to a virtuous one. **Key Points for Policy Intervention** that should eventually lead into a circle of good governance include:

- **Addressing poverty, inequality and unemployment** - poverty increases the probability of civil war and political violence, and contributes to “common crime”. Inequality and unemployment appear to affect common crime primarily;

- **Addressing urbanization and rural development** – a high degree of urbanization is associated with high rates of homicide and crime, while the degree of urbanization is affected by government policies, especially the extent to which government has invested in rural development;

- **Education** – spending on education and educational attainment has a positive effect on the rule of law, the quality of public service, and crime and violence;

- **Gender inequality** – greater participation by women in government leads to more effective government and lower levels of corruption;

- **Trade openness** – countries with significant barriers to trade and with discretionary laws invite higher levels of corruption;

- **Decentralization** – countries with a heavily centralized government system tend to be more corrupt.

Since there are wide disparities among Caribbean countries with respect to the various aspects of governance, interventions would have to be tailored to the needs and requirements of individual States. However, a point of intervention that stands out as impacting on practically all aspects of governance and as having a common relevance to virtually all States is **Education**. This is an area in which regional (hemispheric) policy can make a positive difference, especially in terms of identifying best policies/practices, accessing technical and financial resources, and setting and pursuing relevant targets. **The IDB’s Education Network for Latin American and Caribbean** is a promising step in this direction that could be complemented at the CARICOM level.

**Another key common point of intervention is Trade Policy.** Regional trade openness is already being pursued by means of the targets set for attaining the Caribbean Single Market and Economy, as well as by involvement in hemispheric and multilateral trade liberalization initiatives. Poverty reduction, gender equality and decentralization have also increasingly
become conditions for access to external assistance, bilateral and multilateral.

**Justice Institutions**

Without a fair and properly functioning justice system adjustment will be severely hampered. Its impact can be seen at all levels. For example, some Caribbean countries are directly experiencing the negative impact on the attraction of foreign investment and tourist arrivals of the perception of high incidences of crime and violence, and of inadequate capacity to maintain law and order. More generally, defective, non-transparent, sometimes non-existent legislation; inefficient, excessively slow, costly, corrupt, partisan administration of justice; and incapacity or unwillingness to enforce the decisions of the Court are powerful disincentives to development efforts by all concerned, local and foreign, workers and employers. And what is worse, it sends the wrong message to the younger generation. Thoroughgoing reform of the justice institutions is therefore absolutely essential if headway is to be made with the adjustment process.

In the Caribbean, the structure of the institutions of justice is predominantly influenced by its colonial relationships with Europe. The institutions of the justice sector comprise all three branches of government (legislative, executive, and judiciary), as well as some non-governmental, private sector entities, such as the bar, human rights organizations, training institutes, law schools and other relevant civil society organizations. The main objectives of the justice sector include deterrence of wrongful conduct; broadening economic possibilities through secure property rights, and access to justice for all.

In the legislative branch, there has been some updating of laws to reflect the changing environment, due in part to globalization and the growth of international criminal activity. This has been facilitated through improved telecommunications and computerization. However, the revision of the laws, and the development of the capacity to implement the new laws need continuous attention.

At the interface between the justice sector and the public is the police. In addressing the problem of crime, and the need for greater public involvement, some countries have introduced forms of community policing. However, there is a widespread view that the police should be more professional in executing their duties, in relation to both the old and emerging issues. The need is for proper ongoing training, the establishment of public complaint facilities and international accreditation of the police force.

In most of the Caribbean countries, despite the presence of a disproportionate number of lawyers, access to legal assistance requires sizeable financial resources. For those unable to pay, governmental assistance is limited to legal aid offices in cases of capital offences. Even these limited facilities are usually under-funded and under-staffed. The right of everyone to proper legal representation is thus far from being a fact of life in the Caribbean. Additionally, at present, there is no provision, in any of the Caribbean States, for monetary compensation of crime victims.
For those convicted, Caribbean prisons, generally are over-crowded, with poor living conditions. Furthermore, in most of these prisons there are few or no programs to rehabilitate prisoners, to prepare them for more productive post-jail life in society. Generally, lacking too are preventative measures to assist in the reduction of crime, targeting particularly potential young offenders. Worsening the situation is the common practice of integrating juveniles and minor offenders with hardened criminals in the prison system. Some governments are trying to address these problems through upgrading and expansion of correctional facilities, using alternative, non-custodial sentencing options, and pursuing rehabilitation models.

The judicial sector is allocated less than its fair share of budgetary resources, and is viewed as a consumer rather than as a contributor to social welfare. The pervasive, longstanding neglect of this sector means that there is an enormous deficit of investment in training, improvement of services, and the use of modern technologies. In addition to upgrading the capacity of judges and magistrates, the capacities of court administrators and other professional staff essential to the effective functioning of courts have also to be improved. But, retaining the services of highly qualified professionals will also entail putting in place appropriate remuneration systems.

The region’s judicial system is also characterized by large backlogs in property transfer and the issue of titles, and more generally in civil and criminal cases, in some instances of several years. In respect of the latter cases, there has been some limited development of alternative dispute resolution mechanisms, for example, in Jamaica where the focus has been on small claims, and in Trinidad and Tobago on family disputes. In particular, dealing with traffic violations uses up significant resources in the justice systems, especially where the disputes have to be resolved in court. To deal with the volume and mounting backlog of cases, in some countries traffic-ticketing systems have been implemented, as well as special night courts.

In addition to the myriad problems commonly found at the national level, there have emerged serious criminal activities of a transnational nature, such as drug trafficking, money laundering, arms smuggling, and contraband trade. Increasingly too, with the expansion of inter-State industrial, commercial, financial and stock market transactions, there is a need for an effectively functioning transnational justice system. As the Caribbean Single Market and Economy (CSME) comes into operation this need will be even more accentuated. Indeed, without a properly functioning transnational justice system there will be serious obstacles to the attainment of that CSME objective. An effectively functioning Caribbean Court of Justice becomes, in this context, an essential requirement for development of the regional economy.

A Comprehensive Regional Justice Improvement Program needs to be put in place as a matter of priority. Such a program would aim at modernizing and standardizing legislation and justice systems in CARICOM States. Another important element of this program would be the establishment of a Regional Justice Training and Research Academy that would serve the training and research needs of, among others, law enforcement officers, prosecutors, correctional officers and criminology researchers.
The program would also be charged with organizing a **Region-wide Statistical Data Collection on Crime and Justice** covering various aspects of the justice system, such as, number of pending civil, criminal and correctional cases, conviction rates, etc.

**Civil Society**

Development, especially when it entails far-reaching adjustments in society, is equally hampered when there is a feeling of exclusion in civil society. The public at large has become over the years increasingly aware of, and demands to be heard on, a variety of social and economic concerns - from education and the environment to tourism, drugs, bananas, free trade. Such issues as the implications of participation in the WTO, the IMF, the FTAA and the ACP-EU Partnership Agreement are widely discussed. Governments these days cannot effectively formulate and execute policy without taking account of the views of those affected. Besides this, civil society institutions have demonstrated their usefulness as cost effective delivery agents of some public services, especially to the poor. They have also brought to government invaluable contributions to policy formulation and assessment of the results of policy. The international institutions and bilateral partners have recognized this. For example, international financial institutions financially supported and used quasi-international non-governmental organizations to execute poverty alleviation projects. The new ACP-EU Cotonou Partnership Agreement explicitly recognizes the role of decentralization in good governance and development, and provides for the direct involvement in development of “decentralized actors” such as non-governmental organizations (NGOs).

A style of governance based primarily upon cooperation, trust and mutual understanding among the pluri-sectoral social partners is now the preferred option. Liberalization, privatization, deregulation, decentralization, deconcentration, community participation and democratization (in local, central and regional government within a country) have given a stronger voice to people. Sustainable development, environmental protection and social sector development are concepts now incorporated into the notion of good governance. The opportunity now presents itself for the state to strengthen its legitimacy through participation with civil society and hence renew and fortify itself for the development tasks ahead. Indeed, towards this end, CARICOM States have also adopted a Charter of Civil Society. Two of the most important channels for civil society participation are the local authorities and the non-governmental organizations. Representative local government systems exist only in one Eastern Caribbean State, The Bahamas, Guyana, Jamaica and Suriname. This means that a vital organizational structure for giving voice at the local level is inadequately articulated in most CARICOM Member States. Without vital features such as having a constitutional or legal status to ensure continuity and insurance against compromise, local government cannot perform the vital function of giving a real voice to villages, towns and cities. To do so, furthermore, would require that all municipal and district councils meet the criterion of full electiveness, have well defined and satisfactory financial autonomy and provisioning can be established with status equal to that of statutory corporations, and are assigned real functions as community development and empowering agencies.

So far, there has been a much too restricted notion of governance of localities. Minimal
resources and marginal tasks have been assigned to the various administrative local government systems created. No real voice is given to the people. Symbolic forms of local government have survived which neither represent popular needs and expectations, nor reflect meaningful accountability. There is much ambivalence on what such systems would deliver. Ambivalence, resource starvation and a record of underperformance have helped to undermine their institutional legitimacy.

A variety of NGOs exist in the Caribbean to undertake research, advocacy and education at national, regional and international levels, and to undertake capacity and institutional building activities. Specialist and broad-based NGOs or networks are members of the umbrella organization, the Caribbean Policy Development Center (CPDC), which covers all the language groupings in the Caribbean. This enables participation and intervention at the level of CARICOM and the Association of Caribbean States (ACS), as well as internationally, including the World Bank’s NGO grouping.

NGOs and community-based organizations mostly depend for their existence on the availability of international funding to sustain their empowering and poverty-reducing efforts. Nevertheless, success stories abound. NGOs cover the wide gamut of human needs in Caribbean States. They have been engaged, apart from advocacy, in activities to relieve and eradicate poverty, to provide needs to local communities, to improve education and offer pre-school facilities, and to participate in effective health service delivery.

Notwithstanding tensions aroused by the advocacy and policy evaluation functions of NGOs, governments evidently have welcomed their valuable community-based efforts. They have established national registers of NGOs, have invited NGO participation on national commissions, have included NGOs representatives in government delegations to regional and international conferences, and have contracted some of them for services delivery in communities, and to certain target populations.

Nevertheless, despite these highly appreciated contributions, CARICOM Governments provide little or no funding to support and strengthen their national and regional NGOs. At the same time, near total dependence on dwindling external funding – itself provided by NGOs in developed countries that are themselves funded by their own governments – exposes the Caribbean NGO community to insecurity, compromise and donor domination and cynicism. This is not an environment conducive to their growth and independence. CARICOM governments have also done little or nothing to assist in creating a more structured approach incorporating the beneficiaries and their organizations, as well as branches of decentralized ministries and local government. The NGO community therefore, despite high appreciation of its useful role, does not seem to be thriving.

If good governance is to be taken seriously – beyond repetitious statements about the existence of Westminster-style democracy, and a Charter of Civil Society – a substantial effort must be made – and made urgently – to reform the approach to community participation in development policy-making, execution and evaluation. The matter has been so neglected that CARICOM
needs to invent the process, beginning with a **Joint Conference of Ministers of Local Government and Community Development**. Preparation for the conference would need considerable technical/research support from bilateral partners, for example from Canada, the United Kingdom, Germany and the EU. The purpose of the conference would be to review the state of affairs in the region regarding local governance and non-State community organizations, with a view to proposing a **Design for Community Governance**, containing actions for vitalizing, and creating, where necessary, local government and other appropriate community structures; and for supporting and strengthening the national and regional civil society organizations.

**Box 6
Standing up to Crime (Cali, Colombia)**

One of centers of the illegal world trade in cocaine, Cali saw its homicide rate leap from 23 per 100,000 citizens in 1983 to over 100 per 100,000 in the early 1990s. Many murders could be directly attributed to drug trafficking, but many more seemed due to a spreading culture of violence. Fed up with the growing lawlessness in 1992 the city elected as mayor a respected physician who put combating violent crime at the center for his political platform.

Within months the new mayor had mounted a major anticrime initiative, the Program for the Development of Safety and Peace. Starting from the principle that prevention should take precedence over repression – and after an exhaustive analysis of the patterns of crime – the program worked to combat crime across a variety of fronts:

- Organizations of civic order were upgraded. Special education and housing programs were established for police officers, and improvements were made in the quality of services (including legal aid and conciliation services) available in the frontline inspectorate offices where citizens file complaints of criminal action.
- Public education campaigns promoted tolerance and respect for the rights of others. Community leaders were trained in peaceful dispute settlements: children were encouraged to join a Friends of Peace program; humorous TV commercials aimed to reeducate citizens to follow the rules of everyday life, such as obeying traffic signals, or waiting in line to board a bus.
- Public services were directed at reducing inequities. Primary and secondary schools were expanded in depressed areas of the city; water, light and sewerage services were introduced into squatter areas; and youth centers and enterprise development programs worked to bring teenage gang members back into society’s mainstream.
- Catalysts of violent crime were directly confronted. The city banned the carrying of handguns on certain high-risk weekends, and the sale of alcohol was restricted late at night and during holidays.

In 1995, after seven consecutive years of increase (to a peak of over 120 murders per 100,000 people), Cali’s murder rate finally began to decline.


**Regional Institutional Arrangements**

Events in the multilateral and regional trade and economic environment, as well as the internal dynamics of CARICOM suggest that governments will need to consider certain basic reforms to
the exiting regional institutional framework that will affect its capacity to adjust. First, there are continuing pressures - from outside and within the region – to widen the geopolitical scope of the membership of the Community. In different contexts and from different sources widening has referred to Haiti, the Dominican Republic, Cuba, the Overseas Dependent Territories of France and the UK; Latin America (Andean/Mercosur Groups); the wider Caribbean Basin; and engagement in hemispheric regional integration arrangements with Europe and North America, and with the world at large through the WTO. Evidently, the time has come to be clear on the kind of **New Institutional Framework** that could accommodate these diverse directions in respect of widening at the sub-regional level, its relation to hemispheric and multilateral systems, and the particular orientation that individual countries or group of countries may wish to develop.

Second, institutional arrangements now need to reflect the reality of a transition of CARICOM from internal market integration (import substitution) to a single market integration providing a recognizable, harmonized platform that matches that of the wider liberalized environment; and the simultaneous process of negotiating access to that wider environment and the compensatory instruments necessary for successful utilization of such access. This implies, to begin with, closer **Institutional Integration of the Community’s Single Market Framework with the External Negotiating (RNM) Structure**. It would entail some substantive and physical rationalization of the individual States diplomatic/negotiating apparatus in the centers of multilateral trade/economic negotiation - in Geneva, Brussels and Washington D.C. where a Caribbean Community of about 5.6 million people is now served most cost ineffectively by some 25 separate missions.

It also suggests a **New and More Expansive Role for the Caribbean Development Bank (CDB)**. Currently, neither the volume of resources at the disposal of this institution (about $120 million a year or less than 2 percent of the region’s total capital formation) nor its policy-salience permits it to make a truly decisive difference to development in the region. Faced now with the task of a comprehensive economic reconstruction of the region, a much larger and more policy - influential Bank – a Billion- Dollar Bank in a few years time – has now to be contemplated.

New modalities will have to be deployed to secure this level of resources, for example, through new mechanisms of partnership, such as agency arrangements, with the World Bank, the Inter-American Development Bank and the European Investment Bank; much expanded membership, including non-governmental financial institutions; new strategies for mobilizing capital from external and regional capital markets; and new arrangements and financial instruments for catalyzing and participating in private sector investment. In respect of the latter, for example, the needs just for infrastructure financing, a low risk and moderately profitable form of investment, likely to be greatly in demand by a growing number of private pension funds, national social security schemes, mutual funds, and the commercial banks, run to billions of dollars a year. Naturally, all this would come at some cost to Caribbean governments in terms of their formal control of the institution.

Third, the existing adjudication process will need to be amended if the Community is to have, as
is necessary in the context of integration into the world economy, **International Legal Identity** in respect of both internal decisions and international commitments. For example, the mere establishment of an appellate Court (CCJ) without internal (national) facilitating instruments will be insufficient to achieve what is required.

Fourth, an appropriate **Consultative Framework** is now a prerequisite for the processes of policy-preparation, decision-making and execution. Recognition of the private sector as the motor of economic growth, the importance of labor and the wider civil society in development policy-making, and the new continuous demands for external trade/economic negotiations and related information and analysis reinforce the need for the permanent establishment of such a facility. Some of these needs have so far been met on an *ad hoc* basis. In the long run, especially in small countries and regions, the capability necessarily must be found in the tertiary institutions. The creation of a regional techno-structure centered on a **Modernized Caribbean University System** must therefore be a near-term priority. Potential synergies immediately come to mind. For example, participation of the region’s Business Schools in the study and promotion of competitiveness; the Institute of International Relations and Departments Government in case-studies of negotiations and the preparation of regional trade policy positions; the Scientific and Engineering Departments and private consulting firms in project preparation and evaluation; and the Institutes of Social and Economic Research and Departments of Economics, Sociology and Government in the wide range of analytical and policy-research that the Caribbean Development Bank must undertake if it is to develop greater policy influence with governments. Not only would the Bank greatly benefit from these external economies, but also the specialized tertiary institutions, a modernized Caribbean university system would be given much needed and cost effective support in their own institutional development.
Chapter 7

FINANCING ADJUSTMENT AND RECONSTRUCTION

The recommendations made in this report involve different responses (and actions at different levels) that has different financial implications. Firstly, an impressive number, indeed most, of the proposals call for policy action at the national and/or regional level, in some cases aided by advice from international institutions or bilateral partners, without needing significant amounts of additional finance. Essentially, it is political capital that is needed to develop and implement the adjustments proposed. External interventions can in no way be a substitute for this.

Proposals of this kind include: - international trade negotiations policy; a common sugar policy (for export and regional markets); a common regional rice policy; an integrated structural adjustment program for the textile/apparel industry; a Caribbean tourism development strategy; a harmonized telecommunications policy; an entertainment services policy; a health export services policy; new labor policies; private sector re-orientation; policy design for community governance; strengthening diaspora relations; and re-organization of regional institutional arrangements, including rationalization of external representation in centers of trade and development negotiation.

Secondly, several of the proposals require only modest amounts of technical assistance financing, in some instances complemented by policy action. Such financing is not difficult to come by. Many international institutions and bilateral partners are ready to support human resource and institutional development, especially where it has a direct relevance to poverty reduction, and expanding absorptive capacity and are already doing so to some extent. What is needed, on the recipients’ side, is the preparation of comprehensive, integrated, well constructed and justified needs assessments, at the national and regional levels. On the donor side, the critical missing element is inter-agency coordination and cooperation. The absence of this has resulted in the proliferation of small, patchy, incoherent assistance projects that may meet individual donor criteria but do not necessarily add up to an effective attack on the overall problem of inadequate human resources and institutional capacity.

Technical assistance is required in such adjustment areas as macroeconomic reform (fiscal, balance of payments, financial, capital markets); information services; competitiveness studies and human resource development; public sector modernization; informal sector analysis; and institutional development of diaspora relations.

An example of a very promising technical assistance intervention is the IMF/UNDP Caribbean Technical Assistance Center (CARTAC). It involves a high level of inter-agency cooperation, has been able to attract other MFI and bilateral donor contributions, and has been formulated in a comprehensive and integrated manner. This program will respond to the proposals in this report concerned with fiscal reform, monetary policy (exchange rates, balance of payments), and
financial services. It would be useful if it could, in addition to the planned assistance at the national level, take on also the regional aspects of these issues, and could extend its mandate, in cooperation with the ILO, to include the informal sector in its work on national accounts, and (in cooperation with the World Bank) further develop the work on national and regional capital markets.

This is an example of a technical assistance intervention that could be emulated in other fields. For example, human resource development, including public sector modernization, is one of the biggest and most critical needs, and could well be the object of a multi-donor technical assistance program, led by, say, the Inter-American Development Bank and the European Development Fund, with contributions, in cash and kind, from bilateral partners. Similarly, the proposal concerned with the study and promotion of competitiveness, together with the proposal for establishing a Caribbean Economic Forum, patterned after the Davos Forum, could well be supported by the World Bank, in cooperation with institutions of excellence, as a successor to the CGCED.

Substantial reconstruction finance is needed, however, in respect of production (improving competitiveness, marketing and diversification) and infrastructure development. With regard to production, substantial grant finance has already been placed at the disposal of the Caribbean, through provisions made in the ACP-EU Cotonou Partnership Agreement for sector-specific programs of development for bananas, rice and rum. What now needs to be done is to prepare these programs expeditiously, covering the critical development aspects, from productivity improvement to marketing, shipping and product diversification, and make efficient use of the resources available. Such a financing program does not however exist for sugar. The capital requirements of Barbados, Belize, Guyana and Jamaica are expected to be large, if they intend to preserve the industry, (Guyana and Jamaica alone require $200 million). Whether the EU would be prepared to put grant or loan resources into an adjustment program for sugar, as it has for bananas, rice, and rum, remains unclear because of uncertainty about the long-term international competitiveness of the Caribbean industry. However, it is a proposition that should now be raised explicitly in Brussels, as the EU works towards dismantling its Common Agricultural Policy (CAP) under which EU and ACP sugar has been subsidized, perhaps as a form of aid/compensation for producers that were shielded from competition for generations. Failing this, loan resources would have to be secured from the multilateral financial institutions or the international capital market.

Transforming the production economy will be critically dependent on upgrading and expanding the physical infrastructure. Much of this, in the future, will have to be undertaken by the private sector, especially in view of governments’ debt service and social sector commitments. The needs range from telecommunications infrastructure, power generation, transmission and distribution, to roads, airports and seaports, water and sanitation, and waste management, to low-income housing, and public buildings.

The financial requirements for this kind of reconstruction, plus the need for private venture capital for productive enterprises, especially in the services sectors, are enormous. Presently,
the total annual capital formation of the region is about $US6.0 billion. CTAG anticipates, based on extrapolations from estimates by IDB/World Bank/CABEI and Caja Madrid, that under a reconstruction scenario approximately US$5 to 10 billion a year would be needed for infrastructure alone, while CARICOM countries are expected to privatize over US$ 2 billion in assets, mostly utilities, over the next three years. An encouraging feature, however, is that infrastructure projects are relatively low risk, moderately profitable long-term investments. There is likely to be a large and growing demand for such paper among pension funds, national insurance and social security schemes, commercial and merchant banks, insurance companies and mutual funds.

The total capital presently available to CARICOM governments through the multilateral financial institutions (MFIs) falls very far short of the projected reconstruction needs of the region, while the private sector has been able to access only miniscule amounts of capital from these sources. Loan approvals by the MFIs have averaged annually over the last three to four years $280 million (the IDB Group $180 million, but excluding a large financial sector reform loan for Jamaica, $148 million; the World Bank Group $50 million, but excluding a large financial sector reform loan to Jamaica, only $24 million; the EIB $50 million). The CDB does about US$120 million a year. Moreover, some Caribbean countries have been graduated from World Bank lending – The Bahamas and Barbados; Antigua and Barbuda, and St. Kitts & Nevis from IDA lending - while the Eastern Caribbean States are not members of the IDB. The latter, however has made resources available to the CDB for on-lending to these countries. Presently, US$20 million is available over four years, hardly a drop in the bucket of the finance they require for reconstruction. This underperformance by the MFIs so far as the Caribbean is concerned may be due in part to inadequate absorptive capacity on the part of Caribbean countries, but these institutions also have an essential corresponding role to play in expanding that capacity, especially, as mentioned earlier, in developing effective, comprehensive human resource development programs.

CTAG feels that the CDB should strive to become the primary source of development financing for the region, an objective that is reflected in its mission statement. To achieve this objective and the very considerable synergies and externalities that go with it in terms of policy influence and the development of research and consulting capacity, the CDB would need to increase substantially its capacity to mobilize capital and to leverage this capital. Various non-exclusive options are open to the Bank. Firstly, through expansion of its membership, including possibly to non-governmental financial institutions; increasing the capital subscription of its present membership, particularly the Caribbean members, most of whom now have convertible currencies (perhaps even at the cost of some lowering of its AAA rating); and increasing the flexibility of its prudential exposure limits. Secondly, by intermediating most or all of the capital available from the World Bank Group, the IDB Group and the EIB, through some form of agency arrangement, and leveraging some of these resources with those of other financial institutions and investors through syndicated arrangements; and by securitizing some classes of its marketable assets. Thirdly, by creating a separate Private Sector Fund (the Caribbean Investment Corporation) (CIC) similar to the World Bank’s International Finance Corporation (IFC) and the IDB’s Inter-American Investment Corporation (IIC).
Eligible private enterprises in general would have access to the CIC, but concentration on infrastructure projects could be its primary rationale, and would help to enhance its reception and rating in the regional and international capital markets. The CIC would mobilize loan and equity capital and leverage it with the resources of other financial institutions, including private equity funds, and with the own-resources of the enterprises to be assisted. A variant of the CIC could be a Caribbean Infrastructure Fund (CIF) to which reference was made earlier. The advantage of a fund dedicated to infrastructure, apart from justification of its own, is that it would help to minimize the crowding out of other private enterprise financing.

These options represent a radical conceptual and operational transformation of the Caribbean Development Bank, as it presently exists. CTAG foresees the CDB becoming a Billion Dollar Bank in a few years’ time. This seems to be the most promising prospect for raising the large volumes of capital that Caribbean reconstruction requires, much of which necessarily centers on the need for a modern infrastructure, and some of which can be raised within the region, under the right conditions.