

The Challenges of Economic Policy and Circumstances for the Caribbean in the 21st Century

**By
Sir K Dwight Venner, Governor, ECCB**

The Countries of the Caribbean face some major policy choices as they enter the new Millennium in a regional and international environment which has changed beyond recognition within the last two decades.

This sense of change and transformation is even more marked for us if we go further back in time to the period associated with the birth of the modern West Indies, 1938, and the conditions which prevailed both in the region and in the international community at that time.

It is therefore important to put our present circumstances and future prospects in perspective, to review not only our history but our current geography.

History gives us a sense of where we have come from and a 20-20 vision of the policies and programmes which were either successful or failed, both in our own countries and in other countries with circumstances similar to ours over the past four decades. Examples of these are the countries of East Asia, Singapore, Hong Kong, Taiwan and South Korea and to a lesser extent Mauritius in the Indian Ocean with a similar plantation type economic structure as ours. The rapid ascension of these countries to upper income high employment status and our relative, and in some cases absolute, decline over the intervening period are cause for reflection.

What may be of major significance is not the circumstances but the policies or the implementation of the policies which led to such marked differences in economic performance.

Geography, in our case, speaks not only to our location in relation to other countries and regions but also to the internal economic and social organisation of our individual states with respect to the spatial disposition of productive activities.

Central bankers, economists, and 'normal human beings' are for the most part not especially good at forecasting the future, particularly over long periods. The first two will put forward such caveats as information asymmetry, and central bankers will tell you as a practical matter that in their normal business of using indirect instruments of monetary policy the lags between these and the impact on their final objectives are not only variable but also highly unpredictable.

Therefore, it is a considerable challenge to examine the region's possibilities and prospects in this century. The challenge is not so much in guessing right or wrong but in identifying and responding to changes at the earliest possible stage and taking into consideration the outcomes we would like to realise for our people. This will require creative, systematic and structured responses based on accurate and timely information, appropriate models, and the possession of adaptive technologies and managerial systems. The issue which has to be examined is the region's capacity to conceptualise and execute a series of policies which will place us in a position to compete successfully in the new

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millennium. These policies have to be conceived to respond to challenges of two kinds, namely, those which now present themselves and those which will arise as a result of the changes in technology and communications which will clearly be the driving forces of innovation, at least for the first quarter of this century.

The approach would be in contrast to the one evident in many countries, both within and outside the Caribbean, to identify some seeming exotic activity which may or may not lead to success. This is not satisfactory since we are faced with strong empirical evidence that most of the products in current consumption were not in use a decade ago and almost intuitively we know that this will also be the case ten years from now. The dramatic shortening of the product cycle is a fact of life. A related fact is that many major firms and industries have also disappeared.

The logical extension of this line of reasoning is related to the congruence of **time**, **location** and **adaptability**. With respect to time, the nature of the product cycle has to be linked to a political variable, the electoral cycle, and a socio-economic variable, the period required for structural transformations to be completed.

In the case of location, there is the necessity for the spatial aggregation of production activities which lead to economies of scale and scope and competitive advantage. In the sphere of adaptability it is important to create the capacity to respond quickly to changes in technology and market conditions.

When taken against the background of the Caribbean experience, these factors illustrate our failure to restructure our economies in the light of rapidly changing circumstances. The empirical evidence indicates that we have not experienced the transformation from agricultural to industrial to service oriented economies over the three decades in which we have had responsibility for our own economic affairs. In fact, the economies are still not integrated, either internally or regionally, and sectoral performance has been poor in agriculture and cyclical or declining in manufacturing, as well as very competitive in tourism and other services. This apparent inability to restructure our economies has put us at a severe disadvantage in adapting to the evolution of the product cycle. It has also negated the potential advantages of establishing and attracting industries to a well established production centre and stifled the possibility of creating a cadre of highly skilled production workers with work practices conducive to a techno-industrial environment.

One can therefore conclude that the current economic structure is not conducive to the creation of a mode of production which is flexible and dynamic and that a major effort to engineer a change must be embarked on without delay.

The major challenge then is how do we restructure and over what time frame? Time, it can fairly be said, is extremely limited. Not in the sense of a particular period which

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there is, in a certain sense, but more from the viewpoint of a finite and shortening cycle in which to adjust to external circumstances. This time period would be affected overall by the capacity of political and social systems to withstand or accommodate dislocations of varying intensities. It would also be affected by the ability of the economic system to shift resources smoothly from old sectors to new ones.

The *how* is fairly complex as it presumes a political and social environment conducive to consensus and clarity on major economic issues and the capacity of both the public and private sectors to deliver on their stated objectives in the most efficient and effective manner.

In summary, the countries of the Caribbean region are faced with the fundamental challenge of having to effect substantial and far-reaching changes in their political and economic arrangements in a rapidly changing environment in order to achieve their developmental objectives.

The matter can be posed in a certain context which speaks to actions we view as rational and inevitable but which, according to a common cliché, “*will not happen in our lifetime*”. I refer here, of course, to the political and economic integration of the region.

We however, find ourselves facing a most disturbing conundrum. Life expectancy is increasing due to advances in medical technology and more healthy lifestyles, and the product cycle is shortening. This is producing a serious mismatch in the minds of the decision-makers between the urgency for creating a concentration of viable and competitive series of new industries and the potential political, economic and social pain and anxiety associated with the birth of such new arrangements.

The implications of this dilemma are critical if one views what is happening in the external environment as a major, if not the only factor, affecting our capacity and inclination to transform the structures of our economies.

The extent to which globalisation affects our choices is conditioned by two dimensions. Firstly, there is a clear pattern based on the development of technologies and products which has a certain inevitability to it and to which we will have to adjust. However, and secondly, a country's responses to this involve significant elements of choice. For example, what should be the respective roles of the public and private sectors? What brand or variant of the capitalist/market approach should we follow, the American, European or Japanese? We should also recognise that these approaches are cyclical and may themselves have a short shelf life.

The above are the broad and fundamental philosophical questions which we have to ask ourselves, to be followed by the more concrete and specific sectoral ones. These speak to the resources to be put into social infrastructure like education and health, physical

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infrastructure to support the new production structures, and precisely what industries should be given top priority.

If we return to our concept of time, which is heavily weighted in our equation, and the particular circumstances which now confront us, it is clear that there is a tension between the necessary and the possible with the overriding objective being to work on the possible and to shorten the time frame.

This in the first instance is a political task. Political, not in the sense of party political, but in the sense of requiring the societal mobilisation and rendition of a consensus on the way forward. The formation of views on an economic course of action requires political inputs of a wide and democratic nature. This must be distinguished from a capture and recitation of the latest fads from what are considered the only true and legitimate centres of constructive policy making or the equally counterproductive populist vote catching policies which lead to economic and financial instability.

This task, as our colleague Lloyd Best always says, will require tremendous intellectual and mental efforts. The objectives and techniques of political endeavours will have to be the result of independent thought and concerted action leading to the societally agreed results. An important part of this work will be to identify the kind of political incentives that will induce politicians and political parties to move in the desired direction. In other words we have to ensure that the rewards for political action and the necessity for the urgent transformation are coincident.

The political economy of integration and development therefore becomes a major choice in terms of the resources human, financial and political, that we are prepared to throw into this enterprise. This assumes that integration is not an end in itself but the instrument of our development, and as such, a strategic choice for us at this juncture. This of course is not a recent discovery. Caribbean thinking on this matter found in the utterances and writings of both politicians and economists is clear on the issue. The pendulum, however, is swinging for us. Having started at the political end, which was the ill-fated Federation, we have been shell-shocked for the past thirty-nine years and counting, and are not sure how, if at all, we should once again devote scarce resources to such an enterprise. I have on several occasions, including at a graduation ceremony at the University of the West Indies, called upon that institution to reopen publicly in all corners of this region, a healthy and open debate on the issue of political integration. It is the only institution which has the academic license and the public credibility to do so. The West Indian Commission ducked the issue and very few people raise it publicly, but we West Indians must go through the catharsis of publicly slaying this dragon and our nemesis for four decades, before we can psychologically seek our destiny in this new century.

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The political economy of integration will define for us two critical things. Firstly, an economic space in which to contest with our competitors from third countries on what would be our extended turf, which includes almost the whole Caribbean Sea. Secondly, it will outline and give expression to the concept of a distinct socio-cultural grouping in what is said to be fast becoming a homogenised international community.

The arguments here are twofold. In the first place, in spite of the fact of globalisation, a fundamental fact of all economic life is that all economic activity, production, distribution and consumption – is localised in specific places. Secondly, in seeming opposition to the spread of globalisation, there is an increasing demand for cultural products.

In the Caribbean integration will give us some much needed space and our culture can become a major resource. With political integration, most of the Caribbean Sea becomes national as opposed to international and our culture in the form of our carnivals, our music, dance, literature, history and way of life is without comparison. We now need to think ourselves out of the box in which we have mentally placed ourselves move to implement the decisions we have already taken and go even further to see these executed in a wider political and economic space.

There is a certain logic about this which we recognise with one part of our brain and then another part clicks and asserts the 305 reasons why it is not possible. The end result is stalemate, confusion and frustration.

The trick here, in my opinion, is how to frame the appropriate question that must be put to the Caribbean people as a whole - politicians, bureaucrats, businessmen, trade unionists, the youth, women, the elderly, clubs, civil society. The question would be *‘In a world in which firms are striving for increased size, alliances are being made among former enemies and business competitor; in which the developed countries of Europe are coming closer together, what ambitions do we have for our people in the new century and environment?’* Another question could be, *‘What are our chances of survival as single states?’* We must foster a sense of realisation of where we stand in the global environment. Only then will we truly appreciate the efforts we will have to make on our own behalf.

A comprehensive strategy of integration is, I repeat, only a means to an end. It should lead to a greater measure of social and economic as well as a sense of identity and self-confidence. This would constitute in a sense the third major mobilisation of the Caribbean people. The first was the movement for Adult Suffrage and free trade unions coming out of the disturbances of 1938. The second was the movement towards independence in the 1960s and 1970s.

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The people of the region have had very little to capture their imagination in the intervening period. They have been engaged in internal political battles of epic proportions as well as energy sapping struggles with structural adjustment, leaving them exhausted in the face of substantial external threats. Such threats are no longer in the future; they are here. We must now take the opportunity to forge a viable and sustainable regional arrangement to respond successfully to what are major challenges.

The threat, while manifesting itself in the form of globalisation and liberalisation is even more pervasive than this. There has been a tectonic shift in the global economy and in the economies of the major industrial countries. That this would affect the rest of the world, is evident from the fact that the world economy has now crystallised around the three poles of the so-called global triad – North America, Europe and East Asia. The data indicates that by the mid 1990s the triad accounted for 87% of world output and 80% of world trade, a significant increase from a decade before. Size and influence have become major factors of economic life in the current, and one would expect, future environment.

The data above clearly shows the significance of large regions while related data shows the importance of agglomeration within these regions and their constituent countries.

The concentration of production activities in large metropolitan areas and their surrounding hinterlands is marked in such localities as Tokyo, Sao Paulo, New York, Mexico City, Shanghai, Bombay, Los Angeles, Buenos Aires, Seoul and Rio de Janeiro which all have populations in excess of ten million.

The other and related phenomenon is the frenetic pace of mergers in such critical areas as banking, oil, pharmaceuticals, automobiles, defence and aerospace, and telecommunications, where firms are striving for size to maintain market share and remain competitive in the emerging global market place. Even in the area of new material there is tremendous consolidation in oil, copper, aluminium, basic chemicals and pulp and paper just to name some of the major commodities. All of this is taking place in a global economy estimated at \$39 trillion in 1990 by the IMF, of which \$9 trillion is reportedly that of the shadow economy, which again is highest in the industrialised countries, notably Italy.

In such a world of large players the small players need to develop strategies with some urgency to preserve them from being annihilated. The end of the Cold War has removed a valuable geopolitical card from our stack of bargaining chips and leaves us with no alternative but to combine our intellectual resources and make strategic alliances in order to assure our people and future generations of a place of some significance in the international community. It follows from this that one of our major choices would be the mobilisation of our people, both as citizens and as workers/producers.

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The first task therefore would be to give them a vision of the region and the tremendous contribution it would make to the international community and how they could contribute both individually and collectively to this mission.

The second task would be a full-scale programme of training, education and technological upgrading at all levels of the society to mobilise the population for competitive production in this new environment. This will require the allocation of a significant amount of our resources. Adult education and training in specific areas either ahead of and/or on the job are critical to the process. In addition, and parallel to this, our school curricula will have to be redesigned to emphasise the importance of knowledge allied to problem solving. I am very attached to what De Bono describes as a Utopian curricula placing emphasis on basic skills which include language, thinking, mathematics, social skills and social awareness; background studies which comprise such subjects as geography, history sciences, and foreign languages; special or vocational interests which include business studies, engineering, drama, design, foreign languages. Finally, some specialty areas such as detailed periods in history, biological phenomena, literature, technological applications.

What one can visualise from these programmes is a sense of coming to grips in a positive way with the socio-economic challenges of the 21st Century. It is not the business as usual, tinker with this, wait for that approach, but instead a robust crusading approach which gets to the heat of the matter, that is, giving our people the mental and educational skills to prosper in the new environment.

The current situation in the region can only be described politely as unsatisfactory. A worrying coincidence of our circumstances is that of high levels of unemployment and under employment, and low levels of productivity. In two words, wasted resources. We have not mobilised the labour force in the region as was the case in East Asia where there was a tremendous mobilisation of both labour and finance capital. Singapore is the classic case of not only the almost total mobilisation of the labour force, but where an education and training strategy has always been executed in anticipation of the next stage of the economic cycle. It is imperative that we in the region come to grips with the task of mobilising our populations for development.

We now come to the question of production, that is, what should be produced and the entities to carry out this task. In looking at the production question we have to look at the market trends in the global economy and decide what particular areas present themselves in which we can carve out for ourselves a competitive advantage. The dynamic core of modern capitalism is said to cohere around a triad of broad economic segments, according to Allen J Scott in an article entitled "*Regional Motors of the Global Economy*". They are:

1. High-technology manufacturing with its enormously diverse range of outputs.

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2. An assortment of sectors engaged in the fabrication of designs – intensive consumer goods ranging from high fashion footwear, to luxury cars, to entertainment products selling in market niches throughout the world.
3. Business and financial services, which have grown with particular rapidity over the last two decades and which are among the cornerstones of today's international economy.

One could make an assumption that our best chances of success lie in segments (2) and (3) and that every effort should be made to create the labour force, the enabling environment and the international connections to participate in these activities. With respect to our existing and traditional sectors it would mean a shrinkage of agriculture as we know it to accommodate a different kind of farming venture based on the demand for healthy foods and healthy lifestyles with a highly technological and organic content. Heavy industry will not be an option but the design and fabrication of high quality clothing, jewellery and cultural products under license and through indigenous innovation are very possible and potentially profitable.

Business and financial services based on computer applications is the area that we need to target in the knowledge that the Internet and advanced communications have removed distance and location as major constraints and place emphasis on reliability and quality as opposed to low wages and compliant work forces.

We are in the same time zone and speak the same language as the eastern seaboard of the United States which has aggregated to itself the largest concentration of wealth in the global economy. We should be able to turn this to our advantage.

The vehicle for the production of both goods and services is the firm. In this region we have tended to put the major emphasis on creating the conditions for production instead of on the actual unit of production.

The dominant firm in the region has been the multinational corporation which controlled the export sectors in both agriculture and mining. The predominant domestic enterprises have been in the distribution, wholesale and retail sectors. The very size and structure of our economies dictate that for us to achieve sustainable growth our activities must be export oriented and flexible enough to adapt to a dynamic and competitive environment.

The Caribbean private sector and the governments must meet the challenge of developing and supporting the kind of firm structures which are appropriate to our circumstances and which give us the capacity to insert ourselves into the global commodity chains which now have come to represent the locus of international production, distribution and consumption.

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One would want to suggest that the import/export firm so prevalent in East Asia could be an appropriate vehicle for mobilising enterprise and production across the region and forming the link between the international economy and the region and between small firms and the export economy.

The strategy will have to concentrate on the institutional and incentive arrangements we put in place to capture international business. The legal and financial infrastructure are critical to the success of this enterprise and it would be said that in these two areas cutting edge legislation and financial products have to be important factors.

The tourist industry is also a major element in the strategy as it establishes a location in which the export function is not abroad but at home and must be leveraged to penetrate the market for commodities and services.

The establishment of enterprises to capture business in these areas will depend on the ease of entry and the lowering of barriers to participation in these sectors. Access to capital and technology will be critical and not only our institutions but our societies must be more collaborative in forming alliances and networks to facilitate the growth of enterprise.

The strategy which is clearly indicated is the need to have a clear vision and a consolidation of internal arrangements both at the country and regional levels in order to confront the challenges which are being posed by the external environment.

The critical issue here is how we interface with the international system and draw resources from it on terms which are favourable to us. This interface must be carefully sequenced and based on clearly enunciated strategic objectives. This will require the building of capacity in both the public and private sectors and their combined intervention to ensure the success of this enterprise.

Our foreign policy in general and our external economic relations policies in particular must bear in mind some very clear guidelines, as follows:

1. Access to information on technology, products and services, and trade agreements which will keep us on the cutting edge.
2. The facility to make alliances with critical partners in the international, public and private sectors.
3. The ability to identify, penetrate, and service important market niches in the dynamic sectors identified above.

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4. To promote and champion the recognition of international public goods in the areas of financial stability, health, safety and knowledge.

Small states have an obligation in the current environment to line up in the fight against global crises which have been described as 'loud' in the case of financial crises and 'silent' in the case of poverty.

In conclusion, it would be fair to say that this conference raises the very important issue of where we should concentrate our activities in the productive sectors and makes a very strong and logical case for a viable and dynamic service sector. My argument has been that we have to pursue this strategy while at the same time ensuring that the choices open to us are clearly stated and the political and socio-economic fundamentals clearly understood. We start this century with some significant pluses and some formidable minuses. The sensible thing to do would be to build on the positives and meet the negatives as challenges which are not beyond our capacity to resolve.

The policy options which we face are reasonably clear but understandably not easy to implement. There is a need to broker a compromise between the urgency for reform and the speed with which it can be implemented in the current political and social environment. There is clearly an urgent need to mobilise the Caribbean people to ensure that we have viable polities and societies to pass on to succeeding generations. Policy choices need to be made, but more importantly, they need to be implemented with the full consent of the people of the region if we are to take our rightful place in the international community of nations.