Economic Diversification and Sustainable Development: Implications for the Caribbean

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Special Security Concerns of the Small Island States of the Caribbean

The Link Between Security and Development in the Caribbean
INTRODUCTION

• The Caribbean region has made some progress in terms of economic development with a number of countries having achieved middle income status.

• Nevertheless, there remains a number of development challenges related to the slowdown in productivity growth, weak export competitiveness in some sectors, unsustainable fiscal deficits and debt, as well as exposure to natural disasters and climate change related challenges.
Outline

- Link between economic diversification and sustainable development
- Challenges to economic diversification and sustainable development
- Efforts to diversify in the Caribbean
- Implications of diversification for the Caribbean
The Link between Economic Diversification and Sustainable Development

- Economic diversification refers to the process whereby a growing range of economic outputs are produced.
- Lack of economic diversification increases vulnerability to fluctuations in the markets for a country’s primary produce.
- Against this background, a pertinent question is whether the issues of adaptive capacity and long-term prospects can be effectively addressed by economic diversification alone?
The Link between Economic Diversification and Sustainable Development

- It is necessary to integrate economic diversification into sustainable development as sustainable development is a much more pertinent perspective and has the capacity to fundamentally strengthen adaptive capacity and safeguard economies’ long-term prospects in the face of vulnerable depleting natural resources.

- Sustainable development is the development that meets the needs of the present without compromising the ability of the future generations to meet their needs.
The Sustainability Triangle

Economic Sustainability:
Technical progress; man-made capital; diversity

Social Sustainability:
Empowerment; inclusion; governance

Environmental Sustainability:
Resilience; bio-diversity; natural resources

Inter-generational equity
values/culture

Natural capital
Incidence of impacts

Human/social capital
Basic needs
Intra-generational equity

SUSTAINABLE DEVELOPMENT
The Link between Economic Diversification and Sustainable Development

- Economic diversity is often the consequence of long-term economic growth and structural changes.
- The relevance of the inter-play between economic, social and environmental sustainability to sustainable development corroborates the hypothesis that economic diversification is necessary for adaptive capacity and long-term prospects of a nation.
- The implication is that the objective to promoting economic diversification can be best achieved by pursuing sustainable development. However, given the lack of geographical resources and social impediments significant work needs to be done in developing human and social capital in the Caribbean region.
There are real and substantial barriers to and between economic diversification and sustainable development.

Caribbean economies ideally should aim for a balanced blend of competition and integration to promote competitiveness, growth and sustainable development.

However, with persistently high debt service ratios and fiscal imbalances, coupled with significant vulnerability to natural disasters and security threats, the benefits of competition are easily eroded.
Optimizing the benefits of competition requires a careful calibration of policies focusing on the development of social and human capital in the Caribbean region. There are, however, several factors that may handicap this developmental process. One such prevalent factor is crime, as it destroys social and human capital.

The development of many Caribbean countries has been crippled by crime and corruption. Illegal activities in any country in the region have the potential of spilling over into and affecting other Member States and undermine the economic viability of the region.
The major threats to the Region’s security and sustainable development are transnational organised criminal activities involving illicit drugs and illegal guns; gangs and organised crime; cyber-crime; financial crimes and corruption.

Against this background, crime has become a significant source of vulnerability in the Caribbean because of its negative effects on the cost of investment and other business activities, the cost of personal security and household asset protection.

Of note, poverty, unemployment and underemployment, inequalities, the rising cost of living, social exclusion and marginalisation and governance failure provide an enabling environment for criminality to flourish.

Unemployment remains a key policy concern in most Member States, with unemployment rates between 10.0 per cent and 25.0 per cent. The current weak state of the global economy places an added burden on Member States, making the Region more vulnerable to the threats posed by gangs and transnational organised crime syndicates which thrive in areas where poverty is prevalent and opportunities are limited.
Efforts to Diversify

- **Barbados**: In addition to tourism and Free Trade Zone, the country developed offshore financial services and information processing, call centres operations, software, international business corporations (IBCs), legal services related international finance, and marketing/advertising/design services.

- **Jamaica**: Information, communication and technology (ICT) sector has developed into an area that contributes significantly to economic development. The entertainment sector has also expanded with international film industry creating synergies, and more than 50 active recording studios. In addition, tourism, health spas, and non-traditional crops have increased their importance.
Efforts to Diversify

- **Trinidad and Tobago**: The country developed areas such as civil engineering services, marketing/advertising/design services, musical instruments, oil and gas refining, liquid natural gas (LNG) production, petrochemicals, management consulting, training, accounting, hotel design and construction, as well as a dynamic tourism and entertainment sector focused on music and local traditions.

- **Bermuda**: In addition to tourism, which continues to be a very strong sector, the country focused economic activities on the financial sector (insurance, mutual funds and IBCs).

- **Cayman Islands**: Diversification in the financial services sector.

- **British Virgin Islands**: Diversification in health services, cosmetic surgery and tourism.

- **Antigua and Barbuda**: diversified from sugar in the 1960s to tourism in the 1970s and offshore financial centres (OFCs) in the 1980s and 1990s (mostly IBCs) and in the last decade into internet gaming.

- **St. Kitts and Nevis**: The dominant activity evolved from sugar in the 1960s to tourism in the 1980s and OFCs in the 1980s/1990s. In more recent times, internet gaming and call centres are growing in importance.
Efforts to Diversify

- **Dominica**: Still concentrated on the banana and coconut products. The effort to develop an offshore sector and an economic citizenship activity (selling of passports) was not as successful as anticipated.

- **Grenada**: Attempted to substitute sugar by crops and spices, tourism, and data processing.

- In-country **Government** policies as well as assistance from multilateral institutions to encourage economic diversification and development through trade policy regimes as well as regional trade policy established by CARICOM.

- The **CARICOM Development Fund** (CDF) has been integral in assisting the lesser developed Caribbean countries in their thrust to economic diversification through its Country Assistance Programme (CAP).

- CDF’s intervention in aiding regional growth and development and in-country economic diversification is generally aimed at providing support to: (i) reducing regional disparities; (ii) enhancing competitiveness; and (iii) promoting investment in areas such as ICT, agriculture, tourism, and climate change.
Caribbean nations and the region as a whole have made attempts at devising strategies towards achieving sustainable development.

- Caribbean community single development vision (2007) sets out a development strategy for CARICOM under the following categories: function co-operation activities; self-sustaining economic growth; the elimination of poverty and the attainment of full employment; geographically equitable growth; security, equity and social justice; environmental protection and ecological sustainability; and democratic, transparent and participatory governance.

- The OECS development charter and development strategy (2002) has the objective to achieving a balanced and sustainable economic and social progress and cohesion, economic growth, development and competitiveness by convergence and coordinated economic policies.

- In addition, a number of strategies at the national level have been coordinated, these include: Barbados – National Strategic Plan of Barbados 2005-2025; Trinidad and Tobago – Vision 2020; and Jamaica – Vision Jamaica 2030. The primary objectives of the strategies at the national level are to attain sustainable economic transformation and competitiveness, human development, good governance and environmental protection.
• Without the mobilisation of long-term savings to support the consolidation of future growth and development, there cannot be any sustainable economic development.
• To achieve inclusive growth, macro-economic stability and sustainable development of the Caribbean region, it is imperative to foster a culture of savings and wealth creation, Sustainable development cannot be achieved with the dependence on the production of a single good/service.
• There are a number of ‘sunrise’ industries that are being explored as sources of diversification. These include for example, agro-industry, ICT (including new APPS and animation), electronics, renewable energy, LNG production and international financial services.
Implications

- Policies to diversify should focus on the non-traditional sectors that have emerged as signs for expansion and may contribute to further expand Caribbean economies.
- Non-traditional agricultural crops and the electronics sector have grown in terms of exports and output, but there is potential for more growth and development in these areas.
- The ICT sector is also a significant source for future export earnings and employment.
For the Caribbean region, the future is potentially promising in terms of economic diversification and sustainable development.

However, given the threats and risks posed by crime and security, CARICOM Member States should have integrated policies that are regional in scope, and are complemented with a strong regional security framework that is adequately financed and fully supported by all Governments.

To fully harness the benefits of the global environment, Caribbean countries should strive to create an environment that is attractive to trade, investment, and skill accumulation.