Caribbean Development: Past and Future

Kari Grenade[1]
Caribbean Development Bank, PO box 408, Wildey, St. Michael, Barbados

Abstract
This study analyses the Caribbean's development experience over the period 1980-2013 and discusses policy implications for the Caribbean economy going forward. It contends that transformative shifts in policy, practices and institutions are required to deliver a new development paradigm. Specifically, it finds that the following are key imperatives to securing stronger more inclusive and sustainable development in the future: (i) improving fiscal governance and strengthening supporting institutions; (ii) diversifying strategically; (iii) enhancing productivity and competitiveness; (iv) depoliticising development; (v) strengthening social and environmental security; and (v) shifting mindsets away from limitations towards opportunities and possibilities.
Keywords: Economic development, Caribbean.

1. Introduction

Caribbean economies have been buffeted by the global crisis and many are struggling to recover. The crisis has indeed exposed and exacerbated structural deficiencies, and in many countries, macroeconomic fundamentals have become progressively weaker since 2009. Indeed, the Caribbean's longstanding challenges such as those associated with being externally-dependent economies, as well as acute competitiveness and productivity shortcomings, are being compounded by new challenges such as the adverse effects of the global economic crisis and climate change. These old and new challenges have collided to produce a significant threat to the Caribbean's development prospects and hard-won gains in social/human development are at risk of unraveling. Ruprah, Melgarejo and Sierra (2014) asked if there is a Caribbean sclerosis; indeed, sub-par growth in the region in recent years begs the question. However, this study contends that recent developments do not necessarily portend a secular stagnation for the Caribbean or worse yet, a banishing into a socioeconomic abyss over the long term. Notwithstanding, stagnating growth and social progress, especially since 2009 and the changing global environment, impel a critical re-examination of the region's development paradigm. These are not ordinary times and no ordinary solutions will do.

This study is concerned with the transformative shifts in policies, practices and institutions that are required to deliver a new development paradigm for the Caribbean in the era following the end of the Great Recession (henceforth "post-crisis" era). It examines past and current trends in economic growth of Caribbean countries and asks what these portend for the region's future economic development. The study contends that the future is the Caribbean's to shape. However, in determining the region's future, policymakers in the Caribbean can ill afford to simply extrapolate from the past or present. In the "post-crisis" era, current policies and practices and those of the past may not only be obsolete but counterproductive. Therefore, the "post-crisis" transition requires transformative shifts in policy, practices, and institutions to secure stronger growth and more inclusive and sustainable development.

For the purposes of this study, the Caribbean is defined as the 13 independent countries[2] (excluding Haiti) that comprise the regional bloc called the Caribbean Community (CARICOM). All of the countries, with the exception of Guyana, ranked in the "High Human Development" category according to the United Nation's Human Development Report for 2013 (United Nations Development Programme, 2014). Guyana was ranked in the "Medium Human Development" category. In 2013, their combined population was estimated at seven million, while the collective gross domestic product (GDP) (current prices) amounted to an estimated US$69.5 billion. Caribbean countries are not monolithic, but they do share many commonalities such as small land size, heavy reliance on external trade, narrow production base, and vulnerability to external shocks and natural hazards.

Economic performances have not been homogenous, but there are some broad common threads that can be extracted. By and large, the underpinning development approaches have been broadly similar. Caribbean countries experimented with several development models over the past three decades. Industrialisation-by-Invitation was the dominant one in the 1970s. Industrialisation-by-Invitation was essentially a development strategy that promoted the expansion of manufacturing activities, aided by foreign direct investment. However,

[1] The views expressed are the author's and do not necessarily reflect those of the Caribbean Development Bank. I thank Marsha Caddle, Michael DaCosta, Andrew Downes, Tarron Khemraj, Winston Moore, DeLisle Worrell, and Allan Wright for valuable feedback on earlier versions of this paper.

[2] Antigua and Barbuda (ANT), The Bahamas (BAH), Barbados (BAR), Belize (BEZ), Dominica (DOM), Grenada (GDA), Guyana (GUY), Jamaica (JAM), St. Kitts and Nevis (SKN), St. Lucia (SLU), St. Vincent and the Grenadines (SVG), Trinidad and Tobago (TNT), and Suriname (SUR). Haiti is excluded because of data limitations.

for several reasons, Industrialisation-by-Invitation policies failed to deliver durable development gains; see Bernal, Figueroa and Witter (1984), Conway (1997), and Downes (2004) for detailed explanations. In the 1990s, the focus was on market-friendly, Washington-consensus-type policies to promote exports; nonetheless, by and large, exports remain unsophisticated and narrow in range. Conway (1997) noted that the Caribbean appeared confused over the development paths to take and the kinds of diversification that would actually contribute to economic development. Indeed, market-based reforms also fell short in terms of bringing the sort of economic growth and employment that were expected. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC, 2012) summed up the current approach to development as one of open regionalism, which emphasises the roles of the market, state, regional integration, and industrial policies.

This study locates itself in the economic growth literature because it focusses exclusively on growth/ development outcomes of Caribbean countries. It does not provide a macroeconomic assessment of Caribbean economies and as such, pertinent concerns such as public finance and financial sector issues are not dealt with in this study. Moreover, this study does not provide an economic history of the Caribbean; interested readers can consult Bulmer-Thomas (2012) for this. The analysis in this study is delimited to the period 1980-2013 for two reasons; (i) brevity, and (ii) to bring into sharper focus more recent growth performance in the Caribbean, particularly (but not exclusively), performance post the Great Recession and policy implications of the "post-crisis" growth and development trends. The study aims to contribute to the discourse on policy imperatives for entrenching long-term, sustainable, and inclusive development in the Caribbean.

The roadmap for the remainder of this study is as follows. Section 2 describes trends in key growth and development indicators over the period 1980-2013, with a view to distilling policy implications from the trend analyses. Nine stylized facts are examined. Drawing on the key trends observed in section 2, section 3 discusses key transformative shifts in policies, institutions, and practices that are required to: (i) lock in hard-won development gains accrued over the past three decades; (ii) prevent recent sub-par growth performance from degenerating into a secular stagnation or worse; and (iii) lift the region's development trajectory. Section 4 concludes.

2. Caribbean Development: Key Stylized Facts, 1980-2013

Reflecting on development outcomes in the Caribbean over the past three decades, the following stylized facts are noteworthy.

2.1 Stylized Fact 1: General Uptrend in Per Capita Income Level but Volatile Growth with Underlying Downtrend

At end-2013, the un-weighted average real per capita income of US$7,589 for the Caribbean as a whole was 1.5 times the level in 1980 or almost US$2,500 more. As Figure 1 shows, the rise in the average real per capita income was by and large, persistent over the past three decades, interrupted only in 2009, owing to the effects of the Great Recession. It has been trending down since 2010. While average per capita income has been on a down trend since 2010, real GDP per capita growth exhibited an overall downtrend over the past three decades. Regional per capita growth averaged 2.0% in 1980s and 1.1% in the 1990s. It picked up slightly in the 2000s, with an annual average increase of 1.4%. However, regional growth contracted at an annual average rate of 1.1% over the period 2010-13 (Figure 2).

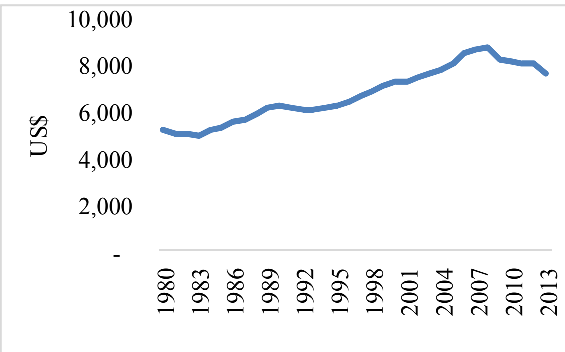

Figure 1. Real GDP per capita (Caribbean average)

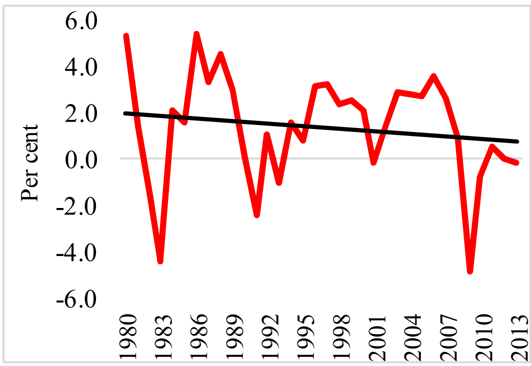

Figure 2. Real GDP per capita growth (Caribbean average)

The deceleration in average GDP per capita growth was persistent in all countries over the sample period with the exception of Antigua and Barbuda, Barbados, and Dominica, where the average per capita growth in the 2000s were higher than in the previous two decades. All countries, with the exception of Guyana and Suriname registered an annual average contraction in real per capita growth during the period 2010-13. Fluctuations in the average GDP per capita growth were especially prominent in the 1980s, but have diminished in recent years. For the Caribbean as a whole, the volatility of per capita growth as measured by its standard deviation, averaged 3.1% during the 1980s, compared with averages of 2.5% in the 2000s and 0.5% in 2010-13. All countries registered a decline in volatility over the three decades, with the decrease being most pronounced in Jamaica and St. Lucia. Within-country volatility has been varied; for example, in Antigua and Barbuda and Dominica, fluctuations in average per capita growth were lower in the 1990s than in the 1980s, but picked up again during the 2000s before moderating in the 2010-13 period (Table 1).

Table 1. Real GDP per capita

	1980s				1990s				2000s				2010-2013			
	Decade Average Level (US$)	Average Annual Change (%)	St. Dev (%)	Years of Growth (#)	Decade Average Level (US$)	Average Annual Change (%)	St. Dev (%)	Years of Growth (#)	Decade Average Level (US$)	Average Annual Change (%)	St. Dev (%)	Years of Growth (#)	Average Level (US$)	Average Annual Change (%)	St. Dev (%)	Years of Growth (#)
Antigua and Barbuda	6,650	8.1	3.7	10	10,060	1.2	3.1	8	12,179	2.0	7.0	7	11,492	-2.3	4.6	1
The Bahamas	20,726	2.0	5.7	8	21,045	0.1	4.0	6	23,264	-0.9	2.7	5	20,950	-0.5	0.3	0
Barbados	11,247	1.8	4.4	7	12,160	0.6	3.9	7	14,185	0.7	2.8	6	14,385	-0.2	0.4	1
Belize	2,020	2.8	6.2	5	3,045	3.3	4.5	7	3,978	2.2	3.6	7	4,108	0.2	1.0	2
Dominica	2,998	6.8	4.3	10	4,321	2.5	1.8	10	5,387	2.6	3.5	7	6,121	-0.7	1.2	1
Grenada	3,102	4.1	4.4	7	4,483	3.0	3.9	8	6,173	1.9	6.1	6	6,349	0.0	1.6	2
Guyana	773	-2.2	4.9	4	917	4.6	4.1	8	1,086	0.4	3.4	6	1,252	4.3	0.5	4
Jamaica	704	-9.8	19.0	4	110	-13.6	16.7	1	58	-6.0	6.3	1	38	-3.1	6.2	1
St. Kitts and Nevis	5,236	6.7	4.9	8	8,573	3.1	2.1	8	10,861	1.3	4.1	8	10,741	-0.8	3.2	1
St. Lucia	2,906	4.2	10.3	8	4,919	4.1	6.5	9	5,699	1.1	4.0	5	5,773	-1.4	1.2	1
St. Vincent and the Grenadines	2,334	5.0	3.5	10	3,463	3.5	4.6	9	4,983	3.1	3.3	8	5,421	-0.3	2.3	2
Suriname	3,417	-2.3	6.8	2	2,990	-0.7	3.4	4	3,480	3.2	2.3	8	4,411	3.1	1.3	4
Trinidad and Tobago	8,051	-2.5	5.7	3	7,006	2.3	2.9	8	12,048	5.9	5.3	9	14,217	0.1	1.5	2
Caribbean	**5,397**	**2.0**	**3.1**	**8**	**6,392**	**1.1**	**1.8**	**8**	**7,952**	**1.4**	**2.5**	**8**	**7,966**	**-0.1**	**0.5**	**2**

Source: Author's calculations based on data from the World Development Indicators, June 2014 and World Economic Outlook Database, October 2014.

Several authors have sought to explain the underpinnings of growth performance in the Caribbean; interested readers can consult Worrell (1987), Nicholls (2001), Ramkisson (2002), World Bank (2005), and ECLAC (2009). However, for brevity, this study does not review the literature. However, it is worth mentioning that macroeconomic instability, more specifically, fiscal instability is one of the more common reasons cited for low growth in the Caribbean, especially in recent years (Ruprah et al. 2014). Wright and Grenade (2014) found a negative relationship between GDP per capita growth and the ratio of public debt-to-GDP on average, across selected Caribbean countries, over the period 2000-12. The majority of countries clustered in the low-growth (2.0-3.0%) and high-debt (70.0-100.0% of GDP) ranges. Indeed, there are variations across the Region. Suriname and Trinidad and Tobago distinguish themselves in the high-growth (above 4.0%) and low-debt (below 60.0% of GDP) ranges, while The Bahamas stands out with a low average per capita growth (around 1.0%) and low debt burden (less than 60.0% of GDP). Relatively high public debt in the Caribbean is a manifestation of inherent and chronic fiscal weaknesses. Ruprah et al. (2014) rightly observe that, “most Caribbean countries were already facing the need to build up their fiscal buffers prior to the worldwide recession” (41).

2.2 Stylized Fact 2: Growth Rebounds and Reversals

On the one hand, as Figure 3 shows, per capita growth in countries such as Guyana and Suriname rebounded astoundingly, starting from the mid/later 1990s in the case of Guyana, and in the 2000s for Suriname, following acute stagnation and decline for much of the 1980s. These economies registered cumulative losses in per capita GDP growth of 30.2% and 39.2% respectively during the 1980s. However, by the mid-1990s, the Guyanese economy had started to rebound and though there was a deceleration in the rate of growth during the 2000s (2003-6 in particular), by end-2009, the Guyanese economy was the fastest growing economy in the Caribbean. In fact, it was the only Caribbean economy to register growth in 2009. The growth spurt continued, with the economy expanding at the fastest pace on average over the period 2010-13. Suriname’s recovery started from 2001, with growth uninterrupted during the 12-year period ending 2013, increasing at the second fastest pace (after Guyana) during the period 2010-13. The growth turnaround in those countries is primarily (but not exclusively) a result of structural reforms as well as fortuitous circumstance,

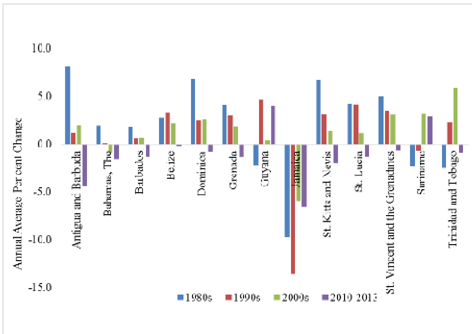

Figure 3. Real per capita growth

in particular, high commodity prices. Gold, rice, and aluminum ore respectively are Guyana's top three commodity exports, while aluminum oxide, gold, and refined petroleum are Suriname's.

On the other hand, countries such as Antigua and Barbuda, The Bahamas, Dominica, St. Kitts and Nevis, and St. Vincent and the Grenadines (which are all heavily dependent on tourism) suffered dramatic reversals in per capita growth in recent years, relative to the 1980s. The growth reversal was most acute in Antigua and Barbuda and St. Kitts and Nevis. Antigua and Barbuda tumbled to the second slowest growing economy in 2010-13 from the fastest growing in the 1980s, while St. Kitts and Nevis' economic ranking fell to the third slowest growing economy during 2010-13 from the third fastest growing during the 1980s. The adverse effects of the Great Recession explain the recent economic contraction in those countries. More broadly however, and among other factors, waning tourism competitiveness also played a role in these countries' growth reversal as well as natural disasters. Jamaica's decade average declines were persistent, though the rates of contraction moderated in the 2000s.

2.3 Stylized Fact 3: More Episodes of Growth Failures than Successes

This study3 defines a growth success as five or more consecutive years of GDP per capita growth of 5.0% or higher and a growth failure as five or more consecutive years of GDP per capita growth of 0.0% or less. As Table 2 shows, episodes of growth failures have been more frequent than episodes of growth successes. Regarding growth failures, Jamaica stands out as having experienced two episodes; with the longest period of uninterrupted economic contractions (10 years) over the sample period. Growth successes were confined to the 1980s; no country was able to sustain real growth for more than five consecutive years in the subsequent decades. Based on this study's definition, Barbados, Grenada, Guyana, St. Lucia and St. Vincent and the Grenadines did not experience episodes of growth successes and/or growth failures during the 30-year period. (Table 2).

Table 2. Growth Successes and Failures

Growth Successes	Growth Failures
GDP per capita growth >= 5 per cent per annum for 5 or more consecutive years	GDP per capita growth < = 0 per cent per annum for 5 or more consecutive years
Antigua and Barbuda: 1983-1989 Belize: 1987-1992 St. Kitts and Nevis: 1984-1989 Trinidad and Tobago: 1983-1989	The Bahamas: 2007-2013 Belize: 1981-1985 Jamaica: 1988-1995, 2001-2010 Suriname: 1980-1987 Trinidad and Tobago: 2002-2007

Source: Author's calculations based on data from the World Development Indicators, June 2014 and World Economic Outlook, October 2014.

2.4 Stylized Fact 4: No Convergence

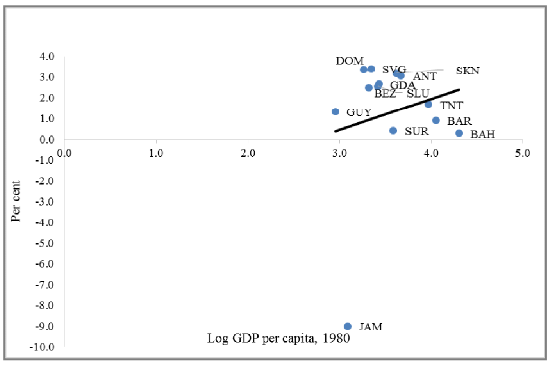

Figure 4. 1980-2013

In the growth literature, convergence is defined as a situation where a low income/poor country is catching up and/or growing more rapidly than a rich/higher income country. Rodrick (2013) argues that contrary to theoretical expectations, it is not necessarily a truism that over long periods poor economies grow faster than rich ones. The experience for Caribbean countries over the past three decades seems to support Rodrick's argument, based on the positive slope of the scatter plot in Figure 4. Brander (1992) explains that if there is convergence between countries, a scatter plot of average per capita growth rates and initial per capita income should have a negative slope. The intuition is that when GDP per capita growth rates are conditioned on a set of variables (such as the standard ones in the growth empirics literature: macroeconomic stability, trade openness, institutional quality and human capital for example), the growth residuals are negatively correlated with the initial level of GDP per capita (conditional convergence). The positive slope in Figure 4 indicates a lack of conditional convergence, which confirms the variability in growth rates across the sample countries and implies dissimilar conditioning variables underpinning growth. However, this finding should be interpreted with caution given the small sample size.

3 There is no general theory or universal definition of growth success and failure; various definitions pervade the growth literature. Martinez and Mlachila (2013) provide a good discussion.

2.5 Stylized Fact 5: Declining Economic Contributions of Industry and Services

Value-added from manufacturing grew at an annual average rate of 4.0% during the 1980s for the Caribbean as a whole, compared with an annual average growth of 1.7% in the 2000s. During the 1980s, as Figure 5 shows, most of the countries experienced moderate-to-rapid industrialization (as proxied by positive changes in the annual average manufacturing output) and incidentally they were also the ones that grew at the fastest pace (above 7.0%). Those countries where manufacturing value-added grew slowly or contracted, were the ones that experienced weak or episodic growth (between 0.0%-6.0%). By the start of the 2000s, manufacturing's contribution to economic growth had waned significantly for most of the countries (Figure 6). In stark contrast to their performances in the 1980s, only in Suriname and Trinidad and Tobago and to a lesser extent in Guyana and Belize, did manufacturing activity appeared to have had a significant impact on economic growth rates during the 2000s. For the remaining countries, most experienced slow and episodic growth as the contribution of manufacturing activity to economic growth fell relative to the 1980s (Figures 5 and 6).

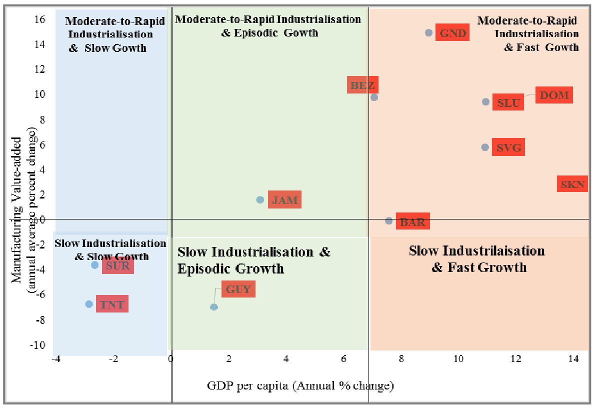

Figure 5. 1980s (manufacturing)

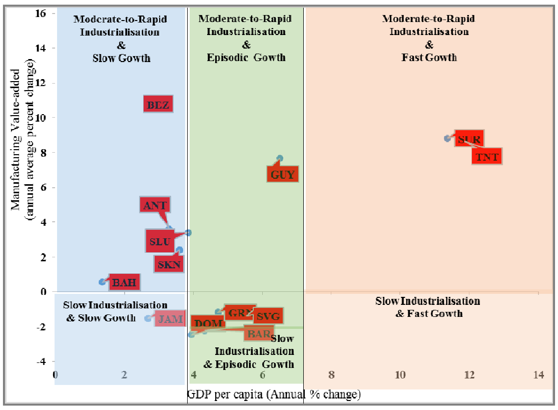

Figure 6. 2000s (manufacturing)

Regarding services, its contribution to GDP growth faltered over time. The annual average growth in services in the 2000s was less than the average of the 1980s. Value-added of the services sector grew at an annual average rate of 2.2% for the Caribbean as a whole during the 2000s, compared with 3.5% in the 1980s. Similar to manufacturing, there has been a marked and collective retreat in the growth of the services sector and consequently, its contribution to economic growth as shown in Figures 7 and 8. Kida (2005) proffers several reasons have been proffered for the slowdown in manufacturing and services including among other, relative high wage cost and increased competition from tourism markets.

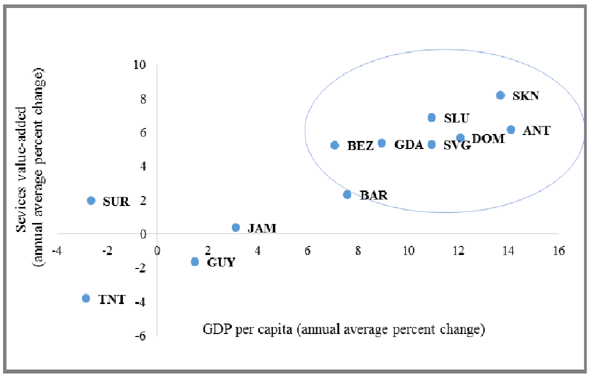

Figure 7. 1980s (services)

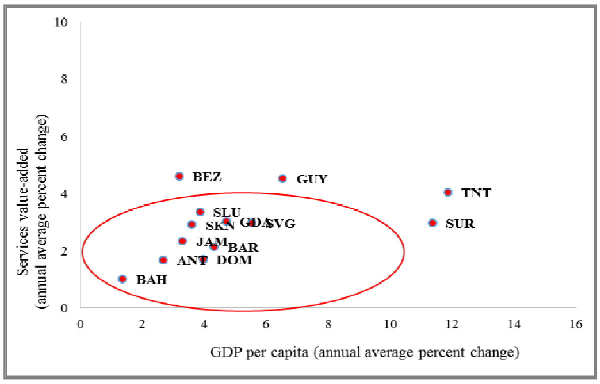

Figure 8. 2000s (services)

2.6 Stylized Fact 6: Diminishing Labor Productivity

It appears that the average Caribbean worker is not working smart enough. He or she may be working longer and/or even harder, but Figure 9 suggests that the average worker today is not as efficient or effective in producing goods and services as the average worker was in the 1990s[4]. Labor productivity grew at an annual average rate of 0.8% in the 1990s, decelerated to an average rate of 0.4% in the 2000s and contracted at an annual average rate of 0.5% over the period 2010-13. The decline during the 2010-13 period is a direct reflection of the weakening economic positions of countries in the aftermath of the Great Recession. Beyond diminishing labor productivity however, World Bank (2005) and Ruprah et al. (2014) both show that since the late 1990s, overall total factor productivity (TFP) in the Caribbean has declined. Diminishing productivity is tantamount to falling competitiveness because as Drucker (1991) rightly asserts, "the only meaningful concept of competitiveness is productivity" (5). Caribbean countries (Barbados to a less extent) underperform on the Global Competitiveness Index, suggesting inefficiencies in both the goods and labor markets. Ruprah et al. examine several indicators to gauge competitiveness; almost all appear to indicate a lower level of competitiveness as a reason explaining the Caribbean's productivity shortcomings.

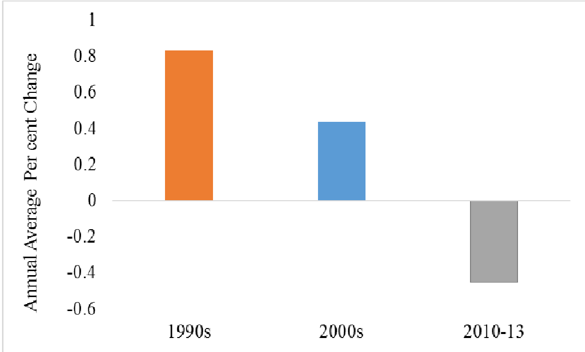

Figure 9. Labor Productivity (Caribbean average)

2.7 Stylized Fact 7: Improved Social Conditions but Stagnating Social Progress

As the Caribbean economies grew, investment in education also increased. Public spending on education as a percentage of GDP averaged 4.2% for the Caribbean as a whole in 1990[5], compared with the average of 5.6% in 2008, before tapering off to 4.8% in 2013, in the wake of the Great Recession. At the regional level, gross secondary school enrolment rates leaped from an average of 67.0% in 1980 to 97.0% in 2012. Incidentally, countries, such as Guyana and Belize where growth has been rapid since the late 1990s, had the most impressive improvements in enrolment rates. Regarding achievements in health, life expectancy rose from an average of 67 years in 1980 to an average of 73 years in 2012; the increase was persistent in all countries. Infant mortality rates plummeted in all countries, falling to an average of 14.4 (per 1000 live births) in 2013 from an average of 34 per 1000 live births in 1980 for the region as a whole. Public spending on health rose from an average of 3.9% of GDP in 1995[6] for the Caribbean as whole, to an average of 4.6% in 2008, sliding slightly to 4.5% in 2012 (Table 3).

Table 3. Social Indictors

	Gross Secondary School Enrolment^			Life Expectancy^^			Infant Mortality Rate^^^		
	1980s	1990s	2000s	1980s	1990s	2000s	1980s	1990s	2000s
Antigua and Barbuda	N/A	N/A	102.5	69.8	72.2	74.6	N/A	18.6	10.2
The Bahamas	90.7	87.5	91.9	69.5	71.2	73.7	23.2	16.1	12.0
Barbados	89.8	97.4	103.8	69.5	71.9	74.1	19.9	14.8	14.3
Belize	55.6	65.0	78.2	70.8	70.4	72.2	42.3	26.2	17.6
Dominica	78.5	85.3	104.7	71.7	75.0	76.6	13.7	14.2	12.0
Grenada	79.4	99.1	106.3	67.4	69.2	71.5	18.8	15.7	12.3
Guyana	76.4	82.8	95.9	61.3	62.8	64.8	51.0	43.0	34.5
Jamaica	63.3	74.9	90.7	70.9	70.4	71.8	28.7	22.6	17.3
St. Kitts and Nevis	71.9	83.6	95.4	65.0	69.0	71.3	32.5	18.4	10.2
St. Lucia	34.3	63.1	83.7	70.1	71.2	73.2	22.6	17.0	14.2
St. Vincent and the Grena	39.7	60.1	96.5	68.8	70.5	71.5	31.2	19.3	18.9
Suriname	51.3	57.2	75.2	66.8	67.7	69.2	44.8	36.1	25.0
Trinidad and Tobago	80.4	80.8	85.5	67.5	68.3	69.2	30.5	25.9	22.6
Caribbean	**67.4**	**78.1**	**93.2**	**68.4**	**69.7**	**71.8**	**30.1**	**22.1**	**17.0**

Source: World Development Indicators, June 2014.

Notes: ^, ^^, ^^^ expressed in percent, years, and 1000 per live births respectively. N/A means data unavailable.

[4] The earliest period for which data is available.
[5] Earliest period for which data is available.
[6] Earliest period for which data is available.

Conventional wisdom is that high levels of per capita income and relatively respectable rates of growth should foster desirable development outcomes. Indeed, as Figure 10 suggests, the quality of life for the average Caribbean person appeared better in 2013 than in 1980, though social progress seemed to have stagnated since 2010. Nonetheless, it is safe to assume that the positive educational and health outcomes contributed to the improvement in living standards in the Caribbean, on average, over the past 30 years. Based on ECLAC (2012), Caribbean countries have made significant improvements in reducing indigence levels (extreme poverty and hunger) over the past decades, though high head-count poverty remains a challenge. Additionally, unemployment is also a serious challenge. Based on the findings of Ruprah et al. (2014), the Caribbean appears to be experiencing jobless growth. They reported that, “the region would have to grow by12.3% annually for the next five years to reduce unemployment” (16).

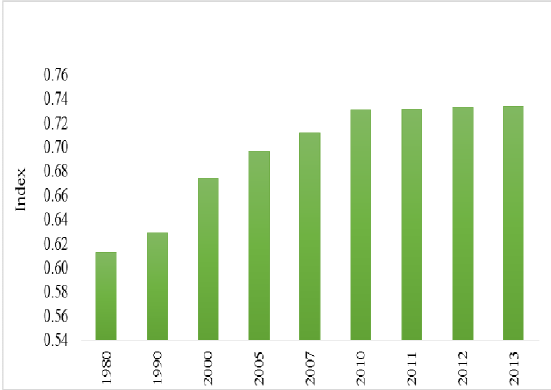

Figure 10. Human development

2.8 Stylized Fact 8: High Income Inequality

In the absence of consistent Gini coefficient data, this study follows an approach used by Rodrik (2013) to measure inequality, which is the ratio between average and median incomes. According to Rodrik, “one way of gauging the extent of global inequality is to compare the income of the average individual to average global income” (2013: 6). The “average individual” is defined as the person in the middle of the global income distribution. For this study and in the context of the Caribbean, inequality is assessed by comparing the income of the average citizen (the median level) in each country to the regional average income level. The larger the gap between average and median incomes (ratio exceeding 1), the higher the inequality in incomes. In egalitarian economies, average and median incomes will be the same (ratio equals 1). As Figure 11 shows, there has been persistent inequality across countries. The disparity between average and median incomes became particularly stark from the 1ate 1990s, especially in countries such as Suriname, Antigua and Barbuda, Guyana and Trinidad and Tobago, coinciding with periods of relatively robust growth in those countries. Within-country inequality tended to be higher than that for the Caribbean as a whole (Figure 12). The 1990s was the decade with the highest inequality both within country and for the Caribbean as a whole. Interestingly, the 1990s was the decade with the fastest rates of growth among Caribbean countries (Figures 11 and 12).

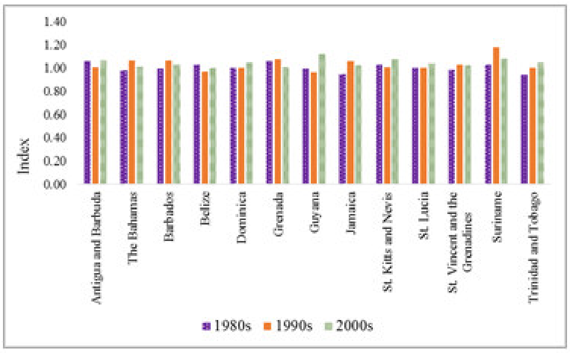

Figure 11. Income Inequality Index.

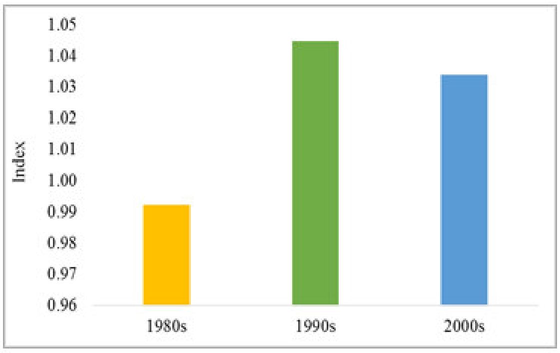

Figure 12. Income Inequality Index (Caribbean Average)

2.9 Stylized Fact 9: Fewer Caribbean Nationals are Migrating

Caribbean countries used to rank among the countries in the world with the highest tertiary-educated migration rates. This was especially the case in the 1980s in countries such as Guyana. This would have been associated with several factors, not least of which would have been economic conditions at home and abroad. Perhaps too, many Caribbean nationals found it easier to be successful abroad than at home. However, as Figure 13 shows, Caribbean nationals have been migrating in smaller numbers in recent years relative to the 1980s (Figure 13).

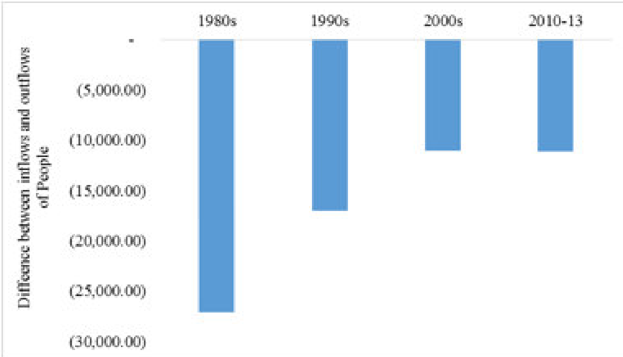

Figure 13. Net migration (Caribbean average)

To sum up this section, while development outcomes have been broadly positive over the past 30 years, there are pressing concerns. The decelerating trend in average per capita growth in the Caribbean, which started in the mid-1980s, has become more acute. Moreover, economic growth has stagnated in the majority of Caribbean countries since the Great Recession and productivity and competiveness shortcomings have intensified. Social progress also appears to have stagnated, head-count poverty remains high in many countries, and joblessness is a challenge, acutely so among the youth. Furthermore, in the "post-crisis" era, the global environment appears to be less benign to developing countries like those in the Caribbean. Such realities make change unavoidable for the Caribbean. These are not ordinary times and no ordinary solutions will do; it cannot be business as usual for the Caribbean. Therefore, transformative shifts in policy, practices and institutions are required to: (i) lock in hard-won development gains accrued; (ii) prevent recent sub-par growth performance from degenerating into a secular stagnation or worse; and (iii) lift the region's development trajectory. Indeed, to ensure that the next 30 years are even better and more prosperous for the Caribbean, there are a few critical policy imperatives that must be addressed. The next section discusses these.

3. Towards A New Development Paradigm: Policy Implications

This section explores the shifts in policies, institutions and practices that are required to deliver a new development paradigm for the Caribbean. However, before delving into policy implications, it is important to discuss the likely future global context that the Caribbean might have to confront. Commission on Growth and Development (2010) expresses concerns that the most likely outcome for the global economy, "is what is sometimes called a 'new normal,' with slower growth, and somewhat reduced openness in the global economy" (9). Rodrik (2013) predicts that the global economy is likely to be less buoyant than in recent years primarily because the world's wealthiest economies are highly indebted, which he asserted, "typically results in low growth and defensive economic policies" (55). He also warned that as trade becomes more politicised in advanced countries, trade rules will becomes stricter for developing countries and their policy spaces will narrow further. World Bank (2014) notes that, "developing countries' growth will be slower to accelerate despite tailwinds from high-income country demand" (16). International Monetary Fund (IMF 2014) cautions that, "over the medium term, protracted weak demand in advanced economies could result in lower growth everywhere, including, in part, through negative supply-side effects" (45).

These forecasts suggest that developing countries, like those in the Caribbean, could face stronger headwinds in the decades ahead. This implies that Caribbean countries, which relied on strong growth in export markets might not be able to count on the same degree of external demand stimulus. The global realities will make change unavoidable for the Caribbean. Consequently, the "post-crisis" transition necessitates a greater urgency for Caribbean countries to reinvigorate their transformative agendas. Therefore, from a policy standpoint, what must the Caribbean do differently and/or better going forward to (i) reverse some of the unfavourable trends such as low and/or decelerating growth; and (ii) sustain the positive trends such as falling net migration? This study calls for a multifaceted process of economic, political, social/cultural, and environmental change; it focusses on the first and touches briefly on the latter three.

3.1 Economic

On this front, the following are key policy priorities to strengthen the Caribbean's economic growth as well as its development prospects: (i) improving fiscal governance and strengthening supporting institutions; (ii) diversifying strategically; and (iii) enhancing competitiveness and productivity. Each is dealt with in turn.

3.1.1 Improving Fiscal Governance and Strengthening Supporting Institutions

Conventional wisdom is that macroeconomic stability, of which fiscal probity is part and parcel, is essential for growth and development; see Agenor (2004) for a summary of compelling empirical evidence for developing countries. Empirical evidence for the Caribbean (Samuel 2009; and Inter-American Development Bank 2014) suggests that fiscal policy is generally pro-cyclical; that is, expansionary during economic upswings ("good times") and contractionary during downturns ("bad times"). This tends to magnify economic fluctuations and contributes to a deficit bias over the business cycle. Improving fiscal governance and strengthening supporting institutions are imperative to curb fiscal pro-cyclicality and better enforce counter-cyclical fiscal policy. This is important to reduce indebtedness and economic instability as well as promote economic growth and development.

While not ignoring country-specific idiosyncrasies; for example, a high import propensity, which can limit the effectiveness of counter-cyclical fiscal policy, by and large, fiscal pro-cyclicality is the prevailing stance in the majority of countries. Fiscal pro-cyclicality is perhaps a manifestation of institutional fragilities. Indeed, based on the findings of several Public Expenditure and Financial Accountability (PEFA) reports, in many countries, the institutional underpinnings for fiscal policy and management is weak and as a consequence, budget credibility and transparency in particular, tend to be lacking (as evidenced by the number of supplementaries that are presented to Parliament after Budget approval). Moreover, institutional deficiencies tend to enable and in some cases, perpetuate fiscal indiscipline. Slippages in discretionary fiscal policy are particularly evident in the lead up to a general election. To surmount these deficiencies in fiscal policy and underpinning institutions, at least one, or a combination of the following are required: (i) fiscal rules; (ii) fiscal responsibility frameworks; (iii) fiscal advisory councils; and (iv) strategic government involvement in the economy.

Regarding fiscal rules, the literature suggests that country experiences have been mixed (Samuel 2009 provides a comprehensive review). Nonetheless, countries where fiscal rules are focused on frameworks rather than numerical targets, and where governments' resolve to fiscal discipline is strong, tend to have a better experience. By infusing spending discipline (across line ministries) and strengthening budget oversight, fiscal rules can improve fiscal governance and by extension, growth performance by engendering investor confidence in the economy and anchoring expectations of public sector solvency as well as currency stability. Indeed, the modalities for establishing fiscal rules must be context-specific. Approaches must be compatible with the Caribbean's political economy realities and have built-in flexibility so that governments can easily respond to changing economic circumstances, for example, to a natural disaster. Additionally, appropriate legislative arrangements will have to be worked out. Jamaica is the only country in CARICOM that already use fiscal rules; other CARICOM countries might be able to distil useful lessons from the experience of that country.

Responsibility frameworks are also needed to enforce counter-cyclical policy to avoid the deficit bias over the business cycle. Indeed, the global economic crisis accentuated the wisdom of counter-cyclical policies; Canuto and Giugale (2010) observe that the simple principle of saving in the good times to spend more in downturns bought economic and political benefits to countries that practiced it. Fiscal governance can also be improved through technical and policy advice from fiscal advisory councils, which are legislatively outside of the reach of political interference. This can be a new way of thinking about public finance in the Caribbean. Brazil and Chile have institutionalized fiscal councils, which can provide "how-to" examples for the Caribbean. Finally, and by no means least, governments' involvement in the economy has to be more strategic. In this regard, modalities for improving service delivery must be seriously explored and policies supporting generalised subsidies in the provision of certain public services should be jettisoned. Ultimately, better fiscal outcomes, underpinned by stronger policies and institutions are necessary to lift economic growth in the first instance, and sustain it over the medium-to-long term in the second instance.

3.1.2 Diversifying Strategically

The idea of economic diversification has been bandied around for decades, yet exports of most of the Caribbean economies are still relatively undiversified. There must be compelling restraints; after all, if economic diversification was an easy undertaking, it would have been more prevalent. Indeed, realism is needed when discussing economic diversification in the context of the Caribbean and the question of diversifying into what and for whom must be answered.

Briefly examining sector by sector; in the manufacturing sector, there is just so much technology, human and technical resources as well as capital available to facilitate meaningful transformation of the sector. In addition, the construction of mega state-of-the-art factories is constrained by limited land space in most countries. Against that context, a viable option would be for the region to improve what it already does. Innovation and creativity should be used to enhance the export sophistication of existing products, which Persaud (2011) terms, speciality products, such as aged rum, speciality sugars, fresh fish, and rare coffee for example. In the Agricultural sector, there is just so much technology and arable land that will facilitate significant expansion; additionally, the reality of soil types limits diversification into various other crops. Moreover, the "plantation-legacy-mentality" still lingers, which thwarts meaningful efforts to transform agriculture into serious agri-business. Innovation, technology, scale economies (through deeper regional integration), a paradigm shift in mind sets and better responses to the vexing problem of praedial larceny will be important to enhance outcomes in this sector. In the tourism sector, it is perhaps easier to discuss diversification; many countries have already started receiving tourists from non-traditional sources. However, enhanced service delivery, significant plant upgrades, well-managed tourism policies, more effective diaspora engagement, and a serious attack on crime and insecurity are imperatives for continued success and expansion of the sector.

In the final analysis, the thrust going forward must be to focus on niches – products and services that are uniquely Caribbean, which the world demands. As small open economies, all Caribbean countries face balance-of-payments-constrained growth. Therefore, in order to boost economic growth, there must be a profound preoccupation with mainstreaming technology and innovation to enhance export sophistication and import productivity. As Persaud (2011) correctly observes, where markets are thin and options limited, investing in upgrading high value-added services exports – weightless products such as professional services (for example; education, legal, accounting, and entertainment services), becomes critically important. Increasing value-added of both goods and services requires innovation, research and development (R&D), and protection of intellectual property rights. These are areas where the Caribbean has not excelled, but this, of necessity, must change going forward. A crucial starting point would be for Caribbean universities to become less disconnected from businesses. Universities need to drive R&D and innovation and become a catalyzing partner for business/private sector development.

Increasing value-added of existing exports and creating new Caribbean brands must be seen as being inextricably linked to the Caribbean's economic survival. In this regard, deeper regional integration must be a vehicle to accelerate international export competitiveness. Moreover, there must be more "Caribbean Apps" developed. Furthermore, the Caribbean should make greater strides at tapping into the global e-commerce market; why can't one or two countries become Caribbean shipment hubs for Amazon or eBay?

3.1.3 Enhancing Productivity and Competitiveness

In order for businesses to be competitive, they must be productive, and for them to be productive, the enabling environment must be supportive. One facet of the enabling environment is the public sector interface. Reducing governments' bureaucracy and rep-tape, simplifying tax structures, ensuring that business laws are relevant for the modern times, enforcing investment/business development policies in a transparent and coherent manner, streamlining business processes (through greater use of technology), legitimising legal activities in the informal sectors, promoting better accessibility to finance especially by Small and Medium-sized Enterprises (SMEs), designing appropriately-tailored lending products as well as infusing greater flexibility in lending conditions are key priorities. To help improve the doing business environment, a formal and structured mechanism for dialogue between government and the private sector should be established in all countries. One objective of such an arrangement would be to jolt appropriate policy action and promote timely implementation of decisions through feasible collaboration between the public and private sectors. There is also a need for a mechanism such as a public sector college to provide continuous training and skills-building for public sector employees, with a view to enhancing service delivery, not only to the business community but across the board.

Another aspect of the enabling environment is the workforce culture. By and large, there appears to be a nonchalant attitude to work and a weak nexus between pay and performance, which in many instances tend to be reinforced by strong Trades Unions. Productivity will continue to be undermined unless a pay-performance ethos becomes entrenched and until human resource vacuums are properly filled. The under-representation of women in the workforce is also a productivity drag to the extent that their absence creates a human capital deficit. If the region is to lift labour productivity growth, women's participation in the workforce must be increased. This can be achieved through simple but meaningful ways, for example by expanding the supply of daycare facilities.

Finally, the private sector itself must take responsibility for its own development. In many Caribbean countries, there isn't a true entrepreneurial class. In many countries, most businesses are merely invoice merchants that are overly reliant on bureaucratic governments, whom they complain about. Family-owned businesses, which are numerically predominant in many countries need to be less insular, while big businesses must dismantle their bureaucracies (it is a false notion that bureaucracies only exist in the public sector) to better promote and support innovation and creativity. Overall, however, businesses both small and large, must innovate or perish.

3.2 Political

Pereira and Teles (2011) review a burgeoning body of literature, which suggests that political polarisation is bad for economic growth and that growth tend to be smaller in countries (especially low-income ones), the more party-centered the electoral system is. This current study contends that adversarial party politics in Caribbean countries and powerful interest groups are hindrances to advancing the development process in the region. Ad hoc changes in policies are common whenever a new administration takes power. All governments say they want more economic growth but so few of them implement the right policies to bring it about. Persaud (2011) correctly points out that government ministries in the Caribbean are inundated with consultants' reports with recommendations to address key development priorities. Notwithstanding, plugging policy gaps and coherent and timely implementation of decisions (if it occurs at all) appear overly arduous for Caribbean governments. Why is this so? Perhaps the answer lies somewhere within the political economy, where there exist, as Persaud (2011) calls them, "anti-development coalitions" (10). In other words, rent-seeking lobby groups who want to maintain the status quo and fight any form of positive (but disruptive) change that does not support their interests. Indeed, sustainable growth and development of necessity, require political change. ECLAC (2012) underscores the need for significant political reform in the region to balance competing interests. This current study contends that first and foremost, there must be a clear delineation between "the ruling government" and "the political party from which the government was formed", the two are fundamentally dissimilar and must function as such. Party-politics must be de-linked from the public policy process through appropriate accountability and responsibility frameworks and/or legislation so that there can be feasible cohesion between the logic of government and the logic of development. The region's progress dictates that the political economy enable and not detract from its transformational agenda; in other words, Caribbean development must be depoliticised.

3.3 Social/Cultural

Culturally, the region also needs to truly internalize its decolonization and replace the "victim mentality" with one of possibilities and opportunities. McElroy and Pearce (2006) are correct in saying, "it is imperative that SIDS policy makers frame the discussions on development away from the legacies of colonialism to the possibilities inherent in decolonization" (6). While agreeing with McElroy's and Pearce's (2006) message, this study takes the view that Caribbean countries must desist from referring to themselves as "*Small Islands Developing States*" and start announcing boldly to the world that they are "Big Ocean Countries." The Caribbean's sea area is many times its land area, offering tremendous development opportunities, not least of which is an opportunity to maximize its blue economy potential.

A cultural shift is needed in how Caribbean citizens see themselves and the message that they send to the World about themselves. Small thinking will yield small results. If Caribbean citizens see themselves as globally competitive, they will act accordingly, but they must first remove the limits from their minds. According to Worrell (1986), "economic progress will be won by the strength or will to succeed" (15). Caribbean citizens need to see themselves worthy of achieving greatness, whether in sports, entertainment or business. The region's progress awaits a paradigm shift in how its citizens view themselves. In order for this to happen, people's worth must be recognized, potential unlocked, intellectual energies enhanced, inequalities (including based on gender, ethnicity, and religion for example) eliminated, and choices, as well as opportunities for prosperity expanded. Indeed, a strong sense of self-assuredness is vital to propel the region's growth and development. Moreover, the Caribbean needs to exploits its many strengths in a more bold and assertive manner. Some of these include; simple socioeconomic systems; mass movements and activism that inspire change; nationalism; endless talents of citizens; and social cohesion.

3.4 Environmental

At the macro level, preserving environmental sustainability will require the mainstreaming of climate-smart policies in development planning. Policies that focus on climate change adaptation and mitigation as well as the promotion of alternative energy and natural resource management are particularly critical for the Caribbean.

4 Conclusion

This study examined the Caribbean's development experience over the past three decades. It found that while per capita GDP levels have been on a steady rise since 1980s, barring the slight dip in 2009, per capita growth has been on a down trend and distinctly volatile. Moreover, income gaps have widened on average and labor productivity has declined markedly. In some countries, there have been eye-catching episodes of growth rebounds and in others, growth reversals. The analysis also suggests the absence of convergence across countries. In most countries, industrialization has proceeded slowly and exports, by and large, are unsophisticated, though a few countries have made more progress than others. On the whole, social conditions have improved, though progress appears to have stagnated since the Great Recession and high head-count poverty remains a challenge while joblessness has become more acute.

With respect to the requirements to achieve real development change, the study identified the following priorities: (i) improving fiscal governance and strengthening supporting institutions; (ii) diversifying strategically; (iii) enhancing productivity and competitiveness; (iv) depoliticizing development; (v) strengthening social and environmental security and (v) shifting mindsets away from limitations towards opportunities and possibilities.

In acknowledging the development challenges faced by the Caribbean, the study underscores the point that collective responsibility is needed for the region's development and that the region must shape the future it desires, by equipping itself with the correct tools to address the inevitable challenges head on. In the famous words of Arthur Lewis, *"The British West Indians can solve their own problems, but first they must find the secret that will put hope, initiative, direction, and an unconquerable will into the management of their affairs*"

(Lewis 1950: 43). Indeed, problem solving is central to development. Problem solving requires action and action delivers change. The time for serious action and change is now. The world is not waiting on the Caribbean.

References

Agenor, P. (2004). *The economics of adjustment and growth* (2nd ed.). Cambridge, MA: Harvard University Press.

Bernal, R. Figueroa, M., & Witter, M. (1984). Caribbean economic thought: The critical tradition. *Social and Economic Studies,* 33, 5-96. Retrieved from http://www.jstor.org/stable/27862072.

Brander, J. (1992). Comparative economic growth: Evidence and interpretation. *The Canadian Journal of Economic*s, 25, 792-818. Retrieved from http://www.strategy.sauder.ubc.ca/.../Comparative%20Eco.

Bulmer-Thomas, V. (2012). *The economic history of the Caribbean since the napoleon wars*. Cambridge, UK: Cambridge University Press.

Canuto, O., & Giugale, M. (2010). *The day after tomorrow: A handbook on the future of economic policy in the developing world* (ed.). Washington, DC: World Bank.

Commission on Growth and Development (2010). *Post-crisis growth in developing countries: A special report of the Commission on Growth and Development on the implications of the 2008 financial crisis*. Washington, DC: World Bank.

Conway, D. (1997, April). *Pursuing an appropriate development model for Caribbean small islands: Can past experience help subvert the neo-liberal agenda?* Paper presented at the Latin American Studies Association XX International Congress, Mexico.

Downes, A. (2004, July). *Arthur Lewis and industrial development in the Caribbean: An assessment.* Paper presented at Conference on The Lewis Model after 50 years: Assessing Sir Arthur Lewis' Contribution to Development Economics and Policy, University of Manchester.

Drucker, P. (1991). The new productivity challenge. *Harvard Business Review*. November-December, 1-8. Retrieved from http://www.classes.bus.oregonstate.edu/Winter08/ba450/READINGS%20pdf/Drucker.pdf.

Economic Commission for Latin American and the Caribbean (2009). *Economic growth in the Caribbean* (Report No.LC/CAR/L.244). New York, NY: United Nations.

Economic Commission for Latin American and the Caribbean (2012). *Development paths in the Caribbean* (Report No.LC/CAR/L.401). New York, NY: United Nations.

Inter-American Development Bank (2014). *To cut or not to cut: Does the Caribbean follow the advice of multilaterals (*Policy Brief No. IDB-PB-214)? Washington, DC: Inter-American Development Bank.

International Monetary Fund (2014). *World economic outlook* [Dataset]. Retrieved November 3, 2014, from http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx

International Monetary Fund (2014). *World economic outlook: Legacies, clouds, uncertainties.* Washington, DC: International Monetary Fund.

Lewis, A. (1950). The industrialisation of the West Indies. In Denis Pantin (ed.), *The Caribbean economy: A reader* (pp. 5-43). Kinston, Jamaica: Ian Randle Publishers.

Marcelo, M.; & Mlachila, M. (2013). *The quality of the recent high-growth episode in Sub-Saharan Africa* (Working Paper No WP/13/53). Washington, DC: International Monetary Fund.

McElroy, J., & Pearce, K. (2006). The advantages of political affiliation: Dependent and independent small-island profiles. *The Round Table*, 95, 529-539. Doi: 10.1080/00358530600931285

Nicholls, S. (2001). Panel data modelling of long-run per capita growth rates in the Caribbean: An empirical note. *Integration & Trade,* 5, 57-82. Retrieved from http://www10.iadb.org/intal/intalcdi/integracion_comercio/i_INTAL_IYT_15_2001_SNicholls.Pdf

Pereira, C., & Teles, V. (2011). *Political institutions, economic growth, and democracy: The substitute effect* (Editorial). Washington, DC: The Brookings Institution. Retrieved from http://www.brookings.edu/research/opinions/2011/01/19-political-institutions-pereira

Persaud, A. (2011). *Fostering growth and development in small states through disruptive change: A case study of the Caribbean* (Caribbean Paper No. 11). Waterloo, Canada: The Centre for International Governance Innovation.

Ramkissoon, R. (2002, May). *Explaining differences in economic performance in Caribbean economies.* Paper presented at the International Conference on Iceland and the World Economy: Small Island Economies in the Era of Globalization, United States.

Rodrik, D. (2013). *The past, present, and future of economic growth* (Working Paper No. 1). Munich, Germany: Global Citizen Foundation.

Ruprah, I., Melgarejo, K., & Sierra, R. (2014). *Is there a Caribbean sclerosis? Stagnating economic growth in the Caribbean* (Report No. IDB-MG-178). Washington, DC: Inter-American Development Bank.

Samuel, W. (2009). Cyclicality and fiscal policy in the Caribbean. *Business, Finance and Economics in*

Emerging Economies, 4, 347-370. Retrieved from http://www.ccmfuwi.org/files/publications/journal/2009_2_4/347-370.pdf

United Nations Development Programme (2014). *The rise of the south: Human progress in a diverse world* (Human Development Report 2013). Retrieved from http://www.hdr.undp.org/en/2013-report

World Bank (2005). *A time to choose: Caribbean development in the 21st Century.* Washington, DC: World Bank.

World Bank (2014). *Global economic prospects: Shifting priorities, building for the future* (Vol. 9, pp. 1 -128). Washington, DC: World Bank.

World Bank (2014). *World development indicators* [Dataset]. Retrieved September 24, 2014, from http://www.data.worldbank.org/products/wdi

Worrell, D. (1986, December). *The Caribbean economy in the nineties: Challenge and response*. The Eleventh Sir Winston Cox Memorial Lecture. Bridgetown, Barbados.

Worrell, D. (1987). *Small island economies: Structure and performance in the English speaking Caribbean since 1970*. New York, NY: Praeger.

Wright, A., & Grenade, K. (2014). Determining optimal public debt and debt-growth dynamics in the Caribbean. *Research in Applied Econometrics*, 6, 87-114. doi: http://dx.doi.org/10.5296/rae.v6i2.5577.

Author's Bio:

Kari Grenade holds a PhD in public policy and administration from Walden University, a Master's degree in financial economics from the University of Toronto and a Bachelor's of Science degree (first class honours) in economics from the University of the West Indies. Kari is currently the economist with the Caribbean Development Bank (CDB) in Barbados. Prior to joining CDB in 2009, Kari worked as an economist with the Eastern Caribbean Central Bank for a period of six years. She also worked as a teaching assistant in the economics department of the University of Toronto from 2002 to 2003. Kari is a member of the American Economic Association. She has written and published mainly in the areas of economic growth and development, public finance (fiscal and debt sustainability issues) and international macroeconomics.