

## **K Dwight Venner: New economics of nationhood in the eastern Caribbean**

Speech by Sir K Dwight Venner, Governor of the Eastern Caribbean Central Bank, at the public forum on the Organization of Eastern Caribbean States (OECS) Economic Union “OECS Economic Union – integrate for a brighter future”, panel discussion “Opportunities for economic development within an OECS Economic Union”, Kingstown, St Vincent and the Grenadines, 15 February 2011.

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The ratification of the new OECS Economic Union Treaty on 21st January 2011 signifies both a new beginning and a potential turning point for the small states of the Caribbean.

In light of the current stagnation of the Caribbean Single Market and Economy (CSME) project of CARICOM, the importance of the OECS Economic Union lies in two areas, namely:

1. Providing a platform and instrument for socio-economic development of the OECS; and
2. Giving hope to current and future integration efforts in the wider region.

With respect to the first, the new Economic Union will provide a single financial and economic space, which, through a process of aggregation, should lead to the following advantages:

- Economies of scale in production, distribution, marketing and public administration;
- The spread of risk across a greater land space and a bigger population; and
- Increased capacity to negotiate with third countries, groups of countries, regional and international institutions and foreign private investors.

The nature of an Economic Union is so complex, that is, involving a number of sovereign states, that it requires appropriate political arrangements and institutions to be successful.

In the hierarchy of integration arrangements, which range in ascending order from Free Trade Areas to Customs Unions, Common Markets, Economic Unions, to full Political Union, there is the need for more political inputs at each succeeding rung of the ladder. By the time the participating countries arrive at Economic Union status, the basic elements of government or the state should be in place, namely, a Legislature, Executive and Judiciary.

The difference between a Political Union and an Economic Union is that the former is a Nation State, taking the governmental form of either a Federation or a Unitary State, with the critical political powers being centralised. The latter, that is, the Economic Union can be described, in the new political science jargon, as a State Nation or Nation of States where the ultimate political power still resides at the state level.

In summary, in the Political Union there is one sovereign state, while in the Economic Union there are multiple sovereigns. The Economic Union allows member states to define new and expanded economic borders while the political borders remain the same.

We are faced with both a challenge and an opportunity to create a new state with the unique characteristics of both an Economic and Political Union. Ultimately we will have to conceive of an arrangement that provides for a dual system of Government, Governance and Economic Management.

In all of this, the fundamental question which must be posed is, “*What are the benefits to the people of the OECS which will be derived from an Economic Union in the face of our current and future challenges?*”

These challenges come from three sources:

1. The international arena;
2. The CARICOM Region; and
3. Our domestic circumstances.

The international arena poses some significant challenges to us, given our openness and vulnerability to external shocks. The global recession has vividly exposed these vulnerabilities and the internal structural deficiencies of our very small economies.

The major sources of foreign exchange, namely, tourism receipts, foreign direct investments and remittances have been negatively affected by the recession.

The slow recovery in the economies of our traditional trading partners, because of the depth of the recession, and its continuing impact on employment and their financial systems, will clearly also affect our recovery.

The global economy is also going through significant shifts in terms of the supply and demand for critical commodities such as oil, food and iron ore. These shifts have been exacerbated by the effects of climate change in the case of food, and political turmoil in the case of oil. Significant improvements in technology, particularly ICT and transportation, as well as more sophisticated supply chains are also having a significant impact on production cycles.

There are also significant global imbalances in trade and foreign exchange reserves between the mature economies and the new emerging markets such as China, India and Brazil which have resulted in a shift in global economic power and influence.

Within CARICOM, the major issues are stagnation in the progress towards the Single Market and Economy and the uneven distribution of benefits to member states.

At the national level the principal challenges are:

- The secular decline in growth over the last three decades;
- High levels of unemployment and poverty;
- Declining government revenues as a consequence of the recession;
- Increasing debt to GDP ratios; and
- Increasing levels of crime and socially deviant behaviour.

The challenges are daunting and cannot be successfully met without a concerted and collective effort by our states and societies. This can be posed as a two step process. Within each state there must be consensus on the way forward. The body politic and civil society must come to an agreement and understanding on the medium to long-term goals of our countries and the requirements to achieve them.

In addition, in the economic sphere there must be meaningful integration through:

- (a) the provision of information on employment opportunities, investment possibilities, and potential markets for goods and services; and
- (b) the facilitation of linkages between economic sectors, for example, agriculture and tourism, and between the public and private sectors.

As a practical matter at the national level there must be a good road network and an efficient internal transportation system, as well as efficient and reasonably priced seaport and airport services and facilities.

At the Economic Union level there must be sectoral production integration which will be facilitated by:

- Efficient and reasonably priced air and sea transportation;
- Free movement of goods and services, capital and labour; and
- Effective coordination of economic policies.

This process of internal restructuring and integration will usher in a new entity with a different persona and brand, both regionally and internationally. There will be a significant increase in physical size, population and GDP.

The new treaty provides for a Regional Executive with legislative powers, alongside a Regional Legislative Assembly with discussive functions. This is paralleled at the local level by Cabinets and the National Legislatures. The Judiciary has long been regional and will be consolidated through the absorption of the magistracy.

The OECS arrangement, due to the existence of a Monetary Union, already has features of an Economic Union. It also has regional regulatory functions in the areas of banking, securities markets, telecommunications and civil aviation. There has also been a very high degree of functional co-operation.

In response to the global crisis, the OECS and the ECCU have also introduced significant institutional arrangements such as:

- A Joint Meeting of the Authority and the Monetary Council; and
- Sub-Committees of the Council to treat with the management of financial stability issues in banking, insurance, credit unions, and international finance.

Finally, there are four major areas which are critical to the success of the new entity. The first of these, Justice, Law and Order, is the primary public policy goal of each state and in this case would involve, in my view, the regionalisation of the courts, the police and prison services.

Transportation is a sine qua non for the integration of multiple states. Also, energy is such an important factor in both consumption and investment that it must be dealt with at the regional level.

Finally, education, skill training and innovation are critical, both to create regional and national citizens, and to produce the type and quality of labour force that can make the economies of the Economic Union regionally and internationally competitive.

The Economic Union, as a collective entity, must then reposition itself in relation to CARICOM and the global economy.

With respect to CARICOM, there will have to be a two track approach which outlines:

- (i) The role of the OECS within CARICOM; and
- (ii) Bilateral relations between the OECS as a bloc and individual members of CARICOM.

There has been a remarkable reversal of fortunes, circumstances and individual country policies within the region since the demise of the West Indies Federation. To put this in context, three reasons have been advanced, among others, for this failure:

1. Freedom of movement of people – Trinidad and Tobago's sticking point;
2. Customs Union which was Jamaica's objection;
3. The fear of having to support the smaller islands which was illustrated by the Jamaica Labour Party's cartoon, "*Sucking Me Dry*" and Trinidad's iconic phrase, "*One from Ten leaves Nought*".

Today, the smaller islands are receiving a large number of migrants from Jamaica and Guyana, and are running very large trade and services imbalances with Barbados and Trinidad and Tobago.

The economic arrangements in CARICOM are dysfunctional with no redistributive mechanisms. Until a structured approach to this, and other issues is taken, there is likely to be no progress. Given these circumstances, the OECS has no option, and in fact, has an obligation to deal with this matter at both the CARICOM and bilateral levels in a very urgent and direct manner.

In the cases of Trinidad and Tobago and Barbados – the CARICOM states which are nearest to us, there are two overriding issues, namely:

1. The very large trade and services imbalances which should have by now invoked some protestation under the Treaty of Chaguaramas; and
2. The vexed matter of the CLICO and British American Insurance Companies which are headquartered in those countries and to which citizens and institutions in the OECS have a very large exposure.

In the case of the global economy, the OECS as a bloc has to do the following:

- (i) Restructure our external economic relations policies to access resources from the rest of the world on terms favourable to ourselves. We need to organise trade agreements, development aid, foreign investment, new tourism markets, and the transfer of technology as critical elements of this new policy.
- (ii) Realignment with new centres of global growth such as China, India and Brazil, while adjusting to the new circumstances of our traditional trading partners.
- (iii) Raising the bar for our economic performance through increased competitiveness, flexibility in production and the rebranding of the OECS as a collective economic entity.

This will have to be underpinned by:

- (a) The optimal use of the wider economic space;
- (b) The significant lowering of the unit costs of production; and
- (c) Better policies and their effective implementation.

We have developed two models, one for an explanation of the current economic underperformance and the other to provide a possible answer to a high growth regime.

The first model is referred to as the ***Input, Consumption, Default Model***.

In very short summary, this is explained as follows:

We have concentrated on inputs, mainly in the form of finances in both public and private sector projects. The money spent has not been matched by commensurate increases in output.

The economies have been largely consumption oriented, a characteristic facilitated by the sophistication of the import infrastructure for consumer goods and the proliferation of wholesale and retail traders in the economy.

Policies and sectors have continued in existence by default, long after their positive contributions to the economy have ended.

The model which looks to the future is the ***Aggregation, Coordination, Output Model*** which is epitomised by the new Economic Union.

The aggregation of the resources of the member countries can be outlined in terms of both economic theory and economic geography.

With respect to economic theory, this involves the incremental addition of the resources of each country starting from the smallest and recording with each, the easing of the constraint of small size. In the case of economic geography, it would be working with the countries in close proximity to each other to see the effects of the easiest way to combine resources.

The coordination of policies is the defining feature of an Economic Union and gives the state the opportunity to plan and guide economic activities.

Output must be looked at from both the starting point and the end point. We must identify rates of growth which are desirable and then put in place the policies and allocate the resources which will give the desired results.

These new approaches will have to be centered around three major programmes:

- (a) Public Sector Modernisation;
- (b) Financial Sector Development; and
- (c) Private Sector Development.

The rationalisation, development and mobilisation of these three sectors would be the basic platform for our development. This, however, stands a much better chance of success under regional, as opposed to national regimes.

The Heads of Government have stated specific goals which are headed by a growth rate of 6 per cent. Further analysis by the World Bank-sponsored, Growth Commission suggests that a 7 per cent rate of real growth sustained over at least ten years should lead to better and more lasting outcomes.

Economic transformation would in fact require this high and sustained rate of growth and could be described as:

- Diversification of the economies with at least five sectors, contributing a minimum of 10 – 15 per cent towards GDP;
- Substantial growth in the private sector oriented mainly towards exports;
- Flexible and adaptive production structures; and
- Highly trained work forces engaged in quality jobs.

This approach requires specific targeting of sectors and industries which have significant potential for growth. All the analyses and the empirical evidence would seem to indicate that tourism almost selects itself as what can be referred to as the lead transformative sector. It does seem to have a comparative, though not a competitive advantage at this time, but given the new arrangements, the conversion to a more competitive position is definitely possible.

The utilisation of the complete economic space of the Economic Union through multideestination tourism and the greater possibility of backward and forward linkages in a widened market space will provide the potential for greater competitiveness.

The advantages which tourism brings are as follows:

- (a) Increasing market size through the addition of a transient, high per capita income group;
- (b) Increasing export potential by bringing what is essentially an export product into the domestic space; and
- (c) The industry can be structured to fill the gap which our countries missed by not passing through a consolidated industrial phase.

One can cite the linkages as follows:

- **Backward Linkages**
  - Agriculture

- Agro Industries
- Fishing
- Forestry
- Handicrafts
- Manufacturing
- ***Forward Linkages***
  - Finance
  - ICT
  - Services
    - Business
    - Educational
    - Health
    - Cultural
    - Sporting
    - Consulting

In conclusion, one can state with some authority that given current circumstances and policies, as well as the existing predilection to single country arrangements, the rate of growth and sustained development is unlikely to be achieved.

The countries have responded by establishing new treaty arrangements and the preparation of an Eight Point Stabilisation and Growth Programme.

The Eight Point Programme has been converted to a strategy following the deliberations of the 69th Meeting of the Monetary Council held on 11 February 2011 at the Eastern Caribbean Central Bank's Headquarters in St Kitts.

The strategy is predicated on a combined approach to fiscal and debt management across the Currency Union with fiscal targets which will be set, published and monitored on a quarterly basis. This will cover points 1, 2 and 3 of the Eight Point Programme. This is being simultaneously linked to points 6, 7 and 8 which address financial stability in the banking and insurance sectors.

These will be the prerequisites for public sector investment programmes which will promote the platform for investments by both the domestic and international private sectors.

The critical elements for success in transforming these economies, now that we have started down this path, will be the following:

1. Political vision, commitment, direction, decision making, oversight, monitoring and insistence on implementation and the meeting of deadlines;
2. Technical and administrative capacity in both the public and private sectors; and
3. Widespread and broad based social consensus and accountability.

In the final analysis we have to define our goals clearly and carefully so that we can measure our success or failure in a tangible way.

We also have to remember that we must identify the actions that we need to achieve these goals.

In this regard, I end with this quotation:

*“A goal without a plan is just a wish”*