

Reclaiming the magic: Macroeconomic policies to promote sustainable development in the Caribbean.

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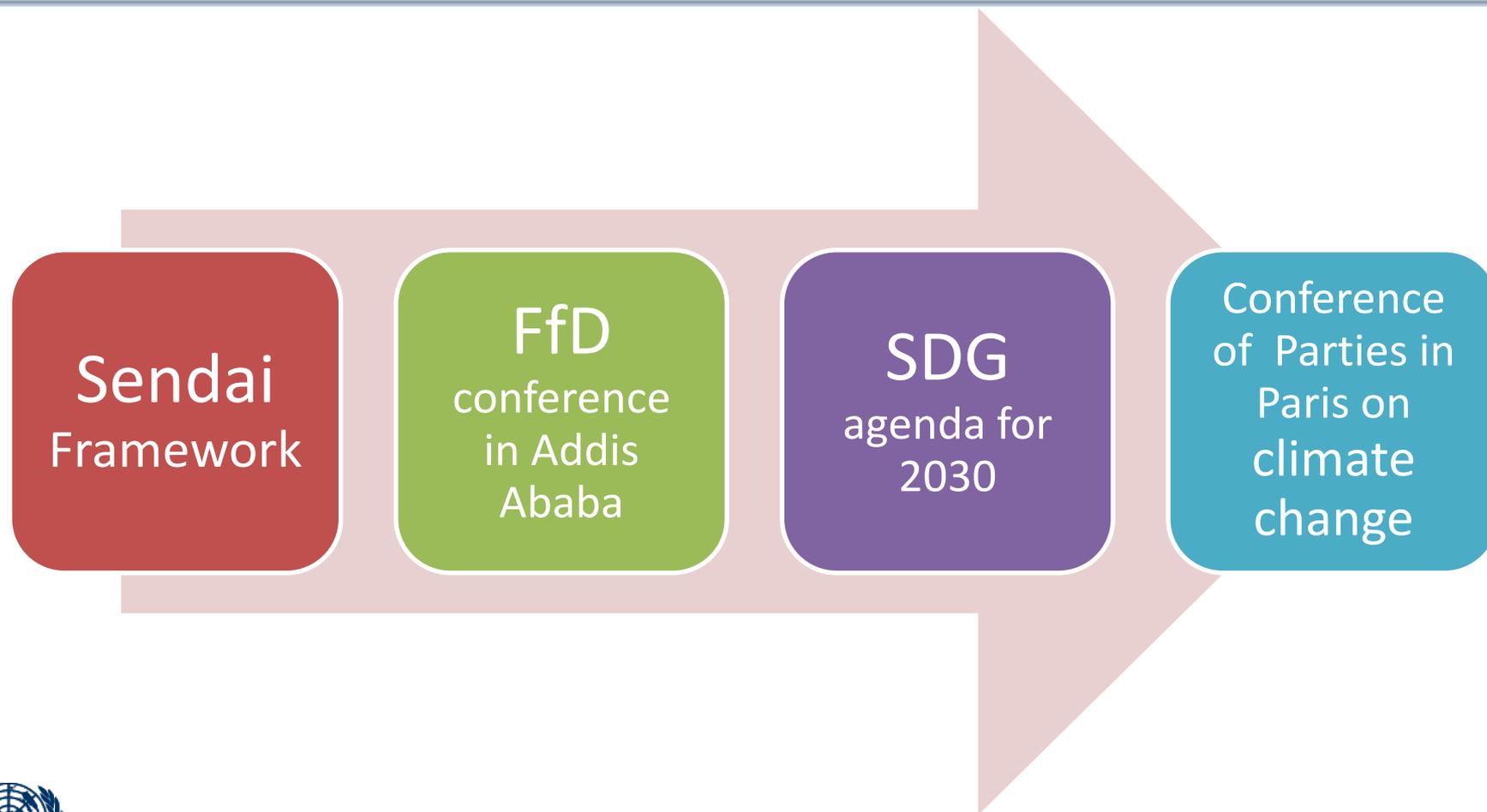
Outline

- Global mandates supporting SIDS
- Responses to Macroeconomic challenges: the Caribbean vs other small states
- Major structural factors constraining Caribbean Development
- The usual policy response
- Emerging shifts to which the region must respond
- A Macroeconomic framework leading to progressive structural change
- Addressing the Policy Trilemma



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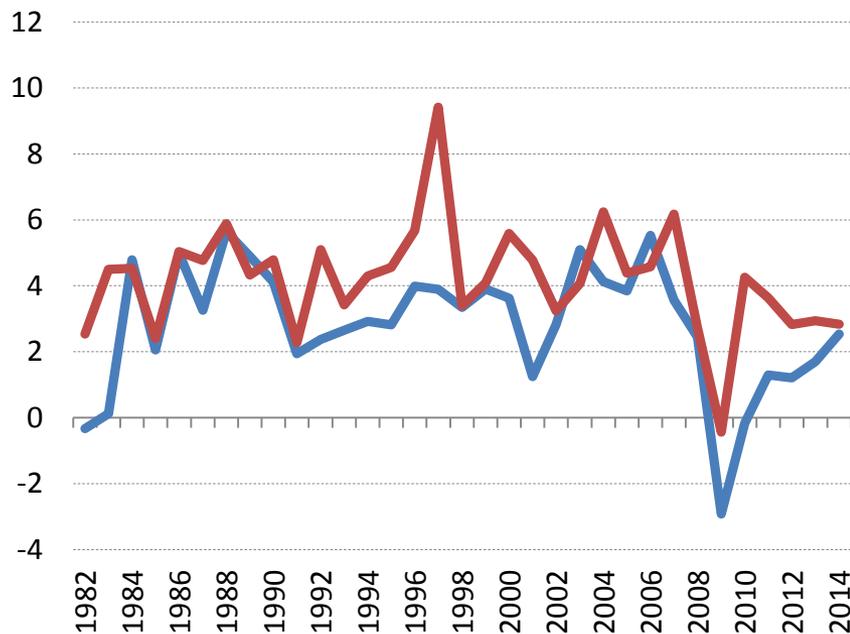
Global Mandates



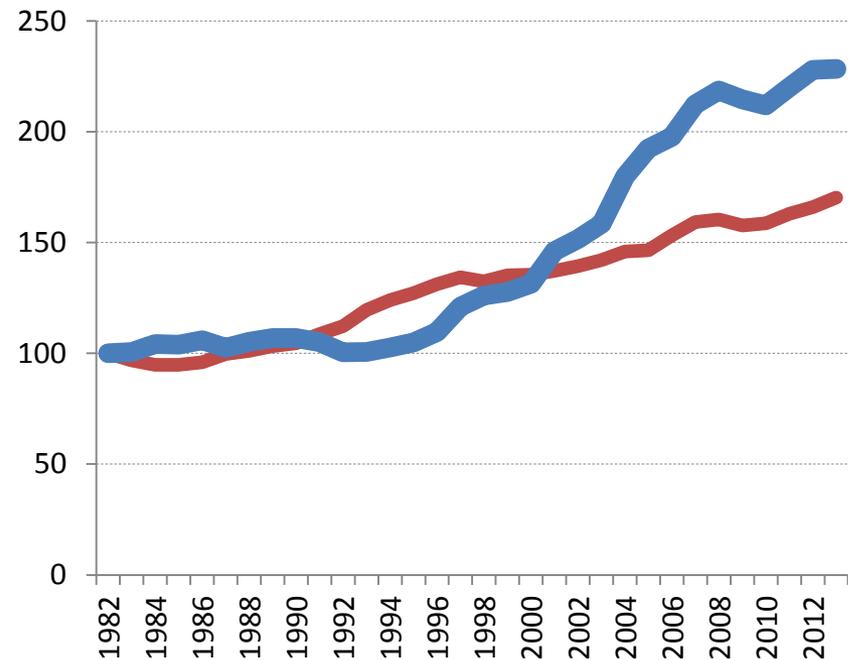
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Responses to macroeconomic challenges: Caribbean vs others

CARIBBEAN GDP GROWTH RELATIVE TO ROSE, 1982-2014
(Annual %)



CARIBBEAN AND ROSE GDP PER CAPITA, 1982-2013 [1982=100]



— CARIBBEAN — ROSE

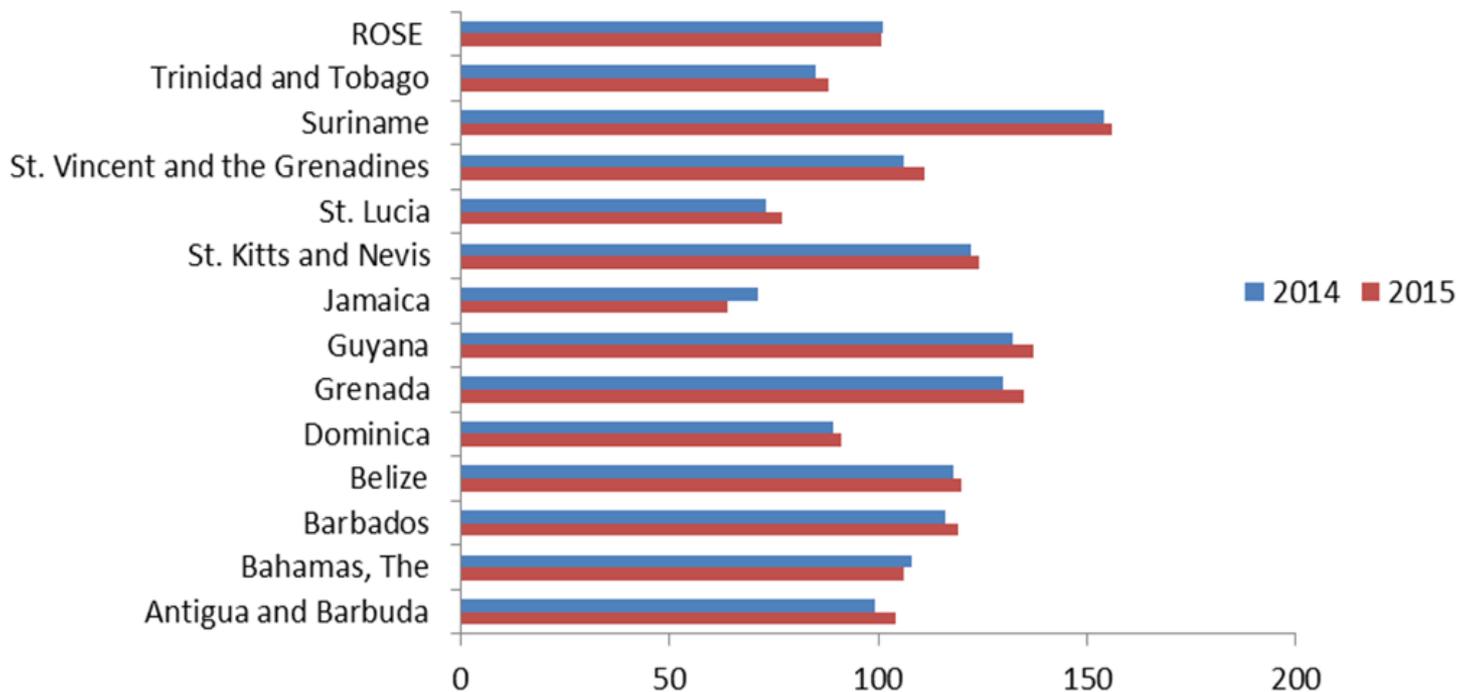
— CARIBBEAN — ROSE



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Doing Business Rank

CARIBBEAN EASE OF DOING BUSINESS RANK RELATIVE TO ROSE, 2014 -2015



Source: World Bank World Development Indicators

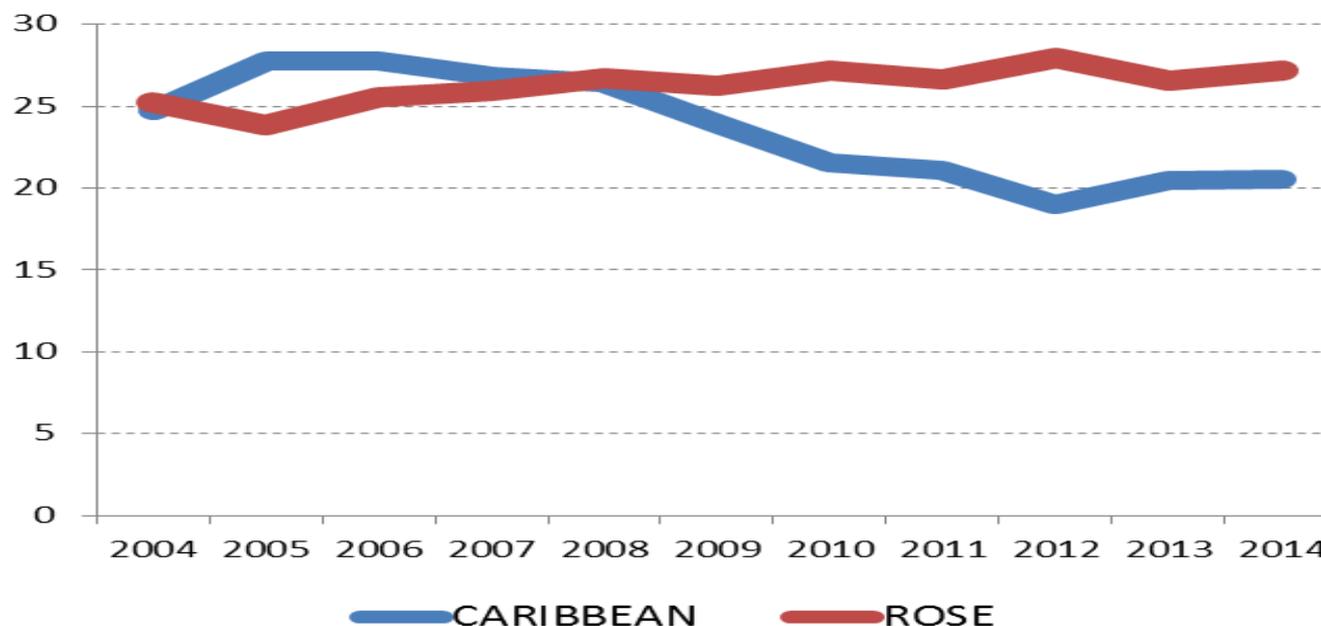
Note: ROSE= Rest of Small Economies



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Relative decline in investment

**GROSS FIXED CAPITAL FORMATION FOR
THE CARIBBEAN AND ROSE, 2004-2014**
(percent of GDP)



Source: World Bank World Development Indicators Database
Note: ROSE = rest of small economies



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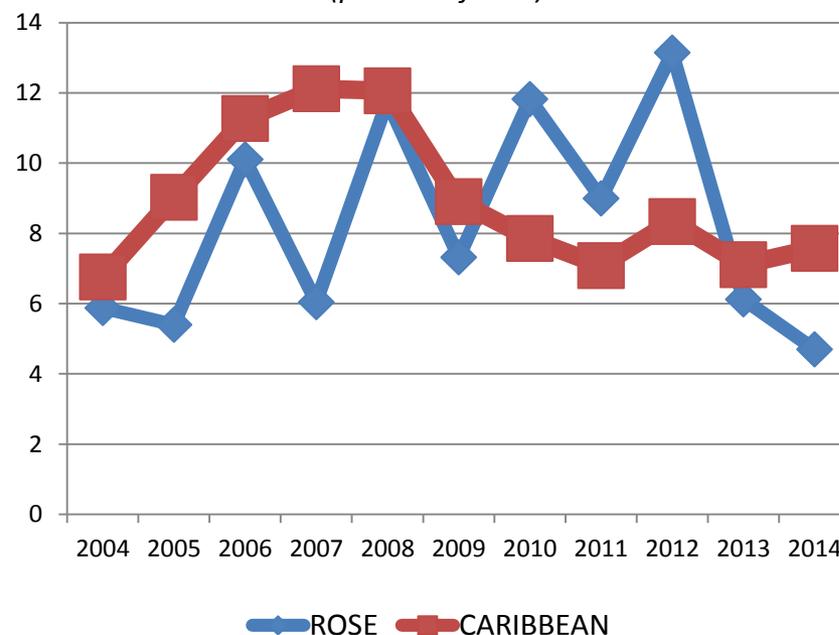


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Major structural factors constraining Caribbean Development

- High levels of debt and debt service
- Inconsistent FDI flows
- Not enough high quality labour to attract capital moving up the value chain
- High volatility in income leading to emigration of talent

FOREIGN DIRECT INVESTMENT FOR THE
CARIBBEAN AND ROSE, 2004-2014
(percent of GDP)



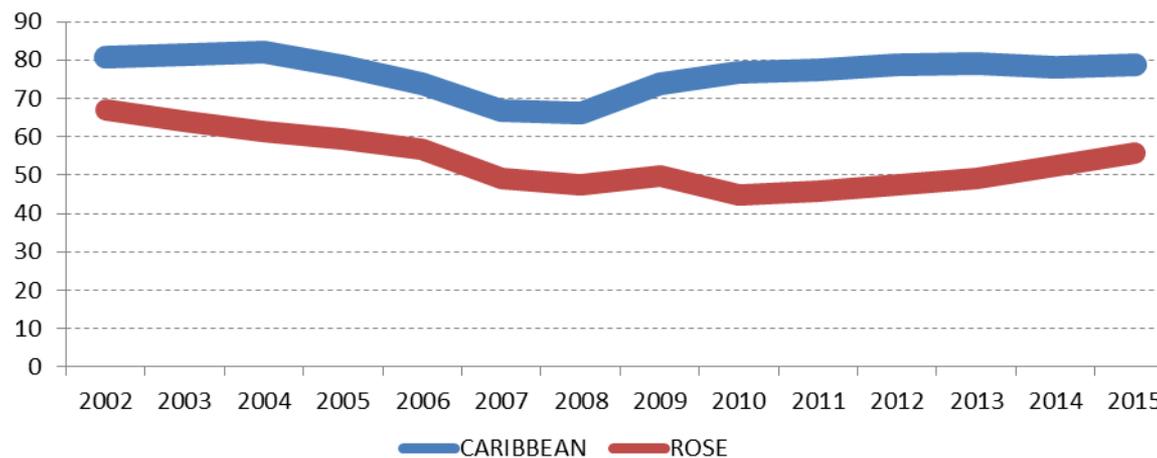
Source: World Bank World Development Indicators Database
Note: ROSE = rest of small economies



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High Debt Levels

GOVERNMENT GROSS DEBT FOR THE CARIBBEAN AND ROSE, 2002-2015
(percent of gdp)



Source: International Monetary Fund World Economic Outlook Database January 2016
Note: ROSE= rest of small economies



Other structural factor

- Failure to respond to transitions in manufacturing services etc. due to short term planning.
- Lack of exports at the external and internal margin.
- Concentration of trade in few goods and markets which exaggerates the effects of external shocks.
- Weak sectoral linkages due to low spillover effects.
- Lack of a venture capital regime to assist business start-ups and lack of credit guarantees to assist small firms .
- Limited access to development finance persists despite low interest and inflation rates



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The policy response

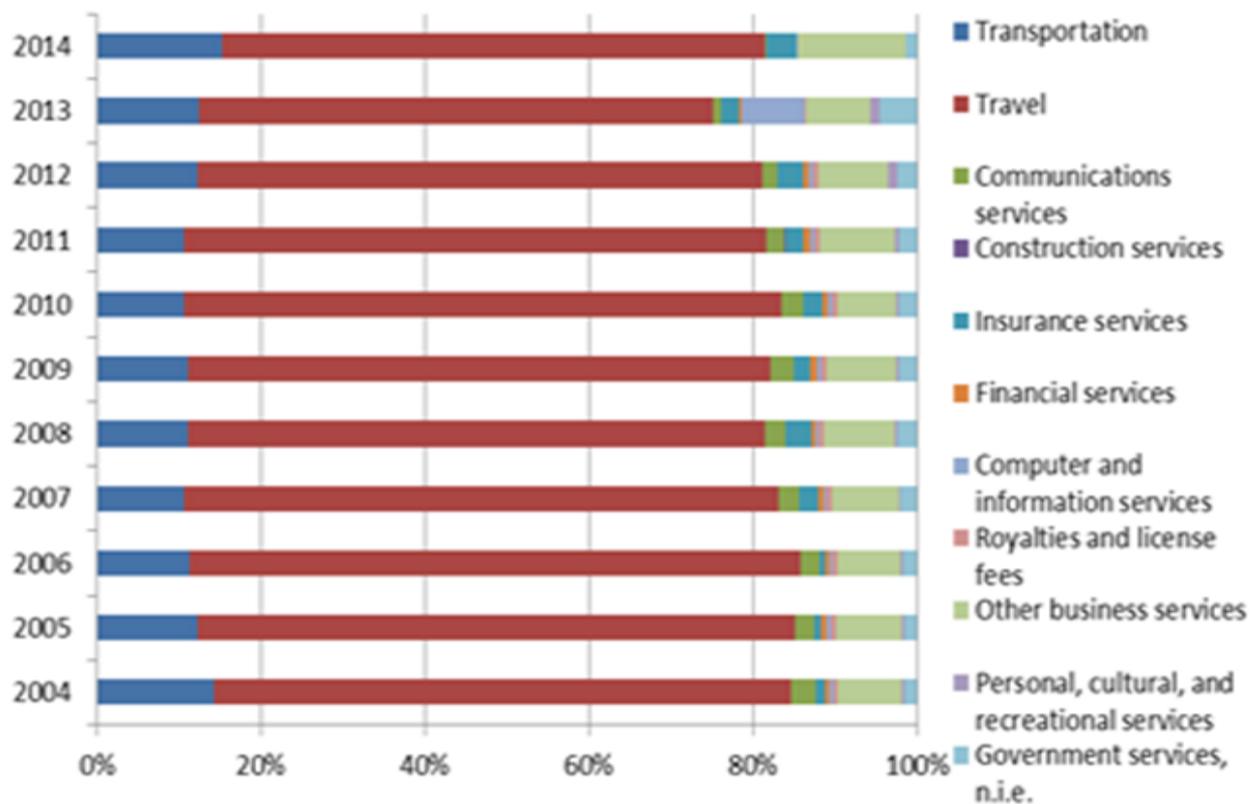
- Fiscal policy pro-cyclical
- Inefficient intervention in labour markets to address labour market gaps.
- Lack of consistent policy to encourage regional mobility
- Risk averse private sector uses credit mainly for consumption
- Programmes aimed at diversification not successful



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Insufficient diversification

Composition of Export of Services from the Caribbean, 2004-2014
(Percent)



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Emerging shifts to which the region must respond

- Growth through green industries will be an integral part of future global development framework
- Production at the firm level is driven by regional and global value chains and the emphasis on intermediates goods
- New actors, such as China, offer new opportunities
- Growing middle class in Latin America
- The demographic transition



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Macroeconomic framework

- “Getting the prices right”
- Public procurement policies to create critical demand for green products and services
- Public investment in sustainable infrastructure
- Targeted public support for research and development (R&D)
- Strategic investment through Public-Private sector development
- Social policies to reconcile social goals with existing or proposed economic policies

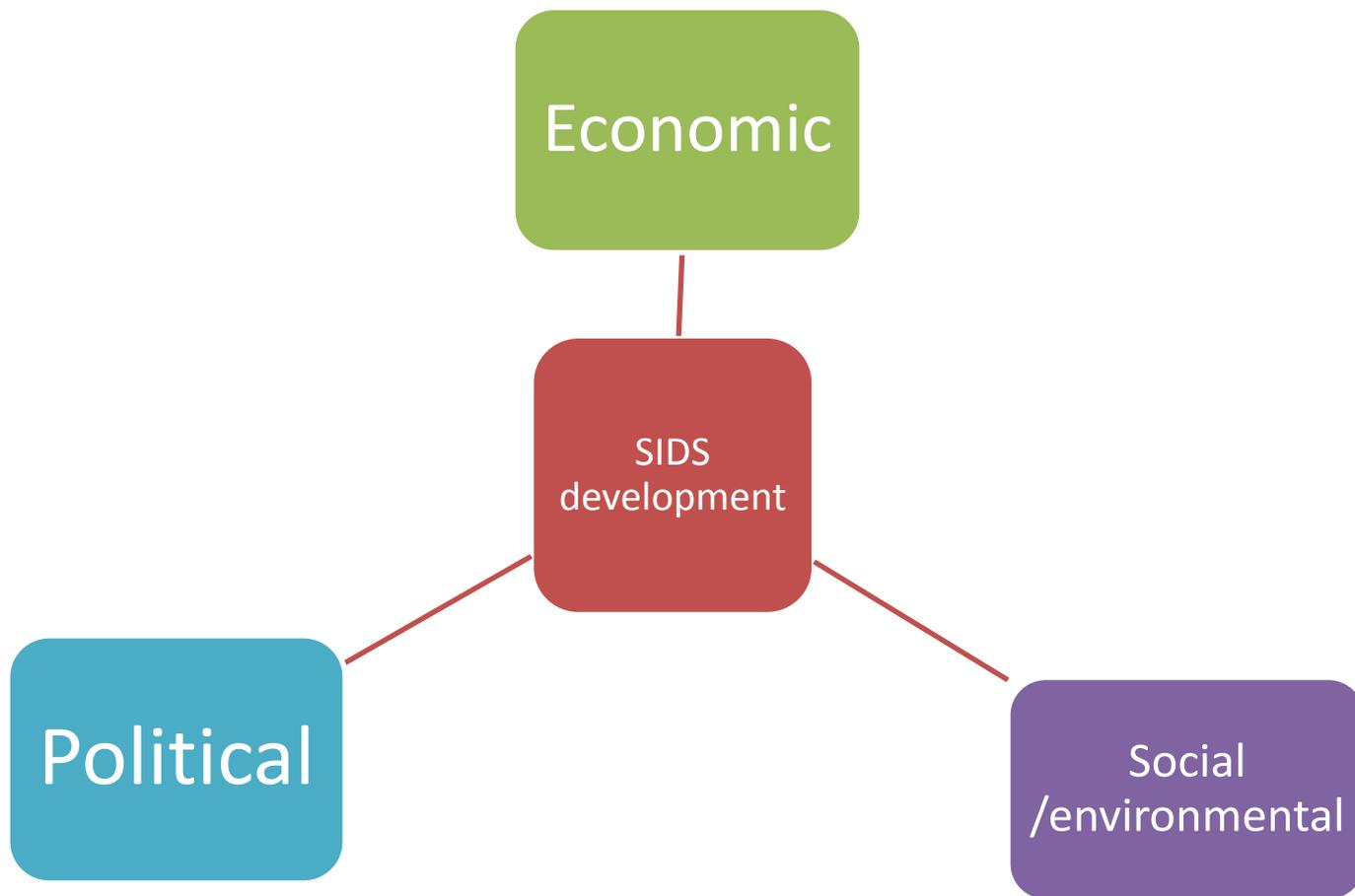


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Policy Trilemma



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Addressing the Trilemma

- Commitment to long term plans despite difference in views
- Embracing participation through covenants to address the cost and benefits of adjustment
- Commitment to review of policies and programs to address value for money
- Recognise an urgency to act



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Conclusion

- The Caribbean excellences are at a cross roads and choices must be made.
- Standing still means drifting backwards as the world powers on.
- We are at another turning point but strategic macro policy can lead to progressive structural change if the region confronts its challenges with purpose and commitment.

Thanks for listening



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