

Reinterpreting Caribbean Development

*Opening Remarks by ECCB Governor
K Dwight Venner*

Ladies and gentlemen, we meet on the occasion of the 8th Annual Conference of Commercial Banks and the 2nd Sir Arthur Lewis Memorial Lecture. We also meet at a watershed in the affairs of our countries and the region.

My remarks will therefore be divided into two parts. The first will deal with banking and financial developments in our currency union, and the second with the introduction of our distinguished Lecturer, Professor Norman Girvan and the context in which we have chosen to honour our Nobel Laureate Sir William Arthur Lewis.

The commercial banking industry dominates the financial sector in the currency union. It has assets of EC\$7 billion, deposits of EC\$5.7 billion and loans and advances of EC\$4.9 billion. These are spread among 44 banks, in 8 islands, with a combined population of approximately five hundred thousand.

While there are many criticisms of the industry, some of them justified, it is true to say that we do have an enviable record of banking stability which can be favourably compared with any other country or region.

The IMP has stated that two thirds of its member countries, both developed and developing, have had serious banking crises, resulting in substantial costs to the state and the taxpayers.

By way of illustration some of the more celebrated cases are Spain (1977-1985) with costs of 17 per cent of GDP, Finland (1991-1993) 8 per cent of GDP, Sweden (1991) 6 per cent of GDP, Norway (1987-1989) 4 per cent of GDP, U.S. Savings and Loans (1984-1991) 3 per cent of GDP.

In the developing world we have the cases of Venezuela (18 per cent of GDP), Bulgaria (14 per cent of GDP), Mexico (12-15 per cent of GDP), Hungary (10 per cent of GDP). In the cases of Argentina, Chile and the Ivory Coast, losses were estimated to be approximately 25 per cent of GDP.

I have brought these cases to your attention simply to alert you to one of the biggest issues in the financial world today, namely, systemic banking risk and the possibility of an ensuing banking crisis. Even as we speak the banking systems in Southeast Asia are undergoing tremendous strain and many banks are being closed.

In the jurisdiction of our currency union the ECCB, with the very active support of the banking community, has sought to narrow the possibilities of such events becoming a reality. The measure of our success so far lies in the fact that there is no capital flight, and more importantly, that our citizens place their hard earned savings in bank deposits and

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go to sleep at nights in the sure knowledge that their money is safe and will be available in the morning. No one in this audience, who lives in these islands, has had a contrary experience, an experience which people are having in Southeast Asia today. We simply take for granted the safety of our banking system.

To maintain this confidence, our bank examiners are on the road week in and week out, reviewing the performance, safety, and soundness of our banking institutions. We have an elaborate system of meetings of which this is the premier event. We also meet with the banks on a quarterly basis in each island, and with the banks in St Kitts on a monthly basis, with the Kittitian based banks acting as surrogates for the other banks in the region.

There is also at the individual bank level both off-site and on-site inspections and internal reviews which are constantly taking place.

The Central Bank's mandate enjoins it to maintain stability and the above refers to the stability of the financial system. Stability also encompasses the domestic and external value of the currency.

With respect to the domestic value of the currency, we have kept the rate of inflation below 5 per cent with an average of 3 per cent throughout the currency union. This is comparable with the inflation rate in our main trading partner, the United States. It also maintains the purchasing power of our currency in contrast to those countries in which double digit and triple digit inflation is the norm.

We now come to the very, it seems, contentious issue of the external value of the EC dollar. Over the years, our currency has been slated for devaluation by many outside of our jurisdiction. Suffice it to say that in spite of this, the parity with the US dollar has been successfully maintained over the last twenty-one years.

I would simply like to say that most people do not understand the fundamentals behind the currency system we operate and have not taken the trouble to look at the economic arithmetic.

We operate what can be referred to as a quasi-currency board system. This means in effect that the domestic currency in circulation has to be backed by a substantial portion of foreign exchange, in this case US dollars. The law provides for a minimum 60 per cent backing, but the normal situation is at least a 98 per cent backing of the domestic currency by US instruments. These instruments are themselves invested and earn significant returns.

In addition to the official reserves, the banking system also holds foreign assets. When combined, these amount to a large pool of foreign exchange resources. In summary, if one reason for a devaluation is a lack of foreign exchange then this does not fit the situation in the currency union.

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If we then go on to use other market criteria we have two other indicators. The first has to do with the overvaluation of the currency. Our calculation of what is called the real effective exchange rate indicates that the EC dollar is not overvalued. The second involves the market for EC dollars at home and abroad. With respect to the domestic market, no black market has developed in the currency union and in fact hoteliers and shopkeepers have revalued the EC dollar to 2.50 instead of the official rate of 2.70.

In the case of the external market for EC dollars, in both London and Miami, the EC dollar is exchanged at a realistic rate.

Last September the Secretary General of Caricom inadvertently linked the WTO ruling and difficulties in the banana industry to a possible devaluation of the EC dollar.

This naturally caused quite a stir in the region. We have carefully tracked the movement of foreign exchange since then, and have noted no movement out of the EC dollar.

Let us look at the economic arithmetic which seeks to link the two factors. In 1996 bananas brought in EC\$226 million in foreign exchange while tourism accounted for EC\$2.16 billion. The more revealing relationship is banana export revenues to total imports, which in 1996 was EC\$4.66 billion. Since our standard of living depends on our capacity to import, how do we pay for these imports with total agricultural exports, which when combined do not exceed EC\$600 million?

Sir Arthur Lewis, writing in 1950, stated categorically that we could not support an increasing population and maintain or improve our standard of living on an agricultural economy. He was of course correct, and we earn more today from services than from agriculture.

What therefore is the significance of the WTO ruling? As I see it, it signals to us that we must use all of our negotiating skills to secure reasonable transitional arrangements for the restructuring of the banana industry. These arrangements will involve an appropriate time frame, finance and technical assistance. Of equal or greater importance would be the need for the WTO to ensure reasonable access to international markets for smaller countries and an assurance that they would not be bullied out of such markets by large countries and their multinational corporations. These entities should not be allowed to subvert what is a rules based organisation because of their superior ability to mobilise economic, financial and legal resources.

Clearly there will have to be a significant shift in the way we think about our development. Professor Norman Girvan is particularly well placed to enlighten us on this subject. He has been a leading proponent of development in Jamaica, the Caribbean and the Third World.

Professor Girvan is one of a group of remarkable scholars - George Beckford, Owen Jefferson, Havelock Brewster, Clive Thomas, Lloyd Best, Kari Levitt, Alister McIntyre, William Demas, Al Francis -who, following the footsteps of Arthur Lewis, have seized

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the high ground and established Caribbean economic thought and Caribbean economists on the highest rungs of the international ladder.

These scholars have established a beachhead from which we can launch out to make our way in this new dispensation. This indeed is another source of comfort and confidence to us in these times.

It is especially gratifying to have this second lecture in Antigua and Barbuda. The first was held in St Lucia where Sir Arthur Lewis was born. This one is being held in the country where his parents were born. This indeed is characteristic of our Caribbean experience.

There is another factor which is of great significance. The Prime Minister of Antigua and Barbuda, the Honourable Lester Bird, holds the unique distinction of being the only Head of Government to have signed both the Treaty of Basseterre creating the OECS, and the Agreement establishing the ECCB. He therefore has a special responsibility to the people of the OECS, having been a party to the two most important documents in our recent history. Mr Bird was part of a vision in the early 1980s which saw us safely through those turbulent times. We now require that kind of leadership to come to the fore as we face these new challenges.

The youths of today, for whom we have a responsibility to ensure a bright tomorrow seem to have an understanding of that vision. The manifestation of this can be sensed in the prize winning essay by 16 year old Bronte Swanston from Nevis:

With our small sizes and economic difficulties it is becoming even more pressing to integrate economically and politically. We must realise that we need the four instruments of training, producing, saving and unity to achieve the four goals of development, identity, self respect and independence. Without these we will not survive in any meaningful sense of the term.

We have to be very clear and resolute in setting out and achieving our development goals. The ECCB is determined to fulfill its mandate in this regard, inviting the cooperation of all, and willing to work with everyone.

It is the time, my friends, when we have to rededicate ourselves to the enterprise of the West Indies in our own interests.

It is for this reason that we are extremely happy to have Professor Girvan as our distinguished lecturer. When you read the personal note appended to the official biography you will appreciate his dedication to the cause and his commitment to the region. He speaks for the people of this region and has been and still is a shining example for us, his colleagues and students.

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I am one of his old students, but when I see the absolute dedication of his current students who now work at the Bank, I say to myself, *Norman, Norman, what have you done to us?* and end by saying, *Thank you for what you have done for us.*

Lecture

By Norman Girvan

Mr Chairman, Honourable Minister, Mr. Governor, distinguished guests, ladies and gentlemen, Caribbean brothers and sisters;

One of the disconcerting consequences of the passage of time for one who, like myself has spent the greater part of your life engaged in teaching, is that you live to see your former students occupying positions of distinction and seniority, like that of Prime Minister, or Ambassador, or even Governor of a Central Bank, positions that, as a younger person, you used to associate with older people.

When faced with such a situation, you are never sure whether to feel pride at the success of your former student and to attempt, however unsuccessfully, to bask in some of the reflected glory, or to feel dismay at the unmistakable and unavoidable evidence of your advancing years.

Occasionally, however, one can take consolation in the possibility that the teacher may indeed be younger than the former student. I will not make any extravagant claims on that score tonight, but I can confess that my pride and joy at being invited by Governor Venner to deliver the Sir Arthur Lewis Memorial Lecture is completely untainted.

I need to warn you up front that I will not be saying anything about the meltdown of the Jamaican financial sector, the outcome of the forthcoming Jamaican elections, or the prospects for the Jamaica-Mexico match to be held at our National Stadium next Sunday. Suffice it to say that we in Jamaica are cautiously optimistic that we will go to France, and we are also very aware that we carry the hopes and dreams of the entire English-speaking Caribbean with us.

Can I begin by sharing a personal experience? It was in 1959, and I was preparing to write the entrance examination to the University College of the West Indies, I picked up the (daily newspaper) and read that Professor Arthur Lewis was to become the College's first West Indian Principal. Underneath the banner headline was the picture of a man who was balding, bespectacled, and black. To appreciate the symbolism of this you have to imagine what it was like nearly 40 years ago, when the debilitating images of a colonial culture were all around us.

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Professor Lewis had by that time already had an illustrious career, having been a St Lucia Island Scholar at age 17, taken First Class Honours from the London School of Economics at 22 and a PhD in Economics at 25, had been made a full Professor of Economics at the University of Manchester at the age of 33 and was at that time Deputy Director of the United Nations Special Fund. It gave us great pride to know that he was coming home to lend his name, prestige and contacts in the international financial community, to our own University.

To my generation Arthur Lewis was at once a role model, a sign that 'the times, they were a-changing', and a repository of the aspirations of the young West Indian nation. When he offered his resignation soon after taking up office, Dr Eric Williams of Trinidad and Tobago made it an issue of Federal politics. And a young Guyanese student by the name of Walter Rodney led the call by the Guild of Undergraduates on the Mona Campus for Lewis to remain.

A full assessment of Sir Arthur's contribution to Caribbean development would have to range over his work on the Caribbean peasantry, on labour in the West Indies, on industrialisation - for which is most frequently remembered on education, on economic integration and on a wide variety of other issues in economic policy.

Then it would have to turn to the full extent of his advisory work and institutional leadership - with the Colonial Office, with the Caribbean Commission, with the West Indies Federal Government, with the rump of the West Indies Federation after Jamaica and Trinidad and Tobago had withdrawn, and as first Vice Chancellor of the University of the West Indies and first President of the Caribbean Development Bank. It would take more than one lecture, it would take a book, or perhaps several books. That the appraisal of Sir Arthur's contribution continues is shown by the fact that the latest issue of *Social and Economic Studies*, the journal of the Institute of Social and Economic Research at the University, has two articles on different aspects of his work.

Many of Lewis' prescriptions are today being rediscovered in policy initiatives or debates: for example the importance of human capital in development and the associated need for strong investment in education, the crucial role of non-traditional exports in accelerating Caribbean development, the importance of savings, investment and of positive attitudes to thrift, and the need for a West Indian Customs Union, of which the Caricom Single Market and Economy is the contemporary incarnation.

The global and regional environment

Had he been alive today, Sir Arthur would have been quick to draw attention to the rapid pace of change in the world economic environment and to the need for continuing reappraisal of our development prospects and options. The WTO ruling on the EU banana regime and the eruption of the Soufriere Hills volcano are, each in its own way, rude reminders of the acute vulnerability of the small island economies of the Caribbean, whether to the rules of international trade or to the vagaries of nature.

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Notwithstanding all the brave and reassuring noises coming from Britain and other EU members about continuing support for Caribbean bananas, the EU is itself getting set for radical changes in the Lome arrangements that will probably erode the principle of non-reciprocal trade preferences, reduce the flow of concessional assistance, replace global ACP negotiations with sub-group and bilateral relations, and require greater political and economic conditionalities from beneficiary countries.

Just last week defeat of the Nafta parity bill in the U.S. House of Representatives spelt more bad news for the region's garment export industries, now facing devastating competition from Mexico; and the even more resounding defeat of President Clinton's request for fast track negotiating authority must put in question the speed with which the expansion of Nafta and the establishment of the Free Trade Agreement of the Americas will happen.

Meanwhile other players are also seeking to position and re-position themselves within the process of hemispheric trade liberalisation. Mercosur is emerging as an alternative pole of trade liberalisation and expansion for the nations of South America. The 6-nation Central American Common Market is talking about a free trade agreement with the Dominican Republic and Belize and, together with the Dominican Republic, is proposing to negotiate such an agreement with Caricom. Venezuela and Colombia have already signed free trade agreements with Caricom; and the possibility of a wider Free Trade Area within the Caribbean Basin within the framework of the Association of Caribbean States is being mooted.

The gathering momentum of hemispheric trade liberalisation is occurring in a wider global context. One of the key developments here is the emergence of a new unipolar global order dominated by the United States following the end of the Cold War, and the resulting decline in the geopolitical significance of the Caribbean. One wonders, indeed, if at the height of the Cold War the United States could or would have acted with such scant regard to Caribbean sensibilities on the banana question and on the Shiprider negotiations.

There has also been a virtual drying up of United States development assistance to the area, as the U.S. interest in the region shifts from fighting communism through aid programmes, to containing the drug trade and illegal immigration by means of security measures and pressure exerted on governments through trade conditionalities.

Another development whose significance is often overlooked is the shift in the centre of growth and trade expansion of the world economy to the Asia-Pacific region. Here we should remember that Canada, the United States, Mexico, and Chile, are all Pacific countries, as well as belonging to the American hemisphere. They look westwards as often as they do southwards and eastwards, and mean to participate in the growth of the Asia-Pacific economy. This year's Asia-Pacific economic summit is being held in Vancouver later this month, and the Canadians are planning a big show.

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The point here is that we in the Caribbean have been cut off from the Asian-Pacific economy by geography, language and history. Our traditional trade relations are with older centres of global economic power. We are so far ill-equipped to deal knowledgeably with the Japanese, the Chinese, the Korean and the Malaysians.

Finally we should mention the tremendous impact of the revolution in information and communications that is sweeping the world. The signs of this are all around us in the Caribbean in the form of satellite and cable TV, allowing us to follow the fortunes of our cricketers overseas and of the 'Reggae Boyz' and by the growth of the Internet. This development has opened up new opportunities for the growth of information services and for marketing goods and services via the Internet, also known as electronic commerce, which could grow to a \$200 billion market by 2005, according to some estimates.

Counting our blessings

The picture then is one of rapid change, of new challenges and opportunities. In confronting them, it behoves us to take stock of our assets, to count our blessings, as it were. One such is the continuing growth in the attractiveness of the Caribbean as a holiday destination. Over 4 million visitors flock to the Caribbean islands as a whole each year, spending an estimated US\$9 billion. Tourism has become the greatest single foreign exchange earner in 13 economies in the Caribbean, including the largest island, Cuba, as well as Jamaica and the Dominican Republic. In the ECCB member states, tourism has been the fastest growing foreign exchange earner in the 1990s.

Associated with tourism is the growing popularity of the region's cultural exports like reggae, dancehall, soca and carnival. The potential significance of this is shown by the fact that the international music industry alone is estimated to have an annual turnover of US\$35 billion.

Another significant development in recent years is the emergence of the Caribbean diaspora as a major factor in the economic life of the region. Remittances from overseas are the equivalent of 71 per cent of earnings from merchandise exports in the Dominican Republic, 32 per cent in Haiti, 29 per cent in Jamaica, and 17 per cent in Barbados; and are certainly significant in the OECS countries.

Much of the Caribbean also has a relatively modern and accessible telecommunications infrastructure. I am referring here mainly to the chain of tourist islands from Puerto Rico in the north to Trinidad and Tobago in the South, and to some extent Jamaica; where networks have largely been digitalised, and teledensities (number of main telephone lines in relation to population) in many instances compare reasonably well with the developed countries.

We should also mention the recent discoveries of natural gas in Trinidad and the likelihood of hundreds of millions of dollars in new foreign investment there, as well as the continued buoyancy and resilience of the economy of Barbados.

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In reviewing both threats and the opportunities, one is struck by how far the very idea of the 'Caribbean' is itself being redefined in terms of our own interests and alliances, as well as by others who deal with us. The admission of Suriname and more recently of Haiti to Caricom has fundamentally altered the character of the Community from being a primarily English-speaking grouping sharing a common institutional heritage derived from a British colonial past, in areas such as politics, law, and cricket.

Indeed, Haiti's population of 7 million exceeds that of the whole of the rest of Caricom, putting us English-speakers in the rather unfamiliar position of being in a minority in what we have been accustomed to think of as 'our' community.

Even before this happened, there were clear indications that we in the English-speaking Caribbean would need to come to terms with the existence of our non-Anglophone neighbours. The late Dr Eric Williams had articulated this vision, born from a strong sense of history, when he pressed ECLAC (Economic Commission for Latin America and the Caribbean) to establish the Caribbean Development and Cooperation Committee (CDCC) grouping together the Spanish, English, French and Dutch countries in the archipelago.

In the early 1980s President Reagan had lumped us all together with the Central and South American mainland for the purposes of his Caribbean Basin Initiative. This was the first time, to my knowledge, that the Anglophone region had shared a preferential trade arrangement with our immediate Spanish-speaking neighbours, although of course it responded to certain geopolitical security concerns rather than to a grand vision of integration.

By 1993 the European Union had brought Haiti and the Dominican Republic into the ACP group, and Cariforum was established between these two states and Caricom. Shortly afterwards the Association of Caribbean States came into being, grouping together all the countries and territories of the Caribbean basin.

The ACS was itself the result of an initiative by Caricom arising out of the report of the independent West Indian Commission. Ironically, it marked another significant step in the process by which the notion of the 'West Indies' is being replaced by that of the 'Caribbean'. This process started back in 1967 with the naming of the Caribbean Free Trade Area and then the Caribbean Community after the demise of the West Indies Federation, and continued with the formation of the CDCC. We could, however, trace the tributaries at least as far back as the days of the Caribbean Commission, which operated out of Puerto Rico in the 1940s and with which both Sir Arthur Lewis and Dr Williams were associated.

The point here is that the 'West Indies', as a legal, territorial and cultural concept, is rooted in our colonial past and closely associated with its surviving institutions, such as the University and the cricket team. The 'Caribbean', however is a geopolitical,

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geoeconomic and geocultural concept. It is clearly a key element in the unfolding tapestry of our trade and economic relations and may well become integrally so in the future.

Once we begin to look at the practical implications of this, the first issue that confronts us is that there is in fact not one Caribbean, but many. We have the Caribbean Basin, which I prefer to call the *Greater Caribbean*, which is the underlying principle of the ACS. The focus of the ACS is on cooperation in trade, transport and tourism. It is unlikely to extend to closer functional cooperation in areas like foreign trade negotiations, for instance, because Mexico is already part of Nafta, the Central American countries already have their own common market, and Colombia and Venezuela are already members of the Andean Group.

There are also wide disparities in population and economic size between the 'G-3' mainland countries and the island states. Mexico with its 90 million population has more people than everybody else in the Greater Caribbean, and 40% of the combined GDP. Colombia's population and GDP also exceed that of all the islands. Venezuela, with 11 million, has about the same population as the most populous Caribbean island and a GDP equal to that of Colombia.

The countries of the Central American Common Market come closer to those of the archipelago in size, for their average population is 6 million. They are also similar in economic characteristics, having mainly agriculture-based economies and an average per capita (PC) income of around \$1,300, and are trying to diversify into exports of light manufactured goods. It is not surprising therefore, that they have been at one and the same time our adversaries with respect to the EU banana import regime, and our allies in lobbying for Nafta parity for CBI countries, and that they are seeking a free trade agreement with Belize, the Dominican Republic and with Caricom.

Banana problems notwithstanding, it is my view that the Central American countries are the natural allies of the Caribbean island states in ensuring that the interests of the smaller countries are defended vis-à-vis Nafta and the G-3.

Let us move from the level of the Greater Caribbean to more island-centred notions of the region. Here we can identify the Caribbean of *Caricom* - the independent English-speaking states plus Suriname and Haiti - the Caribbean of *Cariforum* - Caricom plus the Dominican Republic - and the Caribbean of the *CDCC*. I shall refer to the last, for convenience, as the *archipelagic* Caribbean - that is the island states and territories plus Belize, Guyana, Suriname and French Guiana. The archipelagic Caribbean is clearly the most inclusive and therefore the most relevant for the purposes of wider regional cooperation.

Yet this is still a highly heterogeneous collection of entities. I have prepared some exhibits to help show this. As we see from the first, there are at least 28 identifiable political units—if Nevis insists on seceding that will make it 29. There are in fact five official languages--the four listed in the table plus the francophone Creole spoken in Haiti and some other islands; and of course there are several other creoles as well. Exhibit 2 on

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language shows that although English is the majority language in terms of entities, it is only 17 per cent in terms of population, ranking well behind Spanish with 60 per cent of the population and French with 21 per cent. This is quite sobering for us English-speakers.

There are four major ethnic groups—those of European, African, Asian Indian and Amerindian origin. Twelve of the polities are dependent territories. Some, like Puerto Rico and the Netherlands Antilles, have a high degree of internal autonomy; others like the French dependencies are politically integrated with the metropolitan country. The British dependencies are somewhere in between, (though I am sure the Montserratians would have a lot to say about that).

Among the independent states there is a wide variety of external relations and associations, as seen from Exhibit 1. For example our Prime Ministers attend the Commonwealth Summit formed by Britain and its former colonies; the President of Cuba attends the Ibero-American Summit, formed by Spain, Portugal and their former colonies on Latin America.

Then there is the heterogeneity of physical size, of population, and of income levels. So that Guyana is 2,300 times the land area of Aruba, Cuba has 1000 times as many people as tiny Anguilla, and until recently Montserrat, which statistically had a PC income of US\$26,000 was 120 times richer on average than Haiti.

So you might well say that the very idea of the 'Caribbean', even in its archipelagic incarnation, is itself a fiction—there are too many differences to allow for the idea of a cohesive force.

Allow me to suggest that this may be a premature conclusion. Follow me for a moment as I depart from the usual division between the 'English-speaking and non English-speaking' Caribbean, and employ a more analytical perspective based on political status, population, size and income levels. When you do this, you see certain natural groupings emerging, shown in the other transparencies.

First, the distribution of the population (Exhibit 2). Eighty per cent of Caribbean people live in just five island states with populations in the 1 to 11 million range - Cuba, the two states in the island of Hispaniola, Jamaica, and Trinidad and Tobago. I call these the 'larger island' states. Puerto Rico has an additional 10 per cent, which accounts for the bulk of the 14 per cent living in the dependent territories. If you forget about political status what you see is 6 island countries containing 90 per cent of the population and 22 others containing the remaining 10 per cent.

Next, distribution of land area (Exhibit 3). Over half the land area is contained in 3 mainland states which have just 4 per cent of the population. In fact if you move French Guiana from 'dependent' to 'mainland' the proportion of land area rises from 56 per cent to 70 per cent, with just 4.3 per cent of the people. A lot of land, very few people, but little prospect of mass migration from the crowded islands to the sparsely populated

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mainland, as used to be thought feasible at the time that Sir Arthur Lewis prepared his famous treatise on West Indian industrialisation.

Next, distribution of the GDP (Exhibit 4). 42 per cent of the GDP of the entire archipelagic Caribbean is contained in just one country—Puerto Rico. The larger island states, with 79 per cent of the people, have only 36 per cent of the total income.

Finally, the pattern of income per capita, shown in Exhibit 5. This is the most dramatic of all. The dependent territories, with per capita incomes of over US\$11,000, have 5 times the per capita (PC) income of the larger islands where most of the population live, and about twice that of the smaller island states.

The smaller island states themselves have an overall average PC income about twice that of the larger island and mainland states (these are averages weighted by population). This group includes the Bahamas, Barbados, and the members of the OECS, all of which have populations in the 50,000 to 270,000 range comprising in all just 3 per cent of the entire archipelagic population. Their PC incomes are in the \$2,000 to \$11,000 range and the overall average is just under \$6,000.

There is a danger of over-generalisation here, for there are some significant variations in PC income within the groupings. For instance, Trinidad and Tobago, which I have put in the larger island states, has a PC income which is higher than half of the smaller island states. The average PC income of the larger islands is dragged down by the weight of Haiti in the total population of this group. Among the mainland states, Belize also has a considerably higher income than Guyana and Suriname. But the fact remains that 4 larger island states and 2 mainland states are also the 6 poorest countries of the region.

In other words there is clear division between a group of larger islands and of mainland countries containing the bulk of the people and of the physical space respectively, but with relatively low incomes, and a group of smaller islands and dependent territories with relatively high incomes but with a small proportion of the population.

This raises some intriguing questions about traditional views on the disadvantages of colonial rule, and of small size, views which have almost achieved the status of sacred cows in the Caribbean. One might well ask if the dependent territories in the Caribbean are on the average, about 5 times richer than their sovereign neighbours, if colonial rule is such a bad thing after all? No wonder the people in these territories want things to remain as they are! And with respect to the smaller island states, it now appears that small can not only be beautiful, it can be bountiful as well!

As far as the dependent territories go, there is no denying the economic benefits which often come from their status. These include resource transfers from the metropolitan government, which have been important to the French and Dutch dependencies and to Puerto Rico, duty-free access to the metropolitan market, which has been a great boon to Puerto Rican industrialisation, and political security for foreign investors, which has been used astutely by tax havens like the Cayman Islands and the Netherlands Antilles.

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But we should also take into account that the majority of the dependent territories have small populations -Puerto Rico apart, the average for the other 11 is 42,000. Resource transfers and the incomes from tourism and offshore financial services go far in per capita terms when you have a small population. As a colleague once remarked, there is such a thing as 'kept state', to which I would add "and when you're a kept mini-state you're also 'cheap to keep'". This is clearly not an option for the more populous independent states.

Of course, the real problem with dependent status is that you can never be quite sure what is going to happen to you. You can wake up one morning and find that the government in Washington has changed, or a Minister or Permanent Secretary in Whitehall, or a new Governor has been appointed, and your whole life has changed. There is a completely new set of circumstances for you to adjust to, and you have had no opportunity to make an input into the new policy. The frequent shifts in British policy on Montserrat is the most recent example of this. But it is by no means unique, as the people of Puerto Rico and of the Netherlands Antilles will tell you.

Some of the smaller island states, like the Bahamas, Barbados, and the Leeward Islands, have also enjoyed the happy combination of circumstances represented by relatively small populations with lots of good beaches and favourable location for offshore financial services. The Windward Islands also benefited from the banana boom of the 1980s to 1990s.

Of course, we must also give credit to sound economic management in Barbados and the long experience of prudent monetary management in the ECCB zone, which enjoys a record of monetary and exchange rate stability which is the envy of other Caricom countries, my own included. Could this be because very small and resource-poor islands, which are acutely aware of their own resource limitations, are less prone to extravagant experiments in economic policy than the Jamaicas, Trinidad and Tobagos, and Guyanas of this world? It is an intriguing thought!

This itself raises the question of whether the relatively prosperous smaller island states should have anything, or much, to do with their more populous but poorer Caribbean neighbours. What do they really have to gain from economic association, the argument runs, since the markets of the poorer countries are unimportant, but they have a lot of poor people who will want to enter your island illegally, live in shanty towns, traffic in drugs and commit other crimes? What we need to do is foster ties with the richer developed countries where our tourists and investment capital come from and where our markets are located!

The issue is very real, as my understanding is that one of the reasons why the Leewards withdrew from the OECS political union initiative was almost certainly the differences in their perceived economic interests, as mainly tourism and offshore banking economies, from those of the mainly banana producing Windward Islands. More recently there have been calls for Dominica and St Lucia to seek special membership in the EU to protect the incomes of their banana farmers. It has been said that Nevis feels confident in seceding

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from St Kitts because they have 7,000 offshore financial companies registered there. In short it can be argued that economic association should follow the direction of economic relations, and economic relations flow vertically with metropolitan centres, not laterally within the Caribbean.

But on the other side there are some equally harsh realities to consider. It seems likely that the smaller states will continue to need the political and diplomatic clout which comes from association with their larger neighbours in external trade, financial and security negotiations: for example with the EU over bananas, or with the United States over Nafta parity or Shiprider; as well as in matters of regional security, especially drug trafficking and the environment.

There are other implications of the fact that 'the Caribbean' is already, and is likely to remain, a distinct entity in the minds of most external investors, tourists, governments and international agencies. Indeed the world economy increasingly works in terms of 'regionalisms' - we have seen this dramatically shown as the crisis in financial and currency markets spread from one Southeast Asian country to another, including the strongest, Singapore, and now even threatens the mighty Japan. A few years ago we had the spread of the Mexican currency crisis to Brazil and Argentina. In the 1980s we had the 'Latin American' debt crisis, and so on.

This phenomenon now has a name amongst economists - it is called 'contagion' - making it sound somewhat like the AIDS virus, except that it is spread much more rapidly and by electronic means.

In the case of the Caribbean, I would guess that the dangers of contagion are greatest where perceptions of the safety and health of tourists are concerned, and with respect to the overall investment climate. In other words if some destinations in the region are thought to be unsafe for tourists or investors, or environmentally degraded, the image of the whole area, is tarnished, and the good will suffer along with the bad. You cannot belong to the Caribbean when it suits you and opt out when it suits you; so common approaches and cooperation will continue to be a strategic imperative.

Finally, there is a certain critical mass that goes along with a larger population even when its average level of income is relatively low. The Americans discovered this with respect to the Indian market some time ago, and they are discovering it with respect to China now. In the Caribbean the Jamaicans are discovering it with regard to Cuba, and I expect other Caricom member states to follow after the CEDA (Caribbean Export Development Agency) office is established.

Regionalism and development strategies

To sum up, the differences in economic, demographic and geographic characteristics within the archipelagic Caribbean do not necessarily negate the scope and potential for regionalism. What they suggest is the need for a reformulation of regionalism along more textured, nuanced lines. Let me offer the following suggestions.

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(1) The dangers of economic marginalisation and progressive weakening of bargaining power in hemispheric and global trade relations call for greater efforts on the part of Caribbean countries to stimulate intra-regional trade and to act as a cohesive force in external trade negotiations. In this context the following assume strategic importance:

- the implementation of the O.E.C.S. and the Caricom Single Market and Economy;
- the lifting of the U.S. trade and investment embargo on Cuba, and the inclusion of Cuba in a Caribbean trading area and in the machinery of hemispheric trade relations as a Caribbean nation;
- direct negotiations with the countries of the Central American Common Market on the banana question and on the proposed Caricom-CACM free trade agreement.

(2) Caribbean regionalism will need to take on a multilingual dimension. The three most populous states in the archipelago are Spanish-speaking and in the future we are likely to be in some kind of free trade arrangement with Spanish-speaking countries in Central America and the other basin countries. More tourists are likely to come from Spanish-speaking countries as well.

We need to develop a cadre of Spanish speakers among our business and government leadership and our hotel workers; Spanish language training schools and institutes; and also English language schools and institutes aimed at tapping the market for English language training services. A French language capability is also a necessity for commercial purposes.

Tourism, as the most dynamic export sector in the Caribbean archipelago irrespective of language should be seen as one of the principal levers, if not the principal lever, of our economic development. Tourism should be regarded as a "resident export" sector in which a huge market for goods and services is sitting right on our doorstep in the form of hotels and their guests, rather than being located overseas. The market ranges widely from food to furniture, craft items to art, entertainment services to heritage tours and ecotourism; putting tourism at the centre of a whole cluster of linked goods and service industries, a means of developing trade and investment relations among the tourist economies like Antigua and those which remain mainly agricultural like Dominica, and a key agent of economic diversification among the banana producing economies.

To realise this potential will demand no less attention to meeting international standards of design, quality, price, and service, as that which applies to selling directly in the markets of the developed world. No hotel purchasing manager will give preference to Antiguan or Dominican grown produce merely because it is locally grown, if he can source this produce at lower cost or superior quality out of Miami. And no visitor will give preference to a Jamaican T-Shirt merely because it is printed in Jamaica, if she can get an equally Jamaican-looking T-Shirt at a lower price in Jamaica even if it is manufactured in Taiwan.

We are competing globally right here on our own doorstep, but the fact that it is on our doorstep does give us the advantage of direct, face-to-face interaction with buyers and

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buying agents, of responding readily to the demands of the market, and of localising product design to reflect the uniqueness, creativity and diversity of Caribbean art and culture as well as the beauty and diversity of our natural environment.

Overseas, Caribbeans are now a major economic force in regional life. It is time for the true potential Caribbean diaspora to be recognised: not just as a source of 'barrels' to augment household income but as a source of investment capital, technical skills, entrepreneurship, and market and distribution systems in the developed country markets. We need to examine our legal and administrative arrangements and investment promotion institutions to ensure that they are not only just 'investor friendly' but also 'diaspora friendly'. Jamaica has already made a start with this.

Conclusion

Let me come to a close by recalling the remarkable accomplishments of Caribbean people over their history, often against apparently overwhelming odds in the fields of politics, the arts, sports, and culture. In politics we have produced L'Ouverture, Marti, Garvey, James, Fanon, Castro, Williams, Jagan, Manley, Rodney, and Bishop; in literature Guillen, Césaire, Lamming, Walcott, Naipaul, Senior, Phillips - the list goes on and on.

In international sporting events, Caribbean athletes take medals at a rate far out of proportion to the small population of the islands - frequently for their adopted countries. Caribbean teams have bested the United States at the quintessentially American game of baseball, and have regularly humbled England at the quintessentially English game of cricket.

The world sings and dances to Caribbean music: soca and salsa, reggae and merengue, and Bob Marley. Sons and daughters of the Caribbean win accolades in international organisations and in foreign universities. The tiny island of St. Lucia has produced not one but two Nobel Laureates, thus earning the distinction of being the richest country in the world per capita in Nobel Laureates.

The trick will be to turn the same kind of creative energy and talent shown in these fields to the arena of economic performance and the equally related field of social development, about which I have been unable to say anything tonight.

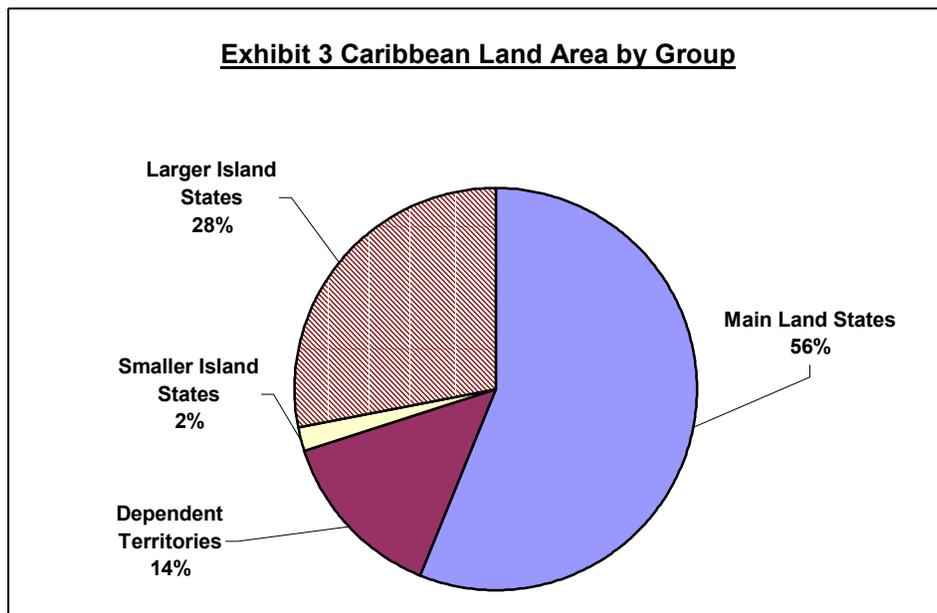
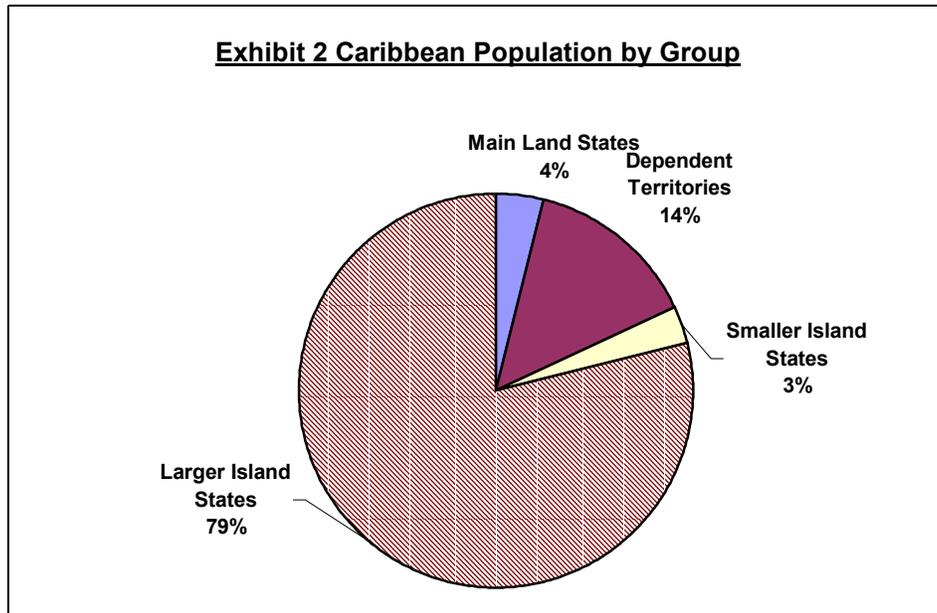
After winning the Nobel Prize, Sir Arthur Lewis wrote, "My mother always taught me that anything they can do, we can do." Let us remember these words of inspiration as we look towards the next millennium.

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<u>Exhibit 1 Caribbean: Distribution of Population</u>		
	Percent Population	No. Entries
Political Status		
Independent States	86.4	16
Dependent Territories	13.6	12
Language		
Spanish	60.0	3
French	21.5	4
English	16.5	18
Dutch	2.0	3
Association		
ACS	86.4	16
Caricom	37.3	17*
OECS	1.7	6
ACP Group	56.8	15

*Includes two associate members

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