

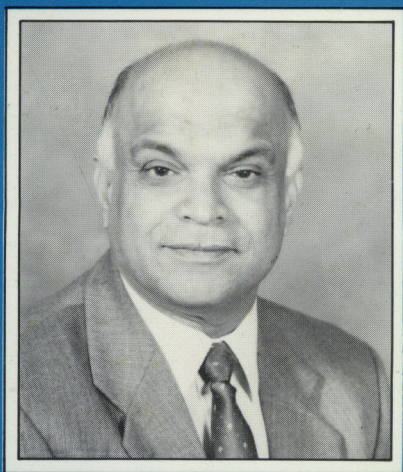
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ADLITH BROWN Memorial Lecture

**The Caribbean In A Changing World:
We Must Not Fail**

BISHNODAT PERSAUD

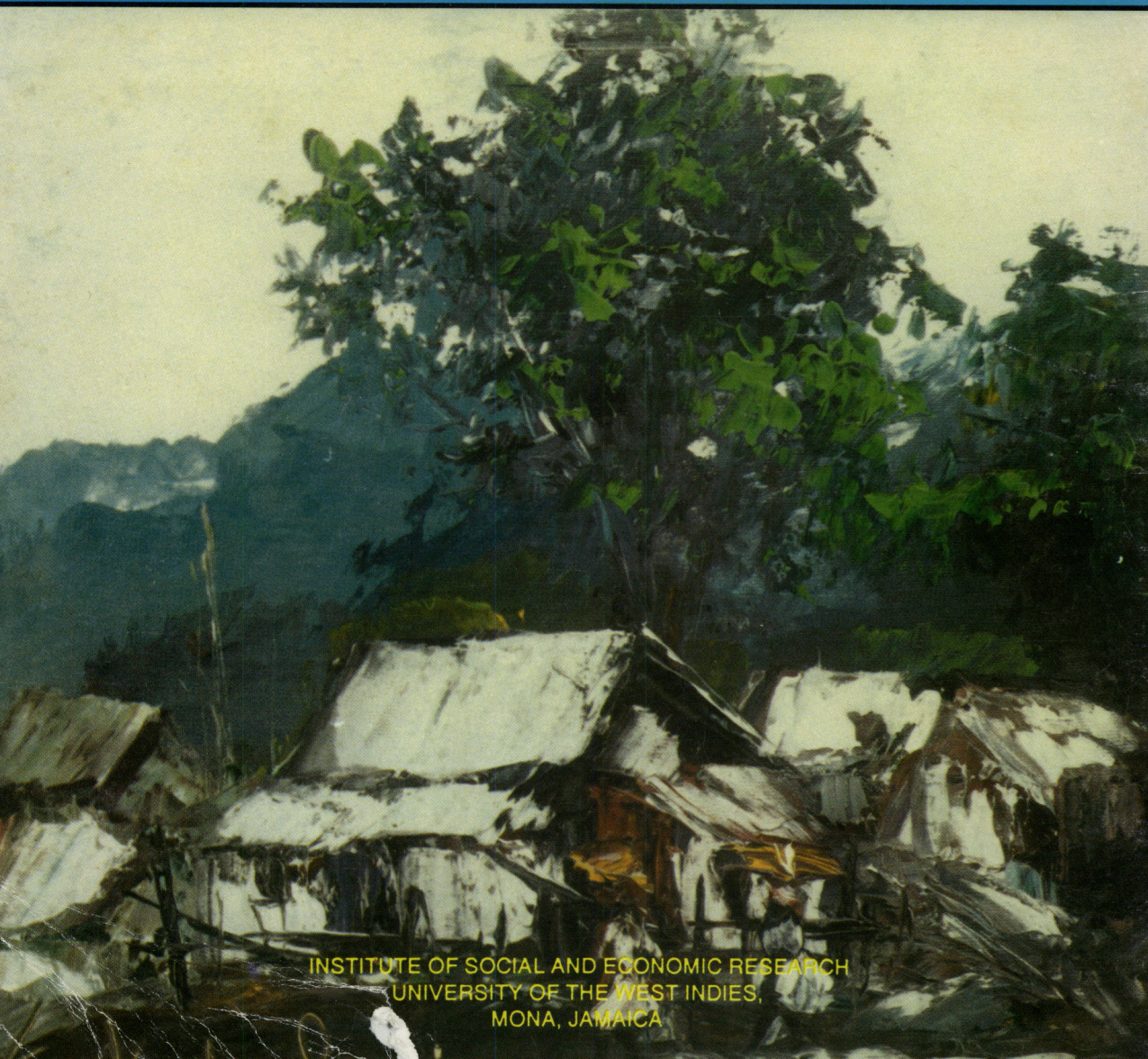




Dr. Bishnodat Persaud, a Barbadian, is Director and Head of the Economic Affairs Division of the Commonwealth Secretariat. He is also a director of the Commonwealth Equity Fund. He was first appointed to the Secretariat in 1974 and his previous positions there were Chief Economics Officer and Assistant Director. Before joining the Secretariat, he was a research fellow at the Institute of Social and Economic Research, University of West Indies. While an academic, he served on a number of commissions of enquiry appointed by Caribbean and UK governments to resolve economic and political problems in the Caribbean. Dr. Persaud was a member of the Board of Directors of the Barbados Marketing Corporation and the Barbados Central Bank.

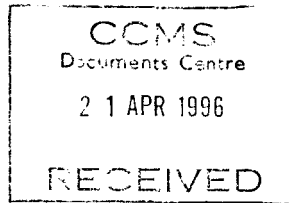
His Commonwealth work relates to international economic relations and development. He has been directly involved in the preparation

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INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH
UNIVERSITY OF THE WEST INDIES,
MONA, JAMAICA

Fifth
ADLITH BROWN
Memorial Lecture



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by
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REGIONAL PROGRAMME OF MONETARY STUDIES
FIFTH ADLITH BROWN MEMORIAL LECTURE

DELIVERED BY BISHNODAT PERSAUD
DIRECTOR AND HEAD, ECONOMIC AFFAIRS DIVISION
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The late Dr. Adlith Brown

The Adlith Brown Memorial Lecture honours the memory of Dr. Adlith Brown, co-ordinator of the Regional Programme of Monetary Studies from 1980 to 1984.

Although born in Jamaica, she could truly have been described as a Caribbean woman. Her sense of regionalism was nurtured on the Mona campus of the University of the West Indies where she did her under graduate work in Economics and had the distinction to be in the first graduating class for the B.Sc. (Economics) offered by the University. She subsequently completed her Masters (with distinction) as well as her doctorate degrees from McGill University.

Adlith returned to teach at the University (St. Augustine campus) in 1969 and in 1971 was transferred to the Mona campus where she taught Monetary Economic Research in 1976 and was one of the main anchors of its research programmes. She co-ordinated first the Caribbean Public Enterprise Project and from 1980 the Regional Programme of Monetary Studies. In this period she was also promoted to Senior Research Fellow and in 1982 to the position of Acting Deputy Director, which she held up to her death. These latter years demonstrated most her capacity for intellectual leadership and for creative management.

Adlith revelled in the realm of ideas. It is therefore understandable that she was fast developing a reputation of being an outstanding economic theorist as her writings attest. Indeed, she was an ideal person to co-ordinate the Regional Programme of Monetary Studies, given her passion for regionalism, her intellectual standing and her understanding of the process and problems of policy-making with which her colleagues in the central banks had to cope.

Each year the Open Lecture at the conference of the Regional Programme of Monetary Studies is sponsored by Caribbean central banks and designated the Adlith Brown Memorial Lecture.

*J. Edward Greene
University Director,
ISER*

The Caribbean In A Changing World: We Must Not Fail

I should say first of all how pleased I am to be given this opportunity to return to the public discussion of our region's economic affairs. It is a delight to be doing so at the Frank Collymore Hall in this new Central Bank Building. I am happy to hear of the extensive use being made of this Hall for cultural events and discussion of our public affairs. I know my friend, Courtney Blackman, would be pleased that his expectations for this Hall are being realized and that there is a build-up of good returns from this building and from this Hall which, as most of you would know, in the context of the 'politics' of the construction of this building is an important requirement.

I am particularly pleased that two institutions with which I was connected in Barbados, the ISER and the Central Bank – the former where I spent my formative years as an economist and the latter where I served as a member of the Board of Directors – are sponsors of this lecture. Both are institutions in which one can have great pride. They have both been very competently run and have earned great respect.

I am glad also to have this opportunity to publicly congratulate the Regional Programme of Monetary Studies and the regional Central Banks not only for designating this series of annual lectures as a tribute to Adlith Brown but also for the great contribution to thinking in the monetary and finance area that the Programme has been making. If I needed any convincing of this, it would have been amply provided by the very high standards of the discussion in a Seminar which the Commonwealth Secretariat with some regional institutions held in Trinidad and Tobago early last year, on exchange rate management.

We have not been known in this region for making heroes and, should I also say, heroines of our outstanding people. Fortunately, this is changing and in honouring Adlith Brown in this creative way,

the Regional Programme of Monetary Studies and the region's central banks have made their own contribution to change in this area.

Those concerned with the Programme know how much Adlith Brown has contributed to it. What is even more widely known, however, is her general contribution to economic thinking and policy-making. Like all good economists in our region with its small economies, hers has been a contribution in many areas and, although she gave much attention to her homeland, Jamaica, a lot of her work was regional in scope. It is my hope that her work and these lectures would assist in her remaining an inspiration, especially to our young economists, in her commitment to good analytical standards and through her example which would always remain pertinent, that in our field there can be no short-cut to glory and that academic economists can only genuinely contribute to policy development by the wide and deep knowledge which comes from hard research.

I find it difficult to return to a public forum in Barbados after so many years without recalling the very pleasant memories my family and I have had living here and the many friends we made. We shall always hold this island and its people with great affection. The Barbadian brings to our generous and lively West Indian spirit a kind of dignity and gracefulness which I was greatly reminded of when I attended the graduation ceremony at the Cave Hill campus last week. It is good to see the Barbadian soul alive and well in spite of concerns about cultural penetration in our small open societies from massive and sustained exposure to cultural influences from outside the region, through satellite television and other modern means of communication. I do not deny the existence of a problem from cultural penetration, especially for smaller states, and the consequent needs for increased attention to nurturing our own cultural and artistic expression. But I do feel at times we are not aware enough of our resilience and strength in these matters and are not as confident as we should be of the scope for an increasingly significant West Indian place in the modern world. This is perhaps my first warning shot to the pessimists among us that a positive note will be struck in this talk. I do feel that economic discussion in this region has on the whole been too pessimistic and has tended to be too heavily influenced by problems and dangers with too little attention given to a

concentrated search for solutions and to making the best use of our relatively favourable circumstances and opportunities.

I hope that my optimism comes not only from my economic stance, but also from the comparison I can make, because of my position in the Commonwealth Secretariat, of people and their circumstances in many lands.

We would all agree that we are now living in a period of rapid economic change. The recent revolutionary political changes in Eastern Europe would add to the pace and nature of this change. I have chosen, indeed, a wide and complex subject. Its analysis is made difficult by the fact that some of the developments are so recent. They have major implications, however, for developing countries and they, therefore, need our close attention. In my inevitably broad sweep, the examination would indeed be cursory but I am hoping that I would have the opportunity, if not tonight, then later in the week, to resume my discussion on some of these issues with those of you who are at the Conference at Sam Lord's Castle on *Financing Development in the Caribbean*..

My reference to great economic change does not mean that something extraordinary is happening to growth in the world economy. Growth has indeed been taking place after the deep recession of the early 1980s. It has not been spectacular, but a major source has been the sustained economic expansion taking place in the industrial countries. The build-up of inflationary pressures has caused a dip in that growth but I suspect that the underlying trend is for prolonged growth, supported by continuing rapid technological change and globalization of the world economy, which would now increasingly incorporate the USSR and Eastern Europe.

Expanding world markets and the widening range of technologies available are all positive forces for growth and development world-wide. Even in the difficult 1980s, 33 developing countries with a combined population of 2,500 million — including China and India — have seen per capita incomes rise by 3 per cent or more per annum. However, for many developing countries, such factors as indebtedness, severe adjustment problems, slack demand for many raw materials, growing protectionism and negative resource transfers have all limited the extent to which they have been able to participate in the world economic recovery. In fact, 54 countries

with a population of 800 million experienced a regression in per capita GNP in the 1980s.

Although growth has not in any sense been rapid, it is being accompanied by vast structural changes in the world economy. Technological change and changing consumption patterns have been the main factors at work. There has been fast growth in the service sector prompted by the micro-electronics revolution and rising living standards. But a special concern for developing countries has been the slack demand for primary products in spite of the economic recovery. Here, again, technological change has been at work, leading to both more economical use, i.e., less input per unit of manufactured output, and to the rise of new materials which are produced largely by the developed countries. For some developing countries, there has indeed been a reduced linkage with the industrial countries.

The new technologies have other implications for the Third World. The versatility of micro-electronics and the rise of robotics are leading to reduced scope for labour intensive industries. In biotechnology also, where most of the application is taking place in the developed world, for example, in agriculture, the range of crops being produced is being widened and productivity is being increased, thus extending the scope of capturing from developing countries the areas of production in which these countries have traditionally had a comparative advantage. But in biotechnology, the advantages do not all lie with the developed countries. The technology involved is less demanding and costly to develop and it might therefore provide to developing countries better scope for meeting their rising food deficits.

In micro-electronics and its use in manufacturing industries, it does not follow that because indigenous development is difficult in many Third World countries, they are therefore at a great disadvantage. The successful East Asian countries exemplify how manufacturing development in its early stages could rely greatly on technology transfers and adaptation rather than on indigenous development. I think at times we speak too glibly in the Third World about the need for indigenous technological development.

Micro-electronics has led to the phenomenal growth of new information technology which with its micro computers, portable

telephones, fax machines, etc., is now leading to a reverse to the urbanization process which has continued since the industrial revolution. The consequence is that with more and more people working from their homes or in tele-cottages (barns or farm houses converted into small work-centres by installing computers and telecommunications facilities) as many jobs are being created again in rural areas as in urban areas. This is causing a profound change in the spatial distribution of job opportunities and is leading to a revitalization of rural areas in the developed countries. The important question arises: could not this new spatial distribution also include decentralization further afield to Third World countries like the Caribbean with its favourable climate and good communications link-up with developed countries?

Surely in agriculture and in agro-processing, much original work is necessary in relation to the development of suitable varieties of crops and methods of production which are appropriate for local conditions. However, in these and other areas much use could also be made of the wide range of technologies already available, especially in countries at the early stage of development. For many developing countries without any hope of producing computers and related equipment, the vast importance of computerization for the production of all kinds of goods and services requires special attention to providing a very liberal import regime for these high-tech products if computerization, which is so vital for general efficiency, is not to be held back. What is crucial outside agriculture, especially for small and low-income countries is not so much indigenous technological development as increasing technological capacity through human resource development as, for example, in ensuring a good supply of technical, scientific and mathematical skills. This will assist in guiding the process of technological change including the absorption and adaptation of new technologies.

In world trade, growth has been strong in recent years, reaching in 1988 a volume growth of 8 1/2 per cent. An important feature of special relevance to the economic development of our region is the continuing robust growth in manufactured exports which was 10 per cent. Another feature has been the continuing rapid pace of export growth by some developing countries especially the newly industrializing ones. These figures are concerned with merchandise trade.

They do not include services, where growth has also been strong. Already trade in services represents a substantial proportion of world trade in goods and services. The rise in importance of the services sector has been taking place in both developed and developing countries. In the former, it contributed in 1987 about 63 per cent of GDP compared with industry which declined to 35 per cent and to agriculture which is just 3 per cent. In developing countries, the respective contributions are services 49 per cent, industry 36 per cent and agriculture 15 per cent.

This revival of world trade in recent years reflects the sustained growth of the industrial countries and some Asian developing countries, although some Latin American ones also participated. It took place even while protectionism was increasing. Some trade liberalization has been adopted particularly within regional groupings among developed countries. There has also been some liberalization of import regimes in developing countries on a unilateral basis, principally through adjustment programmes with the IMF and the World Bank. Some Caribbean countries have been involved in this process. By liberalizing this way, however, rather than through the GATT process and the Uruguay Round of multilateral trade negotiations, developing countries are losing the opportunity for a more active involvement in the multilateral trade negotiations and of securing reciprocal concessions from the developed countries.

A significant and surprising aspect of trade policy in recent years has been the continuing lack of linkage with solutions to the debt problem. Thus, restrictions against the exports of some highly indebted countries have been increasing at a time when these countries desperately needed to increase their exports if they are to secure the widely proclaimed objective of growth-oriented adjustment.

As everyone here would know, a major current event in international economic policy is the Uruguay Round of multilateral trade negotiations which has been taking place over the last three years and is now approaching its final year with a firm date for completion at the end of 1990. An important feature of the negotiations so far is the extent to which it has concentrated on matters of major interest to the developed countries such as intellectual property rights, trade related investment measures, services, and agricul-

ture. On the other hand, much less attention has been given to traditional issues such as tariff and non-tariff barriers which apply more strongly against the exports of developing countries. One significant area of success for these countries so far has been some liberalization in the area of 'tropical products' which however comprise a more limited range of products than its name implies.

Developing countries have been making a great effort to secure a larger participation in the GATT. This is partly because they are moving towards more outward looking trade policies. However, they are still allowed a much smaller role than is commensurate with their involvement in world trade. This is an important problem for developing countries. It has some relationship with the priority they continue to give to the enjoyment of special preferences such as those provided under the Generalized System of Preferences (GSP) and to the protection of the 'special and differential treatment' they have secured in the past. While these preferences conferred limited benefits, they have helped to sideline the developing countries in the GATT. This raises the question of whether these countries should not endeavour to secure greater participation through some trade-off in the greater acceptance of reciprocity. This becomes especially pertinent now that developing countries have accepted the need for greater liberalization of their external trade.

One new area on which the Uruguay Round is focussing is services. This sector is to me of greater relevance to developing countries than is recognized by many of them. It is of special interest to the Caribbean because of its extensive involvement with tourism and related services and with financial services. Developing countries have generally been resisting trade liberalization in this sector. An important question for the Commonwealth Caribbean in the light of the existing and potential importance of services to its development is the role it should play in the GATT in this area and the kind of influence it should endeavour to exercise on the stance of the developing countries in this area. I doubt that we have as yet resolved the basic question as to whether it might not be in the interest of the Commonwealth Caribbean and developing countries generally to accept some liberalization in international trade in services.

In the financial area, there have also been major developments. Financial de-regulation and the revolutionary changes taking place in communications technology have allowed flows across exchanges to exceed many times over the value of trade flows. But the major issue as far as developing countries are concerned is the rise of international indebtedness, the consequent burdensome repayment obligations and the sharp decline in private flows of finance to them, all resulting in the current perversity where there is now a negative transfer of resources to developing countries of about \$50 billion per year. And these negative transfers even apply to the World Bank and IMF, institutions that are intended to be helpful to the development process. Indebtedness and the adjustment difficulties facing developing countries are not the only causes of the problem of reverse resource flows. The continuing failure of the US to adjust its huge fiscal and current account deficits is causing the absorption by this, the largest developed country, of most of the surpluses being generated by other developed countries such as Japan and West Germany.

There have been some positive responses to these problems in the international system. The World Bank and some regional development banks have been able to secure large capital increases and would thus be able to expand their lending. Special facilities have been developed both in the World Bank and the IMF to assist low-income debt distressed countries especially those in sub-Saharan Africa. Current negotiations for an IDA replenishment, for quota increases in the IMF and for increased financial assistance through the Lomé Convention are all being influenced by the plight facing beneficiary developing countries of these institutions.

The very delayed recognition of the wide need for debt reduction has had severely adverse effects on welfare and development in highly indebted countries. It has necessitated severe cuts in the imports of these countries. This has been disadvantageous not only for them but for the growth of the whole world economy. The Brady and Toronto initiatives on debt reduction are welcome developments. However, these initiatives still seem to be influenced more by political considerations in terms of what the traffic would bear rather than by the objective situation of the countries concerned in terms of the urgent need to reverse declining living standards for their people

and restoring satisfactory growth rates. That this is the case is confirmed also by the existence of some irrationality in the countries chosen to benefit from debt relief. The confinement of the Toronto initiative to sub-Saharan countries has excluded countries like Guyana which face a worse situation than some of the African beneficiaries. Excluded also from relief are middle countries like Jamaica with high indebtedness to the multilateral financial institutions which see legal impediments to their undertaking debt scheduling and debt reduction.

The financial difficulties facing developing countries have been made worse by the fact that the sharp decline in commercial bank lending has been accompanied by a drastic falling off of foreign investment. There has now been some revival of foreign investment but the increased flows are mainly to a selected group of developing countries mainly in Asia. There is also a continuing limited involvement of developing countries in bond issues and in the new forms of securities in private international commercial lending. In the meantime, changes in official flows have done little to make up for these declines. Aid from the Development Assistance Committee countries of the OECD has remained at about one half of the UN target of 0.7 per cent of GNP, while that from OPEC countries has been declining sharply due to the disappearance of their surpluses. At present, the prospects for aid flows to developing countries have worsened because of the vast needs of Eastern Europe for capital assistance from the West.

And there are other changes with substantial global economic implications. The thaw in relations between the super powers on a basis which could be sustained because of its association with basic ideological shifts has great consequence for armaments expenditure and for economic adjustment in both the US and the USSR. These developments which could lower international interest rates, together with economic liberalization in Eastern Europe could increase the pace of economic expansion and sharpen international competitiveness and efficiency. They could thus have a very beneficial effect on the world economy. We need to recognize both the positive and negative aspects of these changes for the Third World. Trade opportunities may well increase because of dynamic effects in the world economy. But there would be increased competition for

financial flows. There are other developments that could have similar effects. The determination of the European Community to move towards a single market in 1992, the creation of a free trade area in North America and the intensification of economic co-operation in East and South-East Asia are all developments of substantial significance for the Caribbean and other Third World countries. They create new challenges as well as new opportunities. We need to be fully aware of the problems they can create but we need also to be similarly concerned about our responses to them.

Another development is the recent sharp rise in awareness of environmental damage. This is not just fashion. It arises not only from people's increasing impact on the planet, which will not be reversed, but also from a long build-up of neglected problems because polluters have not been made to pay for the costs they have been inflicting nationally and world-wide. In the case of poor countries, there has been the additional problem that severe immediate concerns have diverted attention from the long-term consequences of over-exploitation and misuse of valuable resources such as soil, forests and water.

These changes are taking place against a background in which the limited commitment of the industrial world to assist developing countries, which existed in the post-war period up to the 1970s, has gone into reverse in the 1980s. Several developments, for example, increased attention to national concerns arising from the deep recession in the world economy in the early 1980s, greater commitment to market processes, the continued success of some Asian Third World countries and aid weariness have all encouraged an emphasis by the industrial countries that domestic policies and mismanagement are the main causes of economic difficulties in Third World countries and that the main need of these countries is domestic reform and a larger role for the private sector and for market forces.

This perception of the industrial countries did not conform with the fact that so many countries were in trouble at the same time. Malfunctioning of the international economic system was clearly indicated. The deep recession in the early 1980s was closely related to contractionary adjustment policies deemed necessary by industrial countries; high interest rates were a major part of these policies.

The great expansion in unemployment encouraged protectionism which was directed mainly against the labour intensive exports of Third World countries. In addition, the depression in primary product prices, a normal development in a recession, was made worse by the depth of the recession and technological developments which depressed commodity demand. All these developments meant a very adverse external environment for developing countries and they precipitated a debt crisis which has remained with us, strangling all recovery efforts in severely indebted countries.

Developing countries are not without some responsibility for this state of affairs. While some mistakes are inevitable in the development process and some wrong guidance was provided by development thinking, there has also been much mismanagement. A major mistake has been the lack of confidence of governments in the ability of the people themselves to bring about improvements in their lives by their own initiatives, efforts, talents and entrepreneurial endeavours. It is increasingly being realized, however, that in an enabling environment people can do much for economic development through the encouragement of their full political and economic participation; and that inward looking policies have diverted attention from the vast and expanding opportunities for economic interaction with the wider world.

These reforms require support and encouragement through enlightened international economic policies. There is need for greater recognition that adjustment for countries with undiversified and inappropriate economic structures takes time and that adjustment policies which require sharp cuts in essential imports or in public expenditure on basic health care, nutrition and human resource development, or which have an adverse bearing on investment, could all be very counter-productive.

In the 1980s, development assistance policies have not moved in a liberal direction. However, interdependence between developed and developing countries is growing and one possibility of a more positive change in international co-operation arises from increasing awareness of serious global problems such as environmental degradation, which I touched on earlier. There is much interest by the developed countries in securing the co-operation of developing countries in international action on the environment. This provides

the opportunity for joint efforts by the developing countries to secure a linkage in international negotiations between environment and development.

It is to be hoped that there would be increasing recognition that accelerated progress in developing countries is crucial to tackling urgent issues such as environment and the related issue of over population. Human resource development and increased technological capacity on a wider global basis are crucial needs in this connection. There must be greater recognition also that extensive poverty in the world means massive under-utilization of its brain power and correcting this through increased attention by all to human resource development in the Third World, including equality between the sexes, must mean a better world for all - in developed and developing countries - whether in terms of economic progress or artistic expression.

There are major issues in which developing countries will secure better outcomes if they can approach them on a joint basis in negotiations with the North. The Commonwealth Caribbean will have to articulate more clearly its own interests and endeavour to maximize its own opportunities while doing so in a way which does not impede wider Third World co-operation.

While in terms of improvement in international development co-operation, the situation does not look very hopeful. I do not feel that Caribbean Community countries should feel unduly pessimistic on that account. As small countries which must of necessity be largely out-ward looking, a world of such great changes must mean great uncertainty. But while the changes are posing major challenges and some point in the adverse direction, they also provide opportunities. And the question is not whether one exceeds the other. For the Caribbean, there are many advantageous circumstances but equally important is the fact that we are in a position to make a good response to our opportunities. It is a question, therefore, of moving in a determined and purposeful way to ensure success by surmounting problems and making the best use of our advantages.

In the Far-East, the developing countries that are doing well are not usually helped by favourable circumstances. Often the cause of success is the sustained efforts to identify and solve economic prob-

lems. While some Third World countries face problems that are threatening to become overwhelming, this is clearly not the situation facing the Caribbean as any attempt to list our challenges and opportunities would indicate. Even in the case of Guyana which faces huge indebtedness and adjustment and political problems, the favourable resource endowment of that country, and especially its agricultural and mineral resources which are serving as a good cushion in these hard times, could make for hopeful progress again if a way could be found to revive confidence and morale and restore motivation on the part of the population.

I have dealt with the difficulties facing co-operation between developed and developing countries not to emphasize the constraints involved for our development endeavours but more positively to focus on the major effort we have to make to overcome them and to utilize the opportunities that come our way. In the area of trade, we have the cushion of preferential arrangements. While some of these are largely for traditional agricultural products which have tended to increase the rigidity of our economies by encouraging a concentration on products without dynamic demand possibilities, others incorporate processed and manufactured exports. The Lomé Convention, CARIBCAN and the CBI, all offer scope for manufactured products – some, however, on a limited basis but with scope for expansion. It is the preferences provided for manufactured goods on which much attention must be focussed by the Caribbean in the immediate future. They are the areas with more dynamic demand possibilities. For the long-term, however, since all these preferential arrangements face risks, not so much from early termination but from erosion in a world in which there could be a strong trend in the future towards economic liberalization, the Caribbean must seek to develop a strategy which aims at global competitiveness even if it is in niche areas. The better utilization of these opportunities, together with those that are arising from the increasing demand for services regionally and internationally and for food regionally could provide much scope for growth and development.

There are also challenges on the investment side. Improving the functioning of domestic capital markets could do much to increase savings and channel those savings into productive investment. Foreign resources must also be tapped to supplement limited

savings and innovative ways must be found for doing so. The increasing possibility of graduation from IDA of some Caribbean countries and from the World Bank of one or two others and increasing investment opportunities in North America, in Europe in the Single Market, in the USSR and in Eastern Europe, would increase competition for international finance. But in the final analysis, whatever the competition, much would depend on our industries being able to provide competitive returns for investment.

We must make greater use of joint ventures to tap export opportunities arising from our preferential markets for manufactured goods and catalytic efforts are required by regional institutions such as CARICOM and the CDB to get a commercially operated joint Equity and Venture Capital Fund launched. This could help to provide in an innovative way capital for equity investment in the region which avoids some of the disadvantages of foreign direct investment and commercial borrowing. I believe that with our opportunities we can with improved management of our economies and our enterprises provide good prospects for profitable investment.

We tend to stress the disadvantages that arise from small size. But even our small size could in some ways be turned to advantage. If we can be innovative and enterprising in tapping the great opportunities in world markets for exports and for capital, then even limited success could be enough to provide good growth prospects for our small economies.

Our good levels of education and the brain power we have in this region could provide the innovativeness. And while the enterprise culture may not be as developed in this region as it is in the Asian NICs, I do believe that our weakness in entrepreneurial development and difficulties in overcoming it are being greatly exaggerated. Much entrepreneurial and management skills tend to develop with economic progress itself. I also see signs of much entrepreneurial activity in petty trading, in real estate activities, in services, in the informal sector and in the ingenious ways people are identifying and occupying economic space being created by government mismanagement and over-regulation.

It may be that in terms of our economic history and in the extent to which we have depended historically in a substantial way on

foreign enterprises and transnational corporations, the development of an enterprise culture has been held back. But we can overstress these constraints. I do not believe that in terms of entrepreneurship some nations are more well endowed than others. In some cases, the particular history could give a head-start but that should form no handicap which economic forces and an enabling environment could not remedy in a short time. Support for self-employment through improved access to credit for the informal sector, and for cottage and other small industries, and land reform to assist the development of small and medium-sized farms could be helpful to entrepreneurial development. It is necessary to strive to destroy the myths in particular countries in the Caribbean about the economic propensities of particular race groups. Thus, in spite of the contrary experience in other parts of the Caribbean, people of Afro-Caribbean stock in Trinidad and Tobago and Guyana are held to be not as good as other groups in business or in farming. There is no doubt that certain racial economic and job inclinations have emerged but these are due to historical and political circumstances which efforts to corrects serious racial imbalance could overcome and should endeavour to overcome.

One cannot at this time discuss economic development without commenting on the role and size of the public sector. The Caribbean is involved in the current world trend to roll back state activity. I know that there are still many reservations about this move. Some economists, including several in the region, question the value of making greater use of market forces when there are already imperfections and distortions in the system which could thereby be aggravated. They are also concerned about the income distribution implications.

I do believe that those who have these reservations do not usually give adequate weight to the poor experience of the quality of government intervention, the real difficulty of keeping of under control political influence in the operation of public sector enterprises and the great contribution, market disciplines and competitiveness could make to improving efficiency.

The social consciousness in the region is, as it should be, concerned with equitable development. Our particular history of exploitative economic organization makes such preoccupation in-

evitable and understandable. It is important to note, however, that over-regulation has tended to have particularly adverse effects on the poorer sections of the population.

I do not believe that a greater emphasis on market forces and the private sector should have adverse consequences for equitable development. There is much recognition now that human resource development is very important for economic development and any development process therefore which underutilizes the creativity and abilities of significant sections of the population whether it is the poor, women and any race group would be adverse to development. In this context, a private sector orientation needs also to be people-oriented and should be concerned with mobilization of the whole population to enable all sections to make their maximum contribution to economic development. This requires attention to securing more equitable opportunities for education and training and special attention to ensuring access to productive assets through credit systems and land reform. It seems to me that we should strive for a new form of equitable development which is concerned with mobilization of the poor and other disadvantaged groups through ensuring their active involvement in production activities whether through self-employment or paid employment. State involvement should be concerned more with such mobilization and with ensuring equitable opportunities rather than with usurping the entrepreneurial function.

The form of development we should now have in mind does not necessarily mean a significant reduction in state involvement but a reorientation to concerns about good economic management not only in terms of macro-economic policies but in such areas as perspective and strategic economic planning, training, research and development, increasing savings, land reform, land use planning, etc. For the Caribbean, this would still mean a substantial role for the state in the development process but of a different orientation and away from heavy state involvement directly in production activities.

It is a myth to hold that developing countries in South-East Asia are doing well because the state plays a small role in their economic development. With the exception of Hong Kong, the State has been greatly involved in guiding and influencing the pace and course of economic development in all the fast growing countries of the Far-East, including Japan.

On the challenges facing the region, I see the major ones as:

- (1) The severe indebtedness problems of Guyana and Jamaica and the adjustment challenges facing these countries and Trinidad and Tobago as well as the continuing structural change required in other countries to secure more diversified and resilient development.
- (2) High unemployment rates in Caribbean countries together with demographic structures that are aggravating them.
- (3) Undiversified economic structures with rigidity provided by a large dependence on traditional agricultural industries which face static demand, uncompetitiveness in world markets and dependence on risky preferential arrangements.
- (4) The continuing lack of success in making a significant breakthrough in export manufacturing and the consequent need to make greater use of preferential trading arrangements and the buoyant growth in world trade in manufactures to ensure good growth in manufactured exports - rates which should be of the order of 10 per cent if they are to make a significant impact on overall growth and employment.
- (5) The continuing lack of progress in meeting a larger proportion of the region's expanding food needs.
- (6) The scope for making greater use of the opportunities opening up regionally and internationally in the expanding services sector.
- (7) A brain-drain which could become worse because of skill shortages in major industrial countries arising from their ageing populations and a widening gap in economic incentives between the Caribbean and developed countries.
- (8) Education and skill levels which though traditionally good by Third-World standards need much reinforcement at the secondary and tertiary levels, with greater attention to technical, scientific and business training.
- (9) Inadequate savings and investment and the consequent need for improved policies and better functioning capital markets to

encourage savings, transform them into productive investment and discourage capital flight.

- (10) The importance of securing increased inflows of foreign investment through innovative means and ways which could be supportive of the local private sector such as through a regional Equity and Venture Capital Fund and through joint ventures.
- (11) The crucial need in the Caribbean to develop remuneration systems which relate pay more closely to production performance, through the wider adoption of productivity wage agreements, piece rates and bonus and other incentive arrangements.
- (12) The need to ensure that the move to the single market in the EC and developments in the USSR and Eastern Europe are not adverse to the region's trade and investment.

The title of my lecture admonishes that we must not fail. What I mean is, we should not fail this time round. In the early 1960s when the major countries in this region secured their independence, some countries in the region were ahead in per capita income terms of those in the Far East that have now emerged as newly industrializing countries (NICs). In levels of education, we were also ahead. By stumbling along the way, we have allowed these countries to move ahead. They are the success cases. We are not. A few of our countries have not, however, done badly. Barbados has made tremendous progress during that time and some of the smaller countries – Antigua and more recently St. Lucia and St. Kitts and Nevis – have also been growing at good rates. This progress and similar opportunities which exist for it to take place on a wider basis in the region provide, I believe, justification for my optimism.

A great effort is being made in the larger countries – Jamaica, Trinidad and Tobago and Guyana – to return to recovery and satisfactory progress. As in the 1960s, I believe that the 1990s could again be a time of progress throughout the region. We need to secure that progress and maintain it. We must learn from the failures of the past so that our recovery and growth would be more resilient in the future. That means that we must not just succeed in terms of growth rates alone. Even where growth is good, we must ensure structural improvements that make for greater resilience. As an example, in

Barbados, although tourism is doing well, the slow growth of the manufacturing sector should be regarded as a serious challenge to policy makers and entrepreneurs.

The opportunities we have arise from:

- (1) Our good natural resource endowment which include mineral, agricultural and marine resources and those related to tourism development – climate, sea, beaches, etc. – are fairly widely spread throughout the region. Some such as those related to tourism and non-renewable energy such as oil and natural gas could increase in economic significance because of increasing demand and scarcity and in the case of natural gas because it is less polluting than other fuels.
- (2) Still relatively good, by Third World standards, levels of education and training which have suffered some set backs but with a good institutional framework intact which therefore could easily be built upon.
- (3) In terms of levels of education and training, a good capacity to absorb computerization in the region and information technology generally and to develop expertise in crucial areas such as software engineering.
- (4) Greater difficulties on the supply side in some of our industries rather than on the demand side which is more difficult to overcome.
- (5) A good base from which to effect transformation to more healthy economic structures in terms of current buoyant demand in the tourism sector and a fairly stable short-term situation in terms of preferential arrangements for traditional exports such as sugar and bananas.
- (6) Preferential arrangements in major markets including the US, Canada and the European Community which in the area of manufactured goods with dynamic demand possibilities could facilitate in the long-term the development of global competitiveness particularly in specially selected niche areas. A good

feature of preferential arrangements for manufactured goods which should be noted is that unlike agricultural products they need not encourage economic rigidity.

- (7) The possibility of securing penetration in export markets for goods and services which do not have to be large or too varied to provide good export growth rates in our small economies.
- (8) An adjustment process in some countries in the region which now allows them greater scope in terms of comparative wage rates and productivity to develop labour intensive manufacturing. This provides the region with a wider range of possibilities in manufactured exports.
- (9) Expanding scope for service industries arising from changes in consumption patterns and new technologies and, in particular, from scope for exporting services to developed countries based on new information technology and the widening spatial distribution of such service industries which are becoming less location specific.
- (10) Good resources still for food production in terms of both agriculture and fisheries and with levels of demand for imports so vast that reasonable progress in reducing it could be very helpful to growth and employment in the region.
- (11) Although unemployment rates are high, unemployment levels in terms of numbers are not so high that they could not be surmounted by improved levels of economic management and freer movement of people within the region. (Already some of the smaller countries have made great progress in solving their unemployment problem).
- (12) With a few set-backs, good progress in consolidating democratic political structures thereby helping to ensure political accountability and a satisfactory spread of the benefits of progress.
- (13) Last, but not least, a region which though small in terms of population has a vibrancy in its culture, in arts, music, literature, etc. which with careful nurturing could help to promote general self-confidence and preserve a healthy balance in our economic, social and cultural development.

One cannot discuss the economic future of this region without dealing with the integration issue. I think there would be wide agreement that full economic and political integration must be our eventual goal. To those who question that goal, my simple answer would be that developments in the world suggest that there can be a significant place for the Caribbean in the future community of nations, whether based on the Caribbean Community or a wider basis. There cannot be any such place for any individual Commonwealth Caribbean nation. Nation-building in the Caribbean must therefore have this perspective.

I think, in the widest sense, our future perspective – including at the level of the people – is becoming increasingly regional. The regional institutions and common threads in our history and culture are facilitating this process. The notable and long-standing contribution being made by the University of the West Indies in the process needs particular mention.

With this perspective, any opportunity for a leap forward in regional co-operation whether at the level of the Caribbean Community, the OECS or on a narrower basis must be grasped.

However, one must be mindful of the difficulties involved. We are dealing with many countries, thus the convergence of views that would allow such leaps would not be easy to obtain. We must also recognize that, as of now, the more important decisions concerned with development take place at the national level. This requires an appropriate balance in the use of our intellectual and other resources between national and regional concerns. In this context, if one allows regional fervour to run ahead of practicalities, there is the danger of stumbling again and of creating difficult set backs. We cannot afford another major failure. I think what is required is a realistic and creative long-term regional strategy. This, to me, should be concerned with developing priorities according to the contribution particular initiatives could make to economic development. In other words, the focus should be development, with regionalism concerned with facilitating and supporting it. I suspect that with current increasing regional sentiments, if good growth becomes more widespread, greater progress will be made in regional co-operation. Such growth will allow greater scope for trade-offs between members in negotiating initiatives in regional integration.

This long-term strategy would not stand in the way of major advances if these become possible.

In this context, the decision by the last regional Heads of Government meeting to set up a West Indian Commission to advance the regional movement must be welcomed. However, in terms of our long-term strategy, the emphasis in the Commission's work should be the long-term economic development of the region. Regional priorities should be developed accordingly. In this way, regional efforts would not only achieve more but they would earn greater credibility.

My conclusion, then, is that we have the economic and cultural resources for a significant West Indian place in the global community. Already in terms of some forms of sport and in artistic expression, in music, in dance, in literature and in our role in international organizations, we have developed an international reputation of which we can be justifiably proud, especially in relation to the small size of our population. I do not believe that economic development is so very different that we cannot do well in this area also. The same discipline creativity and hard work are required. Besides our achievements in culture and sport also have an economic dimension in the potential they have for making a significant contribution to our foreign exchange earnings and in promoting general self-confidence.

Where in our multi-racial societies, some groups for historical reasons have a head-start in business, we should for good political development strive to encourage a better balance through assistance with credit and other special arrangements. That should be seen as a positive step towards equitable development and long-term healthy political and economic development. In fact, not only in business but in all areas, we should, for long-run political stability seek to correct racial imbalance especially where this has become sharp. It is a matter of urgency that we solve problems of racial injustice which, like sex inequality, is against development as it makes for sub-optimal use of our human resources and guarantees inefficiency. We cannot afford to lose time and to set back the development process by encouraging communal tensions which destroy the confidence of any group in their future in the Caribbean. Considering our particular history and the multi-racial nature of our societies,

nearly all our countries have a reasonably good record on race relations. Guyana is an exception and it is an example of how racial and ideological tensions could be greatly disruptive of economic, social and political development. There are vivid and good lessons from outside the region of the great damage that could be caused by communal tensions and conflicts. Sri Lanka comes to mind. We should be alert to the dangers and to the fact that a breakdown in race relations and their adverse economic consequences, once they set, are difficult to reverse. This does not mean that where racial injustice or a perception of it exists, it should not be discussed. But we should endeavour to discuss and deal with it in an enlightened way and with foresight.

I have stressed that we cannot lose time whether through communal strife or otherwise. In a historical sense, the loss of a decade in development might seem short. However, and not only in a welfare sense, but in relation to the march of progress world wide, the current technological revolutions are opening up gaps in productivity and human resource development which could lead to unbridgeable gaps in economic development. It seems to me that these developments are imparting time with a new significance.

This means that in relation to the challenges we face, we must take them on in a more determined and concerted way with time-bound targets for their solution and a constant review of progress so that set backs and mistakes are identified early and courses changed. We are taking too long for instance to solve problems of agricultural diversification and slow growth in manufacturing and in non-tourist services. Time is not on our side and our responses must be quicker. As so often in law, time is becoming of the essence in economics also!

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