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Dr. Gene Leon, IMF Senior Resident Representative, Jamaica

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Elements of a Growth Strategy for the CARICOM Region

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[Prime Minister of Jamaica, the Honorable Bruce Golding, Prime Minister of Trinidad and Tobago, the Honorable Kamla Persad-Bissesar], other distinguished guests, conference participants, good morning. It is an honor to be here at a time when the topic of growth is of major concern in the region as well as internationally. The ravaging winds of the global crisis have swept through our region and have impressed on us all the urgent need to engineer a sound plan to propel the region into that elusive lane of sustainable economic growth.

Growth: What is it? How do you get more of it?

Growth is one of the primary objectives of any country. The more output produced per capita, the more growth is generated, and the more income that is available for distribution among its citizens. It is perhaps instructive to note that growth through increased production and productivity is one of the objectives of CARICOM; it is not coincidence that in the Revised Treaty of Chaguaramas, first on the list of objectives is improved standards of living and work. It is clear that increased output from growth does not automatically translate to improved living standards. However, our focus today is on developing a growth strategy.

How do we spur holistic growth for the region?

At inception, the original specifications of this CARICOM vehicle as laid out in Article 4 of the Treaty of Chaguaramas were economic integration among member states through adoption of a common market regime; coordination of foreign policies of member states; and functional cooperation among member states. Since then in the context of a changing environment, mainly owing to globalization, modifications to the Treaty have largely sought to establish a Caribbean Single Market and Economy (CSME), captured in Article 6 of the Revised Treaty of Chaguaramas.

The Caribbean region is now at a crossroads: how should it modify its "growth vehicle - CARICOM" to regain momentum?. At a time when other regions in the global economy are deepening their integration agenda, CARICOM appears to be losing steam. No one likes to hear bad news, but to chart a future course, we have to understand our current reality. **Let’s look at a few indicators** of the region’s performance **– trade, debt, growth, and competitiveness**.

Trade

Starting with trade, the performance of the region has been less than spectacular. Trade between member states has been dismal at single digit percentages of total trade, compared to other well established blocks such as the EU, where intra-trade is approximately 40 percent. Exacerbated by the global crisis, external trade has also suffered setbacks due to reductions in trade finance, disruption in the international capital markets, and reduced demand for exports from emerging markets.

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Debt

The main macroeconomic drag on the region is the level of indebtedness. Caribbean countries are among the most highly indebted countries in the world. Among thirteen of the fifteen Caricom states (Haiti and Montserrat being the missing two), five have public debt-to-GDP ratios of more than 100 percent, and four have debt levels above 70 percent, with most of these debt accumulations occurring since the mid-

1990s. For context, a recent study revealed that emerging markets have a threshold of external debt at 60 percent, above which median growth rates decreased by 2 percent or more. Simply put, the more debt there is, the more it retards growth for emerging markets.

Growth

Growth performance for the region since the 1980s has been poor. According to the October 2010 issue of the IMF's Regional Economic Outlook (REO), "On average, growth has been low in the Caribbean countries over the last four decades: 2.2% based on PPP weights."

Competiveness

Although there are diverging strengths and problematic areas in the competiveness profiles the Caribbean countries, the overall picture is not pretty.

In the 2011 Doing Business Report with a survey size of 183 countries, St. Lucia, ranked the best in doing business of the thirteen Caricom states listed in the report. Among all countries, Jamaica and Trinidad and Tobago - two of the largest members in Caricom were ranked at 81 and 97, respectively, Suriname ranked 161, while Haiti ranked lowest at 162.

For the subcategory "registering a property", eleven of the thirteen states (all but Guyana and St Lucia) had a ranking greater than 105. In the area of 'enforcing Contracts", ten of the thirteen were above ranking of 100. In the area of "getting credit", six of the thirteen countries were ranked above 115. For the index "trading across borders", five of the thirteen were above 100 with the highest being 145. The most alarming collective result for the region was found in the index "closing a business", which had five of the Caricom island states receiving a ranking of 183. Yes five of our states tied for the lowest ranking in the world in this category. Given this level of underperformance, if CARICOM is to achieve its objective of enhanced levels of international competitiveness (Article 6 (e), these issues must be addressed in a holistic fashion, with a collective sense of urgency. .

So how can we turn this around?

First we need to recognize the inherent tensions and linkages in jumpstarting growth.

- In general, the region is a highly open vulnerable area with a legacy of high debt, variable and low growth, and limited infrastructure. Every effort has to be directed at developing the individual states, noting the constraints as well as the interlinkages

- The region can be viewed as a composite of nation states (just as a country is made up of parishes), with resources and constraints. Each country has a different starting point. Consequently, there will not be a one size fits all and tolerances and compromises will be needed during a transition period.

- Here are some “hard” facts: all government spending is not equal; all investment is not equal; all lending is not equal in impact; all foreign direct investment is not equal in effect; and every sector and everyone cannot grow at the same pace and at the same time.

- Further, we cannot divorce political and social realities from “pure” economic prescriptions. Achieving optimal economic, social, and political objectives at the same time is a tough act to pull off. Trade-offs are inevitable and like a good negotiation, a “quasimiddle ground" of pragmatism may be the constrained first best world.

Where do we go next?

In the global environment of a new normal after the global economic crisis, the region is probably again at a crossroad of opportunity, where the right combination of leadership, vision, and commitment is needed to overcome a plethora of challenges that continue to exist. That responsibility though has to be a shared one.

There are a number of key things needed. They amount to f**acilitating a reduction in uncertainty to enhance a private-sector-led growth strategy, with a supporting role for governments to undertake core functions**. To facilitate an action list of responsibilities:

Governments can contribute by, among other things, committing to:

- Implementation of sound macroeconomic policies (including prudent public financial management, fiscal responsibility framework in the context of limited resources, and a sound and well-regulated monetary system)

- Improving the environment for doing business
- A political consensus and commitment to regionalism
- Implementing the arrangements for the economic and financial cooperation set out in Chapter 4 of the Revised Treaty of Chaguaramas to create more opportunities for investment
- Implementing harmonization of regulation, governance, and transparency; improving recourse to regional legal systems with power of enforcing the rule of law.
- Investment in physical, social, and human capital infrastructure, paying attention to building capacity, improving the ease and cost of intra-regional transportation, and addressing poor social conditions and poverty
- Building buffers at the regional level to mitigate the impact of frequent natural disasters
- Promoting vigorously an regional awareness campaign -- “let’s know the region”

- Subscribing politically to the concept of broadly equitable regional development and supranational institutions empowered to effect regional development. Experience in other regions suggests this does not have to be a regional political federation.

- Implementing provisions to give regional entities no less favored status than provided to entities outside of the region, while recognizing that strategies for enhancing competitiveness will vary across the region, from country to country, and include policies and actions tailored to each country's specificities and competitiveness diagnostics."

Of course, these cannot all be done at the same time or overnight, and some prioritization may be needed to simply recognize the evolutionary nature of this process, or core components may need to be implemented as interim measures.

The private sector (financial and nonfinancial) needs to buy in to a cultural re-orientation:

- Developing businesses independent of need for government support at the national level, with a vision of the region as its local neighborhood

- Developing regional partnerships for enhancing international competitiveness and the pursuit of excellence to promote opportunities for greater economic diversification – in goods and services, and new growth markets

- Developing financial institutions, markets, and products that can facilitate corporate and household activity

- Developing a culture of flexibility and adaptation, borrowing from parallels of military task forces

- Building support for R&D through partnerships with tertiary education institutions

- Viewing the region as one country with a wealth of opportunities.

What role do households play? Unlike corporations, households mainly earn income from the provision of labour services. They consume goods and services produced by corporations, acquire financial assets and incur liabilities, building net worth in the process. They need to forge a regional identity that is more than a name, where the rest of the region is not understood as "abroad," where opportunities for participation by regional households (and corporations) are not viewed as "foreign."

They need to be motivated to build skills for national and regional opportunities, and wealth to spend and improve their well being. Households can help the regional growth process, although not in the short-run, through embracing the ethic of international competitiveness.

Competitiveness dictates a well educated, flexible work force, able to adapt to the every changing global environment. This could be facilitated through education and fostering of a knowledge economy, giving tangible meaning to the Regional Knowledge Network. Education through the tertiary level should be a national and regional; goal, combining academics and vocational training. Curriculum development could benefit from dialogue with the private sector about skills that would help their competitiveness. Shouldn't school systems focus on every student mastering languages (at least one foreign), mathematics, integrated science, integrated arts (Economics, Business, Finance) through tertiary education? The aim here is to create a well-educated work force geared to meeting the needs of potential employers or small entrepreneurship. Tertiary institutions could focus on research and development, and training certification, preferably in partnership with the private sector.

From a capacity building perspective, improvements can be fostered through the utilization of assistance from International Development Partners like the IMF, World Bank and the Inter American Development Bank. Specifically, the IMF has taken a regional approach to technical assistance and training which allows for a better tailoring of assistance to the particular needs of a region, closer coordination with other assistance providers, and enhanced ability to respond quickly to emerging needs.

In conclusion, the issue is what measures can be adopted to reshape the vehicle in which the region has invested so much, in order to perform in a changing environment and accelerate growth?

Thank you