

TOWARDS A CARIBBEAN DEVELOPMENTAL STATE FRAMEWORK: THE CHALLENGE OF THE EAST ASIAN STRATEGIC APPROACH

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1. INTRODUCTION

The political economy of development in the Caribbean is characterised by trade relations that take place in a highly monopolised global market; policy issues which serve the interests of transnational corporations and are influenced by multilateral agencies; a lack of focus and clear policies; and, “pork barrel” policies and interference by the political directorates. Foreign capital controls the islands’ productive structures, and particularly the most dynamic sectors of their economies, repatriates a high volume of profits, and benefits very narrow sectors and activities. Technological-industrial dependence has been consolidated, and export production is determined by demand from the main hegemonic centres. Foreign financing has become necessary in two forms: to cover the existing deficits, and to “finance” development by means of loans. Caribbean nations encounter unyielding domestic obstacles to their self-determined self-sustained growth, which lead to the accumulation of deficits.

Against this general background, the tourism industry is being seen not just as an economic activity capable of creating income and jobs for the islands’ inhabitants and earning important foreign exchange, but as one of the most promising sectors for their future economic growth. However, tourism has further subjected Caribbean nations to outside dependence. The result of this dependence makes Caribbean economies vulnerable and more susceptible to external shocks, as well as more dependent on foreign exchange (Higgins 1994: 5).

The argument of this paper is as follows. The first part summarises past development efforts in the Caribbean. The second main section charts a “Caribbean” Developmental State framework: an institutional system

which appears to have been used with enormous success in East Asia but, unfortunately, has been neglected in the region. The final main part of the paper identifies key strategic requirements and offers alternative policy recommendations, which the Developmental State approach implies and suggests.

II. PAST CARIBBEAN DEVELOPMENT EFFORTS

This section discerns four broad phases in Caribbean development since the end of World War II. The first phase, the 1950s and 1960s, was characterised by the advocacy of the modernising potential of industrialisation and economic diversification as a means of overcoming the traditional Caribbean problem of dependence on agriculture, and created expectations that other economic benefits would also follow. In some countries, the emergence of modern export industries in the mineral sector was a strong sign of this development thrust.

The theoretical insights underpinning this strategy were provided by W. Arthur Lewis who saw industrialisation as an essential part of a programme for agricultural progress by providing new jobs.¹ From this point of departure, Lewis sought to set out a policy of industrialisation for the Caribbean designed to overcome the dual problems of markets and resources: the region was short of capital, industrial power was expensive and the available raw material base limited, but wage rates were low by the standards of the developed world. Many favourable industries were based not on the use of local raw materials but on the processing of imported inputs. Yet, the small size of individual domestic markets necessitated the establishment of a regional customs union as an essential prelude to any vigorous policy of industrialisation (Payne and Sutton 2001: 3).

For Lewis, industrialisation was like a “snowball”: once started, it would move of its own momentum and get bigger and bigger as it went along. But regional import substitution would account for only a small part of the industrial output necessary to generate full employment; export-oriented industrialisation was the main requirement. To attract foreign manufacturers (and therefore get the snowball rolling), Lewis recommended the implementation of a package of investment incentives modelled upon the Puerto Rican experience. Eventually, the inflow of foreign investment would produce sufficient profits, generate sufficient local savings, and transmit sufficient skills to local people to set in motion self-sustaining growth (Payne and Sutton 2001: 4).

Lewis’ prescription for industrialisation had an immediate impact on newly-emerging Commonwealth Caribbean nations. Indeed, foreign capital responded to the entreaties of the region’s governments and flowed into the

area in substantial amounts, bringing in its wake several manufacturing industries. By 1967, manufacturing contributed 15% of the GDP in Jamaica and 16% in Trinidad, while the figures for Guyana and Barbados were 13% and 9% respectively.² However, the industries established were only “final-touch” firms, were based on the assembly of imported inputs, had relatively little value added, and generally failed to penetrate export markets. Furthermore, the industries that were set up produced few jobs, had often limited commitment to local development, and were finding it profitable to move their operations to other locales offering new or better packages of inducements and conditions.

The other new industry into which the Caribbean moved in a major way in the 1950s and 1960s was tourism. In some islands, tourism was heralded as the road to prosperity even though this sector was vulnerable to vagaries of world markets and the international political economy. As the industry was geared to the affluent North American (and, to a lesser degree, European) societies, it was able to compete only by maintaining high standards of accommodation and hospitality. This required reliance on foreign capital and imports, especially of food, and brought about inflated import bills and profit repatriation. To a considerable extent, therefore, tourism became an enclave within the Caribbean economy having few linkages with, and contributing little to, the development of other sectors.

Overall, as the Commonwealth Caribbean Regional Secretariat admitted in 1972:³

“[The post-war era of growth represented] a continuation of the centuries-old pattern of West Indian economy –growth without development; growth accompanied by imbalances and distortions; growth generated from outside rather than within; growth without the fullest possible use of West Indian manpower, entrepreneurial, capital and natural resources; growth resting on a foreign rather than indigenous technological base; and growth accompanied by imported consumption patterns”.

As these weaknesses of the modernisation view were being exposed and debated by the region’s governments and advisers, radical scholars emphasised the dependence of the Caribbean economy on hegemonic centres for: markets and supplies, transfers of income and capital, banking and financial services, business and technical skills, and even for ideas about themselves.⁴ In the late 1960s and early 1970s, these insights grew into a whole school of thought characterised by the theory of plantation economy. The bulk of the explanation had come from systematic examination of the instruments that control the Caribbean economies, which brought about a lack of capacity to manipulate the operative elements of the economic system⁵, and multiple “underdevelopment biases” of plantation agriculture⁶. These various arguments collectively constituted a powerful critique of the

condition of economic dependency within the Commonwealth Caribbean, undermining to a very considerable degree the intellectual credibility of the conventional modernisation strategy hitherto pursued by Caribbean governments.

Indeed, the vivid excoriation of this strategy known as “industrialisation by invitation” is a memorable rejection of Lewis’ policy prescription. Yet, in the 1970s, Caribbean countries faced severe economic difficulties. Consequently, the validity of the orthodox model of development came increasingly under question in political discussions and, in a number of countries, the state was pushed into a position of greater involvement in the management of the economy. However, even if “the historical options of Caribbean economies are limited either to a ‘non-capitalist’ path of development for transforming the productive forces and liberating the political and social order, or to the continuation of the neo-colonial mode”⁷, no strong model of development and no thorough strategies were offered. This serious shortcoming became the beginning of a vacuum in the Caribbean development debate. Besides, the collapse of the Grenadian revolution almost brought to an end the second phase in Caribbean development.

In the 1980s, as far as the Caribbean was concerned, the United States managed to reshape the agenda of politics and political economy to the point where it was able to lay down the parameters of what could be done and even what could be articulated. In accordance with the broad tenets of neoliberalism, its main goal in respect of economic development was to create in the region a growing number of market-based economies capable of competing successfully in international export markets. Besides, the neoliberal policy package was enforced by the International Monetary Fund and the World Bank under the “structural adjustment” prescription. This policy prescription was premised upon squeezing the state, increasing profit margins, weakening trade unions, eliminating inflation through the adoption of monetarist macroeconomic management, and boosting growth by means of supply-side policies.

The international recession of 1980-82 severely reduced demand for a number of the region’s main exports –particularly bauxite, petroleum products and sugar- and lowered the number of tourists visiting Caribbean islands. This recession created, in effect, three crises in one in nearly all Caribbean economies: balance of payments constraints, fiscal imbalances, and a national debt crisis. Desperate for financial support, Commonwealth Caribbean nations turned to the IMF and other multilateral financial institutions. As a result, their governments were forced to follow the neoliberal prescription during the 1980s. The favoured measures were always the same: liberalisation of foreign exchange and import controls, devaluation

of the currency, and the deflation of domestic demand. After following this prescription, the economy in question would be ready to return to the international market-place able to achieve higher levels of exports and economic growth.

What is striking about the Caribbean's embrace of neoliberalism in the 1980s is that the intellectual driving force behind the region's development strategy came from outside the region. Nonetheless, the social costs of such neoliberal policies, measured in terms of unemployment, inflation, and sharply declining living standards were immense. Besides, at the end of the 1980s, Caribbean economies still faced fundamental structural problems associated with the character of their production base as well as with the distribution of their economic assets. Critical analyses of the economic and social impact of structural adjustment did appear and had their impact, especially in drawing attention to the peculiarly harsh costs imposed by such programmes (Polanyi-Levitt 1991 –among others). Yet, neoliberal prescriptions did not succeed in charting any sort of realistic alternative course of action for Caribbean governments in the critical arenas of economic management and national development.

The 1990s were characterised by what might be called the consolidation of the neoliberal revolution, tempered only by the realisation that more attention had to be paid to human resource development if the new technological imperatives of a globalising economy were not to pass the region by. Development was seen as a market-driven private sector-led process. The role of the state should be to meet the demands for "good governance" imposed by the international financial institutions, and thereby fashioned to serve efficiently the logic of deregulated competitive markets and integrated global production, led and directed by transnational corporations. The orthodoxy was best expressed by the Prime Minister of Barbados Owen Arthur in 1996:⁸

Generally, the strategy has to accept the reality of the globalisation of economic forces rather than hanker after a less complicated but impoverished past. The strategy must also recognise that the Caribbean countries, singly and as a group, must make the transition from the old age of preferences to the new age of reciprocity in its international economic relationships. In so doing, it must be designed to minimise the costs and dislocations associated with the transition, and to put in place mechanisms that can allow the region to exploit the market opportunities which are being created by the international liberalisation of trade and the formation of mega trade blocs.

III. CHARTING THE CARIBBEAN DEVELOPMENTAL STATE FRAMEWORK

The Present Context

Recently, there has been much talk of the poor endogenous competency of Caribbean islands, although an increasing number of commentators now seem to be becoming increasingly nervous about this, with the trade account of the balance of payments of Caribbean economies in substantial deficit—due to the low levels of exports and high levels of imports—and the slowdown in economic activity causing concern. Indeed, economic activity in the region has slowed down considerably in the last two decades and growth has been uneven and relatively weak, even though the slowdown in economic activity has not been uniform across all the Caribbean countries. The central element of these discussions to which people refer (particularly in Jamaica) is the continuous increase in the total national debt, and the questions that arise are, what are the sources of this economic performance, and can it be sustained under existing policies?

In the Caribbean, it can be argued that monetary and fiscal policies during the last years attempt to provide an environment conducive to attracting foreign investments while holding down real wages, and supporting the growth of a dual economy. We can not expect a better performance in the near future under present policies because the real base of economic dynamism has been neglected; indeed that very neglect will undoubtedly hold back the growth of Caribbean economies. It is clear that in today's circumstances, neoliberal policies cause substantial balance of payments (and other economic and social) problems. The fundamentals of Caribbean economies are not right, and their much vaunted "Western-style" modernisation and laissez-faire antidote are increasingly seen to be an illusion.

In most of the Caribbean islands, the primary sector is struggling to maintain output and, at the same time, in common with worldwide trends, is tending to become less labour-intensive (even though agriculture's contribution to employment is significant in a number of Caribbean economies). In fact, there has been a significant decline in the proportionate importance of local primary production during the past two decades. The declining share (%) of primary production in GDP for most Caribbean economies may reflect the reduced dependence on agriculture. However, most countries in the region are net food importers, and only few Caribbean countries have achieved some success in transforming their economy from a primary production to a service and/or industry-led economy.

The ups and downs in the performance of both the agricultural and agro-industrial sectors in the 1990s were due, in large measure, to the problems experienced in the main export sectors and the general stagnation in

the other economic sub-sectors among and within Caribbean countries. For those local economies reporting favourable, albeit low average growth rates, this may be attributed to improved production techniques in the major export sectors and relatively good performance in domestic food production.⁹

In addition, the manufacturing sector within the Caribbean has had very mixed fortunes during the 1970s, 1980s and 1990s. Many of the manufacturing units in the region are little more than “enclave” operations of larger extra-regional firms. As such they tend to transfer only limited skills to the region and are always vulnerable to recession. Subsidiary manufacturing units are always easier to close down than those closer to the home base of the company concerned, and history has shown that the Caribbean is vulnerable to just this sort of action. Yet, there is a widening gap between these firms (mainly transnationals) which typically reside in the Caribbean islands, which are integrating at a faster pace with the global economy, and other firms in the slower integrating Caribbean countries.

In the past, the agricultural and industrial sectors were seen as not providing sufficient employment opportunities. This is in part a reflection of the general unattractiveness of agricultural problem islands to industrial investment due to factors such as a lack of skills, an underdeveloped infrastructure, etc. Resources in Caribbean economies have been underutilised and the growth of resources has been slow (or, very slow). This situation is exacerbated by a range of constraining factors which may be summarised as follows (IICA 1998: 25-27):¹⁰

1. Inappropriate Policy Environment;
2. Weak Institutional Framework; and,
3. Declining Productivity and Competitiveness.

On the other hand, estimates show that tourism is the only sector of regional GDP that has consistently increased its share of total income during the 1980s and 1990s. Indeed, allowing for some fluctuations, the tourism industry has been the only major sector that has grown steadily in importance during the 1980s and 1990s in the Caribbean region. In addition, the sector has given Caribbean countries employment to a sizable proportion of their population.

However, tourism has further subjected Caribbean economies to outside dependence, making them highly vulnerable. The result of this dependence makes the Caribbean more susceptible to external shocks and more dependent on foreign exchange. This dependence exacerbates the region's instability in employment and national income levels (Higgins 1994: 5). Besides, the growth of tourism (and other services) there has been negligible effects on the development of manufacturing industry. Indeed, the

benefits from tourism growth have been inadequately exploited because of insufficient linkages with commodity production sectors, and failure to upgrade complementary and related service industries such as information services, communication, and banking. As a consequence, there are few linkages between the sectors of Caribbean economies as well as a serious lack of diversification in production.

Adopting the Strategic Approach

An important point which should be made concerns the relationship between Caribbean governments and local communities within the context of the kind of problems confronting their societies, as well as the goals governments have embraced from the standpoint of endogenous development. Attention will have to be drawn to the part played by tourism in the region, as the lack of overall integrated policies has limited its contribution to Caribbean countries' socio-economic development.

In order to maximise the benefits from tourism, the sector must provide an effective stimulus for local agriculture and agro-industrial production. The fact that decisions relating to a particular sector (e.g., tourism industry) tend to have broader implications for the national economy as a whole requires a clear examination of the interacting influences between the promising activities from the point of view of endogenous competency, and those that may provide short-term benefits but offer little hope as a secure basis for future national well-being.

In formulating policies for economic restructuring and diversification, it is essential, therefore, to recognise the critical elements of the system in terms of deriving a long-term strategy. Simultaneously, it is necessary to juxtapose certain facts relating to the structure of Caribbean economies in order to provide what might be called "an integrated development perspective of the system", and to show the relative position of endogenous strategic components. Failure to do so can easily lead not only to short-run, highly partial considerations, and short-term measures dictated by pressing problems (e.g., national debt, stagflation) but also to the adoption of ad hoc approach to development which may be in basic conflict with the goal of a stronger economic fabric (Ramsaran 1983: 378; Karagiannis 2002).

Prospects for future growth in the region have been frustrated and lowered significantly due to foreign exploitation and underutilisation of existing resources, and the severe economic difficulties Caribbean countries have repeatedly faced. The underutilisation of part of their productive capacity is proof of this considerable growth potential. As Caribbean economies operate at well below their level of physical and human capacity,

policies to increase aggregate demand can yield substantial economic gains.

Thus, a first requirement of a thorough development strategy is that the expansion of tourism represents a net addition to the effective use of resources and, therefore, to the overall growth of the system. Tourism growth and, thus, overall economic growth will be led by the growth of demand for the local tourism product (that is, higher occupancy rates), which would translate into higher profits and savings. On the other hand, aggregate demand must be sufficient enough to stimulate production up to the adequate rate of capacity utilisation. However, growth of local production must go hand in hand with special consideration of the countries' external trade. In connection with this, the competitiveness of Caribbean economies must come to the fore (Lopez 1998: 6).

In order to expand industrial production and employment, firms must have the financial means to invest in the necessary machinery, capital equipment, critical kinds of science and technology initiatives, and skills training and upgrading, and short-run bottlenecks preventing a fuller utilisation of capacities have to be taken care of. Likewise, the renewal of tourism requires investment in tourism plant, facilities, and supporting infrastructure. These bottlenecks may include a lack of the necessary resources and skills, difficulties in obtaining finance, and a lack of business confidence.

Hence, a second requirement of a *Developmental State* strategy is that selective economic policies should provide the resources and stimuli to carry out the investments in both working and fixed capital, infrastructure, and the accelerators of development necessary to raise output and to improve the production and commercial conditions of firms and hotels at national and local levels (Cowling 1990: 24; Lopez 1998: 11-12). Active fiscal policy ought to carry out the investments necessary to improve the supply conditions of businesses and to support the other expenditures associated with the selective policy. Monetary policy ought to ensure that sufficient financial resources are channelled to firms and to intermediary agencies at reasonable interest rates. Besides, it should be considered that the increase in output would translate into higher profits and savings (Lopez 1998: 12).

However, bottlenecks at the firm (hotel) or macro level often hamper a more efficient capacity utilisation. These bottlenecks must be seriously considered, would require addressing a number of issues simultaneously, and accordingly a medium and long-term development strategy should have as a basic requirement a close link with a deliberate industrial strategy. Such a directed state action should: (1) consolidate and improve exist-

ing production lines; (2) select and give priority to investments in new and technically promising activities; and, (3) adjust quickly in anticipation of, and in response to, global changes in demand and technological innovation (Lopez 1998: 12-13; Bernal 2000: 107). The criteria are obviously dynamic and forward-looking.

Indeed, industrial targeting should single out areas of emphasis in selected fields, and should be directed towards strengthening the islands' industrial core and upgrading international competitiveness. It should be concentrated on a few focal areas having favourable prospects for development, and be selectively designed so as to support a small group of key dynamic firms managed by modern entrepreneurs. Even a small group of key propulsive industries can be instrumental in emphasising the accelerators of competency and growth, exert pressure to adapt on other supply firms, and introduce modern concepts of policy-making and labour relations. The various spheres of policy (e.g., industrial policy, regional policy) should be directed towards consolidating these focal areas, correcting the imbalances which emerge in the wake of restructuring and repositioning, reconciling contradictory elements therein, and smoothing the path for industrial growth.

What has been asserted should not be taken to imply a rejection of the problems that could arise with the proposed development strategy. But to face them, a sound economic approach ought to complement short-run measures with thorough plans for the future, which include long-term industrial or structural change strategies aimed at diversifying local production, strengthening technological capabilities, and promoting innovation. Greater levels of production, employment, and profits that would be achieved in the short-term owing to the fuller use of available resources, would actually spur a transition to more structurally efficient economies. Part of this increased production and income in Caribbean islands would go to higher spending on the modern factors of competency and lead to faster development of skills of the labour force. Not only higher profits would allow additional investment spending but also a greater proportion of income growth will be channelled towards investment. Hence, in the future, it would be relatively easier to incorporate more modern technology and increase productivity, while at the same time raising accumulation rates (Lopez 1998: 18-19).¹¹

Obviously, for purposes of designing endogenous competency strategies to achieve the development of productive forces and the transformation and diversification of Caribbean economies, technically proficient strategic planning is absolutely necessary –indeed, it is inevitable– and should be directed towards the creation of new conditions and processes to be ef-

fectively and directly determined by the planning authorities. Strategic planning is a pragmatic attempt to increase the countries' long-run capacity to transform themselves by building up the infrastructure and the requisite skills. It is this national strategic planning that can give Caribbean nations their internal autonomy, and determine their capacity for self-determined self-sustained growth and development. In the development of these strategies, local communities generate not only the capacity to spread the use of modern knowledge and industrial techniques into all elements of the economic transformation so as to spur local industrial activities, but they also create a dynamic basis for engagement in the international economy through higher levels of exports (Thomas 1974: 58-60).

Moreover, contrary to the "current orthodoxy", it appears important to emphasise that it would not suffice to establish technologically modern export sectors.¹² Export-oriented production may benefit very narrow sectors and generate limited resources. In fact, Caribbean countries' exports have not usually developed on initial platforms of production for local needs and internal requirements. Instead, local production should be oriented towards satisfying local demand in the first instance with export specialisation occurring as an extension of this. The aim should be to bring about a general improvement in the competency and efficiency of Caribbean economies, in the level of technological infrastructure they rely on, and in the quality of workmanship and service, so that more and more activities may become increasingly competitive.

Modern production techniques, precisely because of their flexibility, make it possible to manufacture in small series on a viable basis. Targeting and flexibility are possible, especially if they can draw on modern industrial planning. Assuming predominance of clear focal areas and initiatives carried out by both competent and effective policy makers and dynamic local businesses, demand for imported capital and goods could decline and exports of local products expand.

Given the recovery of production of local industries and the improvement of their competitiveness, a large part of the additional goods produced will be devoted to exports. Consequently, Caribbean nations would make a greater and better use of their productive resources and capacity, while at the same time easing the constraints on their balance of payments.

In addition, as indigenous technology is the basis for an organic integration of domestic production and demand structures (i.e., human capital formation coupled with consistent technical progress), investment priorities and the choice of technique are determined by the strategies of transformation and diversification, and by the product choices to which these strate-

gies give rise. The overall purpose is to increase the capacity of Caribbean nations to respond at the level of the government, firms, and the population as a whole.

In order to assure realisation of these development goals, economically active states must play a significant role. Likewise, well-educated well-trained and efficient technocratic planners play key roles. The government provides the "national purpose" framework, while the technocrats supply planning and overview. This "national purpose" proves possible to bring together social and political forces in the interests of socially defined agendas. In addition, the growth-oriented transformation must lead in a corporatist direction and strategic partnership between a developmental state, forward-looking businesses, and various social segments. A broad-based consensus is also required and could afford scope for national strategic planning. Besides, if such thorough alternative strategies are to solve such problems, they presuppose participation. Indeed, participation is a vital element ensuring that sufficient motivation, creativity, and human effort is forthcoming to guarantee that such technically proficient strategies can be successfully carried out in the Caribbean.

This is a more feasible and realistic suggestion in light of the fact that these strata and decision-makers which serve the powerful interests of the hegemonic centres and the dominant transnational corporations are those which tend to reject the concept of local development in the region, and seek to maintain the economic and political order of dependent productive structures by siding with backward-looking segments, officials and policy-makers; by engaging in modern experiments with neoliberalism; and also as a result of deteriorating terms of trade, and the astonishing technological developments taking place in the leading industrial economies. However, only under such national strategic planning systems and well-conceived and vigorously executed development plans trade will serve a different function, because Caribbean economies themselves will be reoriented to serve different purposes.

Lastly, any economy is underpinned and imbued by social values, codes of behaviour and ethics, which are in turn reflected in the structure and functioning of government sector institutions and private sector firms. As political will may not be clearly agglomerated and administrative capacity is inadequate in Caribbean states, governments have not been successful in indicating a clear course for the public sector to adopt. Yet, the adjustment of their social and political conditions to their urgent social and developmental needs cannot be avoided. If Caribbean countries are to develop growth-oriented learning-based productive activities, therefore, it would be necessary to adopt a number of measures to remodel their key social, eco-

monic, and institutional factors that will be required to provide the necessary underpinning (Clayton 2001: 15). More importantly, these thorough development strategies assume a much better state action, and would require efficient and competent administrative personnel. But so does any strategy capable of overcoming barriers and laying down the basis of endogenous competency and growth in any developing economy.

Devising the necessary action to stimulate tourism growth and industrial regeneration, while raising the quantity and quality of productive investment necessary to allow the fullest and most efficient utilisation of existing resources, seems to be a more sensible way to confront the future. Such an approach seems, certainly, a better option for the endogenous development and competency of Caribbean economies, than a frantic search for accelerated "Western-style" modernisation – a "vision" that decision and policy-makers in the region aspire to. The alternative and more realistic development paradigm would require the pursuit of Developmental State strategies and policies. This is what Caribbean economies need (Lopez 1998: 19).

IV. ALTERNATIVE DEVELOPMENT POLICY RECOMMENDATIONS

Industrial strategies have not been seen to be pivotal in Caribbean economies; thus, they have not been developed in a systematic or coherent fashion as a centrepiece of their governments' approach to economic policy-making. State interventions have usually been seen as "reactions" to pressing problems, and the policies which flow from these interventions appear to be consonant with the market failure analysis. Therefore, the general concept of a developmental role for the state is rather alien to the general economic and political culture in the region.

Further, fiscal budgets in the Caribbean via the political process often reflect the view of the political parties in power, and the class and interest group biases are usually maintained. Thus, although this deliberate policy is used, in fact the politicisation of the budgetary process in Caribbean states highlights programmes and policies which are akin to what is called "pork barrel policies". This process has a great deal of importance in shaping the fiscal policies of Caribbean governments (Jones-Hendrickson 1985: 83-84).

While the state has survived as a democratic institution (largely so), it lost a great deal of its effectiveness as a development tool because it was transformed into a mechanism for winning elections and meeting populist demands. Because of the "winner takes all syndrome" in Caribbean nations, the state became an instrument of disintegration rather than an institution around which society could cohere to deal with the development

challenge. In a small society, the state is a large institution as an employer and dispenser of resources –hence the intense desire by various groups, not just special interests, to capture it.

During the last two decades or so, neoliberal policies have been the central routes to modern economic solutions in the region. But there are serious doubts about whether these economic policies have been translated into significant social and economic development, endogenous competency, and industrial competitiveness. While appropriate macroeconomic policies can contribute much towards enhancing the performance of local economies, nevertheless such policies only deal with the “symptoms” of deeper structural problems. For this reason, the construction of a production-based approach to economic development and a much sharper focus on strategic industrial policy are seen to be necessary to resolve these deeper problems, and would offer concrete alternative solutions to Caribbean economies. Some alternative policy recommendations for the Caribbean development discourse in general, and tourism industry in particular, are outlined below.

Macroeconomic Steering

Given the importance of macroeconomic steering, there are a number of measures that the government could take in an effort to facilitate conscious development efforts. An appropriate macroeconomic policy should pay particular attention to:

1. a faster, non-inflationary growth of domestic demand;
2. the efficiency and effectiveness of government spending and taxation (which should be maximised);
3. sound government finances/investments;
4. the management of the national debt, which should be designed in the context of the long-term strategy for overall development;
5. competitiveness (the role of imports/exports and the growth of exports);
6. the relationship between the financial sector and the productive sector; and,
7. the social and political environment (or socio-political characteristics).

A proactive fiscal policy would: (1) attempt to reduce non-essential over-consumption; (2) emphasise a prudent government expenditure management and planning (i.e., long-term planned investments in human capital formation, skills, technological capacity, technical change, R&D, innovation and information); and, (3) consider alternative sources of government revenues.

By curtailing over-consumption, the amounts of local savings available for investment purposes could be markedly increased. Besides, various national savings plans and savings vehicles can increase the levels and

shares of Caribbean economies' savings. The savings thus enforced could be channelled by the government into productive prioritised investments. Furthermore, higher levels of output and income ensuing from a higher degree of capacity utilisation and a better utilisation of equipment can be the source of higher levels of savings required to match higher levels of investment (which will bring about further increase in output and income levels and so on).¹³

Monetary policy, on the other hand, ought to: (1) ensure that the overall development effort is not to be thwarted by endemic short-termism, "capital flight", and speculative ventures (that can actually starve the real economy of investment capital); (2) provide a stable financial framework for the successful implementation of government policy; and, (3) ensure that sufficient financial resources are channelled to dynamic industries and to intermediary agencies at reasonable interest rates. This will require significant state intervention in the capital market by means of both direct control measures and interest rate policies. In particular, Caribbean governments will have to issue direct instructions to the banks, close off the options available for rent seeking and capital flight, and guide prioritised investments by selective credit policies.

As financial institutions have a critically important role in this growth process, it is particularly important that they are well-managed, have a clear set of strategic goals, and promote longer time horizons. In this regard, the government must take steps to ensure that the financial services sector is properly supervised (Clayton 2001: 16). Together, appropriate monetary and exchange rate policies to facilitate productive initiatives, and higher levels of national savings to finance higher levels of investment, are essential.

Investments on the Accelerators

Recent developments in the financial markets have significantly encouraged endemic short-termism and various speculative ventures. These developments, in conjunction with weak or absent state supervision, can foster a dysfunctional business culture and a "casino economy" mindset, in which insider trading, conflicts of interest and more direct forms of corruption can increasingly become common (Clayton 2001: 16).

Further, some support the view that the hotel sector's high operating costs in Caribbean islands is a serious barrier which may discourage productive investments. The only logical alternative, then, is to consider the capacity-creating aspect of state spending, and Caribbean governments should rely heavily on higher levels of state investment. Indeed, planned investments on knowledge, training, technological innovation and research will boost the endogenous competency of local economies, towards higher

rates of economic growth and “high wages high productivity”. The key issue here is that investment responsibilities should be closely tailored to the needs of the private sector (again, private investment in plant, facilities, supporting infrastructure, etc. is highly desirable and essential).

Investments in education, health, and nutrition of the poor in particular, not only meet real, basic needs of a wide spectrum of the Caribbean population and increase their welfare directly, but also enhance their capacities for productive labour. Indeed, such investments and/or higher wages can affect the productivity of the poor, thereby enabling them to earn higher incomes, which in turn would permit them to purchase the bundle of goods and services they need with their own earnings (necessary to open up their access to opportunities for a full life). But, on the other hand, social programmes are likely to have limited impact on the countries’ economic growth and competitiveness unless the overall development strategies also contain explicit consideration of growth-generating policies and competency-inducing plans.

Strategic Planning

The growth in dominance, the global perspective and ambitions of the major financial and industrial corporations may cut across the interests of any particular nation. The fundamental issue relates to the asymmetry of power between these large corporations and local communities. This power can be used to secure their own objectives, often at the expense of communities (Cowling 1990: 12). The ultimate consequence of transnationalism is to tear loose the productive capacities of the region. This is an important issue in the Caribbean case. Besides, the direction in which the Caribbean tourism is pointed at present seems to be somewhat random, depending on the current state of the global market rather than based on long-term development plans. Thus, we have a basis for recommending a framework of, and establishing a role for, strategic planning in Caribbean nations.

The second and related reason for requiring strategic planning is the systematic short-termism of the market system, given that financial institutions usually adopt a short-term perspective with regard to investment, and impose this perspective on firms (industries, hotels, resorts, etc.), especially the small ones. Consequently, new or small establishments may be severely constrained in their investment ambitions by the short-term perspective of the financial institutions, since it is these firms (and hotels) which will find difficulties to fund their own growth.

This sort of financial environment is hardly conducive to the rational planning of the long-term future of the industrial base. Short-term decision making is crowding out long-term issues, and leaving businesses weaker in the long term. Hence, within Caribbean economies, we need to establish

institutional structures to plan for the future. Just as there are systemic arguments for relying on the creative dynamics of the market forces to play a centrally important role in Caribbean economies, there are parallel arguments for imposing on these market forces coherent strategies, within which they are allowed to operate (Cowling 1990: 11-12, 13-14).

For local production to achieve its full potential, it is imperative that the state should stay focused and draw up thorough strategies for implementation. Initially it is important to divide consideration of the key issues related to the structure of Caribbean industries into three sections: (1) issues influenced by government policy and general policy issues; (2) issues influenced by specific industries or sectors; and, (3) market-driven issues. On this account, we limit strategic intervention to those parts of Caribbean economies where government intervention is going to have its most significant potential impact on their overall dynamism and intensive economic growth. Indeed, strategic industrial policy targets and centres around strategic sectors, which can be expected to fuel future economic growth. By recognising differentiation of sectors and industries, policy can address the problems that are rooted in the development of these sectors and industries, and thus become effective.^{14,15}

In some sectors, the region already has a strong basis on which to build (e.g., tourism, agro-processing, food production, etc.). These sectors require significant investment spending, rejuvenation and repositioning, and have to address a number of serious economic, social and environmental issues simultaneously; but all of these problems are—in principle—solvable. Provided that the immediate problems are solved, the targeted sectors are clearly capable of considerable further expansion. In fact, the mutually beneficial relationship between tourism and agro-industry can provide the foundation which alternative endogenous development strategies can build on. When the priorities are right, scarce resources will increasingly be allocated efficiently, productivity and profitability will increase, and the propulsive and dynamic sectors will become increasingly attractive to the private sector.

In addition, the growth process is expected to lead to a widening of the local markets,¹⁶ which in turn will require and/or bring about better transportation and communications systems. Hence, after resources have been developed and/or put to use, changes in technology will broaden the Caribbean production base, will provide sufficient stimulus to the mobilisation of resources of all kinds and/or the inducement to invest, will bring about a net addition to the effective use of resources and, therefore, to the overall growth of the region.

The proposed approach takes into account the inter-relations among a number of “stylised facts” such as domestic resources, capital, social structure, the level of technology and skills, scale and transformation.¹⁷ Such a pragmatic approach can successfully contribute to long-term supply-side initiatives aimed at creating or promoting particular sectors and prioritised activities, and create external economies and economies of scale, conditions and opportunities, conducive to faster growth of existing and incoming enterprises (a “big push”). Economies of scale and learning will bring about multiple effects on, and changes in, the structure of local economies. The object, of course, would be to increase value-added to the sectors and strengthen intersectoral linkages (e.g., tourism and commodity production sectors), which would then be capable of spilling their expansionary forces into other sectors and activities: the support and development of indigenous resources, firms and industries; the maximum utilisation of investment (mainly in R&D and skills); the removal of bottlenecks on the demand side which are imposed by the narrow size of the local markets and their poor manufacturing base; an improvement in the range of services likely to be available to people and to industry (e.g., transportation, information); the exploitation of external economies; the application of productivity-enhancing production methods and techniques so as to raise efficiency and competitiveness; the restructuring, transformation and diversification of Caribbean economic activity; and, the capacity to correct the Caribbean tendency towards external disequilibrium and high dependency on foreign economic activity, and withstand the effects of future structural changes and cyclical downswings.

Production and Operations Quality

In this technological age, a quality emphasis should encompass the entire organisation of production of Caribbean economies, from suppliers to customers, including: equipment layout; purchasing and installation of proper machinery and equipment; layout strategy (e.g., capacity needs, inventory requirements, etc.); facility location and expansion; sanitary arrangements and utility specifications; supporting facilities and utilities; refrigeration specifications; products technology training; maintenance training; implementation of quality control programmes; and just-in-time decisions and scheduling.

For both Caribbean firms and Caribbean national economies to compete effectively in the global economy, products and services must meet global quality and price expectations. As the countries (and the whole Caribbean area) face crucial challenges, especially in light of strong international competition, it is essential to ensure that quality standards and value for money are improved. Inferior products will harm the firms’ revenues

and profitability, and will further deteriorate the balance of payments of Caribbean economies (Heizer and Render 1996: 79-80).

Politico-Institutional Changes

In this paper, it is argued that industrial/sectoral strategies and policies should be concerned with the long-term aim of altering (both) the direction and pace of domestic development. However, it is unlikely that significant state intervention would be warranted given the inadequate capacity and competence of government institutions; the institutional impediments to the countries' economic development. For this important reason, the pursuit of interventionist strategies as well as successful and effective policy reforms (a set of wide-ranging changes) would require the politico-institutional structures and means to formulate, implement, and enforce developmental policies and production-oriented selective interventions in certain key sectors of Caribbean economies.

First, determined developmental elites, which surround themselves with skilled development planners and technocrats, are absolutely necessary in order to devise and implement effective national strategies. Besides, it is essential for Caribbean governments to reduce "pork barrel" intervention and patronage so as to insulate decision makers and technocrats from the excessive influence of powerful interests and societal pressure. These executive "new look" elites would possess accurate intelligence, inventiveness, commitment, effectiveness, and active, strategic and sophisticated responsiveness to a changing economic reality (Evans 1992: 148).

Potentially weak central cores or state governments may be captured by powerful interests, and can hardly implement institutional structures that decisively promote structural changes and economic reforms. In addition, changes in the structure of class relations during the last decades induced erosion of political institutions in the Caribbean. In contrast, Developmental States are distinguished by "strong" politico-institutional structures.¹⁸ Building strong technostructures and embedding them into networks of cooperative and consultative relations with targeted dynamic industries and other social segments is both feasible and operational in Caribbean territories.¹⁹

Moreover, competitive wages for well-educated, well-trained technocrats can attract more talented individuals and increase capacity, integrity and professionalism. Indeed, the executive technostructure must be in a position to recruit from among the best and the brightest people of outstanding talent based on meritocratic criteria. Once the central bureaucracy acquires a reputation for attracting the most competent and talented, the system can develop a momentum of its own. It continues to attract such people (even at lower salaries than the private sector) because selection is

based on meritocracy. Its personnel can be motivated by the belief that what they are doing promotes the national development and welfare. This sense of "national mission" can motivate the executive technosstructure to stay focused and use its powers in line with "national purpose" goals. The more the state intends to intervene and to play a leading role, the more important are the staffing, motivation, authority, professionalism and responsibilities of the central core. On the other hand, external pressure on appointments and patronage should be eliminated (Wade 1990: 371).

Secondly, the involvement of business elites and social segments in public policy-making through institutionalised channels represents an adequate means to establish a state-business-society interface by which the mutual exchange of information can be encouraged, risk sharing facilitated, bureaucratic autonomy and flexibility enhanced, and a consensual process of policy formulation realised. This combination of social connectedness and bureaucratic autonomy (which Evans (1995) calls "embedded autonomy") may represent the institutional basis for effective and accountable state involvement in Caribbean economies, while being independent of societal pressures (Ahrens 1997: 125).²⁰

Thirdly, in order to make state activities more effective, both effective procedures and increased participation are of vital importance. Indeed, the new institutional structures must allow for participation at all levels. Furthermore, loose and transparent links between the strategic planning agencies and Ministries and Government Departments involved in the industrial strategies and investment planning (such as Education and Training), and sectoral agencies and local authorities/boards would decentralise much of the work of the executive elites.²¹

To be successful our planning must be democratic, and our institutional structures must allow for participation at all levels. Indeed, participation by the "social partners" can improve the organisation of production and help restrain the power of interest groups which have access to government decision making (Cowling 1990: 28).

Fourthly, preconditions for the practicability and success of these radical policies and alternative strategies in the Caribbean may include: the governments' credible commitment to production-oriented strategies (which include agriculture, industry, and the entire services sector); an improved quality of state action; the replacement of the short-term perspective of the Treasury and the financial institutions with one much more favourable to productive investment and industry; recognition of the importance of state capabilities, capacities, efficiency and effectiveness; accountability, autonomy, professionalism, and manageability of the executive developmental elites; mechanisms of consensual conflict resolution as well as po-

litical and social stability through transparent and efficient procedures; the organisational design of, and the incentives within, the public sector and the institutional environment: incentives to pursue collective ends while restraining arbitrary action, favouritism and corruption (Ahrens 1997: 116).

Lastly, particularly in the course of a fundamental redirection of the existing pattern of development, as in the case of Caribbean economies, simply matching such a radical policy framework to existing political institutions will be counterproductive. Effective governance is a dynamic process that requires continuing "fine-tuning and adjusting institutions and policy solutions to changing technological, social, political, and economic environments" (Ahrens 1997: 119). To the extent that a chosen path falls short in this respect, this will need changes and adjustments in certain policy areas. However, it is difficult to retain a disposition against change in a world where basic conditions are subject to constant mutation. Without such commitments, capacity, competence, accountability, professionalism, seriousness, and effectiveness, such policy will flounder on short-term expedients, the inefficiency and ineffectiveness of the civil service, the power of the transnationals and other foreign interests, or the mindset of the people.

Other Important Issues

The "new" tourism has already begun taking on a different shape – responding to, and internalising a number of signals (social, cultural, technological, ecological, economic and institutional) that emanate from the global environment. Flexible specialisation, as a core element of the "new tourism best practice", is driven by new information technologies as well as new managerial and organisational principles of creativity, scope economies, product differentiation and niche markets (Poon 1993: 274).

Therefore, much more attention has to be placed on these important issues, as the new tourism is a highly complex and volatile industry. Likewise, as new tourism depends upon environmental quality, the issue of environmental protection has to be accorded a greater priority by policy makers in order to cope with a product that has already begun to deteriorate. In fact, although the Caribbean environment is the islands' basic tourism resource, there appears to be a huge gap between this recognition and putting effective controls in place. Hence, a much closer link is required between tourism policy and environmental control and preservation.

Furthermore, good air access to Caribbean territories from all the main generating markets is of utmost importance. As the Caribbean is highly dependent and vulnerable to changes in the structure of air services, the region is facing the prospect of becoming a "service taker" in its main market regions.

Yet, the growing influence of the major Computer Reservation Systems (CRS) in the USA, Canada, and Europe is a further source of concern to the Caribbean. The only solution for the region's carriers may be to form cooperative alliances in the key areas of marketing and scheduling with some of the major carriers in order to avoid being entirely left out (as cost-effective and efficient marketing and distribution are crucial to the success of tourism promotion).

Indeed, the building of strategic alliances and partnerships within and outside of the tourism industry is expected to enhance the competitiveness of the sector (Poon 1993: 273). This action can:

- assist towards establishing a Caribbean-wide air transport policy and promote regional cooperation in air services including marketing agreements;
- improve airport infrastructure;
- monitor Computer Reservation Systems developments closely and ensure that the region in general is not disadvantaged in this area;
- strengthen the capital and management bases of the airlines;
- monitor and forecast air transport developments in so far as these developments affect the Caribbean.

With cooperative arrangements and regional approaches to tourism, Caribbean islands can share the huge expenses of building marketing intelligence systems, information technology networks, and the promotion and public relations campaigns. Likewise, to develop any viable food production programme, a joint Caricom approach should be undertaken. Most individual Caribbean islands cannot grow most of the basic foodstuffs, but collectively this goal could be achieved in order to meet the demands of the region. It is indeed these cooperative arrangements and united effort that can considerably increase the strength of the bargaining power of the entire region (Poon 1993: 276).²²

V. CONCLUDING REMARKS

The current economic difficulties and fiscal pressures in particular, are making Caribbean governments more prepared to tackle difficult institutional issues than would be the case in more normal times. At the same time, the current conditions in world economy may increase the potential advantages of pursuing governed market policies in Caribbean territories.

It is argued here that in a world of imperfect competition, and inadequate access to modern knowledge and know-how to use it, there are sound analytical grounds for following developmental state policies and adopting a production, capital accumulation, and innovation-oriented approach in Caribbean nations. In such a world, the optimal degree of openness or the

optimal degree of competition for Caribbean economies may not be maximum openness and close integration with the world economy. In fact, the neoclassical/neoliberal assertions do not correspond to the real world (e.g., "level-playing field"); consequently, suggestions and solutions which emanate from these paradigms may be inappropriate.

It would generally be wrong to consider that the NICs' economic policy-making could, or indeed should, be transplanted to Caribbean economies which are characterised by different historical and cultural circumstances, and different socio-political characteristics. What is important to learn from the East Asian success story, however, is the approach to the problem (i.e., the strategic approach). To begin to be successful will require a high quality of state intervention and a certain degree of commitment by Caribbean governments to domestic development.

Recent calls for globalisation, further liberalisation and deregulation, minimalist state and "good" governance seem to entirely miss the point: in today's circumstances, Caribbean societies will not be able to build their own capabilities or make speedy transitions from poverty without activist states which approximate the model of a developmental state (ideally but not necessarily the "western democratic type"). Without such states, the human cost of the "New Liberal Order" may be immense in the Caribbean. In short, contrary to the current orthodoxy, development requires thorough strategic action, and this is most likely achieved from Developmental State policies.

Notes

1. Lewis (1950), "The industrialisation of the British West Indies", p. 7.
2. Commonwealth Caribbean Regional Secretariat (1971), *CARIFTA and the New Caribbean*, p. 10.
3. Commonwealth Caribbean Regional Secretariat (1972), *From CARIFTA to Caribbean Community*, p. 17.
4. McIntyre (1971), "Some issues of trade policy in the West Indies", p. 165.
5. Brewster (1973), "Economic dependence: A quantitative interpretation" p. 90.
6. Beckford (1972), *Persistent Poverty: Underdevelopment in Plantation Economies of the Third World*, pp. 183-214.
7. Thomas (1974), *Dependence and Transformation: The Economics of the Transition to Socialism*, pp. 116-17. See also, Thomas (1978), "The 'non-capitalist path' as theory and practice of decolonisation and socialist transformation", pp. 10-36; and Gonsalves (1981), *The Non-capitalist Path of Development: Africa and the Caribbean*.
8. Arthur (1996), "The new realities of Caribbean international economic relations", pp. 47-48.

9. See IICA (1998), *Performance and Prospects for Caribbean Agriculture*, June.
10. Ibid.
11. Both analysis and development suggestions are based on the views of Kalecki (1971) and Kaldor (1978).
12. See, for example, Clayton (2001), "Developing a Bio-Industry Cluster in Jamaica: A Step Towards Building a Skill-based Economy".
13. Again, both analysis and development recommendations are based on the views of Kalecki (1971) and Kaldor (1978).
14. It is argued here that, even under the current conditions of globalisation and the pressures from international organisations such as WTO and IMF, governments still have room for Developmental State policies. In a rather similar vein, Chang claims that "intelligent governments should try [...] to use TNCs in a strategic way in order to acquire necessary capital, technology, marketing networks, and so on. What exactly the "strategic way" means will depend on various factors, such as the country's relative bargaining position, the technological nature of the industry, the role of the particular industry concerned in the bigger scheme of industrial development, and so on ..." (Chang 1998: 111).
 "An intelligent government pursuing a strategic industrial policy will not have a "uniform" policy towards TNCs across industries, as many neoliberal economists recommend. Each industry serves different functions in the greater scheme of industrial development, and it would be foolish to have either uniformly restrictive or uniformly liberal policies towards TNCs across different industries. This also means that the same industry may, and indeed should, become more or less open to FDI over time, depending on the changes in the various internal and external conditions that affect it" (Chang 1998: 111-12).
15. Research suggests that nations which do best in the global arena are those which manage change and use their institutional arrangements to protect their national economies from international vagaries and disorder (Tyson 1992; Chang 1994; Singh 1995 and 1998; Boyer and Drache 1996 –among others).
16. Moreover, stopover visitors expand the domestic markets. Indeed, the growth of demand for an authentic Caribbean flavour (tourist consumption plus food and beverage souvenirs) provides the opportunities for the growth of supply of local specialties by local producers.
17. The proposed framework would also incorporate the informal economy.
18. "Strong" in the sense that the government is able to credibly commit itself to "national purpose" policy making; serious and capable of signaling its commitment to sustainable economic development.
19. This approach allows "considerable autonomy in determining the mode of operation, and adjusting it as experience accumulates". The main objective is "a dynamic economy rather than sticking to a set of rigid rules imposed by a central bureaucracy" (Cowling 1990: 25).
20. "Embeddedness" does not mean cozy relations between the state and individual private firms, but a strategic government-business interface that is distinguished by transparent consultation, cooperation, and coordination mechanisms (Ahrens 1997: 126).
21. In fact, "institutions can formalise the commitment to such [development strategies], and their structure, procedures, and personnel can act to ensure that such commitments cannot easily be reversed, but they are simply ratifying [plans] already established. The history of planning shows how fragile was the commitment, despite the creation of many new institutions [in Caribbean territories], and [the lack of teeth of these institutions was quite

obvious]. With clear goals, and a determination to pursue them, institutions with teeth should be forthcoming" (Cowling 1990: 23).

22. The past history of intra-regional cooperation is not such as to raise hopes very high.

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