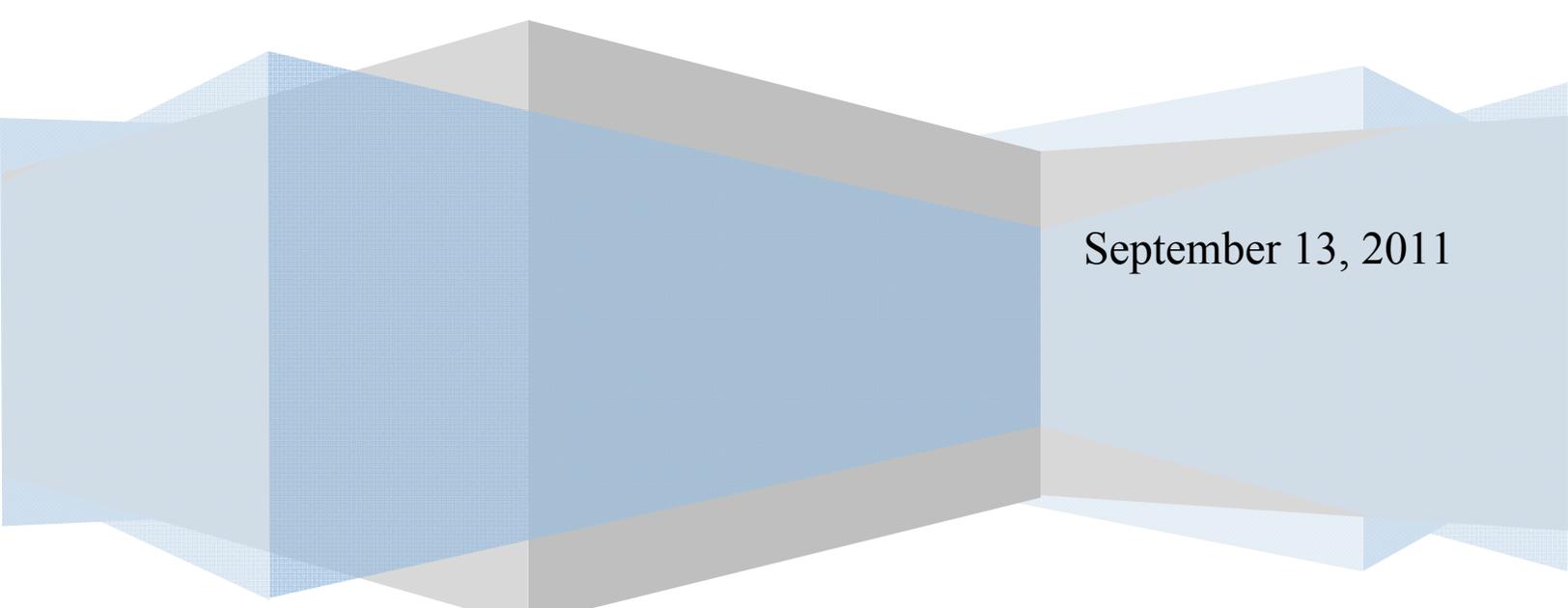


International Monetary Fund

# **Macroeconomic Stability and Growth with Equity**

**First Caribbean Development Round Table,  
Port of Spain, Trinidad and Tobago**

**H. Leon and R. Smith**



September 13, 2011

## Macroeconomic Stability and Growth with Equity

By

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*For Caribbean economies to realize growth with equity, we have to reframe our thinking about growth, and we must recalibrate our socio-political-economic strategies in the context of global competitiveness. A holistic approach to growth requires strong policies for macroeconomic stability, a proactive effort to foster competitiveness against global partners, a social agenda that can be communicated and received as reasonably fair, if not equitable, and a governance structure to engender trust and respect authority. The imperative to act is urgent; the question is do governments and the people of the region have the will to see this through in a timely manner?*

### A. Introduction

Although macro-economic stability can be considered the foundation for achieving growth with equity, on its own it is not sufficient. In other words, it is a necessary, but not sufficient, condition. Macroeconomic stability is a single element in the puzzle - there are complementary and equally important requirements for growth. Our challenge is to reframe our thinking and planning processes to recognize that the economy is an ecosystem of integrated and interdependent parts that form a whole. Therefore, real growth and renewal are achieved when all parts of this ecosystem are nurtured – i.e. the economic, social, political, institutional, and the external. In this paper, we ask you to consider the exponential impact that could be realized when the holistic effect of a policy or action

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is considered, anticipated, and planned for, even if attention is temporarily focused on one single part of the economic ecosystem.

### **What is holistic growth?**

The concept of holistic growth is broader than simple measures of headline growth. Holistic growth addresses social and institutional issues in addition to the political and economic. To achieve holistic growth these elements must be looked at as components of one ecosystem, with each component dependent on the other and each incapable of sustaining its growth momentum on its own.

With holistic growth, akin to growth with equity, countries seek to implement policies that translate not only into headline economic growth but also in improvements in living standards and a reduction in poverty. In Brazil, for example, well-designed integrated policies aimed at achieving growth with equity helped achieve a strong recovery following the start of the global economic and financial crisis, while other countries have struggled (ILO, 2011). In contrast, not only has the post-crisis headline growth performance in the region been dismal, the economies are expected (with the exception of the Dominican Republic and Haiti) to grow in 2011 and 2012 by less than the world average (IMF, 2011a, b). Further, poverty rates have increased and social indicators have declined.

Could you imagine if we had a strong vision of the Caribbean as a stable, prosperous, and financially sustainable world economic center, specializing for example in some aspect of bio-medical sciences or geothermal energy? Imagine if such a vision were articulated and shared by our leaders and citizens? Imagine if we had a region that acts on this vision with a shared sense of urgency and pride, executing integrated and

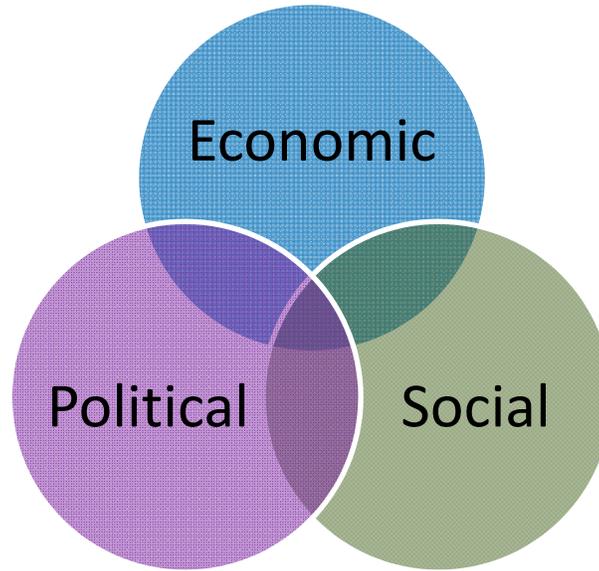
holistic policies? Imagine a Caribbean region that takes pride in good governance and accountability in all spheres - social, political, economic, institutional? Imagine a region that stays the course, even when the journey gets rough, even in the face of natural or economic setbacks. Imagine a Caribbean region that compared favorably to the Asian Tigers or BRICs? Imagine a national, even regional, consensus to implement a vision that integrates the economic ecosystem in a systematic, coherent, and holistic manner to achieve growth with equity?

### **B. Trilemmas in decision making**

An important element of holistic growth is the ability to design and implement a short-term/long-term policy mix that is capable of adjusting to shocks while propelling towards long-term objectives. To do so, we need to account for the environment/context in which macroeconomic policies are to be implemented. That requires an understanding of the trilemma of decision making.

The observed economy is a reflection of three decision spheres – economic, political, and social – that must be considered in all decision making. When viewed as a trilemma, there is an inherent tension between political opportunism to remain in or regain power, satisfying the social needs of the nation state, and pursuing independent macroeconomic and financial stability.

**Figure 1: Decision Sphere**

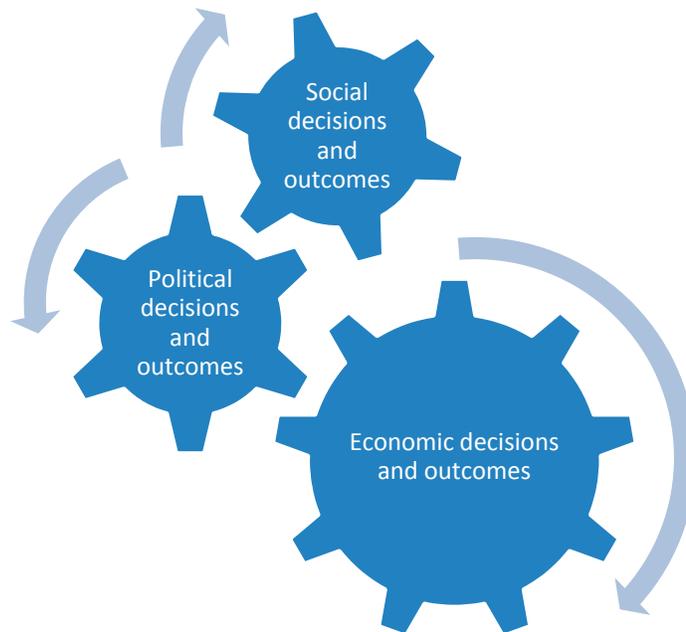


How do the national and global environments, markets, and instruments of domestic policy come together? We can look at the problem as three separate but overlapping spheres. The economic sphere comprises the desires of economic agents (households, government, and private sector), interacting in markets and subject to a regulatory framework in the form of laws and regulations. The political sphere encompasses politicians' desires, the greatest of which is arguably the desire to get in and stay in power. The social sphere covers the will/desires of the populace, communicated in part through political representation.

Decisions in one sphere can trigger reactions in another and generate outcomes in the whole, sometimes with unanticipated effects for policy makers. We posit that a trilemma exists: policy makers cannot simultaneously satisfy fully their political desires, the social desires of the people, and sustain a steady state in the economic sphere. Trade-offs are inevitable and the intersection actually observed will likely be a "quasi-

middle ground” of pragmatism and/or mismanagement—that is, a constrained first best world. Therefore, the key is to embrace the inherent tensions in decision making and select a “rational” course for the desired outcome in the targeted area, while planning for a complementary impact on the integrated economy.

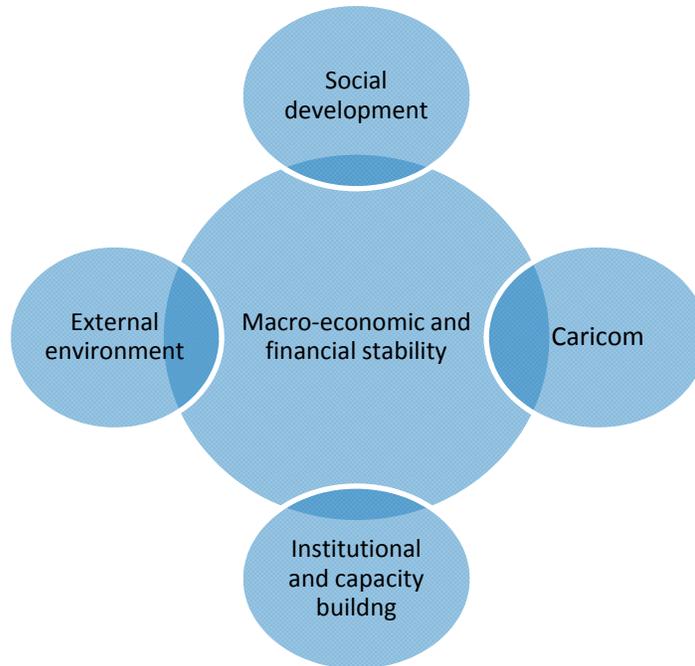
**Figure 2. Social-Political-Economic Interactions**



### **C. Assessing holistic growth**

A stable macroeconomic environment and financial stability are important for business confidence and therefore integral for achieving growth. But macroeconomic stability alone is not sufficient: it must also be supported by social development, institutional development, and a strong, sustainable relationship with the external (including Caricom) environment. Any assessment of growth performance therefore requires a review of all of these elements.

**Figure 3. The Growth Nexus**



Instability increases uncertainty, discourages investment, impedes economic growth, and hurts living standards. To attain macroeconomic stability—the absence of large swings in economic activity, excessive inflation, and volatile exchange rates and financial markets—fiscal consolidation policies (revenue and expenditure) should aim to provide space for growth and employment-oriented outcomes, while ensuring credibility. Financial institutions should be strengthened to avoid feedback loops to the real and government sectors. In that regard, monetary and exchange rates, capital flows, and macro prudential policies all have a role to play. But key choices need to be made. First, policy makers must face a trade-off in the trilemma of open-economy macroeconomics (TOEM), which maintains that countries cannot simultaneously maintain independent monetary policies, fixed exchange rates, and an open capital

account (Obstfeld et al, 2005). Most economists would agree that observed economic outcomes are indeed a reflection, in part, of the choices made regarding the poles of the TOEM.

A second choice relates to relationships with the external world. Along similar lines, the political trilemma of the world economy (PTWE) (Rodrik, 2000), suggests a tension and need for choice among the nation state (territorial jurisdictional entities), domestic politics (institutions devolved through political mobilization), and the desire for more regional integration. It is important to note that both the TOEM and the PTWE interact with the political-economic-social decision spheres.

### **Where are we now?**

Caribbean economies must be recalibrated not just internally or regionally, but in the context of global competitiveness. How do we stack up against the rest of our global partners, and against our developing region counterparts? Are we leaders in any of the global measures and indices or are we bringing up the rear?

Growth in the region has lagged global and regional averages. Compared with emerging markets and Latin American economies, the region was growing less on average before the global crisis, was impacted more during the crisis, and has recovered less after the crisis.

The Eastern Caribbean countries, in particular, have been disaster-prone, with more than half of real output fluctuations attributed to external and climatic shocks (Sosa and Cashin, 2009). Jamaica, the Dominican Republic, and Trinidad and Tobago have also suffered various levels of damage from natural disasters.

**Table 1. Real GDP Growth**

	2008	2009	2010	2011 Proj.	2012 Proj.
<b>Real GDP</b>					
World	2.9	-0.5	5.0	4.4	4.5
Advanced economies	0.2	-3.4	3.0	2.5	2.5
Emerging and developing economies	6.1	2.7	7.2	6.5	6.5
Latin America and the Caribbean	4.3	-1.8	5.9	4.5	4.2
Caribbean (simple average)	1.5	-3.4	-0.5	2.9	3.3
Barbados	-0.2	-4.7	-0.5	2.0	2.5
Dominica Republic	5.3	3.5	7.8	5.5	5.5
Haiti <sup>1</sup>	0.8	2.9	-5.1	8.6	8.8
Jamaica	-0.9	-3.0	-1.1	1.6	2.4
St. Kitts & Nevis	4.6	-9.6	-1.5	1.5	1.5
Trinidad and Tobago	2.4	-3.5	0.0	2.2	2.4

Source: WEO Update, June 2011 and REO, Western Hemisphere, April 2011

<sup>1</sup> Fiscal year data

The Caribbean countries are also vulnerable to changing demand. Export markets are under-diversified, with relatively little trade with the fast growing BRIC countries. As has been the case for decades, the Caribbean remains heavily reliant on trade in a few products with the United States, the United Kingdom, and Canada.

Macro imbalances have persisted. Many Caribbean countries have found themselves in precarious positions, with high debt, as a result of not only lax policies but also external shocks and frequent natural disasters. Public gross debt of Caribbean nations has averaged about 69 percent of GDP during 2000-2011, with a low of 54.6 percent prior to the global financial

crisis. Of note, tax revenues have been pretty much in line with primary spending in both the countries with high debt and those with relatively low debt. One can surmise that across these nations, debt and the related costs, has been the reason behind high deficits and the inability to build much need buffers in the disaster-prone Caribbean basin.

Our global competitiveness is far from satisfactory -- the Caribbean ranks among the lowest global competitors.<sup>2</sup> For 2011-2012, Trinidad and Tobago ranked the highest (57<sup>th</sup> place) among Caribbean countries for the macroeconomic environment pillar in the Global Competitiveness Index, with Jamaica posting the lowest among all countries surveyed at 142<sup>nd</sup> place.

**Table 2. Select Caribbean Countries Macroeconomic Environment Ranking<sup>1</sup>**

	OVERALL	Government Budget	Gross National Savings	Inflation	Interest Rate Spread	Government Debt	Credit Rating
<i>Country</i>							
Barbados	126	115	125	95	81	137	51
Dominican Republic	96	45	138	107	94	41	84
Guyana	119	62	131	68	124	110	105
Jamaica	142	106	133	137	127	140	111
Trinidad and Tobago	57	81	20	131	99	72	43

1/ Index ranks 142 countries

Source: Global Competitiveness Report 2011-2012

The Macroeconomic Environment pillar is broken down into measures of fiscal and debt sustainability, as well as key money and credit variables.

<sup>2</sup> The Global Competitiveness Index ranks countries for each of twelve pillars comprising competitiveness, defined as the set of institutions, policies, and factors that determine the level of productivity of a country.

*Budgets and Debt:* Consistent fiscal deficits and high debt have a negative impact on the business environment. High deficits put upward pressure on prices, creating uncertainty for businesses. Additionally, governments are prevented from using resources efficiently when much of their expenditure must be put to paying the interest cost related to high debt. For the Government debt category, only the Dominican Republic ranked in the top 50 countries (41<sup>st</sup> place). Trinidad and Tobago ranked 72<sup>nd</sup>, following a sharp decline from 48 in the GCR 2010-2011, Guyana improved to 110<sup>th</sup> from 129<sup>th</sup>, while Barbados and Jamaica ranked 137 and 140, respectively. For the government budget, the Dominican Republic topped the region at 45<sup>th</sup> place, while Barbados scored lowest at 115. Jamaica improved significantly, rising to 106<sup>th</sup> place from 131 the year before.

*Inflation:* It is well established that high levels of inflation are inimical to growth (Espinoza et al, 2010). Also, countries with high debt are also likely to have high inflation; in fact, for highly-indebted countries, money-based stabilization is not successful in controlling inflation over the medium term (Kwon et al, 2006). Inflation, which averaged almost 13 percent in 2008, has since been contained to single digit levels.

*Gross National Saving:* Except for oil-exporting Trinidad and Tobago, rankings on national savings are very low in the region, underscoring dependence (and vulnerability) to capital flows. Trinidad and Tobago topped at 20<sup>th</sup> place, far removed from Barbados which came in next at 125. Guyana, Jamaica, and the Dominican Republic ranked 131, 133, and 138, respectively.

*Credit rating:* Assessments of ability to repay debt in a timely manner are critical to the willingness of investors to provide financing for investment, an essential element for growth. These in turn are influenced by a country's current financial position, its credit history, and future expectations. Prior to Barbados recent downgrade, both Barbados and Trinidad and Tobago ranked among the top 55 countries in the Global Competitiveness Report, at 43 and 51, respectively. Both The Dominican Republic (84<sup>th</sup>) and Guyana (122<sup>nd</sup>) improved over the previous year, but Jamaica declined to 111<sup>th</sup> (from 89<sup>th</sup>), following the Debt Exchange. While overall ratings for the Caribbean countries have stable outlooks, only Trinidad and Tobago has an A rating.

**Table 3. Select Caribbean Countries Credit Ratings**

Country	Rating	Outlook
Bahamas	BBB+	Stable
Barbados	BBB-	Stable
Dominican Republic	B+	Stable
Grenada	B-	Stable
Jamaica	B-	Stable
Trinidad and Tobago	A	Stable

Standard and Poor's Sovereign Credit Ratings at August 5, 2011

The region also scores poorly on the business environment. Paying taxes, getting credit, and enforcing contracts are viewed typically as impediments to growth in the Caribbean, dampening investment activity by the private sector.

**Table 4. Select Caribbean Countries Business Environment Indicators<sup>1</sup>**

	Paying Taxes			Getting Credit	
	Payments (per year)	Time Spent (hour per year)	Total Tax Rate (% of profits)	Depth of Credit Information Index (0-6)	Strength of Legal Rights Index (0-10)
Antigua and Barbuda	56.0	207.0	41.5	0.0	7.0
Bahamas	18.0	58.0	46.1	0.0	9.0
Dominica	38.0	120.0	37.0	0.0	9.0
Dominica Republic	9.0	324.0	40.7	6.0	3.0
Grenada	30.0	140.0	45.3	0.0	8.0
Guyana	34.0	288.0	38.9	0.0	4.0
Haiti	42.0	160.0	40.1	2.0	3.0
Jamaica	71.0	414.0	50.1	0.0	8.0
St. Kitts & Nevis	24.0	155.0	52.7	0.0	7.0
St. Lucia	32.0	92.0	34.0	0.0	8.0
St. Vincent and the Grenadines	32.0	111.0	38.7	0.0	7.0
Trinidad and Tobago	40.0	210.0	33.1	4.0	8.0
<b>Average</b>	<b>35.5</b>	<b>189.9</b>	<b>41.5</b>	<b>1.0</b>	<b>6.8</b>
<b>Regional Averages</b>					
Common Market of Eastern & Southern Africa	33.3	196.6	71.4	1.9	4.8
East Asia Pacific Islands	23.7	156.8	36.3	0.6	5.7
Latin America	33.1	557.1	53.5	5.3	4.4
Organization for Economic Co-Operation and Development	14.2	199.3	43.0	4.7	6.9
Southern African Development Community	27.9	209.6	51.7	2.3	5.7

<sup>1/</sup> Index ranks 183 countries

Source: Doing Business 2011

*Paying Taxes:* Persons in the Caribbean made more payments per year than in all other regions. The time spent paying taxes (i.e. number of hours per year) was however lower than all regions except the East Asia Pacific Islands. Additionally, total tax as a percent of profits was relatively low in the Caribbean at 41.5%, compared with an average of 43% for Organization for Economic Co-Operation and Development (OECD) countries and 53.5% for Latin America. There was, however, a large disparity among the Caribbean nations. Although the number of tax payments per year was slightly higher than averages for other regions, the Dominican Republic and The Bahamas benchmarked well against the OECD. On the other hand, the region performed well in time spent paying taxes, but Jamaica and the Dominican Republic were below average.

*Getting credit:* Caribbean countries score poorly on the Depth of Credit Information Index,<sup>3</sup> with a mean score of 1, out of a possible 6 (only the East Asia Pacific Islands ranked lower). The low score reflects the fact that only 3 of the 12 Caribbean states assessed had any credit information. On a positive note, the Caribbean was almost at par with OECD countries on the Strength of Legal Rights index,<sup>4</sup> indicating strong protection of the rights of borrowers and lenders.

### **Other areas that contribute to holistic growth**

#### *Social Development*<sup>5</sup>

Social development is the "process of planned social change designed to promote the well-being of the population as a whole in conjunction with a dynamic process of economic development" (Midgley, 1995). Social development fosters a healthy and well-educated work force, and a socially integrated population that is politically empowered and lives in peaceful coexistence. In key social indicators such as per capita income, education, and life expectancy, the region has generally performed well relative to world averages. However, while other regions have improved substantially, the Caribbean, in general, has not shown much progress over the last few years. This implies that the region has begun to fall behind other regions and may continue to do so unless appropriate and urgent action is taken.

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<sup>3</sup> The Depth of Credit Information Index measures the scope and accessibility of credit information from public and private credit registries. The index ranges from 0 to 6, with 0 indicating that there is little or no information available.

<sup>4</sup> The Strength of Legal Rights Index ranges from a low or 0 to a high of 10. The index measures the level of protection of rights of borrowers and lenders through collateral laws as well as the protection of secured creditors' rights through bankruptcy laws.

<sup>5</sup> Social data is very limited in the Caribbean and may not provide an accurate picture.

Among developing countries, the Caribbean region scores well in indicators of human development:

- i. Health, as measured by life expectancy at birth;
- ii. Education, in terms of adult literacy, primary, secondary, and tertiary enrolment; and
- iii. Standard of living, as measured by per capita gross national income (GNI).

The Human Development Index (HDI)<sup>6</sup> shows that, in 2010, the Caribbean region ranked above other developing countries in other regions in all categories with the exception of per capita GNI. In fact, developing countries within the Latin America and Caribbean (LAC) region ranked above the world average in life expectancy at birth, mean years of schooling, and GNI per capita, but were ranked lower than the developed countries, which had a combined score of 0.879. Compared to the developed nations, life expectancy at birth was approximately 6 years shorter, mean years of schooling was about 2 years lower, and GNI per capita about one third.

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<sup>6</sup> The HDI is a comparative measure of life expectancy, literacy, education, and standard of living for countries worldwide. The HDI sets a minimum of 0 and a maximum 1 for each dimension, with 1 being the best score possible.

**Table 5. Human Development Indicators for 2010**

	HDI	Life Expectancy at Birth	Mean Years of Schooling	GNI per capita (PPP 2008 \$)
<b>Developed</b>				
OECD	0.879	80.3	11.4	37,077
Non-OECD	0.844	80.0	10.0	42,370
<b>Developing</b>				
Arab States	0.588	69.1	5.7	7,861
East Asia and the Pacific	0.643	72.6	7.2	6,403
Europe and Central Asia	0.702	69.5	9.2	11,462
Latin America and the Caribbean	0.704	74.0	7.9	10,642
South Asia	0.516	65.1	4.6	3,417
Sub-Saharan Africa	0.389	52.7	4.5	2,050
World	0.624	69.3	7.4	10,631

Source: UNDP International Human Development Indicators

A breakdown of the region's scores indicates that the Caribbean, although above world averages, has lagged Latin America. Surprisingly, while the HDI for the LAC improved steadily over 2006-2010—lagging only Europe and Northern America--the indicators for the Caribbean improved very little over the last three years, suggesting slippage relative to other lower ranked countries.

**Table 6. Human Development Indicators by Region**

	2006	2007	2008	2009	2010
Africa	0.412	0.417	0.419	0.424	0.429
Latin America and the Caribbean	0.689	0.695	0.700	0.701	0.706
Latin America	0.693	0.698	0.703	0.705	0.710
Caribbean	0.632	0.637	0.641	0.642	0.642
Asia	0.575	0.584	0.590	0.595	0.602
Europe	0.799	0.804	0.808	0.808	0.811
Northern America	0.896	0.898	0.898	0.898	0.900
<b>World</b>	<b>0.604</b>	<b>0.611</b>	<b>0.615</b>	<b>0.619</b>	<b>0.624</b>

Source: UNDP International Human Development Indicators

HDI scores vary across the Caribbean. Barbados, The Bahamas, and Trinidad and Tobago rank above the average for Latin American countries. On the other hand, Haiti ranked the lowest in the group with an HDI below the average of the lowest ranked region, Africa.

**Table 7. Human Development Indicators by Country**

	2006	2007	2008	2009	2010
Bahamas	0.779	0.782	0.783	0.783	0.784
Barbados	0.780	0.785	0.788	0.787	0.788
Dominican Republic	0.646	0.651	0.656	0.660	0.663
Guyana	0.582	0.593	0.599	0.605	0.611
Haiti	0.407	0.404	0.406	0.410	0.404
Jamaica	0.680	0.682	0.685	0.686	0.688
Trinidad and Tobago	0.721	0.727	0.731	0.732	0.736

Source: UNDP International Human Development Indicators

### *Institutional and Capacity Building*

The IMF defines governance as “a broad concept covering all aspects of the way a country is governed, including its economic policies and regulatory framework.” Efforts to improve governance are based on the notion that a lack of proper governance distorts incentives, generates inefficiency, and encourages corruption, all of which are impediments to growth.

The Global Competitiveness Report (GCR) includes indicators to measure the strength of institutions in a country. Among the indicators assessed are Judicial Independence; Transparency of Government Policymaking; Business Cost of Crime and Violence; Strength of Auditing and Reporting

Standards; and Public Trust in Politicians. An independent judiciary encourages more investment as citizens feel freer to conduct business knowing government cannot influence the judiciary. In the 2011-12 GCR, Barbados, Jamaica and Trinidad and Tobago all ranked in the top 50, with Barbados highest at 17, indicating a higher level of judicial independence. In Transparency of Government Policymaking only Barbados and the Dominican Republic ranked in the top half of the sample. Business Cost of Crime and Violence is a significant issue among the Caribbean countries. With the exception of Barbados, all countries ranked in the bottom 20 in the sample. Barbados and Jamaica performed relatively well in the area of Strength of Auditing and Reporting Standards, both in the top 50 countries. Public Trust in Politicians was particularly low in the Dominican Republic and Jamaica, but Barbados again ranked among the top 20 countries.

**Table 8. Select Caribbean Countries Efficiency of Judiciary 1/**

	<b>OVERALL</b>	Judicial Independence	Transparency of Government Policymaking	Business Cost of Crime and Violence	Strength of Auditing and Reporting Standards	Public Trust in Politicians
Barbados	18	17	12	57	14	16
Dominican Republic	126	115	54	122	85	135
Guyana	93	87	82	130	79	69
Jamaica	86	48	98	140	37	112
Trinidad and Tobago	82	47	94	135	58	98

1/ Index ranks 142 countries

Source: Global Competitiveness Report 2011-2012

**Table 9. Select Caribbean Countries Efficiency in Enforcing Contracts<sup>1</sup>**

	Enforcing Contracts		
	Procedures to Enforce a Contract	Time to Enforce a Contract (days)	Enforcing a Contract (% of claim)
Antigua and Barbuda	45	351	22.7
Bahamas	49	427	28.9
Dominica	47	681	36.0
Dominica Republic	34	460	40.9
Grenada	47	688	32.6
Guyana	36	581	25.5
Haiti	35	508	42.6
Jamaica	35	655	45.6
St. Kitts & Nevis	47	578	20.5
St. Lucia	47	635	37.3
St. Vincent and the Grenadines	45	394	30.3
Trinidad and Tobago	42	1340	33.5
<b>Average</b>	<b>42.4</b>	<b>608.2</b>	<b>33.0</b>
<b>Regional Averages</b>			
Common Market of Eastern & Southern Africa	39.3	645.5	52.5
East Asia Pacific Islands	37.7	631.7	61.0
Latin America	37.0	711.6	30.1
Organization for Economic Co-Operation and Development	31.2	517.5	19.2
Southern African Development Community	37.1	633.9	56.5

<sup>1/</sup> Index ranks 183 countries

Source: Doing Business 2011

The World Bank's *Doing Business Report* measures the effectiveness of a country's judiciary system by looking at the efficiency of the local courts in resolving a commercial sales dispute. When contracts are enforced efficiently, firms are able to borrow more freely, and are in turn more willing to engage new customers. Enforcing contracts covers the number of procedures needed to enforce a contract, the time involved and the cost required to complete the procedure as a percent of the claim. This does not include activities like bribery. The region did relatively well in the time required to enforce a contract, and the cost required to complete the procedure; however, it ranked at the bottom of regional averages across the world in terms of the number of procedures to enforce a contract.

## **External environment**

As witnessed by lessons from advanced economies and the recent global crisis, most economies are quite vulnerable to external shocks. The Caribbean is no exception. The fundamental problem is that in these advanced economies, weak growth and weak balance sheets—of governments, financial institutions, and households—are feeding negatively on each other. If growth continues to lose momentum, balance sheet problems will worsen, fiscal sustainability will be threatened, and traditional policy instruments will be unable to sustain the recovery. This would undoubtedly generate spillover effects for the region, given the historical ties with North America and Europe. What this means is countries in the region need solid foundations to be able to mitigate the impact of shocks beyond their control. From recent history, a few lessons emerge: steady and sustained growth is better than strong starts and stops – steady, holistic growth requires strong foundations and buffers; imbalances should be identified early to highlight vulnerabilities; preemptive crisis management should be encouraged; and integration is essential among the economic, social, and political spheres.

Separate from impacts from the global economy, we should consider the implication of CARICOM for the economies of the region. How can we leverage CARICOM arrangements for growth of the member states individually and in the aggregate? Factors facilitating growth include subscribing politically to the concept of broadly equitable regional development and supranational institutions empowered to effect regional development. Experience in other regions suggests this does not have to be a regional political federation. Further, provisions can be implemented to give regional entities no less favored status than provided to entities from outside of the region. In doing this, it will be important to recognize

that strategies for enhancing competitiveness will vary across the region, from country to country, and include policies and actions tailored to each country's specificities and competitiveness diagnostics.

The regime for trading across borders is also important in promoting development, sustaining competitiveness, facilitating penetration into new markets or promoting diversified products. Of six regions surveyed, the Caribbean ranked well in terms of the time to export or import, and the amount of documents to export or import, ranking only behind the OECD countries. Importantly, even though the region did well, some countries (notably Guyana, Haiti, and Jamaica) performed poorly. In the areas of cost of exports and cost of imports, in which the East Asia and Pacific Islands had the advantage, the region ranked 3<sup>rd</sup> and 4<sup>th</sup>, respectively.

**Table 10. Select Caribbean Countries: Indicators of Trade across Borders<sup>1</sup>**

	Documents to Export	Time to Export (days)	Cost of Exports (US\$ per container)	Documents to Import	Time to Import (days)	Cost of Imports (US\$ per container)
Antigua and Barbuda	5.0	15.0	1133.0	5.0	15.0	1633.0
Bahamas	5.0	19.0	930.0	5.0	13.0	1380.0
Dominica	7.0	13.0	1297.0	8.0	15.0	1310.0
Dominica Republic	6.0	9.0	916.0	7.0	10.0	1150.0
Grenada	6.0	10.0	876.0	5.0	15.0	2129.0
Guyana	7.0	19.0	730.0	8.0	22.0	745.0
Haiti	8.0	35.0	1005.0	10.0	33.0	1545.0
Jamaica	6.0	21.0	1750.0	6.0	22.0	1420.0
St. Kitts & Nevis	4.0	12.0	850.0	5.0	13.0	2138.0
St. Lucia	5.0	14.0	1700.0	8.0	18.0	2745.0
St. Vincent and the Grenadines	5.0	12.0	1075.0	2.0	12.0	1605.0
Trinidad and Tobago	5.0	14.0	808.0	6.0	19.0	1250.0
<b>Average</b>	<b>5.8</b>	<b>16.1</b>	<b>1089.2</b>	<b>6.3</b>	<b>17.3</b>	<b>1587.5</b>
<b>Regional Averages</b>						
Common Market of Easter & Southern Africa	7.2	32.4	1915.3	8.2	38.3	2457.5
East Asia Pacific Islands	6.5	24.5	978.7	7.3	27.4	997.6
Latin America	7.1	19	1310.6	7.5	22	1441.1
Organization for Economic Co-Operation and Development	4.4	10.9	1058.7	4.9	11.4	1106.3
Southern African Development Community	7.3	31.2	1856.3	8.4	38	2273.3

1/ Index ranks 183 countries  
Source: Doing Business 2011

### **D. Implementing a new Vision**

It is clear that the current state of the region is not conducive to strong and sustainable holistic growth. Equally important, we need a commitment to that growth vision that is credible, well-articulated, and with a demonstrable positive dividend. All best efforts, however, must be developed and implemented through integrated policies that trigger growth, development, and institution building, and generate positive changes in global competitiveness. But we need to act now, boldly and with resolve.

Our initial conditions are what they are and must be recognized as such – let us not begin the recalibration effort with excuses or denials. Economic, social, and political decisions need to integrate with a focus on holistic growth, through policies that are transparent, appropriate, forward-looking, and well-sequenced. For starters,

- Commit to reducing public deficits through fiscal consolidation, shifting some activities from public to private sector and pursuing reforms in revenue policy and tax administration;
- Focus on defining, communicating, and getting buy-in on core functions of government;
- Tackle the issue of high debt and its impact on growth, possibly through credible debt targeting<sup>7</sup> (by rationalizing annual changes in discretionary expenditure), (Guerson and Melina, 2011);

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<sup>7</sup> Debt targeting is a medium-term fiscal framework where governments commit to keeping debt within specific bounds.

- Encourage strengthening of private sector balance sheets to allow them to take up reductions in the public sector (thereby generating private sector confidence);
- Remove impediments to growth (by improving the business environment, increasing institutional capacity, and embracing R&D in partnership with the private sector and as a catalyst for diversification in export products and markets);
- Develop downstream value-added and cross-sector linkages, leveraging national endowments;
- Foster an education regime that can support the economic diversification initiative (new markets and products);
- Make enhanced social cohesion—through reduced crime, preventive health programs, and empowering of communities—a national priority;
- Improve governance through demonstrated transparency and political, judiciary, and institutional reform;
- Embrace integration – forge a political consensus and commitment to regionalism;
- Create more opportunities for investment across the region by implementing fully the arrangements for the economic and financial cooperation set out in Chapter 4 of the Revised Treaty of Chaguaramas;

- Harmonize regulation, governance, and transparency; and improve recourse to regional legal systems with power of enforcing the rule of law.

### **Guiding principles**

The Caribbean is at a critical decision point. To get to a sound, sustainable path of growth and prosperity, we need to adopt holistic strategies. This new approach will require the involvement of all stakeholders. Here are a few points to start the regional conversation, and hopefully spur us to action.

*Articulate a strong vision* that is easily understood and commonly shared by all stakeholder groups. This vision should define the New Caribbean and paint a picture of what success looks like in the future. This vision should be clearly and frequently communicated so as to ignite interest and foster acceptance across the region. Components of that vision might include sustained economic growth, lower debt, fiscal sustainability, and social and political stability.

*Create a sense of urgency to act.* We must convince stakeholders—government, private sector, households and international partners—that business as usual is not sustainable. This is the harsh reality—in almost every measure of a region’s development, the Caribbean falls in the bottom 50% of the world. Caribbean policy makers must ask what happens if they do nothing or adopt only a fragmented or half-hearted approach to development. Does the answer inspire confidence in our future?

We must act now. Mere recognition of the problem is one thing; acknowledging the risks and engaging in immediate and sustained intervention is another. Decisive action will bolster the confidence that is required to restore and rebalance regional growth and support global competitiveness. We know what needs to be done to support growth, reduce debt, and prevent further financial crises. But we need a new approach—based on bold and timely political action, with a comprehensive plan that can be implemented in a coordinated, holistic manner.

*Establish good governance with defined accountability.* This effort is bigger than any single country or political party or private interest group. Success hinges on a regional coalition of partners - public, private, consumers and international - that is held accountable for results. We have to be willing to evaluate progress against regional and international targets, celebrate successes, and be ruthless about making necessary adjustments.

*Recognize change is a transition, not an end in itself.* Of critical importance is the recognition of the ways in which initial conditions and constraints impact the transition between the short-, medium-, and long term. A country or region that is booming does not need the same thrust as one mired in a recession. There are some changes that will be easier to accomplish in the short term - scoring important wins for this national and regional effort. Some less visible foundation work will be required to facilitate medium- and long-term success.

*Stay the course.* For the regional good, all Caribbean stakeholders must commit to staying the course beyond elections, party politics, or which island nation is chairing our regional institutions. The region must agree on a set of strategic imperatives that will be executed in a prioritized

framework no matter who holds the seat of power. Transformation on this scale will not happen overnight. It requires integration of new actions and behaviors into the DNA of the Caribbean region at various levels, replacing old mindsets, systems, and structures.

### **E. Conclusion**

Macroeconomic stability is necessary but not sufficient. We need to tackle growth and stability with a holistic perspective and holistic policies. Imagine a Caribbean region that uses its endowments, and cultivates the economic, social and institutional, and political spheres within its ecosystem, to effectively develop a dynamic and sustainable New Caribbean? Do we have the courage and the will?

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