



**A Review of the World Bank's *Towards a New Agenda for Growth:*  
*Organisation of Eastern Caribbean States*  
(The World Bank, 2005)  
by Jeremy Stephen\***

## **Introduction**

The report, *Towards a New Agenda for Growth: Organisation of Eastern Caribbean States* (OECS) is a collection of background papers published by the World Bank and edited by Camille Numah. It seeks to find solutions to the main economic problems confronting the OECS. Given the similarity between Caribbean nations, it could also prove to be a relevant source of policy initiatives to solve such problems in the region as whole.

The study attempts to provide analytical solutions to two key economic problems: stagnant growth and uncompetitiveness. It assesses the likely impact of further globalisation on the domestic sources of growth and identifies key constraints to the attraction and utilisation of investments. The first two chapters of the book investigate the growth challenge and macroeconomic competitiveness while the external and investment climate are studied in Chapters 3 and 4, respectively. Skills, wages and the labour market are the main topics probed in Chapter 5 and technology, finance and infrastructure are explored in Chapter 6. The report concludes with the opportunities for expanding exports of services in Chapter 7.

## **The Growth Challenge and Macroeconomic Competitiveness**

The first chapter focuses on the trends and determinants of growth in the OECS between 1983 and 2003. The average growth during the period was approximately 4.1 percent per annum and driven mainly by the services sector and public investments. Total factor productivity growth, however, was relatively low during the 1990s when compared to the 1980s as the economy suffered from movement away from traditional activities, fluctuations in the composition and financing of investment, volatile

growth, increased incidence of natural disasters and a contraction in the trade surplus.

Numah argues that these negative factors have led to a significant deterioration in the economic prospects of the OECS relative to a decade earlier, and suggests that greater growth could be obtained through the introduction of more skills training programmes, contractionary adjustments in the expenditure side of the fiscal balances, improvements in the efficiency of resource mobilisation and building on areas where there is a comparative advantage.

## **The External and Investment Climate**

The external trading environment faced by the OECS has changed considerably over the past decade, primarily due to the erosion of Special and Differential Treatments (SDT) for goods exported by the region to its major trading partners (the EU and the wider CARICOM in particular). These preferential arrangements with the European and United Kingdom (UK) markets specified favourable access for bananas and, thus, allowed the region to maintain an average growth rate of 6.1 percent during the Lomé Convention period of 1975 to 1993. However, this expansion subsided after a fall in the demand for bananas as a result of an escalation in world banana prices and the inability of local banana producers to fulfil their quotas. The author, however, argues that these agreements hampered export diversification and performance in small open economies by developing a pattern of export specialisation doubled with import substitution for products that are not income elastic. Moreover, the writer believes that the full removal of these arrangements, given the current conditions, should result in a further 40 percent reduction of banana production in OECS member countries.

The author puts the case for the Caribbean Single Market and Economy (CSME) as a visible alternative to SDTs and other preferential agreements since it could assimilate labour among the microstates of the Caribbean and, therefore, possibly enhance regional comparative

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advantages. Ireland is used as a model of development for the OECS because of its historically similar economic conditions. Ireland was able to successfully transform its economy by focussing on fiscal adjustments that emphasised expenditure reductions and wage moderations in exchange for tax cuts, careful use of European Union (EU) structural funds, early adaptation of the educational system to the needs of the business sector, and, the establishment of a transparent and favourable corporate tax regime. The economy also benefited from the EU-provided institutional framework that guided macroeconomic reform, co-ordinated investment promotion efforts and allowed for the expansive and evolving vision of Ireland's sources of competitive advantage. The author deems the case relevant to the OECS because it promotes the idea and benefits of regional integration and encourages the use of a vision that efficiently utilises the economic and social resources of the country.

Macroeconomic stability played an important part in determining the propensity to attract investment within the OECS. However, surging fiscal imbalances and persistently high levels of public sector debt in recent years crowded out private sector investment, with a milder effect on foreign direct investment (FDI) inflows, as the common monetary and exchange rate policy insulated foreign investors from the fiscal profligacy of the host countries.

Numah acknowledges that the expanding role of governments still poses a significant threat to future economic prospects. State intervention in regulatory matters, for example, can distort market prices and wrongfully protect inefficient public and private enterprises. Furthermore, the transition to private sector led growth within the region has been arduous. The weaknesses in public sector investment programmes appear to be the main problem behind the ineffective influence of government in the OECS market. These have been intensified by a lack of coordination between donors, inadequate oversight of project preparation by financing agencies and a wide disparity in project costs throughout the sub-region.

The OECS has relied on an extensive incentives-based system to attract FDI. However, this method has been very costly since revenues are foregone when enterprises take advantage of tax holidays and eventually impede technological and skill spillovers. It is noted that continued competition with the use of similar ineffective incentives will yield footloose or enclave type investments that provide limited economic benefits, unless greater attention is paid to those that abide by or utilise the fundamentals of the domestic investment climate. The writer suggests that the reduction in both taxes and tariffs and the harmonisation of regional tax regimes should help in the accomplishment of this goal.

### **Skills, Wages, and the Labour Market**

The author believes that the effective management of the region's human resource endowment is a key element of any growth enhancing strategy. The improvement of the skills base enhances and maintains economic competitiveness, and should allow the region to utilise the budding service and niche manufacturing sectors. However, the shortage of skilled labour within the OECS has been a major constraint for these economies, particularly in areas such as accounting, information technology and equipment mechanics for food companies. The lack of skilled labour exerts upward pressure on training costs and reduces the competitiveness of the country.

The OECS has had some success with its drive to expand access to education, but the quality of education, especially at the secondary level, still remains an issue. These troubles are illustrated in the low pass rates in the regional Caribbean Examinations Council exams, 56 and 38 percent for English and Math, and are accentuated by severe inequalities within the system – sub-regional governments tend to allocate more financing to better performing schools. This bias seems to be the main rationale behind high youth unemployment in the region.

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The poor quality of education also diminishes the tertiary education output of the region. The author contends that public expenditure is not sufficiently geared towards the needs of the private sector and recommends that the public sector assumes a smaller role in the allocation of funds to tertiary institutions and finds innovative ways to attract private sector involvement. Moreover, the study suggests that the reduction of regulatory obstacles to non-government providers, improved provision of public information on quality, labour market value, the removal of barriers to free movement of labour across countries within the OECS and the further diversification of curricula could help to spur progress.

Given the inadequacies in the school system, emphasis on job training is likely to be beneficial to the region. However, while attempts at public training programmes tend to ignore the current needs of the private sector; the focus is solely on youth and basic vocational training aimed at correcting shortcomings at the secondary level. The writer believes that the under-provision of job training in the OECS will continue if entirely left to the public sector as the small market size of the disintegrated region could hinder access of foreign private training providers to the region.

Concern is expressed over the positive differential between marginal wages and productivity in the OECS' labour market. Therefore, the maintenance of high cost labour hurts competitiveness, limits job growth and generates un- and under-employment as well as leads to an expansion of the informal economy. Moreover, Numah contended that smooth adjustments towards a fully functioning labour market have been hindered by the existence of labour market segmentation and skills mismatch, large governments and strong unions, rigid labour regulations and migration of labour.

### **Technology, Finance and Infrastructure**

The author posits that the enhancement of Information and Communication Technology (ICT) within the region could help build firm competitiveness by improving productivity and logistics, making distance irrelevant and

enhancing the competitive positioning of firms in the global market. It is recommended that in order to enjoy the full benefits of the ICT use, the public sector and donor communities will need to facilitate access to technology, strengthen the regulatory environment so as to minimise varying levels of misuse, improve the technology skills of the population, strengthen existing and emerging exporting clusters and reward innovation and entrepreneurship.

The chapter then goes on to address the issue of finance within the OECS. The study notes that most firms within the region rely primarily on retained earnings and bank credit to finance their working capital and investments. This could imply that business owners are concerned with the possibility of losing control and the difficulty in accessing equity financing exists. The private sector, however, faces challenges with attaining bank financing since government debt and consumer borrowing have crowded out private investment. Operational inefficiencies exist within some banking firms, for example, several firms in Grenada have reported waiting times of up to three weeks or longer to process new loans and are burdened with high collateral requirements. Banks, on the other hand, blame incomplete financial information from firms and inadequate independent sources on project proposals. This predicament allows the Eastern Caribbean Stock Exchange, venture capital institutions and a new regional private equity fund to assume the role of alternative sources of financing within the region.

Many firms in the OECS are hampered by the high costs associated with utility and infrastructure-related services. Although teledensity in the OECS remains low, the recent liberalisation of the telecommunications market has encouraged lower prices in the region and has improved competition between firms. The industry, however, is still hindered by the high cost of teleconnectivity. The petroleum, maritime transport and air and land transportation industries are similarly characterised by high costs, functional inefficiencies, lack of supply of services and the presence of cartels and monopolies. Electricity costs also remain high as the product is undersupplied and the industry is characterised

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by operational inefficiencies and weak regulation. It is suggested that these problems can be alleviated through the retrofitting of generators to use heavier fuel oil to reduce the cost of production. Further reform measures mentioned were for the strengthening of regulatory oversight of operations, investments and pricing of electricity utilities, the improved participation in ownership of the utilities and the use of regional and international benchmarks for electrical utilities. Numah, therefore, with respect to these industries, suggests that the state should concentrate on the provision of local competition, protect domestic consumers from inequitable prices and strengthen regulatory policies.

### **Opportunities for Expanding Exports of Services**

This chapter looks at the impact of services and examines the prospects for the growth of services. The OECS has been very dependent on services since the early 1980s and, as a share of GDP, industry growth has improved from 53 percent in the 1980s to 64 percent by 2003, which represents an average growth rate of 4.3 percent per year.

Tourism is the largest service industry and accounts for approximately 29 percent of GDP, 39 percent of employment and 54 percent of export earnings in the OECS. The industry has, however, underperformed when compared to the rest of the Caribbean, partly due to a loss in price competitiveness for tourism-related products. The study recommends that efficiencies could be obtained through improved destination management and marketing, augmented industrial ability to provide quality services, reformed investment promotion strategies, the promotion of backward linkages in tourism, strengthened allocation of public expenditure on the industry and the resolution of various trade-related constraints to the sector.

The offshore education industry is important to the development of the OECS. It provides extra research and educational facilities for the region, a low cost solution for the establishment of foreign tertiary institutions and absorbs local students who are not successful in gaining acceptance into

domestic tertiary bodies. The author suggests that a comparative advantage seems to exist in this area of activity and all efforts should be made to support its growth.

Special mention is also made to the phenomenon of ICT clusters as it relates to the expansion of the services sector. The author believes that although the previous implementation of ICT clusters, such as call centres, have not produced the intended effect on the economies of the OECS, the initiative is still a viable means of investment, as long as the region targets high-end entities. It is suggested that attention be paid to the development of Internet gaming, and the author is quick to show the success of Antigua and Barbuda in this endeavour. The writer, nevertheless, acknowledges that potential industry setbacks lie in the form of high telecommunications rates, lofty taxes and the propensity to regulate and monitor the actions of the service providers with “blackbox technology”. Therefore, these hindrances stand to stall the proposed development of a competent and competitive software industry within the region.

It is argued that the OECS has several characteristics that could be advantageous in the provision of health services: moderate climate and natural environment, a steady supply of skilled health practitioners and a well-developed hospitality sector. However, Numah recommends that development of the industry could be delayed unless the depletion of skilled workers and the inequitable distribution of health services are corrected. Additional recommendations listed were the facilitation of public-private sector partnerships, the generation of links with care management companies, strengthened marketing of health tourism in the United Kingdom, United States of America and Asia, and the development of statistical indicators to monitor this area of activity.

### **Conclusion**

The report provides valuable insights for economists, entrepreneurs, policy makers and students of the social sciences. Numah avoids jargon wherever possible so that the non-specialist reader can follow quite easily. Moreover,

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the appendices allow the more technical reader to take an in-depth look at the surveys and indices used to derive the results in the book.

The writer seeks to offer some useful policy recommendations and suggests that economic growth within the OECS could be induced through the introduction of: more skills training programmes, development in educational quality and provision, reduced regulatory control of the financial sector, contractionary adjustments on the expenditure side of state budgets, improvements in the efficiency of resource mobilisation and the development of new sources of competitiveness.

Many of the problems encountered in the OECS are relevant to Barbados and the Caribbean in general. Therefore, local policy makers can benefit significantly from the information and data provided within the study. The call for the reduction in public sector involvement in the labour and financial markets and a greater degree of private consultation in the modification of the education curricula to enhance job prospects within the private sector should be largely emphasised throughout the region. Although some action has been taken to correct economic deficiencies, the increased presence of innovative alleviation programmes should provide additional improvements over time.