Measures to Stimulate Growth in the Caribbean

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Introduction

• Challenges not caused by global financial crisis. Rather, they were aggravated by it:
  - reduced access to finance;
  - falling FDI;
  - reduced fiscal space; and
  - reduced demand.

• Policies to stimulate growth must address fundamental restructuring of economic activities and incorporate risk reduction from disasters and climate change effects.
Economic Performance: economies moving at two speeds

• Commodity producers have shown better performance since the crisis/but more dependent on primary commodities

• Service producers affected by:
  – decline in tourist arrivals;
  – fall in FDI; and
  – initial reduction in remittance inflows.
Economic Performance

REAL GDP PER CAPITA (relative to US)
(2005 $US)

GDP GROWTH RATE
(Percent)

- Goods Producers
- ECCU
- Other Tourism Based
Debt

Fiscal Flexibility Index, 2001-2013

EXTERNAL DEBT VS DOMESTIC DEBT, 2012
(Percent of GDP)
Unemployment ranges between 11% and 24%, and is higher among women and youth.
Sources of the challenges

The Current Account Deficit

Using a VARMA approach with restrictions we find unidirectional or bi-directional causation between CA(current account) and FB(fiscal balance) with few exceptions. Pressures from expanding current account deficit force governments to maintain expenditure even with declining revenue.
Sources of the challenges

**Losing Competitiveness**

Due to a number of factors:

- falling labour productivity
- falling total factor productivity
- falling import productivity
- limited investment in R&D
- inefficient administrative bureaucracy
- failure to expand exports at the intensive (increases in exports to current markets) and extensive margins (new exports of existing products to new markets, new exports of new products to existing markets, new exports of new products to new markets).
Sources of the challenges

Ratio of shares of visitor expenditure to shares of visitor arrivals

Index of Travel Service Exports, 1980-2011

- Goods Producers
- Service Producers
- Caribbean
- Developing Economies
- CARICOM
- OECS + Bahamas + Barbados + Jamaica

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Sources of the challenges

**Investment Issues**

- Decline in domestic investment for both goods and service producers (despite excess liquidity)
- Limited spillover effects and lack of inter-sectoral linkages limit the impact of FDI. Gross investment to GDP is fairly high.
Sources of the challenges

Export concentration and low technology intensity of exports

• Heavy reliance on a few activities and source markets for exports
• The Caribbean, as a result, is extremely vulnerable to external shocks
• Business cycles in major export markets highly correlated to Caribbean economic performance. Caribbean downswings are similar to other areas but upswing in investment is shorter (ECLAC 2012).
Sources of the challenges

Technology Intensity of Exports in Caribbean Countries

(Percentages of total exports)

- Primary Products
- Natural Resources-based manufactures
- Low-tech manufactures
- Medium-tech manufactures
- High-tech manufactures

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Recommendations (short run/low hanging fruit)

- Fiscal consolidation programs must be continued to reduce debt overhang. In some cases fiscal rules may be necessary.
- Create more efficiency in business environment especially in areas not dependent on new resources.
- Explore opportunities for public/private partnerships (to reduce private risk).
- Increase efficiency in public expenditure while maintaining social protection.
- Medium term strategy for sustainable growth through structural reforms.
Recommendations (medium term)

Significant gains will come through four areas:

– Diversifying markets and activities and development of skills for provision of global services (not just for the domestic market) - industrial restructuring. Policies vary by service vs goods producers.

– Renewed focus on building technical capacity at the regional level.

– Removal of barriers to joint production and competition within the region (includes movement of people).

– Encouraging the use of renewable energy and energy-efficient practices which can result in cost savings.
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