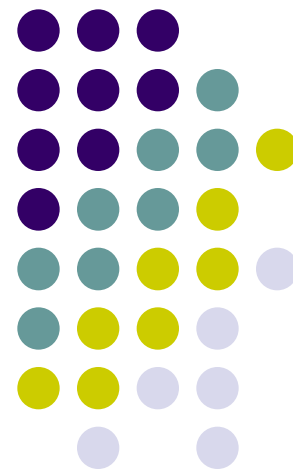


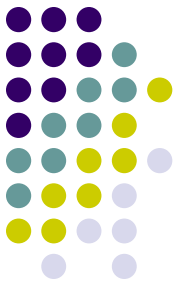
# IMPERATIVES FOR CARIBBEAN ECONOMIC GROWTH\*

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Professor of Economics and  
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University of the West Indies*

*\*Institute of Chartered Accountants of the Caribbean,  
31<sup>st</sup> Annual Conference, Hilton, Barbados,  
June 27-29, 2013*

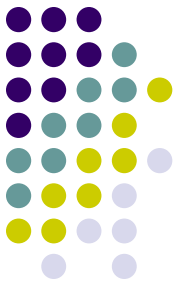


# STRUCTURE OF PRESENTATION



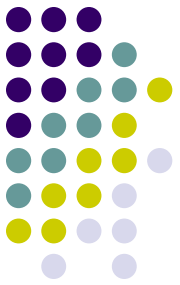
- *Economic Growth in the CARICOM Region: Some Stylized Features*
- *Determinants of Economic Growth in the Caribbean*
- *Imperatives for Accelerating Economic Growth*
- *Role of the Accounting Profession*

# ECONOMIC GROWTH IN THE CARICOM REGION: SOME STYLISED TRENDS



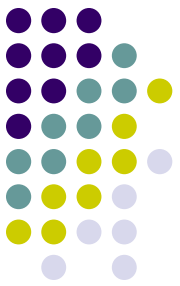
- *Economic Growth* –the *continuous increase* in the production of goods and services within a country as measured by the gross domestic product (GDP) adjusted for increases in prices ( ie constant price or real GDP)
- The focus is on the “*long term*” *trend* in the production of goods and services ( commodities)

# ECONOMIC GROWTH IN THE CARICOM REGION: SOME STYLISED TRENDS



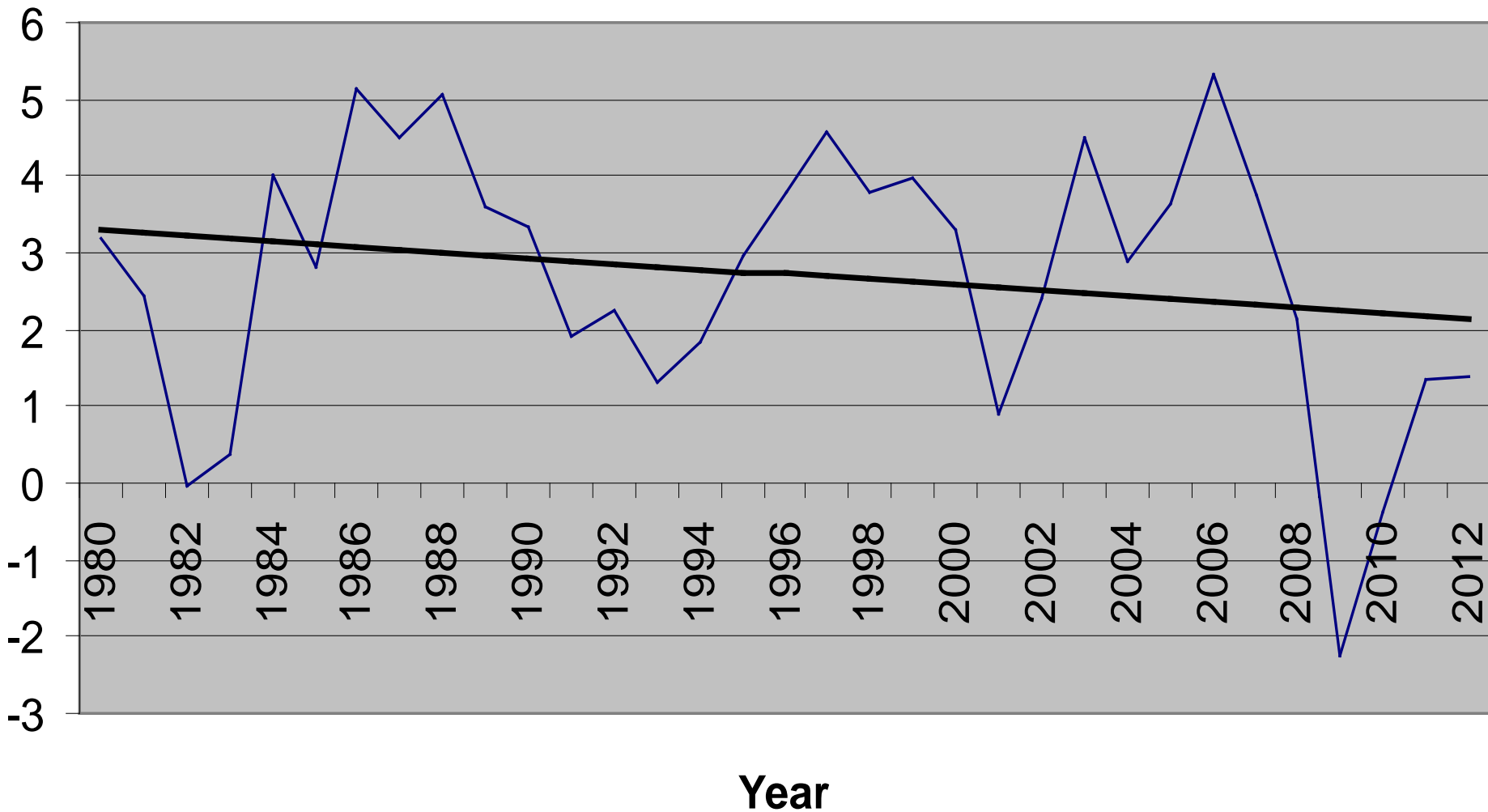
- One can have
  - The production of *more existing* goods and services
  - The production of *new goods and services* (key role of *innovation and entrepreneurship, research and development*)
- The dynamics of economic growth involves *the process of creative destruction* —replacement of sunset industries/entities with sunrise industries/entities.
- ***Economic Growth is important for:***
  - Improving livelihoods
  - Poverty reduction
  - Employment growth
  - Government Revenue
  - Profitability
  - Social and economic development etc

# ECONOMIC GROWTH IN THE CARICOM REGION: SOME STYLISED TRENDS

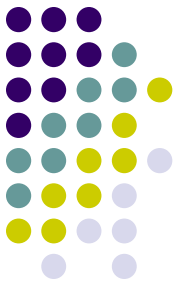


- Over the period **1980 to 2012** economic growth in the region has been characterized by the following:
  - Declining average annual growth rates ( a general ***downward trend*** for almost all countries):
    - **1980-89: 3.12 %**
    - **1990-99: 2.97%**
    - **2000-09: 2.30%**
    - **2010-12: 0.78%**
  - High degree of ***volatility*** as measured by the standard deviation of the growth rates. Growth has been disrupted by shocks—economic and environmental ( e.g. hurricanes in Grenada and Jamaica). Case of Boom and Bust in Trinidad& Tobago.

# Average Growth Rate of Real GDP for CARICOM 1980-2012 (%)

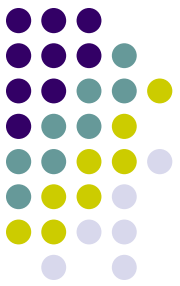


# ECONOMIC GROWTH IN THE CARICOM REGION: SOME STYLISED TRENDS



COUNTRY	AVERAGE RATE 1980-2011 (%)	TREND (1980- 2011)	VOLATILITY ( Stand Deviation )
Antigua/Barbuda	3.53	Down	5.17
The Bahamas	2.28	Down	3.56
<b>Barbados</b>	<b>1.04</b>	<b>None</b>	<b>3.01</b>
Belize	5.70	Down	5.68
Dominica	3.12	Down	3.57
Grenada	3.42	Down	4.75
Guyana	1.48	Up (low base)	4.86

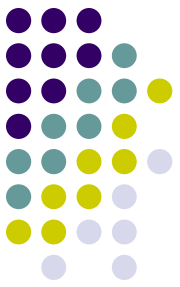
# ECONOMIC GROWTH IN THE CARICOM REGION: SOME STYLISED TRENDS



<b>COUNTRY</b>	<b>AVERAGE RATE, 1980-2011(%)</b>	<b>TREND(1980-2011)</b>	<b>VOLATILITY (Stand Deviation)</b>
<b>Haiti</b>	<b>0.56</b>	<b>Up ( low base)</b>	<b>3.83</b>
<b>Jamaica</b>	<b>1.39</b>	<b>Down</b>	<b>2.75</b>
<b>St Kitts/Nevis</b>	<b>3.89</b>	<b>Down</b>	<b>3.75</b>
<b>St Lucia</b>	<b>3.88</b>	<b>Down</b>	<b>4.82</b>
<b>St Vincent</b>	<b>3.67</b>	<b>Down</b>	<b>3.57</b>
<b>Suriname</b>	<b>1.40</b>	<b>Up</b>	<b>4.58</b>
<b>Trinidad/Tobago</b>	<b>2.69</b>	<b>Up</b>	<b>5.79</b>

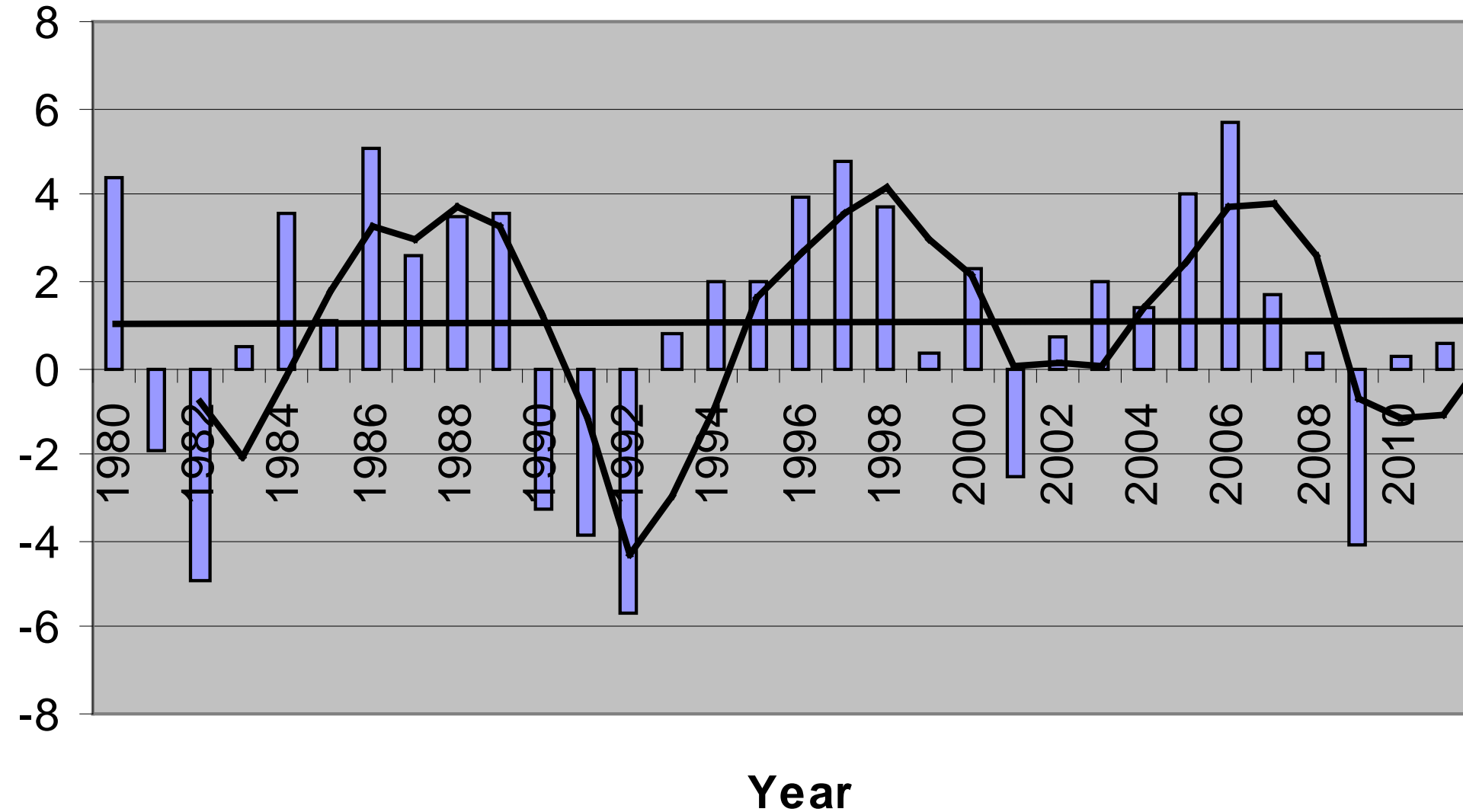


# ECONOMIC GROWTH IN THE CARICOM REGION: SOME STYLISED TRENDS

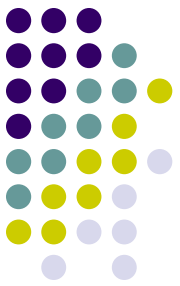


- Growth rates and the cycles of economic activity have been influenced by the growth rates of developed countries---***synchronized economic/business cycles*** with USA, UK and Canada
- Growth rates have been influenced largely by ***the export of a single commodity*** ( eg tourism, minerals, agriculture product)
- During the “Great Recession” the “***goods producers***” ( Guyana, Suriname and to some extent Belize) performed much better than the “***service providers***”
- There is some evidence that it is ***taking longer to come out of recessions***, which point to structural issues in some economies ( see Barbados’ case)

# Barbados Growth Rate of Real GDP 1980-2012 (%)

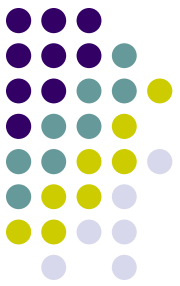


# ECONOMIC GROWTH IN THE CARICOM REGION: SOME STYLISED TRENDS



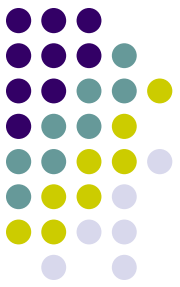
- The growth slowdown has been associated with a “***middle income trap***” where countries have been able to make the transition from low to middle income status through sectoral diversification but seem unable to make the big push through to the “high income” stage.
- Using the World Economic Forum **classification of development stages:**
  - **Stage 1 ( factor-driven economies)**--Guyana
  - **Stage 2 ( efficiency-driven economies)**—Jamaica and Suriname
  - **Stage 3 (innovation-driven economies)**
- Barbados and Trinidad and Tobago are transitioning from Stage 2 to 3

# ECONOMIC GROWTH IN THE CARICOM REGION: SOME STYLISED TRENDS



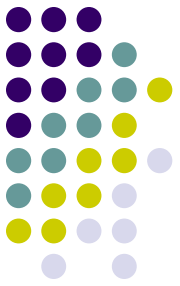
- There has been a *decline in total productivity growth in the region* which has also contributed to the slow-down in overall economic growth
- There are *divergent growth rates* across the region
- Is this the end of the *Golden Age of Economic Growth* in the region as *knowledge/technology/innovation/entrepreneurship* become prominent factors in the growth process worldwide?
- Understanding the factors which drive economic growth has pre-occupied the minds of economists in recent years as the so-called *endogenous theory of growth* takes root

# DETERMINANTS OF ECONOMIC GROWTH IN CARIBBEAN



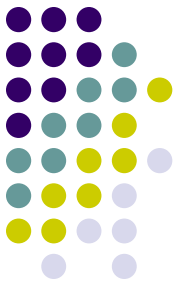
- Sir Arthur Lewis: *Theory of Economic Growth* (1955) emphasized the following factors:
  - *savings*
  - *Capital accumulation/investment*
  - *Growth of knowledge and application of new ideas (research and development)*
  - *International trade*
  - *The framework of private-public sector relations*
  - *Institutions—property rights, economic freedom etc,*
- These factors are reflected in the modern econometric research on economic growth in various countries (ie *endogenous growth theory*)

# DETERMINANTS OF ECONOMIC GROWTH IN CARIBBEAN



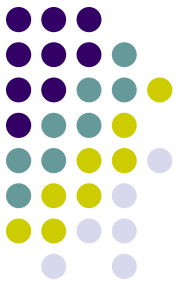
- **Research on economic growth in small states including the Caribbean point to the main drivers and constraints on growth:**
  - **Drivers:**
    1. ***Exports ( tourism, minerals, agro products)***
    2. ***Foreign direct investment ( to close the savings – investment gap)***
    3. ***Human capital (esp skilled labour—role of education and training)***
    4. ***Financial resources ( domestic credit, long term financing, equity)***

# DETERMINANTS OF ECONOMIC GROWTH IN CARIBBEAN



- **Constraints:**
  1. ***Inflation***
  2. ***Debt growth ( esp external)***
  3. ***Volatility and uncertainty***
  4. ***Government intervention ( esp distorting tax measures)***
  5. ***External shocks ( eg hurricanes, price hikes)***

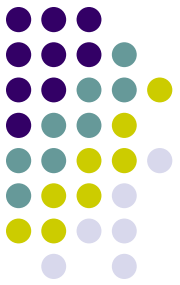
# DETERMINANTS OF ECONOMIC GROWTH IN CARIBBEAN



- These factors highlights the importance of ***trade, education and training, macroeconomic stability, the role of the State and Government policies, the quality of institutions and risk mitigation*** in the economic growth process of small developing countries of CARICOM

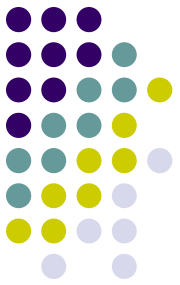


# DETERMINANTS OF ECONOMIC GROWTH IN CARIBBEAN



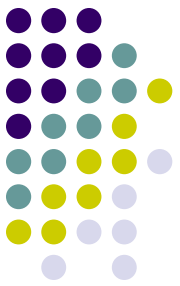
- Surveys of firms and businesspersons in the region in recent years ( WEF and IADB/CC) indicate that the following ***constraints affect business operations and growth in the region:***
  - ***Access to Finance***
  - ***Crime, Theft and Disorder***
  - ***Corruption***
  - ***Inadequately Educated Workforce and Poor Work Ethic***
  - ***Inefficient Government Bureaucracy, Government Regulations and Taxes***
  - ***The Practices of the Informal Sector***
  - ***Inadequate Infrastructure, Electricity Supply and Transportation***

# DETERMINANTS OF ECONOMIC GROWTH IN CARIBBEAN



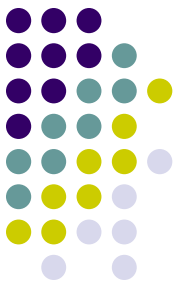
- The World Bank's Doing Business Regional Average Rankings also indicate *constraints to business growth and overall economic growth*:
  - *Registering property*
  - *Enforcing contracts*
  - *Resolving insolvency*
  - *Paying taxes*
  - *Getting credit*
- Understanding the factors (inputs) which influence the growth process and the environment and constraints facing businesses provide the prelude to identifying the imperatives for promoting growth.

# DETERMINANTS OF ECONOMIC GROWTH IN CARIBBEAN



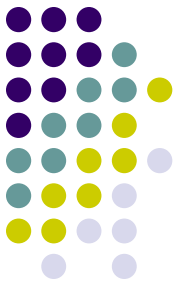
Indicator	Ranking 2012	Ranking 2013
Starting a Business	72	74
Dealing with Construct Permits	58	58
Getting Electricity	55	53
Registering a Property	135	139
Getting Credit	91	92
Protecting Investors	53	67
Paying Taxes	97	100
Trading Across Borders	73	81
Enforcing Contracts	122	123
Resolving Insolvency	104	106
<b>Total No. of Countries</b>	<b>183</b>	<b>185</b>

# IMPERATIVES FOR ACCELERATING ECONOMIC GROWTH



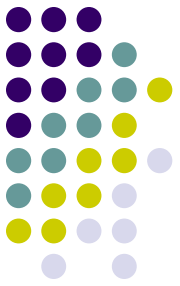
- **Strategy** refers to a plan of action or a set of policies designed to achieve a major goal/vision. It involves making choices given an assessment of the environment and available (potential) resources.
- For **reversing** the growth trend and **accelerating** economic growth in **THE REGION** one needs to
  - ***Establish long term goals for economic growth ( improved quality of life, poverty reduction, employment creation etc)-- sustainable economic growth, pro poor growth etc concepts***
  - ***Establish areas for specific urgent attention—industries, sectors, markets, constraints on growth etc***
  - ***Identify resources, systems, policies, programs to facilitate the growth process***
  - ***Promote macroeconomic stability for growth and development ( ie **development macroeconomics**)***

# IMPERATIVES FOR ACCELERATING ECONOMIC GROWTH



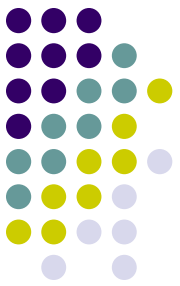
- Development Plans and Strategies are available:
  - [Barbados](#): National Strategic Plan and Medium Term Strategy for Growth and Development
  - [Jamaica](#): Vision 2030 Strategic Plan
  - [Trinidad & Tobago](#): Vision 2020 Strategic Plan
  - [OECS](#): Development Strategy
  - [CARICOM](#): Strategic Plan for Regional Development (SPRD) with its Single Development Vision for the region
- These Plans and Strategies have identified **Renewable Energy, Creative Sector, New Manufacturing, Agro-processing, ICT, Specialty Tourism, Transportation and International Business** as key areas of the **New Growth** path in the region

# IMPERATIVES FOR ACCELERATING ECONOMIC GROWTH



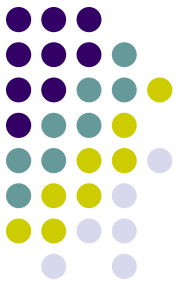
- International growth trends indicate a *two speed process* with traditional markets ( USA, UK, Canada, Europe) at a *lower speed* than *developing and emerging markets ( BRICS, Chile, Columbia, Mexico, Indonesia, Malaysia Thailand)*—theme of recent UNDPs' HDR –*The Rise of the South*
- The developed economies are having a *slow recovery* from the Great Recession
- Some Caribbean countries have *accumulated high level of public debt* ( debt to GDP ratio over 90% for Antigua and Barbuda, Jamaica, Grenada and St Kitts Nevis in 2012) which can constrain/drag down growth especially with IMF programs in place

# IMPERATIVES FOR ACCELERATING ECONOMIC GROWTH



- **Transitioning from macroeconomic management focus to a growth focus** especially since countries would require to reduce their fiscal deficits (fiscal consolidation) would require the *synchronization of the reduction in fiscal expenditure with the expansion of selected private sector investment* in order to reduce the adverse effects of reduced expenditure on the economy.
- New investment would have to benefit from *fast-track treatment* (especially if earning or saving foreign exchange) as part of an efficient business facilitation system
- Countries with high (external) debt would have to *service/restructure/reschedule their debt* to avoid credit and reputation challenges from rating agencies and *reduce the rate of debt accumulation*
- Inflation rates must be *kept low* and adequate foreign reserves must be *maintained*

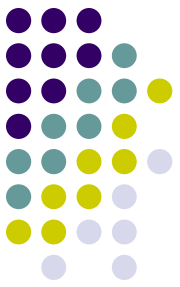
# IMPERATIVES FOR ACCELERATING ECONOMIC GROWTH



- The Region urgently needs to:
  - Strengthen diplomatic and trade links with new trading partners with upward growth trends. Such mission should be given *targets* to reach with respect to exports and investment— ***Blue Ocean strategy***
  - Promote the use of trading agreements with established trading partners— eg EPA with greater information flow on accessing market for new goods and services via EPA Units. ***Supply and market access constraints should be removed— trading and marketing strategy***
  - Strengthen the educational system at the tertiary level to create a pool of skill persons in technical and vocational areas ( the missing middle problem in the labour market—40 % of labour force uncertified and public service lacking mid-level persons)— ***HDR strategy***

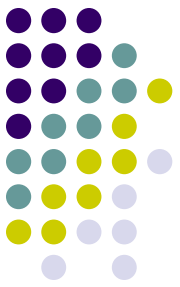


# IMPERATIVES FOR ACCELERATING ECONOMIC GROWTH



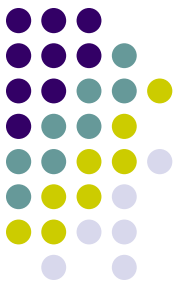
- Establish new arrangements for financing new and expanding enterprises with strong foreign exchange potential ( saving or generating) and integrated with technical assistance. Enhanced *role for the CDB* to access funds, new members, CC funds for **Green** and **Blue** economic activity and also for *Credit Unions*— *development finance strategy*
- Engage in a reform of regulatory and legislative system to reduce transactions costs—use of IT and setting of standards for activities, boost overall productivity and facilitate business transactions ( approvals, permits, licenses, rebates etc) —*institutional reform strategy*
- Establish an incentives system in the public sector to create greater response in light of the above reform system and boost labour productivity/performance –*incentives strategy*

# IMPERATIVES FOR ACCELERATING ECONOMIC GROWTH



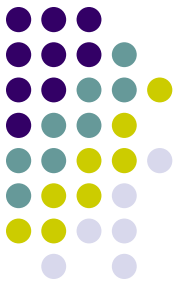
- Develop a private sector development plan to guide the Government's facilitation process. For example *a plan to boost agricultural production to reduce the high import bill for countries and to develop agro-processing facilities* – *private sector development strategy*
- Deepen the Social Partnership at the firm level to enhance greater cooperation/consultation, boost productivity, provide for decent work, building trust creating workplace flexibility etc – *institutional strategy*
- Establish a coordinating agency ( national and regional levels) for growth and development initiatives—allows information sharing and focused activity and promotion of investment along with monitoring—*coordinating strategy*
- Promote greater regional cooperation as part of a production integration process using the SPRD as a base for regional development – *regional integration strategy*

# IMPERATIVES FOR ACCELERATING ECONOMIC GROWTH

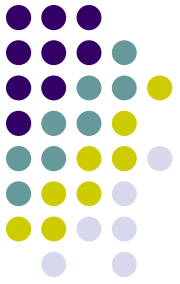


- *Create and investment plan for the countries/region with respect to FDI, public infrastructural investment, improvement in the quality of production assets( eg hotels, public buildings) and linked to the financial strategy. PPPs can form part of this strategy –**Investment Strategy***
- *Improve the social/governance environment/arrangements within which businesses have to operate – reduction in criminal activities, removal of corruption --**human security and governance strategy***
- *Strengthen social protection schemes to provide support for the vulnerable and poor---**social protection strategy***
- *Implement, monitor and evaluate agreed policies, programs, projects in a timely manner---**implementation strategy***

# ROLE OF THE ACCOUNTING PROFESSION



- *Ensuring proper costing and good cost controls to assist with price competitiveness*
- *Ensure proper financial management to economize on scarce resources*
- *Promote the implementation of productivity/performance based payment schemes to boost productivity and motivate workers.*
- *Provide funds for training and development and also research and development*
- *Prepare Value Added accounts to tract the contribution of firms to overall output*
- *Adopt good ethical practices to reduce the cost of doing business and eliminate corruption*
- *Work with other professionals to promote business expansion and overcome the challenges of doing business ( eg. timely responses to requests, seeking alternative sources of finance, reducing wastage)*



***Thank you***