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
Global Mandates

- Sendai Framework
- FfD conference in Addis Ababa
- SDG agenda for 2030
- Conference of Parties in Paris on climate change
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]
Doing Business Rank

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

- ROSE
- Trinidad and Tobago
- Suriname
- St. Vincent and the Grenadines
- St. Lucia
- St. Kitts and Nevis
- Jamaica
- Guyana
- Grenada
- Dominica
- Belize
- Barbados
- Bahamas, The
- Antigua and Barbuda

Source: World Bank World Development Indicators
Note: ROSE = Rest of Small Economies
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
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

Source: World Bank World Development Indicators Database
Note: ROSE = rest of small economies
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.
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
Insufficient diversification
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
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
Policy Trilemma

- Economic
- SIDS development
- Political
- Social/environmental
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
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