

"THE CARIBBEAN REGION, THE YEAR 2000 AND BEYOND:
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by

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The Caribbean region was described in the early 1980's by the Reagan administration as a "circle of crisis" among others in the world. This was after upheavals in many Caribbean Basin countries -- Trinidad and Tobago, Curaçao, Panama, Nicaragua, Dominica, Grenada, Suriname and elsewhere --following the "oil crisis" and recession in 1973-74, and in quick succession after 1977, a second oil shock, falling terms of trade and extremely high interest rates.

In early 1976, the former Caricom Secretary-General (later Deputy Secretary-General of UNCTAD and UN Assistant Secretary-General, and Vice-Chancellor of the University of the West Indies) told the Summit meeting of the Caribbean Economic Community that the region was faced with "unprecedented difficulties" including a 20 per cent inflation rate, the "scandalous" food importation bill of US\$1,000 million, a worsening balance of payments problem, and the need for 150,000 jobs for full employment by 1980. And he lamented the shortage of funds for the public sector and "startling increases" in consumption expenditure.

Today, nearly two decades later, after some trade concessions by the United States of America and Canada, numerous diagnoses by "12 wise men", 20-odd academics and technicians, the prestigious West Indian Commission and structural adjustment, the Caribbean region is again in a serious crisis situation. The food importation bill is now over US\$2 billion. Less than 10 per cent of total trade is between the Caribbean Community countries. Unemployment has soared and the "unprecedented difficulties" have been exacerbated.

The narrowly-based Caribbean economy, according to a Caricom Secretariat study, was not able to take advantage of the free trade provisions of the Caribbean Basin Initiative (CBI) and Canada's Preferential Trade Scheme for the Commonwealth Caribbean (CARIBCAN). The statistics showed a bigger trade balance gain for the United States of America during the "lost decade" of the 1980's.

The major Caribbean export products -- sugar, bananas, petroleum, bauxite -- showed a poor performance because of external and internal factors. Of the 17 Borrowing Member Countries (BMC's) of the Caribbean Development Bank (CDB), the GDP growth rate in 1993 of 7 of them was higher than in 1992, 3 registered no change from the previous year, and the last 2 showed only declines.

The CDB President, Sir Neville Nicholls, told a Press Conference on February 1, 1994:

"When taken as a whole, the Region's economic performance was still less than satisfactory because the major economies were the most disappointing and the impact of their minimal progress will be felt by the whole Region."

The Most Developed Countries (MDC's) of the Commonwealth Caribbean of the early 1960's have become virtually the Least Developed Countries (LDC's) with negligible growth rates and explosive problems. The slow recovery from recession in the industrialised countries did not greatly assist them.

Banana production and exports, which play a vital role in the economies of the Windward Islands (LDC's) fell sharply during 1993, both in volume and earnings. This was due to depreciation of sterling against the dollar and changes in marketing arrangements in Europe. Lower-cost Latin American fruit has been provided access to the European market, and eventually there will be a phasing out of the preferential market access of the African/Caribbean/Pacific (ACP) countries.

Sugar production in the Region declined by about 3 per cent from the 1992 level of 732,000 tons. Returns on sugar were tempered by reduced quotas in the United States market and a lowering of the world market price.

Petroleum production showed a declining pattern in recent years. Output of crude petroleum in Trinidad and Tobago fell by 7.8 per cent during the first three quarters of 1993, due to a fall in the international price.

The performance of the bauxite industry in the Region continues to be disappointing, largely due to weak international markets.

The only "industry" making gains was tourism, responding to slow recovery from recession in the industrialised countries, particularly the USA. But this service industry is faced with threats from crime, violence, narcotics, high service charges and competition from cruise ships and other attractive tourist destinations.

Social problems are becoming acute. Nearly a decade ago, the "Twelve Wise Men", headed by Nobel Prize Laureate Sir Arthur Lewis, had noted high unemployment in some territories of nearly 30 per cent and warned that it could become an explosive problem. Referring to the present grave situation, the CDB's President Sir Neville Nicholls further asserted:

"The generally weak performance of the economies did little to relieve the serious unemployment situation. About 200,000 working age West Indians across the Region remained jobless in 1993, many of them young people and women. There was the consequential continued rise in social problems and the governments just did not have the resources with which to finance compensatory activities that would provide more jobs."

Sir Neville recently pointed out that a third of the population of the Commonwealth Caribbean was living in poverty. This must be viewed in the context of the prognosis made by the Secretary General of the Organisation of American States (OAS) that by the end of this decade 45 percent of the population of Latin America and the Caribbean will be below the poverty line.

So alarming is the plight of the poor that the Caribbean Conference of Churches (CCC) not too long ago advised churches and their leaders to convert some chapels and church halls into soup kitchens, offices into medical clinics and grounds into playing fields for the children. The situation cannot be allowed to become explosive as in the late 1970's or at the time of the Great Depression of the 1930's, when there were disturbances throughout the Caribbean¹.

Venezuela, with a very high poverty rate, is a good example of a potentially dangerous situation in the region. Even with abundant natural resources, a high 9 per cent GDP growth rate and a democratic culture since 1958, two attempts had been made by sections of the military to overthrow the popularly-elected government.

Guyana, with nearly half of the population below the poverty line², a fragile economy and a tenuous democracy, must avoid the serious racial/ethnic clashes and strife of the early 1960's. In this regard, and particularly noting the demands of the international financial institutions for a speedy privatisation/divestment of state-owned entities, the Report of the IDB study group is relevant. It noted:

"Special care must be taken to prevent disruption of the delicate social balance, as winners and losers of the adjustment process are, without deliberate redistribution measures, likely to run along ethnic lines. Blind application of market forces would result in tangible benefits for the East Indian population group that is strongly represented in agriculture, professional services and commerce, and net costs for Afro-Guyanese, who are highly urbanized and strongly represented in government, police, military, and bauxite mining. Reforms must therefore be designed to spread their impact equitably among the various social strata and ethnic groups: a cost/benefit sharing system palatable to the population at large is a condition sine qua non for a successful completion of the adjustment process"³.

Unfavourable International Situation

The Caribbean economies, particularly their manufacturing sectors, in their quest for export-led growth, are faced with an unfavourable international situation:

- 1) Competition from modernised high-tech (computers, robots) production of goods and services in the North with a large internal market;
- 2) Competition from South-East Asian countries with relatively more competitive labour costs, large domestic population and an educated skilled labour force;

- 3) Dumping of goods;
- 4) An increasingly difficult funding situation, particularly for public sector activities, as traditional aid donors shift assistance to Eastern Europe and Africa.

In this era of globalisation and modernised capital-intensive and high technology methods of production, recession and stagnation will be more prolonged than in the past and will occur with greater frequency. This is due to the fact that we are now faced with a cyclical, as well as a structural, crisis. Cybernation and automation -- computers and robots -- are the hallmarks of the modern production process in order to cheapen the product, so as to capture the greater share of the global market. This leads to intense trade competition, trade barriers and protectionism, as a result of deepening contradictions between the means of production and the relations of production, the growing social inequality and the widening gap between the rich and the poor.

Need for Change

The continued inability of regional economies to provide sustained improvement in domestic living levels is posing major challenges for change. But generally emphasis is put mainly on domestic changes. We are told to embark on structural adjustment programmes for increased trade liberalisation,⁴ deregulation, privatisation/divestment, improved climate for private investment and private business activity, higher expenditure for infrastructure, expanded human resource development activities to improve administrative capacity, and an expanded monitoring and regulatory capacity as private sector activities expand and become more complex.

Regrettably, the structural adjustment programmes have proved to be mere palliatives, not a cure. They will not succeed unless, at the same time, there are debt forgiveness, unconditional aid and structural adjustments in the industrial countries, to which they are inextricably linked in a dependent relationship.

The Standing Committee of Caribbean Finance Ministers noted that the Structural Adjustment Programmes of some Member States had not only caused contractions in public sector investment programmes, but constrained the capacity of Governments to provide funding for viable projects and counterpart funding for externally supported activities.

The situation in Guyana is instructive. A virtually bankrupt situation caused the country to be declared ineligible in 1985 for further credits by the International Monetary Fund (IMF). A structural adjustment programme, though necessary, has been fraught with many contradictions and difficulties:

- 1) Devaluation of the Guyana Currency, from G\$4.15 = US\$1 in 1985 to G\$126 = US\$1 in 1992, led to a grave decline in real wages and salaries, increased prices for critical goods and services, raised costs of imported inputs, significant increases in debt payments in Guyana dollars amounting to 105 per cent of state current revenues in 1992 and 80 per cent in 1993, which contributed to a huge budget deficit and drastic budgetary reductions in expenditures on subsidies of essential goods, social services and employment cost, which in turn led to massive retrenchment in the public sector and administrative incapacity;
- 2) Low wages and salaries, despite current budgetary support from the World Bank and the British ODA for an Administrative Project, led to a 10-day strike in the public service which seriously affected steamer and air transport services;
- 3) Unsustainably high real interest rates, which became a disincentive to productive investments and shift the economy towards speculative and trading activities;
- 4) A credit squeeze which leads to an overall contraction of the economy, declines in capacity utilisation and an accentuated shortage of critical goods and services;
- 5) An undermining of food production and self-sufficiency, leading to undesirable environmental degradation, and the substitution of marijuana for food production;

- 6) An erosion of the capacity of infant industries, thereby slowing industrialisation;
- 7) A floating currency linked to trade and monetary liberalisation and speculative and trading activities, causing monetary and other instability through a further devaluation of the Guyana dollar from G\$125 = US\$1 at 31 December, 1993 to G\$140 = US\$1 at May 1994;
- 8) Lack of administrative capacity resulting in failure to implement projects for which funding had already been secured. A special IDB study⁵ notes: "The task is complicated by the fact that the quality of Guyana's public sector has deteriorated sharply... The dilemma is that the substantially higher level of remuneration needed to attract qualified personnel is not compatible with the medium term imperative of further reducing the fiscal deficit, while the potential for alternatives such as raising tax rates (tax burden was around 35 per cent of GDP in 1991-93), or slashing public sector employment (central government employment decreased by more than one-half between 1980 and 1992), is virtually exhausted."
- 9) Lack of administrative capacity in the Forestry Commission leading to pressures not to grant timber concessions, even though attraction of private investment is mooted for economic growth and development;
- 10) Divestment (not privatisation which can take many forms) of all public economic enterprises, even profitable ones like banking and sugar, and despite historical experience in Guyana with private and public enterprises under different governments;
- 11) High interest rate, inflation and speculative and trading activities, leading even with high GDP growth rates to increased social inequality -- growth without human

development -- with the rich getting richer and the poor getting poorer with all the attendant ills of underdevelopment and dependency.

Need for Radical Reforms

The attainment of sustainable development for the Caribbean territories with many small-island states requires the establishment of a medium and long-term planning mechanism and special consideration. Development, especially human development, and the environment are interlinked. In the 1970's destruction of the environment was viewed as an inevitable end-result of economic growth. In the 1980's the perception correctly changed: environmental degradation was seen as a consequence of stagnation, poverty and hunger.

We need our own agenda. Since the end of World War II, we have followed a model of flawed growth: the Puerto Rican model, import substitution model, etc. based on wrong premises. A special Report, OUR OWN AGENDA, prepared by an independent Latin American and Caribbean Commission on Development and Environment, noted:

"Besides problems with direct environmental connotations, to which we have referred in part, other problems of an economic nature include:

- * The outflow of capital from Latin America and the Caribbean to the developed countries.
- * The constant deterioration of the prices of the raw materials produced by countries of the region.
- * The fluctuation of interest rates, fundamental in the worsening external debt problem;
- * The introduction of inappropriate technological patterns; and
- * Commercial protectionism, among others."⁶

The net outflow of capital from Latin America and the Caribbean in the 1981-85 period was US\$36 billion yearly in the form of profits, dividends and debt payments.

Commodity price fluctuations particularly for the one-crop and/or one mineral economies, had shattering effects. Every one per cent increase in interest rates in the North

added nearly US\$2.5 billion to the burdensome external indebtedness, which deprives the countries of the capital needed for growth, prolongs the grave economic crisis and exacerbates the conditions of the poor.

A prospective ECLAC study for Latin America and the Caribbean for the 1985-95 period predicts, even with a 7 per cent annual growth rate, increased poverty, increased unemployment by nearly fifty per cent and a foreign debt of US\$368 billion in 1985 increasing to US\$672 billion in 1995.

In the Commonwealth Caribbean, there was a worsening trend in the Region's debt servicing. Jamaica, Guyana and Trinidad and Tobago particularly have very high debt service ratios (the ratio of debt service to exports of goods and services) which are not conducive to sustainable economic growth and human development. Structural adjustment programmes, with such huge debt overhangs and an unfavourable international business climate, are unlikely to succeed.

The Standing Committee of Caricom Finance Ministers sees the need for debt reduction, for write-offs of debt stock and debt servicing, and for repayments programmes of longer duration with the IMF and other MFI's.

The recent UN Conference of Small Island Developing States for Sustainable Development in Barbados noted that these states, though part of the wider developing world, had peculiar problems, including natural disasters, and thus needed special consideration for the protection of their land and marine resources and the development of their human resources. Industrial countries were criticised for the non-fulfilment of their financial commitments after the Rio Summit on Sustainable Development and the Environment.

The fact is that the developed countries are themselves strapped for cash, due to weak economies, fiscal and balance of payments deficits and a greater need for a bigger safety net for the 35 million unemployed in the OECD countries and the 20 million unemployed in Europe. Indeed, "aid fatigue" is developing in the North, and aid to the developing countries is being cut. This is regrettable, as in our interdependent world, the North needs the South in the same measure that the South needs the North. The South must secure debt relief and other forms of assistance so that it can have sustainable economic development and in so doing procure the essential goods and services, especially capital goods, from the industrial countries. The latter needs higher growth rates to end unemployment and poverty, which can be assisted by higher living standards and greater purchasing power of the peoples in the developing countries.

A New Global Humanitarian Order

Economic recovery in the Caribbean Basin Region will depend on changes in the international and national situations: a resumption of sustained growth in the global economy and changes in the individual economies to respond competitively with the newly-changed world situation. Increased trade liberalisation towards a "border-less world", free and rapid movement of finance capital and the technology and information "revolution" are factors to which adjustments must be made quickly.

Reforms towards a new world socio-economic order is required urgently. It is possible "to end half of the world's hunger before the year 2000", says the Report of the Carnegie Commission on Science, Technology and Government.⁷ This needs political will and a new genuine North/South partnership for global co-operation and initiatives for development. Science and technology must be harnessed in the service of man to meet the "basic needs" of the world's poorest as was envisaged by a major revision of the content of development co-operation in the early 1970's.

Radical reforms of the global system must now be the new Agenda for Development. During the Cold War era, there was an ambivalence about co-operation for development. Political, economic and military considerations were placed before humanitarian concerns. In the developing world, those with higher incomes received the most ODA assistance and the poorest received the least. The top 40 per cent income group received in 1980 ODA per capita US\$5 as compared with per capita US\$2 for the bottom 40 per cent income group. Two-thirds of the world's 1.3 billion poor live in ten countries that together receive less than a third of the ODA⁸. The ending of the Cold War offers an opportunity for a re-ordering of priorities, for reforms towards a New Global Humanitarian Order of economic growth, good governance, human rights, freedom, equity and development.

During the Depression of the 1930's, radical reforms were carried out to alleviate unemployment and hunger. The Swedish Government provided for 100 per cent unemployment relief. The F.D. Roosevelt New Deal Administration created employment through physical, social and cultural works. In Britain, the Beveridge Plan for a welfare state was instituted.

Peace Dividend for Human Development

The financial resources for economic growth and human development are not only inadequately distributed but also wasted in vast military expenditures in both developed and developing countries. World military spending in 1992 was US\$815 billion, equal to the income of nearly half the world's people.

With a large majority of states facing budgetary and balance of payments deficits, one effective way to mobilise additional funds is accelerated cuts in military expenditures. During the 1987-94 period, decline in military spending resulted in a saving of US\$935 billion -- a peace dividend -- which unfortunately was not used to finance the world's social agenda. With a continued decline in military spending by 3 per cent a year, another US\$460 billion could emerge as a peace dividend in the 1995-2000 period.⁹ A small tax of 0.05 per cent on global foreign exchange movements -- Nobel Prize Economist James Tobin recommends 0.5% -- could yield US\$150 B. per year.¹⁰ Such funds can be focused on the priority areas of human development.

The peace dividend and other international revenue-earning measures can be utilised for the following:

1. Debt relief to the underdeveloped countries, especially to the Caribbean small island developing states. Developing countries paid US\$160 billion in debt service charges in 1992, more than two and a half times official aid and US\$60 billion more than private financial flows. The 1994 Human Development Report says that debt servicing is hampering developing countries' ability to meet urgent human development needs, and suggests cancelling the debt of the poorest countries in return for a pledge that they earmark those same funds for social development.
- 2) A Works Programme for physical, social and cultural infrastructure, as was embarked upon by the Roosevelt New Deal Administration at the time of the Depression of the 1930's.
- 3) Increase employment by reducing the number of days or the number of hours worked per week, without loss of pay. In Germany the workers are demanding a 35-hour work

week without loss of pay; the Volkswagen formula of a reduction of the work week to four days with loss of pay will mean a loss of take-home pay and a reduction in the standard of living;

- 4) Tax and other incentives for the use of technology which will create jobs instead of destroying them.

The Caribbean region has been variously described in the past as the United States' "fourth border", "Achilles Heel" and "a danger zone". Crime, drug trafficking, and legal and illegal migration make it a volatile area. It is possible to stop the explosion. The people are hungry not because food is not available, but because they cannot afford to buy it. The international community must act urgently to defuse the time-bomb by enhancing the physical, human and natural capital for development and basic human needs in this beautiful part of the globe.

The price for failure will be great, as happened in Latin America and the Caribbean after the oligarchy had rejected President John F. Kennedy's reformist Alliance for Progress.

In introducing it on March 13, 1961, he had stated:

"Throughout Latin America, a continent rich in resources and in spiritual and cultural achievements by its populations, millions of men and women suffer the daily privations of poverty and hunger. They lack decent housing or protection against disease.

Their children are deprived of an education or jobs which open the door to a better life.

And every day that goes by, the problems are more pressing. Population growth surpasses economic development -- the low standards of living get worse -- and the discontent, the discontent of a population that knows that abundance and the elements of progress are at last within reach, that discontent increases"

After the Cuban revolution, President Kennedy wanted reforms -- administrative, fiscal, monetary, land -- and called for a revolution.

Later, in 1962, in a letter to President Betancourt of Venezuela, he said that -

"The preservation and strengthening of freely elected constitutional government is the aspiration of all the peoples of the Americas and progress in this continent under the Alianza para el Progreso depends in large measure on effecting change through peaceful and democratic means and avoiding violent interruptions of the constitutional process."

Non-implementation of the reforms led to military dictatorship and the "lost decade" of the 1980's. This must not happen again.

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