

The urgency of building alternative development strategies—A Caribbean Perspective

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In the Caribbean we have had various economic theories and strategies of development. In fact we could say that Caribbean society was created by a theory – the theory of Mercantilism in the 17th and 18th centuries – which gave rise to the Triangular Trade, including the African slave trade, the plantation system and slavery. The Ricardian theory of comparative advantage came later, in the 19th century, providing a retrospective justification for a pattern of specialisation in primary agricultural commodities that had developed in an earlier period. In the 1950s W. Arthur Lewis stood the Ricardian theory on its head by using it as the rationale for an industrialization strategy based on cheap labour, which replaced agricultural land as abundant factor and therefore as the source of comparative advantage. This was the development strategy of the 1950s and 1960s.

The strategy failed to deliver the promised job creation and since the 1960s we have had a succession of development strategies and policies including import substitution, state-led development, self-reliance and basic needs, structural adjustment, Washington Consensus and post-Washington Consensus. None has been entirely satisfactory in solving the problems of development and in this period there has been widening differentiation in economic performance and income levels and among Caribbean economies. A small group of countries with less than 10 percent of the Caricom region's population have achieved per capita income levels in the upper middle income range by specialising in the services exports, mainly tourism and financial service. The rest of the region continues to have per capita incomes in the lower middle income and low income range. Absence of employment opportunities has given rise to continued out-migration and the return flow of remittances has become the largest single source of foreign currency for many countries.

The current process of globalisation has brought considerable economic uncertainty for the small economies for the Caribbean region. Among the main issues are

- *Preference dependence.* Preference erosion is affecting or will affect exports of bananas, textiles and sugar
- *Trade taxes dependence.* Cuts in tariff rates obliged by trade liberalisation will significantly impact government revenue
- *Tourism vulnerability.* Expansion of tourism is constrained by resource limitations and by environmental degradation. The industry is also vulnerable to natural disasters and terrorism.
- *Financial services vulnerability.* The offshore financial services industry is also vulnerable to changes in foreign taxation and regulatory policies

The prevailing conventional wisdom is that Caribbean countries should seek a new insertion in the global economy through the development of new service exports that are

human capital intensive and skill intensive. But that these will take time to develop and to prove their way in world markets. In these circumstances to tell these small economies that they must simply liberalise trade and capital transactions under WTO rules and create the right policy environment is inappropriate, since the immediate and certain effect is that fiscal revenues will fall and local output will be displaced by imports; while export expansion, to the extent that it takes place, will only do so in the long term.

What then can we say about the search for appropriate development strategies in the Caribbean?

1. All the lessons of history suggest that we should not “put all our eggs in one basket”, but rather seek to develop a diversified production base to mitigate vulnerability to external shocks and increase resilience of the economic system to maximise the chances of self-sustaining growth.
2. To that end construction of an integrated regional Caribbean economy must now be a strategic priority. The plans for this are now well advanced in the establishment of the Caricom Single Market and Economy. But Caricom members will need to take the necessary steps towards transferring sovereignty in certain specific areas to the regional body in order to accelerate implementation.
3. The integrated regional economy must have a place for domestic agriculture and small industry as well as services, and must seek a reasonable balance between production for domestic and regional markets and extra regional markets
4. The role of the state is significant in creating and facilitating the regional institutions necessary, in promoting and undertaking investment in physical infrastructure, and in promoting sectoral development policies consistent with a new insertion in the global economy.
5. Finally, no one has all the answers. We don't in the Caribbean and certainly the international community doesn't. However, The WTO and the Bretton Woods framework offer an altogether too narrow and restrictive framework for the exploration of alternatives. The Caribbean, the rest of the developing world, needs space for experimentation, for the sharing of experiences and for learning in development policy making.