The Impact of International Financial Liberalisation on Economic Growth: The Case of CARICOM

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1. Introduction

The need for the efficient mobilisation of both domestic and foreign resources has prompted many countries into adjusting their policies concerning international financial transactions. This has resulted in a rapid increase in the implementation of financial liberalisation programmes within the last three decades. The Caribbean is no exception, although the process started somewhat later than in other parts of the world and mostly as part of economic stabilisation and structural adjustment programmes. The implementation of financial liberalisation policies reflected efforts to improve competition in the domestic financial system and to attract more capital with the objective of establishing a more efficient system of mobilisation and allocation of resources in the economy.

In more recent times, efforts to create a CARICOM Single Market and Economy (CSME), have led the governments of the member countries to step-up their liberalisation process. Protocol II is perhaps the most relevant area when addressing CSME; it sets out guidelines for the provision and establishment of services and the movement of capital within the CARICOM region. The requirements of Protocol II are that Member States remove restrictions that inhibit in any way, the rights of establishment, the provision of services and the movement of capital throughout CARICOM. This increased trend towards international financial liberalisation plus the various commitments by regional governments have made it extremely important to be able to assess the impact of financial liberalisation on economic growth.

Although economic growth is a complex process, it has been widely speculated that financial liberalisation is an essential component for its sustainability. "The main impulse behind liberalisation in developing countries has been the belief, ... that liberalisation would promote growth and stability, by stimulating savings and improving overall economic efficiency" (Wood, 1994). The literature purposed various ways in which the liberalisation can lead to increased growth. Nicely summarised in Bekaert, Harvey and Lundblad (2000), these include: Improved risk sharing, which may lower the cost of

capital encouraging additional investment. More open capital markets can mean more efficient markets, resulting in improved financial development and hence increased growth. Klenow and Rodriquez-Clare (1997) also proposed that through financial liberalisation countries could benefit from increase financial technology, which the endogenous growth literature has shown may lead to increased economic growth.

In terms of the empirics, most of the work has been on the relationship between financial development and growth while there has been very little analysis of the effect of the financial liberalisation process on economic growth. Sachs and Warner (1995) used the black market exchange rate premium as an "openness" variable and found that it significantly affected economic growth. Since this measure is probably correlated with the existence of capital controls, then it can be interpreted as capital market liberalisation significantly affecting economic growth. Bekaert, Harvey and Lundblad (2000) constructed a financial liberalisation indicator and used it in a growth regression to establish that economic growth increased after liberalisation in thirty emerging markets.

At the time of this study no comprehensive empirical work have been done for developing economies. However, the experiences for most developing countries after the implementation of financial liberalisation programmes have been disappointing. For example, financial liberalisation programmes in countries such Chile, Uruguay and Argentina led to high real interest and deterioration of the balance of trade. In Jamaica, the economy is still grappling with macroeconomic instability (balance of payment and fiscal deficits of large magnitudes) after a period of rapid liberalisation. The reaction of advocates of financial liberalisation, such as McKinnon (1991) and Fry (1997), to the unfavourable evidence has been to argue that the failure of the liberalisation processes in these countries were as a result of inadequate banking supervision, high and unstable inflation and unsustainable fiscal deficits.

This paper attempts to demonstrate the significance of international financial liberalisation on economic growth in the Caribbean over the period 1979 - 1999. We stress on the term *International financial liberalisation* as opposed to *financial liberalisation* because in essence financial liberalisation consists of three sets of

measures: first, to open up a country to the free flow of international finance; secondly, to remove controls and restrictions on the functioning of domestic banks and other financial institutions so that they get properly integrated as participants in the world financial markets; and thirdly, to provide autonomy from the government to the central bank so that its supervisory and regulatory role *vis-à-vis* the banking sector is dissociated from the political process of the country, and hence from any accountability to the people. Not all these measures are immediately contemplated or demanded, but they represent the ultimate goal of financial liberalisation, which may be ushered in by stages. Our investigation involves adding a financial liberalisation variable, developed by Belford and Greenidge (2001), to the standard growth regression and its effects evaluated.

The next section gives a review of literature with regards to the link between liberalisation and growth. Section three details the measure of financial liberalisation, and discuss its properties along with financial liberalisation trends in the Caribbean. Modelling issues and estimation are discussed in section four. The regression results are presented in section five followed by some summary remarks in section six.

2. Review of Literature

2.1 Theoretical Arguments

Theoretical evidence of the effect of financial liberalisation on economic growth can be traced as far back as Bagehot (1873). He proposed that the financial system plays a critical role in the adoption of better technologies through effective mobilising of resources and thus encourages economic growth. Perhaps the earliest formal model in favour of financial liberalisation was done by McKinnon and Shaw in 1973. They attributed the poor economic growth in developing countries to financial repression. Financial repression includes high reserves ratios, directed credit programmes and interest rate ceilings, resulting in low saving, low investment and credit rationing. They believed that liberalisation of financial markets would expand the real supply of total

credit, induce high volume of investment and adjusts the real interest rate to its equilibrium level of savings which, in term, impacts positively economic growth.

Levine (1997) provides an excellent review of the literature on the effectiveness of intermediaries in ameliorating informational asymmetries, reducing transaction costs, and facilitating contracting, and concludes that the level of financial intermediary development has a large and causal effect on long-run economic performance. More specifically, two messages emerge in his paper (1) domestic banking system development has a large causal impact on economic growth; and (2) domestic banking system development influences growth primarily by affecting total factor productivity growth. Thus, if international financial liberalisation boosts the functioning of the domestic banking system, this could have large growth-effects.

Another way in which liberalisation lends to economic growth is if capital markets are imperfect and financing constraints exist (see e.g. Hubband (1998) and Gilchrist and Himmelberg (1998). In these circumstances external finance will be more costly than internal finance, and investment will be sensitive to cash flow. Financial liberalisation may affect economic growth by reducing capital market imperfections, which in turn reduce the external finance premium. A well-functioning stock market can affect economic growth largely through its influence on the efficiency of capital allocation. Boot and Thakor (1997) argued that as stock markets become more liquid, agents may have greater incentives to expend resources in researching firms. In larger more liquid markets, it is easier to profit from new information by trading in well-functioning markets. This improved information about firms improves resource allocation with corresponding implications for economic growth.

Well-functioning stock markets may also lead to growth by stimulate greater corporate control by facilitating takeovers as discussed by Stein in his 1988 article. In addition, it makes it easier to tie managerial compensation to stock price performance (Jensen and Murphy, 1990), hence enhancing managerial incentives and thereby boosting resource allocation.

Risk diversification is an issue discussed extensively in the literature on stock markets and their influence on growth (e.g. Levine, 1991; Bencivenga, Smith, and Starr, 1995). Well-functioning stock markets can also help to ease risk especially liquidity risk. Liquid equity markets make long-term investment more attractive because they allow savers to liquidate quickly and cheaply if they need access to their savings, while allowing companies enjoy permanent access to capital raised through equity issues. Through its role of providing longer-term, more profitable investments, liquid markets improve the allocation of capital and thereby increase economic growth.

Having established the important role of the financial sector in fostering productive investments and thus higher equilibrium growth rates, the issue of how financial liberalisation affects the process of saving - investment intermediation is now critical.

2.2 Empirical Evidence

Most of the empirical studies, which have attempted to ascertain the relationship between financial liberalisation and economic growth, have employed a standard growth regression modified by the inclusion of some measure of financial liberalisation.

Using positive real interest rates as a proxy for financial liberalisation, Fry (1978) suggested that on average a one percentage point increase in the real deposit interest rate towards its competitive free market equilibrium level is associated with a 0.5 percentage point increase in the rate of economic growth. Langi and Saracoglu (1983) reported that cross-section regression indicates a positive and significant relationship between financial liberalisation and the average rates of growth in real gross domestic product during the period 1971 – 1980. The World Bank (1989) utilising the same methodology as Lanyi and Saracoglu reported that regression results showed a positive and significant cross – section relationship between average growth and average real interest rates over the period 1965 – 1985 in 34 developing countries. Roubini and Sal-I-Martin (1992) using pooled time series regression found that the growth rate of countries with positive real interest rates were 1.4 percent higher than countries with real interest rates less than –0.5.

King and Levine (1993) assessed the relationship between financial liberalisation and long- run output growth. In their cross-country analysis, they constructed four financial indicators: liquid liabilities divided by GDP (usually M2 divided by GDP); domestic assets in deposit money banks divided by domestic assets of both deposit money banks and the central bank; domestic credit to the private sector divided by aggregate domestic credit; and domestic credit to the private sector divided by GDP. They also constructed four growth indicators: average rate of growth per capita real GDP; average rate of growth in capital stock; the residual between the average rate of growth per capita real GDP and 0.3 of the average rate of growth in capital stock as a proxy for productivity improvements; and gross domestic investment divided by GDP. They found that each financial indicator was positively and significantly correlated with each growth indicator at the 99 percent confidence level. They concluded that financial development is a good predictor of economic growth. Klein and Olivei (1999), using the same methodology as King and Levine, estimated the effect of capital account liberalisation on economic growth. They found that capital account liberalisation had a substantial impact on output growth and concluded that capital account liberalisation positively affects economic growth in highly industrialised economies. However, they argue that there is little evidence of capital account liberalisation promoting financial depth, and therefore economic growth in developing countries. As a result, they propose that policy reforms in developing countries should require capital account liberalisation to come at a late stage, when adequate institutions and sound macroeconomic policies are in place.

Using firm level data from 30 countries, Demirguc-Kunt and Maksimovic (1996) argued that firms with greater access to more financially developed stock markets grow at a faster rate than those without such access. They further noted that when banks relaxed interstate branching restrictions, real per capita growth rates are accelerated. Bekaert, Campbell and Lundblad (2001) introduced a financial liberalisation indicator to the standard growth model. Taking a simulated sample and randomly dating the time at which each country removed its financial restrictions generated the financial liberalisation indicator. They found that the liberalisation coefficient was positive and significant and concluded that financial liberalisation increase the growth rate of real per

capita gross domestic product by 1.1 percent. As cited by Mackinnon (1993), the results emerging from these cross country regressions can be interpreted as supporting the argument that better functioning financial systems motivates faster economic growth.

The results of financial liberalisation for many developing countries have not met a priori expectations. According to El Hadj, the implementation of financial liberalisation policies in countries such as Chile, Argentina and Uruguay in the 1970s led to high real exchange rates, bank insolvencies, appreciation of exchange rates and a deterioration of the balance of payment. Researchers such as McKinnon (1993) and Fry (1995) claim that inadequate prudential supervision and regulation enabled distress borrowing to crowd out borrowing for investment purposed by solvent firms resulting in financial and economic paralysis. In spite of the controversies surrounding the effects of financial liberalisation, there are theoretical and empirical evidences supporting a positive relationship between financial liberalisation and economic growth. The problem appears to be the transformation of the economy from a state of financial repression to a state of financial liberalisation.

Fry (1995) proposes that the following prerequisites are essential for successful financial liberalisation: adequate prudential regulation and supervision of commercial banks implying some minimal levels of accounting and legal infrastructure; a reasonable degree of price stability; fiscal discipline taking the form of sustainable government borrowing requirement that avoids inflationary expansion of reserve money by the central bank either through direct domestic borrowing by the government or through indirect effect of government borrowing that produces surges of capital inflows requiring large purchases of foreign exchange by the central bank to prevent exchange rate appreciation; profit – maximising, competitive behaviour by the commercial banks; and a tax system that does not impose discriminatory explicit or implicit taxes on financial intermediation. Given that these conditions are met, governments should not undertake all their liberalisation measures at the same time. They should strategically plan policies, which are likely to minimise the disruptive effects of financial liberalisation while allowing the economy to benefit from opportunities available in the global market.

3. Trends of Financial Liberalisation and Growth in CARICOM.

Previous financial liberalisation indicators were limited to a measure of openness, such as exports plus imports as a percentage of GDP (see Craigwell and Lewis 1998) or financial development in the form of broad money as a ratio of GDP (see Lensink and Morrissey, 2000). The indices developed in Belford and Greenidge (2001) utilises the detailed qualitative information in the IMF's Annual Report on Exchange Arrangement and Exchange Restrictions to generate an index for each country, which reflects changes in financial liberalisation policies, and captures both capital and current account restrictions and regulations. The indices for the CARICOM countries used in this study are presented in Table 1. For more details on the construction of the indices, see Belford and Greenidge (2001).

The process of financial liberalisation in the Caribbean really got underway during the early 1990s, mainly as a result of the countries engaging in IMF stabilisation and structural adjustment programmes, designed to restore economic growth. The adoption of such policies was in an effort to liberalise the domestic financial systems of these countries and, in some cases, included the lifting of restrictions on capital flows and the floating of exchange rates. Guyana, Jamaica and Trinidad and Tobago are some of the Caribbean countries, which had implemented extensive financial liberalisation programmes as part of their economic reform programmes (El Hadj, 1997). In 1991, the average growth rate in the region was 1.7% ranging from 7.8% in Guyana to -3.9% in Barbados, whose economy had just gone into recession. In light of the fact that all countries in CARICOM suffered from a lack of diversification, which exposed them to the deleterious effects of international price shocks and economic crises, CARICOM leaders renewed their commitment to liberalisation on a regional level. It was proposed that greater openness impels greater closeness in the Caribbean. This they anticipated would generate macroeconomic stability and foster economic growth.

In 1991, the Jamaican economy grew by just 0.7%, that same year Jamaica implemented its latest set of financial liberalisation policies. It is interesting to note that, since then, the growth rate of the Jamaican economy had improved with increases in GDP of 1.5% in both 1992 and 1993. However, the economy declined in 1996, when

output fell by 1.4% and had continued to decline up to 1999, when it recorded a 0.4% decrease in output. Jamaica is one of the most liberalised economies in the region with a financial liberalisation index of 13.0 but average growth rate of a mere 0.09%, over the period 1991 – 1999.

In the early 1990s, the Barbadian economy went into recession with declines in output of 3.3%, 3.9% and 7.2% in 1990, 1991 and 1992, respectively. Barbados began to liberalise exchange controls in 1994, that same year the index moved to 7.5 and the economy experienced a 4.3% increase in GDP, the highest since 1987. The Barbados economy is considered to be moderately liberalised and, as shown in Table 2, has experienced an average growth of 2.92% since it began implementing its financial liberalisation programme

Trinidad and Tobago began its liberalisation programme in the early 1990s. In 1993, the economy experienced a 2.6% decline in output, but recovered with an increase in output of 5.0% in 1994 and 1995. Presently, Trinidad and Tobago has one of the most liberalised economies in the region with an index of 13.0 and, as illustrated in Table 2, has shown an average of 3.82% increase in growth in the latter half of the 1990s.

The Guyanese economy had been in recession throughout the 1980s. In 1988, Guyana began implementing its Economic Recovery Programme in which financial sector reform was undertaken along with other economic reforms. The economy showed positive growth in output in 1989 but declined by 3.0% in 1990. In 1992, Guyana had the highest growth rate in the region with an increase in output of 7.8% and continued on an upward trend in GDP until growth slowed in 1995. The Guyanese economy is highly liberalised with an index of 13.0 and have shown fluctuating growth averaging around 5.5% over the last ten years.

The members of the OECS as a group experienced strong economic growth in 1990 with growth in GDP of 4.7%. With the exception of Antigua and Barbuda, the members of the OECS are reasonably financially liberalised and have had average growth of 2.93% over the last ten years. As seen in Table 1, Antigua and Barbuda has been

almost fully financially liberalised as early as 1984. They have experienced fluctuating rates of growth, averaging around 4.82% during the period studied.

4. Modelling and Estimation Issues

4.1 A Caribbean Growth Model

Following the approach of Bynoe-Lewis and Craigwell (1998), a typical Caribbean growth model includes the following explanatory variables; government consumption as a percent of GDP, foreign direct investment, gross domestic investment, gross international reserves and population growth rate. The relevance of each variable is as follows:

Government consumption as a ratio of GDP is used as a proxy to measure the impact of government policy on economic growth. It is assumed that this variable includes expenditures that do not directly affect productivity, but entails distortion of private decision. It is expected that distortionary government policies will have a negative effect on economic growth, since government policies such as distortionary taxes leads to a higher level of government consumption which in turn leads to a lower level of per capita output, thus slower growth rate.

Foreign direct investment was observed to be the main form of capital inflows in many of these CARICOM countries. These investment resources are directed toward improving infrastructure mainly in the tourism sector, and as a result, it is expected that foreign direct investment should have a positive impact on growth rates in the region.

Caribbean governments have envisioned that greater gross domestic investment, in areas such as education, health and transportation, will lead to an increase in both physical and human capital stocks and hence the rate of economic growth.

Given that a decline in a country's foreign reserves reduces its ability to import goods and services essential for production and impedes its ability to honour foreign debts,

both of which retard economic growth, then improvement in the country's international reserve position should contribute to higher rates of growth.

Finally, an increase in population growth is likely to have a negative effect on per capita growth, since an increase in the number of persons in the non-working age group exerts greater pressure on social services, such as health and education, resulting in limited availability of resources. Also, Sarel (1992) argues that increase in population growth diverts efforts into child rearing instead of expanding worker productivity.

When the financial liberalisation index is added to these standard growth variables, its impact on economic growth is expected to be positive based on evidence presented earlier.

4.2 Estimation Procedures

The choice of techniques lies between panel data and individual regression analysis. One justification for using a panel approach is to examine the variation coefficient for the individual explanatory variables over time and across countries. If the variable across countries is greater that that over time, then a panel data approach should be used (see Barajas et al, 1988). Table 3 presents variation coefficients for the explanatory variables. The across country coefficient is obtained by computing a single average observation over time for each country, and the time variation coefficient is obtained by computing an aggregate country average for each time period. It appears that the across country variability is larger than time variability for all the variables shown, and in some cases, this variability is quite large. These results suggest that a panel data approach would be best to capture such cross – section variability.

To account for the differences, such as the level of economic development, social norms and infrastructure among CARICOM countries, a fixed-effects model was applied. A F- Test (see Green, 1993) was used to determine between the fixed – effects specification and a common intercept model. In addition the model was estimated by the method of generalised least squares with cross – section specific weights.

The data used are of annual frequency and span the period 1979 to 1999. The variables real GDP and population were obtained from International Financial Statistics (IFS) CD–Rom (January 2001). Reserves in months of imports, Gross domestic and foreign direct investment were all taken from the World Bank's Development Indicators CD – Rom (2000). These variables were then deflated by real GDP.

5 Results

Table 4 contains the results of the growth model, which appears to be generally consistent with the growth literature. Government consumption as a percent of GDP enters with a negative and significant coefficient, suggesting that distortionary fiscal policies associated with government consumption have inhibited economic growth in the region. In accordance with a priori expectations, gross international reserves have a positive and highly significant impact on growth. This means that countries with higher levels of reserves are more likely to have higher growth rates. Gross domestic investment also enters with a positive and highly significant coefficient. This implies that large amounts of domestic investments, in areas such as education and health, improve the quality of human capital thus fostering economic growth. The foreign direct investment variable was found to have a significantly negative impact on growth. Hence, increases in foreign investment in the Caribbean have led to lower per capita growth. One possible explanation for this result is that foreign direct investment may be crowding out domestic investment and hence having a negative impact on growth.

As expected, population growth rate had a negative effect on economic growth, signifying the fact that countries with lower population growth rates usually experience higher levels of economic growth. From the results, it was seen that for every 1% increase in a country's population growth rate, its rate of economic growth declined by 1.1%. As in many cross-sectional growth models the effect of inflation on economic growth is controversial. We found that inflation had a negative but insignificant effect on economic growth. This result is not all that surprising since, with the exception of

Jamaica and Guyana, the countries in the model have had stable inflation rates over the sample period.

The introduction of the liberalisation indicator to the standard Caribbean growth model improved its explanatory powers and a likelihood ratio test revealed that the model with the financial liberalisation indices best fits the data.

The results indicated that the regional effect of financial liberalisation on growth is significantly negative. This suggests that the nature and structure of the CARICOM economies as a whole are not yet suited for financial liberalisation. At the individual level, of the eleven CARICOM countries studied, seven had insignificant financial liberalisation coefficients (see Table 5). These included Guyana, Jamaica and Trinidad and Tobago, who can be considered as highly liberalised. This implies that the process of financial liberalisation have not contributed to real economic growth in these countries as the advocates of financial liberalisation have promised.

This may in part be no fault of liberalisation but in the implementation of the process. It is generally accepted that financial liberalisation should not be undertaken until a large measure of macroeconomic stability has been achieved. However, countries like Jamaica and Guyana have embarked on the liberalisation path during periods of high macroeconomic instability. By 1990, Jamaica's fiscal deficits had risen to record heights, stemming from bailout efforts due to the 1988 hurricane, and money creation was beginning to accelerate the rate of inflation pushing the economic on the verge of macroeconomic instability. This, along with poorly capitalised and supervised financial institutions, rendered the Jamaican economy unsuitable for the rapid pace of financial liberalisation, which it undertook in 1991.

The need for the presence of well-functioning economic, social and legal institutions in order to realise benefits from financial liberalisation has been stressed by various commentators including Rodrik (1999). This where developing and industrialised economies differ. Developing economies simply do not have the required institutional structure to handle efficiently large movement of capital. In his empirical study, "Capital Mobility and Economic Performance: Are Emerging Economies Different?", Edwards

came to the conclusion that the positive relationship between capital account openness and economic performance only manifests itself after the country in question has reached a certain degree of development; specifically a somewhat advanced domestic financial market. He further argued, that while for financially sophisticated countries an open capital account is a boom, at low levels of financial development a more open capital account might have a negative effect on performance.

From our results, the effects of financial liberalisation on economic growth in Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines were negative and highly significant. This negative impact could have resulted from the fact that reform policies were not properly sequenced and coordinated, which may have greatly increased the transitional costs of financial liberalisation.

6. Conclusion

The paper augments the standard growth model with an indicator variable for international financial liberalisation. Notwithstanding the many benefits of financial liberalisation purposed by the advocates, the paper has demonstrated that the process international financial liberalisation adopted by CARICOM countries have not significantly contributed to economic growth. Such policies have left many of these countries with undue build-up of foreign indebtness and government intervention to prop up failing domestic institutions.

Since implementing its liberalisation process, Trinidad and Tobago have had a positive current account in the balance of payments and its budget deficits are under control. However, there appears to be a recurring downward pressure on the exchange rate, which frequently requires the intervention of the Central Bank. Guyana continues to experience fiscal and balance of payment deficits and there is persistent depreciation of its exchange rate against the United States dollar. Jamaica is still grappling with macroeconomic instability (balance of payment and fiscal deficits of various magnitudes). The instability of the exchange rate and the wide spread between lending

and deposit rates resulting from liberalisation policies have rendered the Jamaican economy unfavourable to investment thus hindering economic growth.

Given the high volume of trade to GDP in CARICOM economies, financial liberalisation policies may be beneficial to these countries by providing a more competitive domestic financial sector. However, the liberalisation of the financial sector must and should be preceded by certain conditions. After these pre-conditions are met, governments need to liberalise slowly to ensure that the transitional costs of financial liberalisation are minimised.

Table1 Indices of Financial Liberalisation

Antigua & Barbuda	Barbados	Belize	Dominica	Grenada	Guyana	Jamaica	St. Kitts & Nevis	St. Lucia	St. Vincent & the Grenadines	Suriname	Trinidad & Tobago
11.0	6.0	7.0	6.5	6.5	5.5	4.5	-	7.0	6.5	6.5	5.5
11.0	6.0	7.0	7.0	6.5	5.5	4.5	-	7.0	7.0	6.5	5.5
11.0	6.0	7.0	7.5	6.5	5.5	4.5	-	7.5	8.0	6.5	5.5
11.5	6.0	7.5	7.5	6.5	5.5	4.5	-	7.5	8.0	6.5	5.5
11.5	6.0	8.5	7.5	6.5	5.5	5.0	-	7.5	8.0	6.5	5.5
12.5	6.0	8.5	7.5	6.5	6.0	5.0	7.0	7.5	8.0	6.5	5.5
12.5	6.0	8.5	7.5	6.5	6.0	5.0	8.0	7.5	8.0	6.5	5.5
12.5	6.0	8.5	7.5	6.5	6.0	5.5	8.0	7.5	8.0	6.5	5.5
12.5	6.0	8.5	7.5	6.5	6.0	6.0	8.0	7.5	8.0	6.5	5.5
13.0	6.5	9.0	8.0	7.0	6.0	6.5	8.5	8.0	8.5	7.0	6.5
13.0	6.5	9.0	8.0	7.0	6.5	6.0	8.5	8.0	8.5	7.0	6.5
13.0	6.5	9.0	8.0	7.0	7.5	6.5	8.5	8.0	9.0	7.0	6.5
13.0	6.5	9.0	8.0	7.0	8.5	13.0	8.5	8.0	8.5	7.0	6.5
13.0	6.5	9.0	8.0	7.0	11.0	13.0	8.5	8.0	9.0	7.0	7.5
13.0	6.5	9.0	8.0	7.0	11.0	13.0	8.5	8.5	9.0	7.0	13.0
13.0	7.5	9.0	8.0	8.0	11.5	13.0	8.5	8.5	9.0	7.5	13.0
13.0	7.5	9.0	8.0	8.0	12.0	13.0	8.5	8.5	9.0	7.5	13.0
13.0	7.5	9.0	8.0	8.0	12.0	13.0	8.5	11.5	9.0	7.5	13.0
13.0	7.5	9.0	9.0	8.5	13.0	13.0	8.5	11.5	9.0	7.5	13.0
13.0	7.5	9.0	9.0	8.5	13.0	13.0	9.0	11.5	9.0	7.5	13.0
13.0	7.5	9.0	9.0	8.5	13.0	13.0	9.0	11.5	9.0	8.0	13.0

Table 2 **CARICOM Average Growth Rates (%)**

Countries	1980 - 1984	1985 - 1989	1990 - 1994	1995 – 1999
Barbados	0.34	3.18	-1.86	2.92
Belize	2.92	10.92	5.96	3.38
Guyana	-8.56	-1.18	5.48	5.34
Jamaica	-0.10	1.70	1.82	-0.78
OECS Area	4.81	7.60	2.98	2.88
Suriname	-2.30	1.72	0.82	-
Trinidad and Tobago	0.72	-4.04	1.08	3.82

Table 3 **Variation of Variables Over Time and Across Individual Countries**

Variables	Over Time	Across Countries
Government Consumption	0.19	1.34
Inflation	0.65	0.97
Foreign Direct Investment	0.89	1.76
Real GDP	3.33	10.62
Gross International Reserves	0.20	0.42
Nominal GDP	1.39	2.21
Gross Domestic Investment	0.42	1.29
Financial Liberalisation	0.16	0.18

Table 4 Growth Regressions: Using a Caribbean Growth Model

Column1	Column2
Foreign Direct Investment	-30.650 ***
	(5.398)
Government Consumption	-2.095 *
	(1.268)
Gross Direct Investment	2.758 **
	(1.295)
Gross International Reserves	0.273 ***
	(0.062)
Population	-0.983***
	(0.044)
Inflation	-0.083
	(0.079)
Financial Liberalisation	-0.803 *
	(0.458)

Notes: White's heteroskedaticity-consistent standard errors given in brackets

- * significant at the 10% level
- ** significant at the 5% level
- *** significant at the 1% level

Table 5 Country-Specific Slope Estimates of a Caribbean Growth Model: The Liberalisation Effect

Column 1	Column 2
Antigua & Barbuda	0.984
	(3.464)
Barbados	0.240
	(0.457)
Belize	0.899
	(0.987)
Dominica	-6.717 ***
	(1.044)
Grenada	-3.284 **
	(1.386)
Guyana	0.847
	(4.682)
Jamaica	-0.470
	(1.634)
St. Kitts & Nevis	-3.307
	(2.860)
St. Lucia	-1.940 ***
	(0.211)
St. Vincent & the Grenadines	-1.170 **
	(0.544)
Trinidad & Tobago	0.982
	(0.842)
Observations	216
Adjusted R^2	0.583
Durbin-Watson statistic	2.093

Notes: White's heteroskedaticity-consistent standard errors given in brackets.
** significant at the 5% level
*** significant at the 1% level

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