

PRODUCTIVE DEVELOPMENT POLICIES IN THE CARIBBEAN

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Outline of Presentation

- Introduction
- The nature of PDPs
- Case Studies:
 - Barbados
 - Jamaica
 - Trinidad and Tobago
- Caribbean PDP Policy Option
- Conclusion

Introduction

- Caribbean economies characterized by:
 - Low growth rates;
 - Underdevelopment;
 - Low productivity;
 - Lack of competitiveness.
- PDPs aim to strengthen the productive structure of a particular economy thereby increasing growth, development, productivity and competitiveness.

The Nature of PDPs

- PDPs traditional form called industrial policy.
- These policies have been referred to in the past as industrial policies.
- They are microeconomic policies that model the firms incentives and, in doing so, affect the market equilibrium.

Nature of PDP (Cont'd)

- Objective is to foster economic growth and development by increasing productivity and aid in understanding the core factors of development.
- Selected to eliminate constraints to growth or inefficiencies or market failures.
- Question is how to combine instruments to obtain an optimal design for a particular country.

Nature of PDP (Cont'd)

- Modern form of PDPs shifts away from industry alone and focuses on specific products, activities, innovation and enterprises within an industry and seeks to overcome market failures.
- PDPs may be *horizontal* (cutting across various sectors/clusters) or *vertical* (directed at specific sectors/clusters).

PDPs Considered

Critical review of PDPs of Barbados, Jamaica and Trinidad and Tobago:

- Cluster promotion
- Enhancing tourism
- Micro, small and medium enterprises (MSMEs)
- Innovation and entrepreneurship
- Free Trade Zones (FTZ);
- International Business (IB) promotion
- Information and Communication Technology (ITC)

Case of Barbados

- Barbados is one of the most developed Caribbean economies with strong institutions and policy.
- Has been able to transform itself from a sugar-based economy into export service oriented economy, fostering world-class suppliers in a few areas, particularly tourism and financial services.
- Nevertheless growth rates remain low and per capita incomes remain below that of industrialized countries.
- Govt plans to improve tourism, promote IB and innovation and entrepreneurship and MSMEs.

Barbados Cont'd

Tourism Sector (most binding constraints)

Public Sector 1	Public Sector 2	Private Sector 1	Private Sector 2
Red Tape	Urban planning and coordination with non-tourism institutions	Red Tape	Excessive Tax Burden
Urban Planning	Actualize the incentive regime	Collaboration and Communication with non-tourism institutions	Lack of quality and reliability of the local products
	More investment in amenities	Excessive tax burden	More collaboration with non-tourism institutions
	Incomplete linkages	Lack of quality and reliability of the local products	

Barbados Cont'd

IB promotion

- Interviewing the institutions responsible for IB, the main constraints identified were:
 - Too much red tape and bureaucracy;
 - Lack of coordination;
 - High start-up costs;
 - Difficulty in attracting new IBs;
 - Lack of labour experience.

Barbados Cont'd

MSMEs, Innovation and Entrepreneurship

Constraints

- Duplication of tasks across institutions ;
- Big businesses block MSMEs;
- Lack of info dissemination on programs and financing;
- Lack of Govt cooperation and coordination with private sector;
- Lack of entrepreneurship culture, creativity and innovation;
- Lack of training and funding;
- High business costs;
- Red tape in business start ups.

Policies needed

- Cluster promotion;
- Innovation and entrepreneurship promotion;
- Cultural change (teaching with practical content);
- Coordination (create one institution to deal with MSME and entrepreneurship);
- Remove Red Tape;
- Make the start-up process less expensive.

Case of Jamaica

- Jamaica is characterized by low GDP, high unemployment, high public debt and a high investment-low growth paradox.
- Since the 1970s and 1980s, industrial policy of Jamaica based on two pillars: granting selected tax incentives to attract FDI and export promotion.
- Result has been a complex system of tax incentives that distorts the actual structure of taxation.

Jamaica (Cont'd)

- In promoting new PDPs, Jamaica Govt has
 - Developed a Tourism Master Plan
 - Promoted Clusters
 - Encouraged MSMEs, use of ICT and export promotion.

Jamaica Cont'd

Tourism

- Jamaica's Tourism lagging behind other Caribbean countries.
- The govt developed a Tourism Master Plan in 2003 which has the following objectives:
 - Greater diversification by forging stronger linkages between tourism and other sectors and greater community involvement;
 - Developing Jamaica's tourism product to niche markets (eco, heritage, faith-based, community, sports, wellness and rural tourism);
 - Use of the internet as a marketing tool.

Jamaica Cont'd

Tourism

- Constraints faced by Jamaican tourism (Singh and Jayewardene, 2005):
 - Its tourism is export oriented which has hampered inter sectoral linkages and has limited the scope for economic diversification;
 - Natural disasters;
 - Crime;
 - HIV/AIDS prevalence;
 - Poor training and low standard of industry staff;
 - Low use of ICT;
 - Unreliable air transportation at a reasonable cost;
- Ineffective tax incentive schemes questioned and red tape.

Jamaica Cont'd

Investment Promotion

- Jamaica's tax system consists of over 200,000 different incentives and has resulted in Govt revenue foregone of about 20 per cent of total revenue (Holden and Holden, 2005).
- Jamaica tax rates close to the average of other Caribbean countries but the complex system distorts this.
- The IDB recommends cutting the corporate income tax rate to 25 per cent and the elimination of all tax holidays (IDB, 2006).

Jamaica Cont'd

MSMEs

- Constraints faced by MSMEs in Jamaica:
 - Lack of formal channels with govt and MSMEs
 - High transaction costs
 - Asymmetric information prevents firms from getting loans under normal conditions
 - Lack of training of young entrepreneurs
 - Business men not taking advantage of business support services

Jamaica Cont'd

ICT

- The Govt has identified ICT as a viable sector.
- Jamaica's ICT plan is E-Powering Jamaica 2012 and aims to:
 - Significantly increase the number of citizens that are educated and computer literate and to improve their access to ICT networks at affordable prices, in order to generate more active use of the internet for education, business development and public administration;
 - To improve Jamaica's position as a leader in the delivery of ICT-enhanced services within the Caribbean.

Jamaica Cont'd

FTZs

- Jamaica's FTZ has facilitated investment in traditional and new areas of business and has provided employment, but is failing to contribute to foreign exchange earnings.
- The objective of the FTZ was to promote non-traditional exports to third markets, but non-traditional exports ratio is stagnated and those originated in FTZs are a very low proportion of the total; (FTZs contributed poorly to market diversification).
- FTZs have been effective in addressing economic growth and development but they have not been uniformly successful (FIAS, 2008).

Case of Trinidad and Tobago

- Trinidad and Tobago is an energy-rich country with relatively strong institutions and political stability.
- However, the country is exposed to 'Dutch Disease' and remain undiversified which pose a challenge for future growth (Artana et al 2009).
- The government has identified various PDPs for the country's development in its Vision 2020 Plan:
 - Cluster promotion;
 - Tourism;
 - MSMEs;
 - FTZs.

Trinidad and Tobago Cont'd

Cluster promotion (Sectors identified by Govt for Diversification)

Sector	Addressed to market failure	Do not address market failure
Food and Beverage	Agricultural access roads and bridges. Dissemination of market information. Youth apprenticeship program in agriculture. Technological package for poor farmers (Grow box development). Improvement of food safety.	<ul style="list-style-type: none"> - Creation of large farms in State owned lands. - Creation of retail markets
Entertainment Industry	<ul style="list-style-type: none"> - Financial assistant to new projects. 	
Film industry	<ul style="list-style-type: none"> - State agency promotes the T&T industry abroad. 	<ul style="list-style-type: none"> - Fiscal incentives: expenditures rebates.
Fish and Fish Processing	<ul style="list-style-type: none"> - Training on food safety 	
Merchant marine		<ul style="list-style-type: none"> - Elaboration of the sectorial report.
Printing and Packaging		<ul style="list-style-type: none"> - Elaboration of the sectorial report.
Yachting industry	<ul style="list-style-type: none"> - Coordination of training courses. 	<ul style="list-style-type: none"> - Elaboration of the sectorial report.

Trinidad and Tobago Cont'd

Cluster promotion (Constraints to domestic investment)

- The private sector listed the following (Vision 2020):
 - Lack of consistency in Govt trade policy and poor dissemination of info about the impact of ongoing trade agreements;
 - Financial constrains (absence of an active stock market and risk-adverse banks);
 - Lack of entrepreneurial spirit and scarce availability of venture capital;
 - A risk-averse business culture.
- Weak demand for loans (Artana et al 2007)

Trinidad and Tobago Cont'd

MSMEs

Constraints:

- **Absence of quantitative evaluation program**
- **Lack of accountability of programs and of governmental agencies**
- **Loans and support policies should be addressed to entrepreneurs with new activities and products**
- **NEDCO's lending programs might crowd out other private lending initiatives**
- **PDPs are generally broad targeted and directed to support firms because of their size rather than its innovative capacity in which reside the true market failure.**

Recommendations (Enterprises Development Policy and Strategic plan (2001-2005))

- **Co-ordination among MSMEs developmental agencies;**
- **Harmonization of MSMEs policies and programs;**
- **Access to credit and other sources of finance;**
- **Training and human resource development;**
- **Marketing opportunities and development;**
- **Institutional and infrastructural arrangements;**
- **Other business development support services.**

Trinidad and Tobago Cont'd

FTZs

- The FTZ did not generate the expected impact on the economy:
 - There are 13 trading companies;
 - The FTZ is smaller than others in the region;
 - FTZ exports represent about 1 per cent of domestic exports, its employment is less than 0.1 per cent of the labor force and its impact on the domestic demand is low.
- More effort should be put into linking FTZ activities with domestic production and innovation.

Caribbean PDP Policy Option

- Caribbean economies share similar economic structure and market failures.
- Also, there is a lack of diversification, entrepreneurship and innovation.
- Tourism is an industry where Caribbean countries have a natural competitive advantage.
- Caribbean economies need to make available greater financing and other incentives to encourage entrepreneurship, innovation and MSMEs.
- Both vertical and horizontal PDPs are needed to move the region forward.

Caribbean PDP Policy Option:

Table showing Horizontal and Vertical PDP Options

Horizontal PDPs	Vertical PDPs
MSMEs	Cluster promotion
Entrepreneurship/Innovation	Tourism
Industrial policy	ICT (web developing, e-commerce)
FTZs	Business consulting
Investment promotion	Entertainment
Use of ITC	Agriculture/Food processing/ Indigenous Food

Conclusion

- Though Caribbean economies have made significant improvements in modernizing their PDPs a lot is left to be desired.
- Greater analysis and deeper studies are needed on the current policies and plans in place together with their viability and effectiveness and there may be policies and targeted sectors yet to be looked at.

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