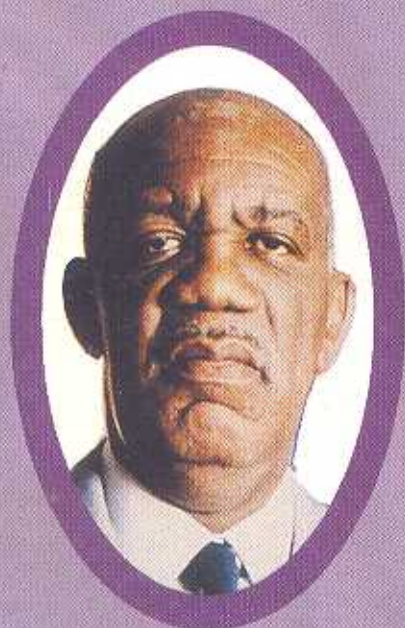


Essays in Honour of
WILLIAM G. DEMAS

**TOWARDS A CARIBBEAN ECONOMY
IN THE TWENTY-FIRST CENTURY**



EDITED BY LAURENCE CLARKE & M.G. ZEPHIRIN



Caribbean Centre for Monetary Studies



**The Honourable
WILLIAM G. DEMAS
OCC, TC, CCH, CH, LLD (UWI)
LLD (WARWICK), LLD (ANDREWS)**

"Throughout all his time, William Demas has combined in his person two qualities of primary importance to the unfolding of West Indian unity - both at superlatively high levels. He is a professional economist of the most exceptional quality, respected throughout the region and beyond it for his intellectual rigour and integrity. He is also a West Indian through and through. He brings, therefore, to his work on the future of the West Indies both professionalism and passion. Each needs the other to produce a worthy end."

**Sir Shridath Ramphal
Former Secretary General of the
Commonwealth**

Hon. William Gilbert Demas, was born on November 14, 1929 in Port of Spain, Trinidad and Tobago. After attending Queen's Royal College, from which he won an Island scholarship, he entered Cambridge University, where he secured an Upper Second Class Honors Bachelor's degree and later M.A. and M. Litt degrees, in Economics. He then initiated a long and illustrious post-academic professional career, that included: Senior Economic Adviser in the Ministry of Finance and later Permanent Secretary in the Ministry of Planning and Development of Trinidad and Tobago in the 1960s; Secretary General of the Caribbean Free Trade Area, and later of the Caribbean Community between 1970 and 1974, President of the Caribbean Development Bank between 1974 and 1988; Governor of the Central Bank of Trinidad and Tobago, between 1988 and 1992; and Director of the UWI/Carnegie Mellon Foundation Project, between 1992 and 1995. He currently serves as the First Distinguished Fellow of the Caribbean Centre for Monetary Studies.

Mr. Demas has published four (4) books and several articles on Caribbean economic development, the economics of small countries; and on economic and political integration and development. He has also served with distinction in several international committees and fora, both in academia and policy.

Hon. William Demas has been over the years highly and appropriately recognised and honoured in both the Caribbean and the wider international community. He received the Cacique Crown of Honor (Guyana - 1972); the Companion of Honour (Barbados - 1982); the Trinity Cross (Trinidad and Tobago - 1989) and was among the first batch of recipients of the Order of the Caribbean Community (1992). His outstanding scholastic and professional attributes and achievements were further recognised by the award of three honorary doctorates: Doctor of Laws (Honoris Causa) (UWI) in 1973; Doctor of Laws (Honoris Causa) (Warwick University) in 1990; and Doctor Of Laws (Andrews University, Michigan), 1996.



**Caribbean Centre for Monetary Studies
Established under the joint auspices of the Central Banks of the
Caribbean Community and The University of the West Indies**

7 **OWARDS**
A CARIBBEAN ECONOMY
IN THE
TWENTY-FIRST CENTURY

ESSAYS IN HONOUR
OF
WILLIAM GILBERT DEMAS

*Edited by: Laurence Clarke and
M. G. Zephirin*

*Caribbean Centre for Monetary Studies
The University of the West Indies
St. Augustine, Trinidad
Trinidad and Tobago*

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Foreword

William G. Demas, an outstanding economic scholar and public servant to the Caribbean, was honoured by the Caribbean Centre for Monetary Studies on October 28, 1996. The tribute took the form of a conference at which contemporaries, proteges and students of Demas reflected on the enduring value of his writings in economics and political economy, and on his influence on the course of public policy in his native Trinidad and Tobago and the Caribbean. The high almost superhuman Demas standards of sustained hardwork and Demas' promotion of regional progress at the expense of personal well-being were noted by every speaker.

The collection of essays now published under the title of **Towards a Caribbean Economy in the Twenty-First Century: Essays in Honour of William G. Demas** preserves for posterity the content and flavour of the Conference. Two of Demas' close associates (McIntyre and Harewood) comment on Demas: The Man. Six essays deal with technical aspects of the principal focus of Demas' lifework, namely economic development of small states and regional integration. A panel of regional expats assesses the current state of development in the region and offers some possible solutions for the future. The collection ends with Dwight Venner's statement of the way forward and Laurence Clarke's comment on Demas' recent reflections on current issues in Caribbean development.

All in all, the collection is a very worthwhile reflection of the esteem in which William Demas is held in the Caribbean.

*Compton Bourne (Prof.)
Pro-Vice Chancellor and Principal
St. Augustine Campus
The University of the West Indies
St. Augustine*

Preface and Acknowledgements

This special publication dedicated to the Hon. William Gilbert Demas revolves around papers presented at a Conference held in his honour on Monday October 28, 1996 at the Auditorium of the Central Bank of Trinidad & Tobago. The day-long dedication was well attended by some five dozen economists, banking and financial professionals from the Caribbean and other international countries. The day of tribute to Mr. Demas constituted an integral part of the five-day XXVIII Annual Monetary Studies Conference of the Caribbean Centre for Monetary Studies.

In the planning, structuring and delivery of the day's tribute to William Demas, and in the preparation of this special publication of proceedings, several individuals were integrally involved – too many to mention. Nevertheless, special mention must be made of a few, without whose particularly dedicated support and assistance, neither the Conference nor the publication of its proceedings would have been possible.

A special thanks must firstly be accorded to **Sir Neville Nichols**, President of the Caribbean Development Bank, whose generous support went a long way in ensuring the availability of a star-studded international field of presenters of papers at the Conference. **Mr. Edwin Carrington**, Secretary General of the Caribbean Community, was also very gracious in supporting the Conference and, in particular, assisting with the production of these papers of proceedings. **Drs. J. O'Neil-Lewis** and **Maurice Odle**, **Professor Kari Levitt** and **Mr. Carl Greenidge** must be warmly thanked for the fine way in which they managed all of the sessions at the Conference as chairpersons and moderators. To all the contributors – **Profs. Norman Girvan** and **Kari Levitt**, **Drs. Carlisle Pemberton**, **Terrence Farrell**, **Anthony Gonzales**,

Cuthbert Joseph and Trevor Farrell; and Messrs. Dennis Pantin, Marius St. Rose, Frank Rampersad, Ewart Williams and Lloyd Best – I would also like to convey my gratitude for their well thought out contributions and papers.

Proceedings of the special day of tribute to Mr. Demas were initiated by **Mr. Ainsworth Harewood**, Governor of the Central Bank of Trinidad & Tobago, with feature addresses from Vice-Chancellor of The University of the West Indies, **Sir Alister McIntyre**, **The Hon. Trevor Sudama**, Minister of Economic Development of Trinidad & Tobago and **Mr. Dwight Venner**, Governor of the Eastern Caribbean Central Bank. The Centre is greatly indebted to each one of them for his special contribution to the day's success. **Professor Compton Bourne** mooted the idea of honouring William Demas in a substantial way for a long time and provided throughout consistent support in this regard. For this, and his kindly agreeing to provide the Foreword, the Centre is particularly grateful.

The eight Central Banks of CARICOM graciously supported the effort and kindly contributed the special gift of appreciation presented to Mr. Demas. We heartily thank them. **Dr. Penelope Forde**, Director of Research of the Central Bank of Trinidad & Tobago, in particular, assisted the Centre in the structuring of the day's events and those of the wider Monetary Studies Conference. None of this would, however, have been possible without the dedicated support of several other members of the Research Department of the Central Bank of Trinidad & Tobago, this year's host of the Monetary Studies Conference.

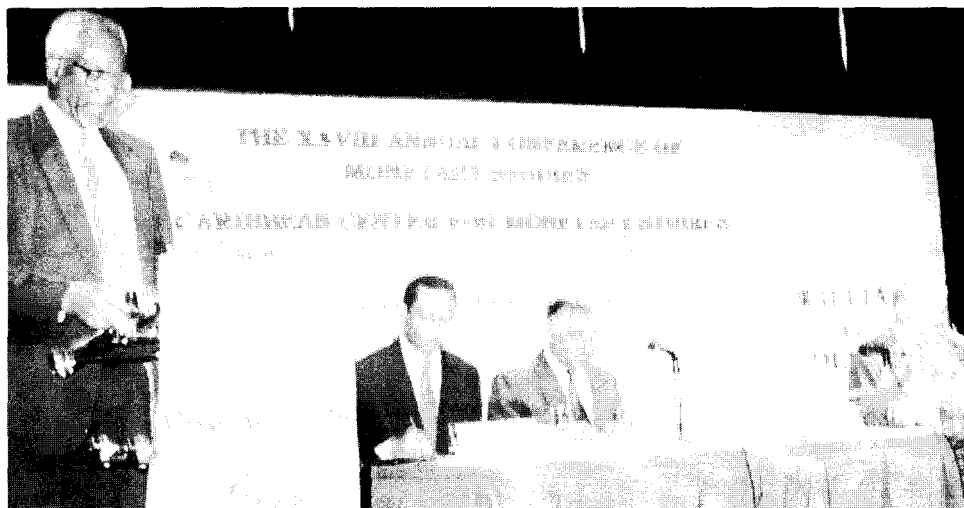
Needless to say also, the staff of the Caribbean Centre for Monetary Studies spent many sleepless nights to ensure that both the day of tribute, the wider Conference and this publication itself were all unqualified successes. They are, in my view, much richer for this experience and effort.

Last, but certainly not least, a special word of thanks is in order for **Dr. Mary Zephirin**, who assisted me as Editor in the production of the publication of the proceedings of the day of

tribute. It is our hope that, as joint-editors, we have captured the true spirit and vision of the esteem in which the region's economic and financial professionals hold this truly remarkable son of the Caribbean, **Hon William Gilbert Demas**.

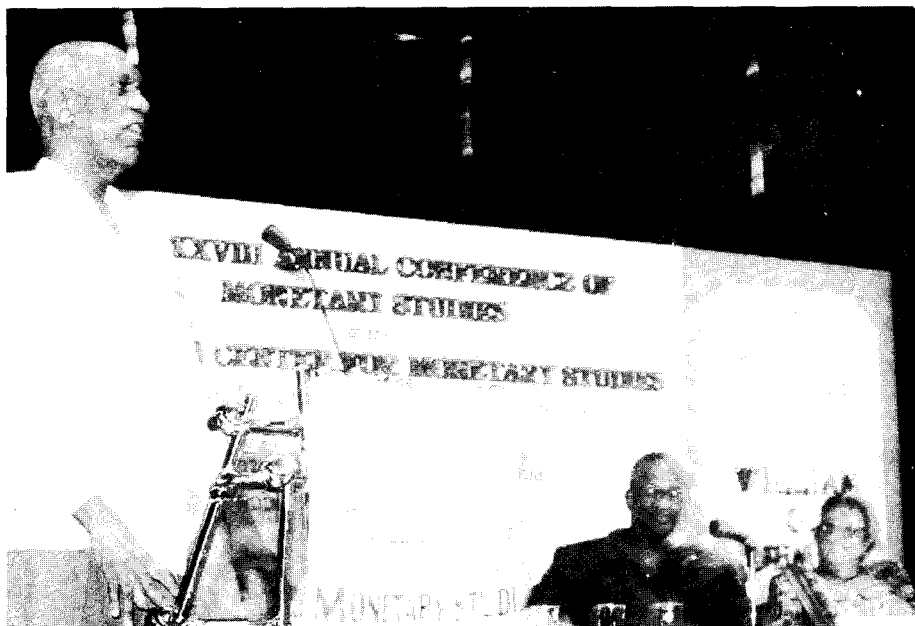
*Laurence Clarke,
Executive Director,
Caribbean Centre for Monetary Studies*

May 1, 1997



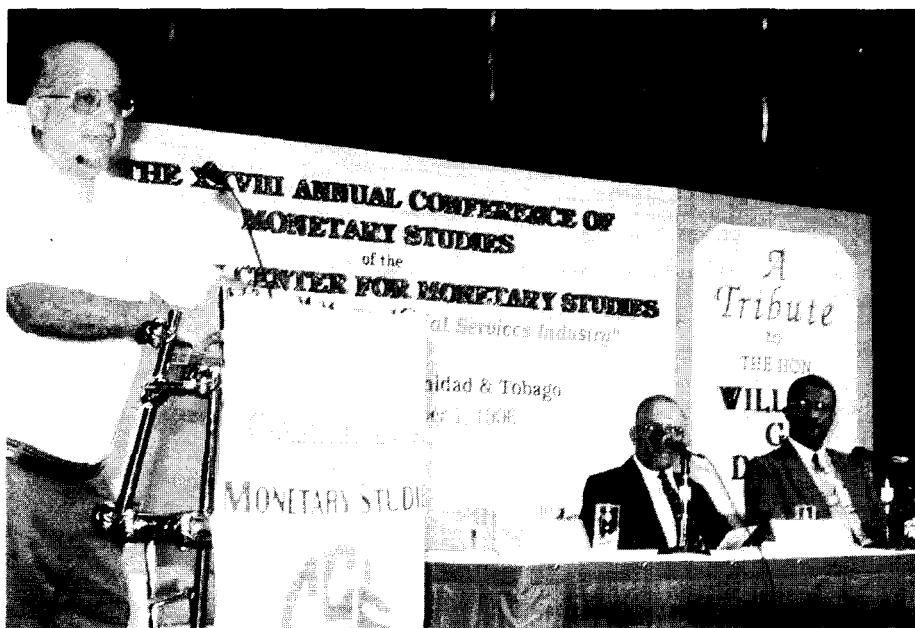
*Opening Session of the Day of Tribute to the
Hon. William G. Demas and the
XXVIII Annual Monetary Studies Conference of the CCMS.
(L to R) Mr. Ainsworth Harewood, Governor,
Central Bank of Trinidad and Tobago;
Prof. Compton Bourne, Principal,
St. Augustine Campus, the University of the West Indies (UWI);
Hon. Trevor Sudama, Minister of Planning & Development (Trinidad
and Tobago); and
Sir Alister McIntyre, Vice Chancellor, UWI.*





*Hon. William G. Demas launches his latest publication
Critical Issues in Caribbean Development.*

*Looking on are Dr. Laurence Clarke,
Executive Director of the CCMS and
Prof. Kari Levitt, UWI.*



*Mr. Dennis Pantin, Head,
Department of Economics, UWI (St. Augustine),
makes his presentation on the Economics of Small States.*

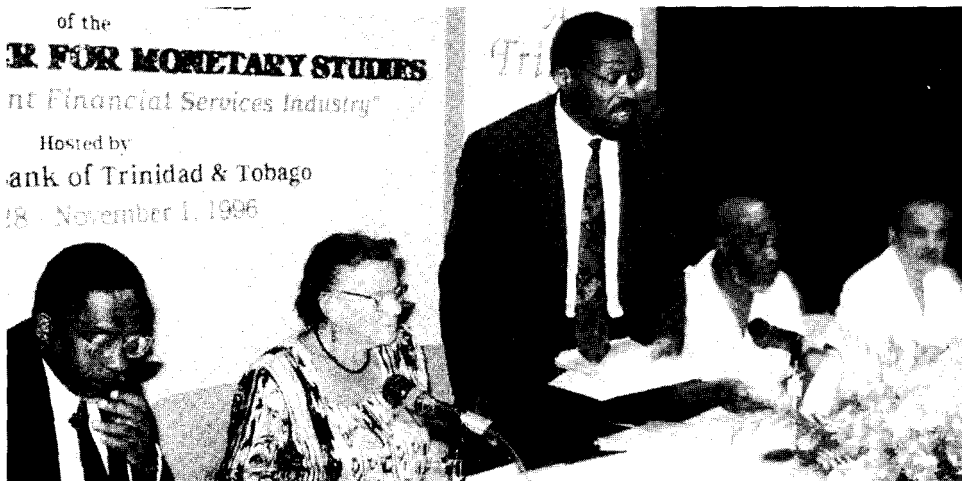
November 1, 1996



During the session on Integration and Development (L to R) Prof. Norman Girvan, UWI; Dr. Cuthbert Joseph, International Law Consultant (in deep thought); Mr. Carl Greenidge, Deputy Secretary General, ACP (Chairman); and Dr. Anthony Gonzales, Senior Lecturer, Institute of International Relations, UWI

of the
FOR MONETARY STUDIES
nt Financial Services Industry"

Hosted by
ank of Trinidad & Tobago
18 November 1, 1996



*Dr. Maurice Odle, Deputy Director, UNCTAD (standing) chairs the Panel Discussion on **Persistent Constraints to CARICOM's Development Efforts.***

*Others in picture (L to R)
Dr. Trevor Farrell, Senior Lecturer, UWI;
Prof. Kari Levitt, UWI;*



*Dr. Trevor Farrell, UWI;
Dr. Eric St. Cyr, former Senior Lecturer, UWI and
Coordinator of the Regional Programme for
Monetary Studies; and Mr. Lloyd Best,
Economic Consultant, in friendly banter during the
Demas proceedings*



*Presentation by the eight CARICOM Central Banks to the
Hon William G. Demas, of commemorative issues of
Central Bank coins.*

*In picture (L to R) Governor Ainsworth Harewood;
Sir Neville Nicholls, President of the
Caribbean Development Bank;
Ms. Amoy Chang Fong, Deputy Governor,
Central Bank of Trinidad and Tobago;*

INTRODUCTION

An Overview of the Publication: Essays in Honour of William Demas

*M.G. Zephirin*¹



The major theme addressed by contributors to the day's proceedings in honour of William G. Demas was that of effective regional integration and cooperation. This was entirely appropriate, paying tribute as it did to a Caribbean economist who sees the Caribbean regional movement as the primary solution to the constraints of small size and has devoted his professional life to fostering that movement.

Part I of the proceedings honours William Demas' personal and professional qualities, as much as his work. In his opening address, **Governor Ainsworth Harewood** pays tribute to Demas' integrity, committed public service and exemplary role as intellectual and practitioner for Caribbean economists. In his

¹Dr. Zephirin is an Economic Consultant to the CCMS and a former Adviser to the Governor in the Central Bank of Barbados.

turn, **Sir Alister McIntyre** speaks about Demas' pivotal roles in the Caribbean integration movement and in the Government of Trinidad and Tobago, his intellect and his endearing eccentricities.

In Part II Laurence Clarke sets the framework for the proceedings by reviewing Demas' landmark writings on the economics of small states and integration, making reference to Caribbean economic thought at the time Demas wrote. He notes Demas' stress on small size as a determinant of the characteristics and performance of economies, and the public policy strategy required to achieve transforming economic development in small economies. Key among these strategies, Clarke explains, is that of economic integration, developed in Demas' 1976 **Essays on Caribbean Integration and Development**. He notes Demas' rejection of the assumptions underlying neo-classical customs union theory, his concern for the unequal distribution of integration benefits among countries and for regional institution-building, as well as, importantly, for human resource development. Finally, Clarke notes, rather sadly, that it remains difficult to judge whether Demas' prescriptions have been effective, in part because they have not been fully implemented.

In Part III the welcoming address by **Hon. Trevor Sudama** reflects the fact that the Demas seminar opened the 28th Monetary Studies conference. In accord with both the theme of the conference and the central banking participation, he discusses financial institution failure and the regulation necessary to foster a safer financial system. Mr. Sudama also refers to the ownership issues raised by recent events in Trinidad and Tobago's banking sector and the regulation that may be required to address such issues. Finally, he discusses the complex nature of development and the fact that people are themselves both the origin and the end of economic development.

Dennis Pantin touches on his personal experience of Demas' accessibility to junior economists before briefly summarizing and critiquing **The Economics of Development in Small Countries with Special Reference to the Caribbean**. He notes that many of the concerns of that work remain relevant

*An Overview of the Publication:
Essays in Honour of William Demas / 3*

to the Caribbean, although he sees a weakness in its emphasis on manufacturing as the basis for development and a resulting bias in favour of import-substituting industrialisation. Most fundamentally, he questions whether the work provides an adequate analysis of small-island (as opposed to small-country) economics and their ecological vulnerability. This body of analysis is now being undertaken largely, Pantin notes, by economic geographers and is concerned with environmental management, but needs to focus on economic strategies relevant to small-island development. Pantin concludes by suggesting that continuing stagnation and poverty in the Caribbean result from the divide between seminal economic thought of the type produced by Demas and the elaboration and implementation of policy.

Marius St. Rose's paper shifts the emphasis, interpreting Demas as political economist concerned with preserving and enhancing Caribbean sovereignty, his personae as development economist and public servant being mere contributors to that goal. St. Rose explains this interpretation through a review of Demas' education and career, arguing that he was influenced by the thinking of the then-radical Caribbean politicians and historians who dominated the pre-independence period. He then goes on to discuss five facets of Demas' economic interests: development, the problems posed by small size, the role of the state, development planning and economic integration.

With **Carlisle Pemberton's** paper, the examination of the work of Demas moves from this broad view to focus on the agricultural sector which Pemberton describes as an unrecognized interest of Demas. Indeed, employing extensive quotes from unpublished addresses by Demas, Pemberton is able to demonstrate that Demas values agriculture as a source of raw materials for local manufacturing and tourism, but recognizes that the agricultural sector also competes for labour. Demas sees diversification and regional trade as the required strategies for the sector, a view that is maintained in his current work.

Part IV of these essays turns explicitly to integration, a theme already stressed in **Part III** in the context of Demas' view that the small country constraint could in part be addressed by

regionalism. **Norman Girvan** focuses on this view as a guiding principle of the treaty establishing Caricom, while noting that it also formed part of a coherent Caribbean body of work on integration. However, the Caricom integration model is inward-looking and resource-based, giving rise to a number of programmes for joint state-led production which were implemented only to the feasibility study stage. Instead, Girvan argues for a new model, proposed by himself and Samuels in 1993, of private-sector-led regional production integration, with governments serving only a supporting role. He, however, acknowledges continuing failure to progress even on this new front, attributing this to a lack of interest on the part of the private sector and/or the short-term foci of governments. Girvan thus characterizes the prospects for regional economic integration as utopian, while clinging to the vision.

Cuthbert Joseph examines the integration movement from the legal viewpoint, observing that the obligations to which member states committed in order to achieve the Caricom Treaty objectives have not been fulfilled. The Treaty provides no institutional machinery or penalties for the observance of these obligations. He also notes that Caricom law has not in general been incorporated into country legislation and, where this has been done, individual countries' legislation is not uniform. As a result, Caricom arrangements do not permit the juridical viability of the Community. Furthermore, Caricom has no legal personality, 'unlike other international bodies, because of members' adherence to undiluted individual sovereignty. Joseph argues that, in order for Caricom to achieve any success, sovereign rights must be limited, albeit in specific spheres, by conferring on the Community the legal means to achieve the treaty objectives.

Caricom's legal limitations are paralleled by its economics, the subsequent paper by **Anthony Gonzales** suggests. He reconsiders the rationale for economic integration on the premise that the import-substitution justification has proved a failure. In doing so, he sketches several approaches to integration, concluding that export-oriented integration requires large groups in order to be beneficial to the grouping.

*An Overview of the Publication:
Essays in Honour of William Demas /5*

The panel discussion of **Part V** reinforces these rather pessimistic conclusions, with all participants agreeing that the Caribbean continues to face a number of persistent developmental problems, despite the availability of prescriptions such as those of Demas. There is some disagreement over the reasons for the continuing developmental problems, with one explanation based on the failure to implement known remedies of the type proposed by Demas, and the other holding that the diagnostic model and, hence, proposed policies are inappropriate to the Caribbean.

Governor Dwight Venner continues the examination of the appropriate analysis to take the Caribbean into the year 2000, by reviewing the fundamental requirements for a desired quality of life in terms of production, distribution and consumption, within the context of a changing global environment. Interestingly, his conclusions mirrors those of earlier speakers, Girvan and Joseph, for instance, in arguing that Caricom arrangements should take the form of an 'overriding regional umbrella' under which policies for an improved standard of living within the global environment could be formulated and implemented.

Finally, global changes in the last thirty years of the twentieth century also provide the context within which Laurence Clarke considers Demas' most recent publication. He points out that this work gives Demas the opportunity to revisit his thoughts in a greatly changed environment. Cooperation and coordination within Caricom remains a major Demas tenet, with caution counselled in deregulating the small states of the Caribbean. Regional institution-building also remains an important theme. Clarke concludes by drawing the parallels between these latest prescriptions of Demas and those reached by other Caribbean academics and public servants participating in the seminar.

The deliberations of the day's activities honouring William Demas can perhaps be summed up by the conclusion that Demas' analysis remains relevant because so little of its vision has been implemented and so few of its objectives achieved. Although no consensus can apparently be reached on the underlying reasons for this deficiency, it is suggested that integration has by and

large been ineffective because neither the governments nor the people of the Caribbean seem able to see that its benefits can exceed its costs. At the same time, in striving for sustainable improvements in its standard of living, the Caribbean confronts an increasingly challenging environment in which cohesion, effective government, coordinated regional programmes and effective institutions will be crucial.

Part I
William G. Demas:
The Man

1

The Demas Inspiration

Ainsworth Harewood¹

7

Today's specially dedicated proceedings in honour of the Hon. William Gilbert Demas represents, in my view, a truly fitting and appropriate way to launch the 28th edition of the Annual Monetary Studies Conference, sponsored by the Caribbean Centre for Monetary Studies (CCMS) and hosted this year by the Central Bank of Trinidad & Tobago. As is well known, the region's monetary authorities and The University of the West Indies have long been partners in the promotion and conduct of economic and monetary research with the objective not only of developing a better understanding of our economic problems and circumstances, but, importantly as well, of giving guidance to the search for solutions. In the final analysis this collaborative effort on the part of some of our most critical regional institutions is really about Caribbean development and the enhancement of the quality of life of Caribbean people. The creation of the CCMS and its formal launching in early May 1995 represents a new phase in this partnership. The region now has at its service an

¹Mr. Ainsworth Harewood is the Governor of the Central Bank of Trinidad and Tobago.

10/ *Ainsworth Harewood*

important research institution, supported by its own resources and staffed by some of its brightest and most committed young academics. The work of the Centre should go a long way towards providing the type of pro-active policy advice that would allow us to approach the next millennium with the greatest amount of confidence.

My pleasure at being able to participate in this year's proceedings is more than doubled by the fact that today we are honouring a very important Caribbean man – a Caribbean man not in the narrow sense evoked by calypsonian Stalin seventeen years ago, but in the much broader sense of Caribbean scholar, banker, public servant, and Central Bank Governor. Today we are gathered to pay tribute to the Hon. William Gilbert Demas, and to recognize his enormous contribution to the evolution of Caribbean economic thought. Indeed, it was upon the intellectual foundations laid by William Demas that the ideas and perspectives of many of my own generation were largely built.

William Demas has in many ways served as a beacon for most of the practising economists in the region today. He belonged to that group of Caribbean students who were among the last to study abroad in the post-war period, and whose excellence was marked by their ability to compete with and even surpass their intellectual peers at Oxford and Cambridge. William Demas and his contemporaries were the immediate predecessors of the first generation of UWI-trained economists, myself included, and we looked up to them. Upon his return to Trinidad and Tobago he gave public service as a teacher, public servant, and most importantly as an economic planner who stood out even among that formidable group of wise men which included the likes of Eugenio Moore, Dodderidge Alleyne, Eldon Warner, Frank Rampersad and J. O'Neil Lewis.

William Demas was a key figure in that group – men of peerless integrity who saw themselves as being at one with the grand design of the late Dr. Eric Williams to free Trinidad and Tobago from the shackles of colonialism. This nucleus of men became as it were our first **think tank**, dedicated to the task of transforming Trinidad and Tobago from a dependent colony to an independent and self-confident nation capable of forging its

own path towards a future marked by a capacity for self-sustained growth and development.

When I say that William Demas stood head and shoulders above his colleagues I also include the colonial technocrats. In a real sense he is also part of the *first* and *last* generation of technocrats of a particular calibre. These are men who were never interested in personal aggrandisement, placed country before self, retired from overwork and were never tempted to join the private sector in the pursuit of Mammon. Their commitment and integrity never allowed them to leave the public service and unfortunately for their own sakes they never seemed interested or concerned with pension rights.

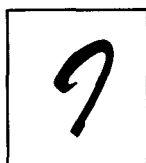
Today we in CARICOM are honouring one of our wise men. And it is very important that we do this ourselves. We are young countries and our traditions in areas such as paying respect to our heroes are still very much embryonic. In the wider metropolitan arena, universities and other institutions organize and celebrate the lives and times of their learned men and women and outstanding intellectuals. Let us now begin this tradition in the Caribbean and let us do it while our heroes are still here with us.

William Gilbert Demas represented a shining light for my generation and I thank him personally for the path he set out for us to tread and foundation laid to build on.

2

Some Personal Reflections

Sir Alister McIntyre¹



feel highly privileged to be given the opportunity to share some personal reminiscences about William Demas at this special programme in his honour.

Let me at the outset congratulate the convenors, the Caribbean Centre for Monetary Studies, for taking this initiative. As Governor Harewood has said “in the Caribbean, we tend to be remiss in not honouring our distinguished sons and daughters, leaving it to others outside to do that”. Few people deserve the commendation of the region more than William Demas.

William is one of the West Indians for whom I have the greatest esteem, admiration and affection. It was, I think, in late 1957 or early 1958, that I first met him. He had then just assumed, or was about to assume, a position as Trade Adviser to the late Garnet Gordon, then West Indian Commissioner in

¹Sir Alister McIntyre is the Vice-Chancellor of the University of the West Indies.

London. His principal responsibility in that position was to examine the implications for the West Indies of Britain's expected entry into the then European Common Market, in particular the consequences for sensitive exports such as sugar and bananas, and of free reciprocal trade for the industrialisation of the area. In nearly 40 years, much has changed, but nothing has changed: we are still examining the same questions.

I liked William from the moment that I met him. I was impressed by the sharpness of his intellect, the breadth of his intellectual interests, and his commitment to the Caribbean. From the beginning he showed himself to be an excellent conversationalist enjoying topics ranging from the sublime to the ridiculous. One would be certain within a conversation to get a few humorous anecdotes, which often served to lighten up moments of deep reflection.

I saw William most when I came to live in Trinidad and Tobago in 1964. We spoke every day at length on the telephone, and I was often the reluctant guest in one of his long drives through the countryside on a Sunday afternoon. He enjoyed driving, but not, I fear did his passengers. His last minute miraculous escapes from accidents became legendary.

During 1963-64, when I was at Columbia, he at McGill, our thinking began to converge on trade and development issues. I had myself done a piece for the first Conference of Caribbean Scholars on **Decolonisation and Trade Policy** later to be expanded into a monograph for ECLAC on **Aspects of Trade and Development in the Commonwealth Caribbean**. William's own thinking was developing along parallel lines in his espousal of economic integration as a way out for small countries dealing with constraints of scale. His book on the **Economics of Development in Small Countries** quickly became a standard reference on Caribbean Economy.

It was a period of intellectual ferment. Lloyd Best and Kari Levitt were then constructing their models of plantation economy which, while addressing a more fundamental and different

paradigm, underlined the need to challenge traditional modes of thought.

William used **Aspects of Trade and Development** to encourage some governments to attend an informal seminar at ISER, Mona. It was there that the late Arthur Brown indicated that the Government of Jamaica would support and participate in a Commonwealth Caribbean Free Trade Area, and the commission was given for the integration studies. Best and I served as the Secretariat for that meeting, and wrote the report that went out to governments. The rest is history; but the principal was William's unique ability to bring together the worlds of thought and action.

By that time, he had made himself practically indispensable in the Government of Trinidad & Tobago. It was then said that no major Cabinet decision was taken without his advice. This might have bred arrogance in lesser men. Instead, he remained accessible, especially to younger economists, proving himself to be a good listener, and receptive to new ideas. He was always helping people to advance themselves.

Starting as a member of the now famous group of economists under J. 'Scotty' O'Neil-Lewis in St. Vincent Street, William became Head of Planning at Whitehall, and built his own team of people - Frank Rampersad, Frank Barsotti, Eugenio Moore - to name three. Ainsworth Harewood was to come later. That group, together with persons like 'Scotty' Lewis, Dodderidge Alleyne, Harold Fraser, and Eldon Warner constituted a first class team of officials that gave cohesion and clarity to the Government's thrust in the field of economic policy, notwithstanding, the heavy criticism that was directed against particular policies and measures.

William reached the pinnacle of his career as a technocrat when he became Secretary General of CARICOM. It was for him a labour of love, since he believed deeply in the political and economic unity of the Caribbean. He brought intellectual standing to the Secretariat, and was widely respected by the member governments for his technical competence, and for his devotion

to the cause. He was the person most singularly responsible for the development of the regional movement from CARIFTA to CARICOM. Apart from writing himself the basic document arguing for the movement from a free trade area towards a common market, he set out with a group of secretariat officials to sell the idea in each member state through meetings with Governments, and in a series of public meetings. By these means, he laid the foundations very carefully for the 1972 Heads of Government Conference where under the masterly chairmanship of Dr. Eric Williams, governments agreed to move towards a Caribbean Community.

That Conference will go down in West Indian history as a major turning point in the life of the region. The proceedings of the Conference, the dynamics of the negotiations, and the roles of the respective players, merit a serious book. I hope that one of our younger scholars will rise to the task.

In a sense, his work as President of the Caribbean Development Bank, and later as Governor of the Central Bank of Trinidad & Tobago, represents a continuation of his mission as a regional integrationist and development planner.

In all of his various capacities, his prodigious work was legendary. He respected no office hours, or days of the week. Many of the region's leading workaholics – Frank Rampersad, Edwin Carrington, Byron Blake, Marius St. Rose – to name just a few – developed under his tutelage.

William's passion for regionalism remains unabated. He is thoroughly convinced - as I am - that economic and political unity represent the best chance of our countries. We may be far from that ideal today, but there are still important voices in the region that are backing the regional idea, however much parochialism and insularity tend to rear their heads in matters both economic and political. William is, in every sense of the word, Mr. West Indies, and he will long be remembered for his towering contribution to regional unity. He will truly be assessed as one of the great West Indians of the latter part of the twentieth century, and we hope, of the twenty-first, as well.

Moving to a more personal level, William has always been so dedicated to his work as to pay very little attention to the material. He has shown no interest whatsoever in his personal advancement and has given very passing attention to practical matters such as his salary, his wardrobe, and so on. He would often show up for meetings in another country with insufficient clothes or money, so engrossed was he in the substantive matters to be addressed.

In many ways, he is a stereotyped academic don, very absent-minded about the mundane. Some of you may have shared my experience of being invited out by William to a restaurant or to the movies, only to discover that he has forgotten his money. On one occasion, he invited me to the cinema in Port of Spain, but upon reaching the cashier's cage, tried to pay for the tickets in a variety of currencies, many of them being seen by the cashier for the first time. Fortunately, the Manager stepped in and invited us to be his guests for the evening.

Anyone so distinguished must be permitted eccentricities. William's own served to endear him to his friends who regard them as a very small price to pay for his monumental contribution to their own intellectual development and to the region.

I believe that he values nothing more than being recognised by his peers. We, who know him, continue to be influenced by his ideas and his unwavering West Indianness. If this Conference does no more than salute his greatness, and the power of his ideas, it would represent a milestone in the evolution not only of Caribbean economic thought, but also in the development of our regional community.

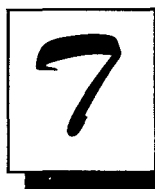
Part II

The Demas Vision: Landmark Writings

3

Reflections on “The Economics of Development in Small Countries with Special Reference to the Caribbean” and “Essays on Integration and Development”

*Laurence Clarke*¹



The objective of chapter is to review in some measure of detail two of the major literary contributions of William Gilbert Demas to Caribbean economic thought. The intention is to prepare the ground for the more specific presentations of each of the contributors to the November 1996 conference dedicated to his honour. The proceedings which follow in **Parts III, IV and V**

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revolve around the themes of small-economy development and integration. These were the key issues tackled by Demas in his writings in the sixties in **The Economics of Development in Small Countries (with special reference to the Caribbean) (McGill, 1965)** and the **Essays on Caribbean Integration and Development (ISER, 1976)**. A third major publication by Demas **Critical Issues in Caribbean Development (Randle, 1996)** is reviewed in a Postscript to the main chapters of this publication. That third review examines Demas' current reflections on the concept and practice of small state development, and on a principal instrument to such development, regional integration.

THE ECONOMICS OF SMALL COUNTRIES

In his path-breaking "Small Countries" work, William Demas grappled with the fundamental issue that the economics of development in small countries such as those of the Caribbean must necessarily be different from that of larger economies. He argued, in other words, that there was a body of factors related to size (physical and population) which hitherto had not been actively captured in the analyses of development. The key implication was that the issues of under-development and "self-sustained growth" (to use a Rostovian term) could not be considered independent of the consideration of a country's size.

To support this central thesis, Demas argued that the fundamental social, political and institutional complex of factors that must be considered on the governance of smaller economies, differed from those for larger economies. At the very least, dissimilarities in initial factor endowments and, in some cases, the immaturity of structures and institutions in smaller states relative to their larger counterparts, dictated differential analyses. This difference in approach was necessary, especially if development was not defined in the orthodox terms of a sustained rise in incomes (driven in strict Harrod-Domar terms by necessarily related expansions in savings and investment), but in more relevant terms as a fundamental structural transformation of economies and integration of economic agents, activities and means of production.

Characteristics of Smaller Economies

Smaller economies tended, in his view, to be characterized by “openness”, being dependent on external trade and finance for their survival. The degree of dependence was in the main related to the size of the economy, as partly evidenced by the economic history of today’s mature economies. They have also tended to exhibit less balanced growth often reflecting features of “dualism”, or lopsided sectoral development. Typically there was one ‘leading’, accompanied by several, ‘lagging’ sectors. Dualism often was also evident in social, political and institutional forms. (The identification in later years of the ‘Dutch Disease’ phenomenon was another manifestation of the distortions induced by dualism, even for more mature economies). Further, often the presence of the Malthusian constraint in small economies, i.e. uneconomically high ratios of population to physical size, was manifestly distorting in its impact on development.

In the face of these peculiar and distinct characteristics of smaller economies, Demas argued that a new and distinct strategy of public policy for development in smaller economies was warranted. Indeed, at the point of economic and political history at which the Caribbean found itself when he was preparing this seminal work, a new strategy was urgently required. His recommended solutions centred on: (a) his notion of a necessary path to the attainment of “self-sustaining growth”, whose attainment hinged on the generation of adequate volumes of domestic savings, in both the public and private sectors, to underpin the desired level of sustained growth over time; and (b) more importantly, the fundamental transformation of the structure of production in small economies.

Structural Transformation

Demas, and a growing body of scholars since he wrote, have argued that conditions ‘*sine qua non*’ for structural transformation must include:

- a politically and socially determined capacity for effecting fundamental change;

- the unification of local markets for goods and services;
- increased integration of domestic industries and activities;
- reduction of dependence on, and changed structures of, external trade and aid;
- balanced and less dualistic development; and
- emergence of appropriate financial and other intermediaries.

In the process of attainment of sustained development and transformation in small economies, the broad consensus expressed by Demas and other leading economists at the time included the need for serious attempts at integrated development and for macroeconomic planning. Innovative behaviour (technological and institutional) designed to efficiently expand the frontiers of the means of production, was also cited then, as now, as fundamental to sustained development, especially in smaller economies.

Development thought at that time, including Demas', was essentially Keynesian or neo-Keynesian in its approach to economic management and development. In this framework the public sector was perceived as an important factor in post-independence economic stimulation and expansion. As the small countries of the Caribbean evolved to political independence, there was a growing body of opinion, both in this region and in other newly independent countries, that state leadership was required for economic growth to which implementation was attempted. The degree varied dramatically in the Caribbean from extremes of state ownership in Guyana and to a lesser extent Jamaica, to more market-based systems in Barbados and Trinidad and Tobago, though even the latter group insisted on strong government oversight and directions. The broad trends at that time were in a way direct responses to the legacies of the colonial era, with which the newly emerging economies needed to quickly grapple. Hence the growing body of literature at that time on

unorthodox economics, driving essentially at the need for radical transformation of the old order of economics to more 'command type' models, adjusted for local realities. One common element, however, in orthodox or more radical economic thought in the 1960s and 1970s, was that the only sure way for sustained development for small states such as the Caribbean, was through an integrated multinational approach.

It was in particular on this theme of integrated development that William Demas spent most of his years of active professional life. Indeed, not only has he been an architect in this field, as the first Secretary General of the CARICOM (at that time CARIFTA) and later longest serving President of the Caribbean Development Bank (CDB), but he had the distinct advantage of manning these important posts, imbued with the clear personal vision that he himself had earlier articulated and documented. In **Essays on Caribbean Integration and Development** he laid out with incisive authority and foresight the framework for the integrated approach to which he gave practical expression at the helm of CARICOM and the CDB between 1970 and 1988.

ECONOMIC INTEGRATION AND DEVELOPMENT

In **Essays on Caribbean Integration and Development**, published in 1976 but written between 1960 and 1975, Demas argued that an integrated approach to development, especially in small open economies, was particularly required. For small economies it was important to move in practice to this concerted approach to development. Central to the process of deeper economic integration was the need for deeper financial integration, at the level of private financial institutions, capital markets and, importantly, national monetary authorities. Having elected to pursue a multinational course of development, however, it was still vital to ensure planning at the national and regional levels and the evolution of an effective and flexible regional university, continuously adapting to the changing environmental conditions with which the region would necessarily be continuously seized. Such a university was essential to the process of developing in a sustained manner the human and social capital, necessary to the transformation of the region's economy in the long-term.

The Theory

More specifically, in constructing a theoretical justification for integrated approaches to development among small economies, Demas argued that the classical (and later neo-classical) assumptions of the Vinerian customs union in international trade theory, had only limited applicability to small underdeveloped economies such as those in the Caribbean. In particular he challenged the assumption of full employment and the negative welfare effects attributed to 'trade diversion' as opposed to 'trade creation', in this theory. He reasoned that in conditions of surplus labour, about which Sir Arthur Lewis so deftly wrote, 'trade diversion' may be employment - generating in areas or locations of a customs union or free trade area, with otherwise low economic activity. Demas also pointed out that the high money costs of new trade-diverting activities may be compensated for by the low social opportunity costs of labour (given the propensity for surplus labour absorption in the area to which trade may be diverted as a result of integrated development) and the enhanced social product arising for new or expanded productive employment. In effect, the advantage given to regional producers by trade diversion acts to subsidize employment in an imperfect labour market.

He further emphasized that the key benefits of integration lay in scale economies that may result from such integration, but also referred to the consumption, investment and terms of trade benefits, especially arising from new external markets and from the positive spin-off from regional, as opposed to domestic, import-substituting forms of productive activity. Customs unions, free trade and other forms of integration must, therefore, be seen as first steps towards industrialization and later expansion into extra-regional markets. This must all be part of a 'truly dynamic theory of economic integration' in which production - its type, focus and location - was in many respects as, if not more, important, than trade itself. Creation of new investment activity and capacity had to be at the centre of any effort at economic integration.

Polarization

Demas also addressed the issue of possible 'polarization' of intra-regional trade and production, the larger more developed countries benefitting more from such activities than the smaller, less developed ones, a problem that has indeed surfaced in CARICOM. He was particularly sensitive to this issue, whereby the possible 'backwash' effects could outweigh the 'spread' effects about which James Meade spoke in his **The Theory of the Customs Union (North Holland, 1955)** because of the presence of economies of scale and external economies. Distribution of the activities of expanded trade and production among countries of varying levels of initial and actual development therefore needed to be planned. He further argued for measures to reduce the negative consequences of polarization, including channeling of production factors, especially capital, to less developed areas; export substitutions; deliberate targeting of agriculture products of LDCs for export; creation of deliberate poles of growth in these markets; the harmonization of incentives with special biases in favour of lesser developed economies; greater infant industry support; longer transition periods for freeing trade completely; and more careful industrial planning, especially in the creation of regional institutions for so doing. He argued that in the long run a process of systematic planning could not only promote wider and deeper regional development but, importantly, reduce the region's heavy dependence on the external world, be it in the form of ownership by foreign capital, foreign aid, trade, foreign technical/human 'know-how' or capital consumption or production patterns and norms of behaviour.

Indigenous Financial Systems

Demas was further of the view that indigenous ownership of regional financial institutions and, more importantly, a regional financial mechanism particularly targeted at funding trade and investment flows to the lesser developed poles of the region, were critical in small economies. His efforts and foresight in this area in the Caribbean are well known, resulting partly in the creation in 1970 of the Caribbean Development Bank, whose stewardship he held from 1974 to 1988. Nor did the wider question of practical

integration among regional financial systems escape his attention. Doing so via a network of locally owned institutions, was seen as more viable than through foreign owned institutions (given the likely emphasis in the latter on locating on the basis of the profitability of capital). He ascribed the need for this integrated structure of regional financial and capital markets to the task of raising levels of savings ratio in the region, even if this meant challenging, as he did, prevailing wisdom in this area at the time, as articulated by no less a Caribbean person than Sir Arthur Lewis.

Demas underscored the need for national and ultimately a regional central bank that was not of the arcane mould, but rather one more suitably structured “to influence the use of those financial resources [generated] in ways that would contribute to the strengthening of the national economy by changing its production structures and its patterns of consumption” (p104). Such a Central Bank would in fact more specifically assume the indigenization (as opposed to colonization) of local banking; more active oversight for banks and the facilitating of the efficient mobilization and channeling of domestic financial resources into more productive use; oversight of non-banks; and the spearheading of the sustained creation and development of national capital markets, to facilitate a greater role in external capital flows, including the important task of deepening regional monetary and financial integration.

A Regional University

William Demas consistently argued that the key ingredient to long term success of a Pan-Caribbean economy, was the development of its human resources. He therefore advocated in this publication and elsewhere, a ‘new Caribbean University’, a ‘scholastic’ university, that served primarily as an ‘Intellectual Centre’ and the ‘real’ regional university, which had to serve as a national and regional instrument of development. He argued for excellence among the graduates of a **regional** university (not separate UWI/UG entities for example); for constant innovation and curricula designed to ensure tertiary education that

was more far-reaching and meaningful to the region. He reminded the region in one of the articles that:

We must inculcate in our people from cradle to grave the right sense of excellence which, properly defined, means never being satisfied with indifferent performance in any concrete task which one has to do - whether in creative or intellectual or artistic work, or in work on the farm, in the factory, at the office desk, in organizing and running a non-government association, in sport, in journalism and in other jobs and professions. Excellence means a constant unrelenting striving to be 'one's best self' in whatever specific thing one has to do (p.154).

TODAY'S REALITY

Such, therefore, was the economic vision of William Gilbert Demas, twenty to thirty years ago, for a robust Pan-Caribbean economy. The true hallmark of his vision and success in directing the region towards paradigms of meaningful collective development could only be measured effectively over the longer term. Implementation of some of his thoughts and ideas is already underway. But such implementation has not been without its difficulties in practice. To Demas' credit, in no small measure, regional integration has moved in less than three decades well beyond the theoretical principles articulated by Viner and Meade, to successively deeper institutional forms of free trade areas, common market and now towards a single market and economy. Yet, how well the institutional structures have withstood these progressive developments is a matter of some concern to the region, at a time of open challenges from many quarters to the viability and effectiveness of present CARICOM arrangements. The Demas institutional evolution has no doubt taken place but the jury is still out on the effectiveness of these changes, constrained as many have been by factors both beyond and within the control of the key regional operators, in their implementation over the decades following his prescriptions. Indeed, one of the key underlining facets of this institutional metamorphosis has

been an orientation away from trade integration (trade continues to be less than 10% inter-regionally), to one of deepening the integration of production. Such a position was advocated by Demas, but its realization is still far from reality, notwithstanding marked progress to date towards a Caribbean single market and economy.

Planning

Some development planning in most Caribbean economies was a positive reality in the 1960s and 1970s. National development plans have, however, become less and less evident in the 1980s and 1990s, when market-based structural adjustment and stabilization programmes were the norm. The price system was judged paramount in these latter decades and therefore planning was relegated to the back seat. While in principle most CARICOM countries still have medium-term economic plans, perhaps only Guyana has more recently planned for a major economic transformation, with the drafting of a national development strategy with assistance from the Carter Centre in the USA.

Indigenization

Further, according to the Caribbean Association of Indigenous Banks (CAIB), some three-quarters of the assets of Caribbean banks and a great proportion of insurance and other non-banks are now owned predominantly by regional nationals i.e. are indigenised for the most part – a Demas prescription. Yet major problems of management have emerged in the 1980s and 1990s in respect of such institutions in Jamaica (Workers Bank); Trinidad & Tobago (Workers Bank and National Commercial Bank); and Guyana (Guyana National Cooperative Bank; Guyana Agricultural Cooperative Development Bank), raising questions about the planning for and operations of these institutions. Most collapses have been due to either political interference; insider dealing; over-expansion of operations; or downright fraud in their operations. On the other hand, virtually no foreign controlled institution, except the BCCI, has failed in decades in the region.

The contrast continues to be striking, not only in banking but also in insurance, asset management and related fields.

Much progress has been made regionally in financial integration. Although the indigenization and local incorporation (localization) of several hitherto foreign institutions (Royal Bank of Canada; Barclays Bank) in many territories have in a way reduced the degree of financial integration in regional financial systems to some extent, a wave of cross-border investments in recent years by regional financial institutions (e.g. Republic Bank of Trinidad & Tobago; Citizens Bank of Jamaica; Colonial Life Insurance Co. of Trinidad & Tobago) have spoken to much progress in this regard. Cross-border tie-ups and activities by the stock-markets in Jamaica, Trinidad and Tobago and Barbados attest to progress in this area also.

Central banking in the CARICOM region has lived up to the Demas vision of less voluntary and more innovative oversight and operations. Apart from the classical functions of money supply and reserve management, currency production, financial system oversight etc., many regional central banks have taken key innovative initiatives at promoting, while regulating, financial development in their respective economies. Among these were notably venture capital operations (Trinidad & Tobago); call exchanges (Guyana); Stock Exchange (Jamaica); secondary mortgage institutions (ECCB and Trinidad & Tobago). A recent spate of revision of Financial Institutional and Central Banking Act have conferred oversight to central banks of not only the monetary systems but, importantly, even to the wider financial and non-banking systems. These include the new Acts in Guyana (1995); Trinidad & Tobago (1993); and Belize (1995). Capital market development, as expressed by Demas, has also been aggressively pursued by the central banks of the OECS States; Jamaica and Trinidad and Tobago in particular.

Monetary Integration

Yet Caribbean economies in the mid-1990s, are still significantly a far cry from an integrated monetary economy, notwithstanding progress in the OECS. A formal decision by

regional Heads of Governments in 1992 to move towards a Monetary Union by the year 2000, has since been derailed timetable-wise, though some progress has been made on regional currency convertibility and to bring this process back on track recently. Currencies are presently virtually fully convertible throughout the region, with the central banks leading the way in most cases so far, thus promoting monetary deepening regionally. But a dual system of exchange rates persists in regional economies, and there is still no final consensus on full currency convertibility. Trinidad & Tobago, Guyana, Jamaica and Suriname continue to float their currencies, while the OECS, Bahamas, Belize and Barbados – coincidentally the better performing economies – have fixed parities to the US dollar. Renewed efforts at a monetary vision and single currency now underway will have to reconcile these structural contradictions if a new credible single Caribbean dollar is to emerge, with solid backing. The process of economic convergence in the region towards formal monetary integration is being closely monitored, but progress continues to be slow and mixed. Demas would certainly not be satisfied at this.

Social Development

Moreover, region-wide spending on social services such as education and health is presently lower in the 1990s than it was in the 1980s and 1970s – a dismal commentary on the two sectors that are at the heart of human resource development. The massive brain drain that has hit the region in the 1980s in particular, especially in Guyana, Jamaica and Trinidad & Tobago, continues to weaken the technical and managerial capacity of Caribbean economies. Yet the regional University is experiencing probably its worst financial crisis of its near fifty-year history. While serious efforts to reposition The University of the West Indies, reinvigorate its internal structures and respond to the widening gap in the demand for, and supply of, competent graduate output for the region, are being made, this process is a necessarily slow and longer one, probably stultified by the existing financial constraint. The University of Guyana, in the meantime, continues to operate at sub-optimal potential in its own isolated environment, badly strapped for finances, and, no doubt as a

consequence, quality Faculty. Some progress has been made in private sector-led development efforts especially in the area of banking, finance, legal professions, etc. but by and large the Demas dream and vision of excellence in the region's human and social capital is far from a reality presently.

Small Size

Finally, in more areas than readily meet the eye, the region continues to grapple with the basic problems of small size in a world becoming increasingly less sensitive to the special characteristics and features of smallness that could render such nations particularly fragile and vulnerable. Traditional preferential markets for Caribbean agricultural produce in many of the world's markets have come under severe threat, with no ready evidence of compensatory or other support in the absence of the availability of these markets. Many of the region's economies have been 'graduated' by the multilaterals from concessionary financial terms and are not yet fully ready for accessing international capital markets, though some progress has been made especially by Trinidad & Tobago and Barbados. Natural disasters such as hurricanes, volcanoes and floods persist in our island economies. The difficulties manifesting themselves in the important financial sectors of the region through persistent institutional rigidities and imperfections of small liberalizing economies are increasingly manifesting themselves by the divergence and less interdependence between efficient resource mobilization and efficient investment in real activity. Problems of 'excess liquidity' are emerging from one Caribbean economy to another, reflecting not only fiscal imprudence in several cases but, in virtually all, a basic failure in the monetary transmission mechanisms and the capacities of the region's real sectors to emerge out of a sluggishness into entrepreneurial creativity and innovativeness. Regrettably, these factors are all to the detriment of welfare enhancement for the region's people. Thus, the problems of the small state paradigm, in a way persist. Some of the flaws articulated by Demas decades ago are regrettably still relevant for smaller economies such as those in today's Caribbean, at a time when access to exogenous private and multilateral support is being increasingly constrained.

CONCLUSION

In summary, William Demas' vision for the Caribbean has been over the years one of a Pan-Caribbean structure of economic development, planned over medium and longer term horizons, with a high-powered corps of human resources at the cutting edge of technology, innovations and globalisation, especially with the advent of the next millennium. While the region has broadly progressed over the past three decades, there continues to be a sufficiently large complex of areas of stagnation, if not retrogression, giving rise to some doubts not as to Demas' prescience, but probably more to the true complexity of the environment within which small-states such as the Caribbean have been forced to, and will continue to have, to evolve. Caribbean political systems and structures, to name only a few key variables, for the most part continue to be unresponsive, if not at odds, with the basic economic perspectives that Demas had charted for the region three decades or more ago. The real failure in a way has been the dynamics, not so much of macro-economics, but of the political economy of the region. A higher consciousness of this aspect of the region's development will be both a necessary and sufficient ingredient for sustained social and economic development in the 21st century and beyond. Indeed, it is perhaps out of a realization of this factor, *inter alia*, that Demas' reflections and prescriptions in his latest publication **Critical Issues in Caribbean Development** have been shaped. A summary is made on his current thinking and advice in the **Postscript** to this publication.

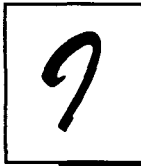
The papers which follow by the distinguished professionals capture in a more focused manner, many of William Demas' earlier thinking and prescriptions for the region, while identifying aspects of the experience that may or may not have yet corroborated his truly Pan-Caribbean vision.

Part III
The Economics of
Development in Small Countries

4

The Caribbean Development Imperative

Hon. Trevor Sudama¹



I am happy to be here today at this your twenty-eighth Conference of Monetary Studies and to have the opportunity to address you. On behalf of the Government of Trinidad and Tobago I welcome all of you and particularly our overseas visitors. I hope you have an enjoyable stay here.

I wish to extend my congratulations to the Caribbean Centre for Monetary Studies for organizing these conferences which provide a forum for eminent academics and professionals to engage in useful discussion and dialogue on a wide range of monetary, financial and economic issues as they relate to the Caribbean.

¹Hon. Trevor Sudama is the Minister of Planning and Development of the Government of Trinidad and Tobago.

INTRODUCTION

In recent years the themes you have addressed included such important questions as economic management in the Caribbean, the experiences of central banks in the region, the reform of the financial system and the role of capital markets in promoting regional development.

This year you have chosen as your theme **Towards an Efficient Financial Services Industry** – a subject which is both timely and topical in the light of the desire of many Caribbean countries to expand the services sector in an effort to diversify their economies and provide additional employment opportunities. The financial services industry is indeed one of those areas which is seen to have significant potential and which needs to be targeted for special emphasis. I wish you every success in your deliberations.

It is commonplace that the services sector of national economies will come to occupy a higher position than it now does in the generation of employment and in the production of the national output. There are many components which comprise the sector. Tourism ranks in certain countries of the region, so does international transportation. Music, art and design are among the areas where the Caribbean has excelled. Some countries have created a niche for themselves in international offshore banking. Others are contemplating medical tourism and one country has become a significant player in international business.

But the financial services industry must be given increasing attention. Partly because an efficient financial services industry is necessary to lubricate the development of the other sectors. Partly also because we already have the embryo of a potentially viable financial industry which we can and must build upon as it offers new opportunities for the generation of employment and foreign exchange as mentioned before. Moreover, we are fortunate to have some bright young people who can be trained in the intricacies of the field.

A thriving financial services industry must operate both within national economies as well as within the international system. It is difficult for me to comprehend all the changes which are taking place in the world financial system. The numbers are mind-boggling. More than one trillion U.S dollars cross the international exchanges every twenty-four hours, the greater proportion of which has nothing to do with the payment for goods and services. Speculative movement of funds is the dominant feature. And yet these speculative movements impact directly on the real economy through their effect on the exchange rate, the level of interest rates and the availability of investment capital. They are, therefore, of concern and interest to the people of the Caribbean.

WILLIAM DEMAS

At this Conference you have chosen to honour the Hon. William Demas for his long and distinguished contribution to so many areas of public life in the Caribbean. I too wish to add my commendation and congratulation to an eminent son of the soil. Though a Trinidad and Tobago citizen, William Demas is first and foremost an outstanding Caribbean person whose dedication and commitment to the region has few equals. He is the Caribbean public servant par excellence.

An Island Scholarship to Cambridge to read economics seemed to have prepared him well for his future career as researcher, senior public servant in the Public Service of Trinidad and Tobago, Secretary General of Carifta, President of the Caribbean Development Bank, Governor of the Central Bank of Trinidad and Tobago and Distinguished Research Fellow of the Caribbean Centre for Monetary Studies presently. I join with you in paying tribute to a distinguished scholar, public servant, banker, development theorist and practitioner.

CARIBBEAN FINANCIAL DEVELOPMENT

The deliberations over the next few days will, I am sure, throw new light on the subject of your discourse. Your analyses and conclusions should, I am equally sure, be of benefit to decision makers.

As you meet today, you cannot but be mindful of recent significant developments in the monetary and financial sectors of some of our countries. These developments have highlighted the need to revisit the framework established over the years for regulation and oversight.

In Jamaica, we have witnessed commercial bank failures which have had a ripple effect throughout the system and somewhat undermined the confidence of investors and depositors. The circumstances posed a test to the authorities there. Once again, issues relating to the quality of the loan portfolio, the establishment and observation of prudential criteria, the effective monitoring of operations, the expeditiousness of intervention, and indeed, the adequacy of the regulatory mechanism have been brought to the fore.

In Trinidad and Tobago, the mushrooming and collapse of many non-bank financial institutions in the nineteen seventies and early eighties and the near collapse of a number of the smaller banks alerted the authorities to the need for more stringent regulations and effective action to pre-empt any future crisis. Consequently, in 1993 the legislation was revised and a new Financial Institutions Act was promulgated. The rules were changed in certain fundamental ways, particularly as they related to conditions for entry for a domestic company. Under the 1965 Banking Act a licence could be granted only if such a company had an authorized capital of at least five hundred thousand dollars, of which at least three hundred thousand was subscribed, and at least two hundred thousand, or thirty percent of its authorized capital, which ever was greater, had been paid up in cash.

Under the 1993 Financial Institutions Act, the minimum paid-up share capital was raised to fifteen million dollars and the central bank had the power to increase this figure if it was not satisfied that a bank's capital base was adequate in accordance with capital adequacy requirements imposed by regulations. Rigorous prudential criteria were stipulated. In addition, the central bank needed to be informed of the nationality, experience and other relevant information pertaining to each

proposed director, chief executive, manager and controlling shareholder and certify them as fit and proper persons in accordance with the criteria established.

It is not difficult to comprehend why such elaborate pre-qualifying conditions and vetting process were laid down. One admits the necessity to create confidence and assurance. One recognizes the priority need to protect depositors, including the fictional five million dollar depositors who cannot read nor write and who apparently amassed their alleged fortunes from such lucrative activities as sugarcane cultivation, rice growing and vegetable production.

Indigenous Banking

But the question arises as to whether these requirements preclude the entry of new indigenous banks into the system and, therefore, may operate to eliminate any potential competition from such a source. I raise this issue in the light of recent calls for the establishment of a bank based on equity contributions from a group of reputedly dominant depositors in an attempt to confront perceived cartel arrangements and introduce a measure of competition in the banking system. It is of course a moot point why no attempt was made to establish and license an indigenous privately-owned bank when the preconditions to be satisfied were so much less onerous. It is also worthy of enquiry why allegedly dominant depositors have not become dominant shareholders and thus placed themselves in a position to influence the composition of management of a bank and its direction.

Noteworthy also was the provision in the 1993 Financial Institutions Act which places restrictions on the ownership of significant shareholding in a bank. It provides that the central bank must issue a permit to a controlling shareholder certifying him as a fit and proper person. Any shareholder who held twenty-five percent or more of the issued shares of a bank when the Act came into force is deemed to be a fit and proper person. Apparently twenty-five percent ownership by a person is regarded as a threshold for control purposes.

As you are aware, the recent attempt by a local conglomerate to further increase its shareholding in the country's largest commercial bank caused a great deal of anxiety and uncertainty in the system - a situation that has not yet been resolved. The issue, however, brings to light a conflict of perspective. One protagonist has argued that the new dispensation of increasing liberalization of the economy implies a freedom to invest anywhere, in whatever volumes. A restriction of that right is unwarranted, undemocratic, unproductive and facilitates inefficiency in the financial services sector. The other player has relied on the argument that the banking sector is a special case in view of the need to engender stability and confidence. Any dominance of the owners of industry over banking would make the latter the hand-maiden of the former and could result in speculative and high risk investment of depositors' funds. Such an eventuality would inevitably render a bank and, by extension, the banking system vulnerable. Some regulators have reinforced this argument by affirming that the diffusion of bank shareholding is one guarantee of a bank's strength, stability and viability and promotes responsible management. They have recommended a ten per cent ceiling on shareholding by a single individual or organization. This impasse in the local banking sector has clearly pointed to the need to revisit the legislation governing the operation of banks and the regulatory powers and authority of the central bank in the light of best practices elsewhere and the imperatives of our own situation.

It cannot be overemphasized that special care is required in handling the banking sector. The Managing Director of the International Monetary Fund has referred to it as the "Achilles heel" of the economy. He further remarked that "in many countries a banking crisis is an accident waiting to happen". Quite apart from the withdrawal of investments and loss of confidence, thousands of depositors are disenfranchised in summary fashion. And developing countries could hardly afford the diversion from public coffers of hundreds of millions of dollars to rescue ailing institutions or mitigate the effects of a collapse when such funds could have been more productively applied to developmental ends.

DEVELOPMENT POLICY: TRINIDAD AND TOBAGO

Development is an issue close to the heart of William Demas and I would venture to change the subject of banking on which I have been speaking to make a few remarks on development, particularly as it relates to Trinidad and Tobago.

As you are aware, for over twelve consecutive years this economy went into a decline, experiencing continuous negative growth. The basic reason for this was that our economic fortunes have been overwhelmingly determined by external factors. Over the last three years there has been a moderate revival of growth. The maintenance and augmentation of this growth into the future would perhaps represent some indication that a measure of development has taken place, especially if it is founded on a more diversified economic base and increasing volumes of non-oil exports.

Sustainable Development

Development, in my view, implies a people's dynamic and productive relationship with their environment. That environment is ever widening from the national to the regional and indeed to the global. The relationship is, therefore, becoming more complex. One of the requirements has to do with managing complexity and change. That we need to relate to the outside world is not in question. The important question for us is the terms on which we relate to the outside world. Therefore the processes, mechanisms and modalities through which we access integration into the regional and global economy are of vital importance. In the past, we have not had any measure of control over that relationship. Development, however, implies a basic degree of autonomous influence and this can only be founded on vision, knowledge, initiative and capacity-building. In this context, the ringing exhortation to export is really an exhortation to add value because we have always been exporters of things whose value we were not able to determine. Nor is it a question of a single perspective. If we are to achieve growth with development we must integrate our outward and inward oriented perspectives. We must mobilize our resources in such a way that we maximize

our export potential and at the same time meet as many of our domestic needs as possible – as efficiently as possible. A balanced overview is required.

Sustainable development cannot solely be premised on export-led growth, while simultaneously we preside over the demise of critical sectors of the economy and the languishing of substantial resources. Witness the acceleration of poverty levels and the under-utilization of our land resources simultaneously with the achievement of growth. There is here more than an indication of a fundamental structural problem in the economy, accompanied by a problem of resource mobility. Associated with this issue is the pattern of consumption and demand which has restricted the internal level of integration and resource utilization.

Facile references have been made to countries which have developed rapidly over recent decades. Foremost among them is Singapore which has achieved not only outstanding growth in exports but has sustained high levels of savings and investments. Its citizens have displayed discipline, an innovative impulse and an entrepreneurial spirit which has pervaded the society in all spheres both public and private. Moreover, they have acquired, created and applied knowledge in a productive way. Inexorably, we are led to the conclusion that the source of their development has been the information base, expertise, aptitude, orientation and motivation of their people buttressed by strong social institutions and cultural stability and cohesiveness. Development, therefore, in my view, is the ethos of a people expressed in many creative, productive and enduring ways.

Savings

It is debatable whether we in Trinidad and Tobago can achieve development via the same route traversed by Singapore. Some may question whether that level of development is attainable or desirable given our own choices of lifestyles and modes of living but models are important if only because they force us to ask pertinent questions. Why, for example have we in Trinidad and Tobago not been able to achieve high rates of domestic savings? Has it to do with a consumption impulse rooted in

history and culture or the myth that deliberately fostering great disparities in income induces savings and investment by high income earners? Why is there a preference to invest in an expensive car instead of productive activities? Why has liquidity constantly to be reduced in the system side by side with a dearth of investible funds? What corrective action can be undertaken to address the situation? Indeed, how is the Singaporean mode relevant?

When a moderate level of savings has in fact been achieved, it is necessary to enquire to what extent such financial resources are invested in productive ways. It is as much a question of financial intermediation as it is of entrepreneurship. If entrepreneurship is associated with the taking of risks and the seeking of opportunities with a long view in mind, is our entrepreneurship in large measure merely focused on speculative endeavour and the short view? Why have we not placed the required emphasis on the systematic acquisition, creation and application of knowledge, and why have we not made the appropriate level of investments in such projects? Why have our educational institutions lagged as centres of teaching, training and research? And why have our health institutions begun to decay and our physical infrastructure deteriorate? To what extent are we experiencing growth without development?

The Macro-Economic Environment

It is obvious that development is a multifaceted phenomenon which is the outcome of a complex inter-relationship among a number of factors - a sound macro-economic strategy, robust private sector initiative, adequate social and physical infrastructure and investment in social and cultural capital. They are all interwoven. None is an end in itself. They all serve to promote productive participation and enhance human welfare. At the centre of it all is people.

If I may give one example. Our macro-economic policy is not an end in itself but a means to an end. The achievement of a healthy fiscal and current account surplus, the accumulation of substantial foreign reserves and the control of the inflation rate

merely provide a framework for growth and development. If such policy objectives are realized and high levels of poverty persist, the goal of development remains unfulfilled. Moreover, if a fiscal surplus or reduction of deficit is achieved at the expense of necessary investment in social or physical infrastructure, then development is sacrificed on the altar of statistical nicety. Even the Managing Director of the IMF who I have quoted liberally today, has acknowledged as much when he stated “fiscal adjustment must create enough room to put human development at the centre of our fiscal strategy, as we know that the sustainability of economic growth hinges on that”.

I have not dealt with the lay function of the State and the need for reform in its regulatory role and in the efficient delivery of public service. But that will be for another day.

CONCLUSION

Ladies and gentlemen, the mother of all development is the development of the human condition and with that all things are possible.

Thank you and I may again wish you every success in your deliberations.

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Caribbean Sovereignty: An Interpretation (The Rationale for, and Relevance of, Demas' Economic Interests in Economics)

Marius St. Rose¹

“What doth it profit a man, if he gains the whole world but suffers the loss of his own soul.” Matthew 16:26

*“ Ill fares the land where hastening ills are prey,
where wealth accumulate and men decay.”
Goldsmith: The Deserted Village*

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overnments on both sides of the Atlantic have, overtly and covertly, demonstrated considerable economic and geopolitical interest in the Caribbean islands since their popularised “discovery” by Christopher Columbus in the late fifteenth and early sixteenth centuries. This metropolitan interest stemmed from different motivations and objectives. The initial and primary motivation was the islands’ military significance as staging posts and strategic locations for the plunder of the wealth of the Americas. This was followed by their economic significance as rich sugar producing colonies – a status which they retained for well over three centuries. In more modern times, that metropolitan value derived largely from their strategic location in the Cold War conflict between East and West and a geopolitical significance in an environment of international democracy, that is, one country one vote – an influence which was not commensurate with either their economic, geographic or even population size. Secondly, the small size of the islands made them easy conquests and useful pawns in international negotiations. Moreover, their tropical climate and pristine nature, unaffected by the ill effects of the industrial revolution, and their proximity to both Europe and North America made them attractive leisure haunts for the rich and, more recently, a growing number of middle income visitors seeking recreation and respite from inhospitable winters.

INTRODUCTION

William Demas came into prominence at the time the Caribbean islands were emerging from colonial status and were in transition to political and economic self determination. He, undoubtedly, has become one of the most influential technocrats in the English-speaking Caribbean’s immediate post-colonial era. His pivotal position in the affairs of his country, Trinidad and Tobago, the richest of the English-speaking Caribbean countries; his role as Secretary-General of CARICOM, and President of the Caribbean Development Bank, two of the Region’s premier institutions, in shaping and influencing economic policy; his

writings and, in particular, his seminal work on **The Economics of Development in Small Countries – With Special Reference to the Caribbean**; and his very close association with major regional leaders, thinkers and practitioners – have all contributed to his influence and impact on the CARICOM region.

Demas has been highlighted by many writers, academics and politicians, and on various occasions, as a committed regionalist and integrationist, an expert on development economics, a pioneering development planner and an advocate of the central role for the state in economic affairs. While these are all appropriate descriptions of Demas' accomplishments, they represent only the means to one overriding end. The central theme of this paper is, therefore, that there is only one thread seaming these various roles of Demas and, more importantly, that the stances he took were all stepping stones to the attainment of one broad objective – the preservation and enhancement of the sovereignty of the English-speaking Caribbean.

The link among Demas' major professional interests in the enhancement of Caribbean sovereignty can be seen in the following scenario. Recognising early the deficiencies of mainstream economics in addressing Third World issues, he joined others like Lewis, Rostow and Prebisch in looking at the peculiar problems of these economies and in deriving more appropriate economic solutions to these problems which would either have been overlooked, or sub-optimally prescribed for, by mainstream economics. This specialisation in development economics would be of relevance to all English-speaking Caribbean countries. His focus became even sharper as he began concentrating on the special problems of the smaller island economies. He recognised that these smaller islands were grappling with problems that were different, much more severe, and importantly, requiring more urgent attention than those of the larger islands, if the decolonisation process in the region were not to be undermined or even reversed. In short, since a chain is as strong as its weakest link, if the weak link in the smaller states of the Caribbean basin was not strengthened, the political integrity of the region as a whole, and even the political gains made by the larger nations could be compromised.

With that focus, the issue for Demas became one of determining the most effective strategy that smaller states could pursue in order to move forward economically. In the absence of well established, vibrant and informed markets and a proactive private sector, there was need for an organised group to take a lead in the process of accelerating development. With the exception of the church, which was neither organised nor inclined to pursue non-spiritual or materialistic goals, government was the only organised group that had the capacity to mobilise the countries' resources and to move the economies forward in as short a time as possible. For governments to perform this role they needed a plan. Hence, he assigned a critical role to development planning, that is, determining where the country needs to go, and what is required to get there; seeking and mobilising the necessary resources to take the country forward, and managing and monitoring the development process. He would also have recognised that even with the most committed government and best plan, many of the states were too small to become internationally competitive and self-reliant on their own, and needed regional integration of markets and functional cooperation in services to enhance their viability.

It would be extremely difficult to cite any overt or explicit public declaration or pronouncement by Demas relating his economic interests to this goal of Caribbean sovereignty, despite the fact that the concept is, or should be, like motherhood for all self-respecting countries. That he did not systematically show that link may be due to the fact that this was taken as given. It may have also been influenced by his role as a regional/international civil servant, serving many governments of different political persuasions; and his role as a development banker, dependent on the international community for concessionary and other resources for the development of the region. To get his thoughts on this central theme, one would have to resort to private conversations and statements made in unguarded moments by this very private, complex and diplomatic person, and also by an examination of the economic rationale for the various regional programmes or initiatives which he proposed or advanced.

This paper focuses on the five broad inter-related areas that Demas has been involved in: Development Economics, Special Problems of Small States, Role of Government, Development Planning and Regional Economic Integration and Functional Cooperation. In each case the rationale for, and the relevance of the subject, the various initiatives and programmes will be identified; and an assessment made of their successes. In addition, an overall assessment of Demas' contribution to regional development will be undertaken. Before exploring these areas, it is helpful to outline a brief biographical sketch of Demas and the political and ideological climate and influences which were either contemporary and/or would have influenced his thinking.

BIOGRAPHICAL BACKGROUND

Demas came from humble origins. He was born in Trinidad in 1929 and his parents had strong links with the smaller twin island of Tobago. His father, a brilliant police officer as attested to by his peers, climbed the ranks of the colonial police force to the highest level possible at that time for somebody of his ethnic background.

Education

Demas obtained his early primary education at Tranquility Boys' School in Trinidad, where, at the age of 12 in 1941, he won the very competitive exhibition which gave him a free place at the prestigious Queen's Royal College in Trinidad. Despite his athletic potential and prowess, he devoted much of his time to study; and in 1947 gained the coveted Trinidad and Tobago Island Scholarship. This was one of the very few awards made by the Trinidad and Tobago Government to the most outstanding student performers at the Cambridge Higher School Certificate examinations.

The scholarship allowed him to pursue the study of economics at Emmanuel College, Cambridge, where he remained until 1955. During the period, he opted for the Economics Tripos and gained the baccalaureate in 1951. He spent a further four years doing postgraduate studies in economics during which he

researched the **History of the Economic Development of the West Indies 1870-1913**, for which he gained a Master of Arts degree in 1953 and the Master of Letters in 1955.

In 1955, he moved to the “rival” Oxford University. There, at Queen Elizabeth House, he was engaged as a Research Officer in Public Finance until 1957 when he began his public service career.

His formal association with academia was resumed in 1964, when he took leave from the Trinidad and Tobago civil service to spend a year at McGill University as the first Research Fellow at the Centre for Developing Area Studies. During this sabbatical, he not only lectured on the History of Economic thought – a third-year honours student course at McGill – but also delivered four lectures in the Second Keith Callard Lecture Series. These lectures were subsequently published in 1965 as the **Economics of Development in Small Countries**.

Work Experience

Demas’ formal work experience outside of academia began in 1957 as Adviser on Trade Policy to the West Indies Trade Commission based in London. He remained in this position for two years before returning to his native Trinidad and Tobago to assume a senior position in the public service. During his ten years in that service his “meteoric” rise, culminated in his holding the position of Economic Adviser to the Prime Minister after being Economic Adviser to the Ministry of Finance and to the Government, Head of the Economic Planning Division in the Office of the Prime Minister, and Permanent Secretary in the Ministry of Planning and Development.

In 1970, he became the second Secretary General of the Commonwealth Caribbean Regional Secretariat in Georgetown, Guyana and four years later, was invited by Caribbean governments to succeed Sir Arthur Lewis as President of the Caribbean Development Bank, a position which he held for over thirteen years until 1988, when he resigned to become Governor of the Central Bank of Trinidad and Tobago.

He returned to academia in 1992 in an administrative position when he assumed the position of Director of the UWI/Mellon Foundation Project on Selected Critical Issues Facing the Caribbean in Regional and International Relations. Currently, he is a Distinguished Research Fellow at the Caribbean Centre for Monetary Studies.

There is very little difference between Demas the academic and Demas the man. In fact, the two roles have been fused as his research and writings have always been policy-oriented. Moreover, in attempting to remain on the cutting edge of economic thought, ideas and developments, he ensured that his immediate working environment always included a well-staffed economics department and an up-to-date and well-stocked library, particularly of economic titles.

Throughout his working life, Demas served on a number of regional and international committees and commissions. These have included reviewing the functioning of the East African Common Market on behalf of African Governments in 1975; preparing blueprints for CARICOM on behalf of Commonwealth Caribbean Governments in 1981 and 1990; making recommendations for the reform of the international monetary, financial and trading systems at the request of the Commonwealth Secretariat in 1983; and reviewing and making recommendations for improvement of South-South trade and finance on behalf of the United Nations in 1986.

Publications

Demas has disseminated his views and recommendations quite widely. His published works include: **The Economic Development of Small States (1965); West Indian Nationhood and Economic Integration (1974); Change and Renewal in the Caribbean (1975); The Political Economy of the English-speaking Caribbean (1976); and the recently reviewed West Indian Development and Deepening and Widening of the Caribbean Community (1996)**. In addition he has delivered a number of addresses, most notable of which were his annual statements to the CDB Board of Governors, where he addressed topical socioeconomic issues affecting the Caribbean. His

publications also include the reports on assignment undertaken at the request of regional and international organisations. A brief biography, including a very select bibliography of his works, is contained in the **Appendices 1 and 2** of this publication.

The difficult economic period of the 1930s resulted in the establishment of the Moyne Commission, and the immediate post World War II period were watershed years in the socio-political evolution of the Caribbean. This period also saw the emergence of political thinkers and agitators such as Captain Cipriani, C.L.R. James and Eric Williams of Trinidad and Tobago, among others from the wider Caribbean. These men articulated their vision for Caribbean countries and agitated for political enfranchisement of the masses, increased autonomy in the management of domestic affairs, political independence and, ultimately, greater economic self-determination.

Demas was brought up in that period. Being the avid reader that he is, and given his great interest in socioeconomic and geopolitical matters, he would have been influenced by the writings of these men. He was probably affected by the ideas of Captain Cipriani who, as far back as the 1920s, was actively campaigning for a political federation of the British West Indies. As Gordon K. Lewis puts it in 1960 in **The Growth of the Modern West Indies**, “the recognition of the seminal truth that only a unified Caribbean, politically and economically, can save the region from its fatal particularism is at least a century old”. This suggests that Demas’ passion for political and economic self-determination had long-standing antecedents.

Being virtually contemporaries, and close working associates, Demas would have influenced and been influenced by Eric Williams, as there is a strong correlation between Demas’ own vision for the region and Williams’ as expressed in the latter’s 1959 book, **The Economics of Nationhood**, where he wrote of the role of the West Indies Federation as being to:

... undertake that full-scale planned development of the region which alone could:

- (i) end the economic status of the West Indies as a satellite economy; and
- (ii) lay the foundations, through the common allegiance of the individual unit territories to such a government of a real West Indian nation.

Demas would be the first to agree that “we forget and/or ignore our history at our peril”.

AN INTERPRETATION OF DEMAS

Against the above background, the sections which follow focus on five of Demas’ economic interests, rationalise his involvement in these and assess their relevance in contemporary Caribbean.

Development Economics

A few economists are of the view that there is no need for development economics as a separate area of study as the tools of mainstream economics are sufficient to analyse and address the problems of all economies, including developing economies. The argument has even been advanced that treating developing economies differently from developed economies through the use of the theories, techniques and models of development economics may be one of the reasons for the poor performance of these economies. These notions have been debunked on many occasions and as recently as three years ago at a World Bank seminar on the achievements of Development Economics.

In defence of development economics, it is instructive to reflect on one of the better definitions of economics that has been advanced in the literature. Lord Lionel Robbins said that “Economics is the study of human behaviour in relation to ends and scarce means which have alternative uses.” If we note that “ends” relates to goals and objectives and that “scarce means” are really resources, both tangible and intangible, then the critical elements in the definition are **study, human behaviour and ends**.

What is included in the study of economics, therefore, is not defined but determined by the interests and experiences of the scholars concerned. This is clearly seen in the evolution of mainstream (western) economics. For example, preoccupation in the feudal days with land and land relations saw land as the source of income, wealth and power, and the question of rent as an important area of study in seventeenth century English and European economics. With the advent of the industrial society came an increased focus on the relations between, and rewards for, labour and capital – wages and interest rates. Later, the notion of an ill-defined enterprise or entrepreneurship was incorporated into the analytical literature. Today, based on that evolution of English and European influences and experience, four factors of production have been identified: land, labour, capital, and enterprise. However, such a critical factor as social cohesion and consensus, particularly for tribal societies, has never been even considered or treated as a factor of production even though it can be demonstrated that it is the crux of tribal economies and adds as much value to output as the other heralded factors of production. Similarly, one sees that even the fundamentals of mainstream economics are being increasingly challenged as the economic environment changes or evolves. Romer, for instance, is challenging the established economic notions and principles associated with monopoly based on the workings of the modern day technological and service-oriented economies.

Human behaviour and, therefore, ends are influenced by societies' historical, and cultural experiences, geography and state of knowledge. Lewis has shown that classical growth theory applied to developing economies will not work in isolation; growth and development require recognition of, and solutions to, the peculiar historical and institutional situations and constraints and endeavours to address them. Additionally, not all societies see satisfaction, utility and ends only in terms of material progress and necessarily measurable in quantifiable terms. For instance, Guyana, with the lowest per capita income in the Commonwealth Caribbean, objects to the use of the telecommunication system for commercial sex solicitation through voice mail even though the country has a comparative advantage in this area and the

benefits could be used to reduce telecommunication costs to Guyanese consumers. Similarly, many Caribbean countries resist the introduction of casino gambling even though this particular attraction could boost the development of the tourism sector significantly. It is these differences in values, goals and perceptions, particularly between developed and developing countries, that resulted in a recent suggestion by a top World Bank economist that global society would be better off if waste could be disposed of and other environmentally polluting economic activities could be carried out in the lowest income countries. This raised the ire of developing economies, in particular, even though economists felt that it was an “economically sound” view.

In summary, the laws, principles and scope of conventional or mainstream economics are determined by the experiences and interests of scholars largely from the developed world. The issues that will be of interest are those that are topical in their contemporary environment; and their conclusions about economic behaviour, based as it must be on observation, empiricism and deductive reasoning must be influenced by the culture and values of the society being studied or observed. To the extent, therefore, that there are fundamental differences in interests and in cultural affinity, then there is the case for the study of economics in the context of particular environments. In addition, there is need for proactive pursuit, analysis and research of the peculiar economic problems of developing countries. This is what Demas and other development economists have been pursuing and advancing.

In the final analysis, however, there may no longer be a special need and role for development economics. Given the role of the media, and the developments in telecommunications and transportation in terms of reducing the world to a global village with the instantaneous sharing of experiences and given the work of the multilateral institutions in standardising values, institutions, approaches and systems, human behaviour and ends and values could, in fact, approach convergence.

Special Problems of Small States

Demas pioneered and highlighted the need for close analysis of the peculiar problems of small states, notably island economies. It is interesting that Demas' work began soon after the failure of the West Indies Federation in 1962, and after he had worked, on the instructions of his Prime Minister, to prepare an economic development plan to include Grenada as part of the unitary statehood of Trinidad and Tobago. His focus on the economic problems of small states coincided with the period that the UK was decolonising its Caribbean countries and had begun to grant associated statehood to the smaller ones, e.g. the islands of the Windwards and Leewards. It was the period when the UK was experiencing great difficulty and ambivalence in determining whether such small states could be economically viable as sovereign states; it was also the period when the USA was concerned about maintaining stability in its hemispheric area of influence at the time that the Cold War between the superpowers was at its most frigid and tense and had the Caribbean, through Cuba, as part of the arena or zone of conflict. In fact, there was speculation that consideration was being given by the UK to ceding political responsibility for the smaller islands either to the United States directly or through Venezuela as a surrogate for the USA.

Demas in his "**Economics of Development of Small Countries**" has highlighted the peculiar problems of small states quite succinctly as follows:

- "A very small country can achieve transformation only with a high ratio of foreign trade to GDP."
- "Only large economies with varied resources and very large populations can achieve fully self-sustaining growth."
- "Small countries, even if their economies have undergone transformation, are placed in serious degrees of dependence in that the momentum of growth is not fully determined by decisions of

domestic producers, consumers and the local government.”

And, according to Demas, social problems that impact adversely on economic growth issues are generally more acute in small countries than in large ones. The case of India and its caste system is an obvious exception.

Essentially, the basic problems of small states reside in their limited critical mass. This results in a situation where the scope for economies of scale in the production of goods and services is reduced, hence contributing to higher than average per capita costs of production which impact adversely on their international competitiveness. Small size also offers less scope for competitive economic diversification because of small and narrow domestic markets and because, even when opportunities for competing globally exist, the availability of domestic factors of production is not in a scale or quantity to allow for competitive mobilisation for a wide range of diversified activities. Small size also results in the economy as a whole becoming more vulnerable to the ravages of any disaster (natural or man-made), and constrains the scope for international bargaining, thus making small island economies largely price takers for the pricing of their goods and services.

Since Demas' pioneering work, the issue of the peculiar problems of small states has attracted the attention of a number of institutions, notably the World Bank, the IMF, the Commonwealth Secretariat, the United Nations and the Inter-American Development Bank. Interest has arisen because of the growing voice of small states in these institutions, their quest for special consideration, particularly in relation to obtaining greater access to concessional resources and preferential treatment in trade relations. In putting forward their case, small states have used the arguments advanced by Demas. As a result these institutions have commissioned a number of studies to analyse the issues and to demonstrate definitively that the typical small developing state is more economically disadvantaged than its much larger counterpart. The studies have all reinforced or reiterated many of Demas' pioneering conclusions but, in general,

are somewhat ambivalent on whether the disadvantages may be attributed to small size. In fact, the latest study on this subject by the World Bank has concluded that small states have more favourable relations in global trade arrangements than their larger counterparts. Small states, like many others, can convert some of the weaknesses into strengths. Niche marketing, nimbleness and flexibility, and relative insignificance of their trade volumes can be exploited to advantage.

Role of the State

Demas has not addressed specifically and explicitly the role of the state in the process of economic management in any of his writings. However, when one reads his work, one gets an impression of his views on the type of activities in which the state should be involved. These include the traditional functions of maintaining law and order; creating a conducive policy, institutional and physical infrastructural framework to induce optimal private sector-led economic activity; and taking care of those who are specially disadvantaged by the development process. Also, on occasions, he has proposed state involvement in initiating and directly participating in essential productive activity where the private sector or the market is not responding appropriately. Today, all of these activities, except the last, are considered legitimate and desirable areas of activity for the state.

Today's orthodoxy, not only sees no role for the state in the initiation, ownership, management and control of direct productive activity, but eschews such involvement under any circumstances. The view is that this role is for the private sector and the market and that the state should simply facilitate that process. In the event that the market is not responding, then the state should examine the market more closely to determine the minimum requirements to facilitate the process. In short, insufficient market involvement in an economy is seen as symptomatic of inadequate and/or inappropriate government facilitation.

At least two arguments defend Demas' positions. In the first case, his recommendations were made at a time when most

states, irrespective of their ideological orientation, were getting directly involved in productive activity. In an age of 'Keynesianism' and national socialism, all governments, particularly those in Europe, South-East Asia, North and Latin America and the Caribbean created, owned and controlled enterprises in the extractive, manufacturing and agricultural sectors from mines to hotels and airlines. This was the existing orthodoxy. Governments extended Keynesianism which stressed control through such policy variables as interest rates, fiscal policy and money supply to include direct engagement in productive economic activity.

While Demas' views on the role of the state was part of the current orthodoxy it was also driven by the existing reality and need. The smaller economies' scope for free market activity was quite constrained and a vibrant private sector was absent. The private sector, in most of these economies, is small, disorganised, family-based mutually suspicious of and risk-averse, with weak management and with limited vision. Even openness (which in any case they did not have) would not have helped because of an international shortage of capital, very limited knowledge about opportunities in the small economies, high per capita costs of production for limited domestic markets and a perception of higher-than-normal political and economic risks which would either scare away foreign capital or require premium returns to capital that these economies were not perceived as providing.

In a situation where the market is not developed and the private sector is not equipped to respond to opportunity, there could be need for the state to extend its facilitating role to becoming a catalyst. Take, for instance, the need of these economies to diversify from the traditional agriculture sector to exploit the growing opportunities in the tourism sector. The required tourism plant is capital-intensive and the domestic private sector does not have the resources and/or the organisation to mobilise the required equity capital. In this case, competitive-sized commercial hotels with rooms of 150 or more and requiring capital of over US\$25 million, including equity of no less than US\$1 million, could only be provided by foreign investors and/or the public sector. This is what the experience has been in the

smaller economies. In fact, with the current orthodoxy leading to a retreating role for the state in directly productive activity, and given the increased competition for private foreign capital, there has been very limited activity in the construction of medium-sized hotels in the smaller islands. Only four hotels with more than 100 rooms have been established in the OECS countries in the last five years. Three of these have been built with foreign capital: Dominica with Taiwanese resources, Grenada with Indian capital and/or sponsorship, and St. Lucia with Middle Eastern capital. The only regionally-financed medium-sized hotel project in the OECS countries is in Grenada and financed by private investors, from Trinidad and Tobago capital and by regional financial institutions. This limited activity compares with a number of resort proposals that are planned for the St. Kitts peninsula, and the Rodney Bay Causeway and the Vieux Fort development areas in St. Lucia, but are languishing because of lack of sponsorship.

Development Planning

The obvious result of a proactive state role in economic activity and particularly in the productive sectors is the practice of economic planning. In the post-colonial period many of the larger Caribbean countries established economic planning units, the main goal being the preparation of annually-phased medium-term economic development plans. Demas was a Caribbean pioneer in this exercise, having spearheaded the preparation of the two post-independence plans for Trinidad and Tobago and having commented widely on the subject of planning in his 1965 seminal work on small states.

In fact, in this work he defined planning as the “formulation and execution of a consistent set of interrelated measures designed to achieve certain specific economic and social goals” with the primary goal being “to achieve as rapidly as possible transformation of the economy” through “structural and institutional change”. Recognising the limitations of the market, particularly in small developing countries, and the urgency of the need for post-colonial growth, he states that state economic planning “must encompass the whole economy and take account

of, and attempt to influence, decisions in the private as well as the public sector.” Consequently, Demas’ concept of planning went beyond the formulation of consistent macroeconomic aggregates into sectoral and even project planning. He states that “Where the desired rate of growth is faster than that permitted by the balance of payments, there is a very strong case for sectoral programming and use of selective policies because reliance on aggregate instruments of monetary and fiscal policy is inconsistent with efforts to achieve that faster desired rate of growth.” He saw exchange controls as a very important tool to bring about consistency in the balance of payments and to accelerate growth. In his words he states, “the absence of exchange and trade controls may deprive the planners of one of the most powerful means of influencing the direction of investment.”

A number of Demas’ ideas about economic planning and economic management would be considered inconsistent with current orthodoxy. I.G Patel, the well-known economic thinker and practitioner, in his keynote address on **Limits of the Current Consensus on Development** to the World Bank’s 1993 Annual Conference on Development Economics, endorsed and summed up the current consensus as follows:

... most of us would now endorse a shift away from planning to policy orientation, from discretionary government intervention to a greater acceptance of market forces, from controls and administered prices to transparent fiscal incentives and disincentives, from public to private ownership of the means of production, and from increasing public investment toward some privatisation and lower taxation. Encouragement of competition in all markets and a hospitable attitude to direct foreign investment are now seen to be essential for economic efficiency. Moreover, liberal and competitive policies have, by and large, a positive impact on social equity, and a creation of a climate less conducive to corruption is in itself no small gain.... If, in spite of all this, I draw attention to the limits of the current consensus, it is essentially because I wish to warn against three dangers: over-simplification, excess optimism, and the neglect of a number of important questions that are beyond economic policy yet at the

same time are crucial for growth and the eradication of poverty.

Demas would certainly, then and now, endorse those views.

The issue is how relevant is traditional economic planning today in the context of the small islands of the Caribbean. While popular expectations in a democratic setting are rising rapidly to developed country standards, Caribbean markets remain small and disorganised, their institutional structures are underdeveloped, their domestic private sector is limited and unresponsive, foreign private sector is either ignorant of their opportunities and existence and/or finds them too small and remote to invest in. In this setting, it would appear that the role of the state, as described earlier, is relevant; and that planning should involve defining an appropriate policy orientation, planning consistent macroeconomic aggregates, programming public sector investments that are consistent with the broad economic goals and directions and, as a last resort, being involved with the private sector in some sector planning and even implementation in areas where there is obvious potential, but where the private sector by itself does not have the critical mass, the resources, or the inclination to pursue by itself. Obviously, for such initiatives to succeed the government should give autonomy to the operating entity, make its support transparent and non-discriminatory, and allow unrestricted access to any potential new entrant into that area of activity which the state is sponsoring.

The most current on this issue is that it is not ownership that matters but the presence of deregulation and free competition. As Willig (1993) puts it "the efficiencies of privatisation stem mainly from the insulation offered by divestiture from public corruption, vested political interests, and arbitrary intervention." It should not be difficult to put appropriate institutional structures in place to allow public sector-owned productive enterprises to behave and perform like their private sector counterparts.

Economic Integration and Functional Cooperation

In addition to introducing the notion of self-sustaining growth as a criterion or indicator for assessing a country's level of development, Demas' greatest contribution to development policy was in the area of economic integration and functional cooperation. His contribution in this regard should be assessed at two levels. Firstly, he attempted to introduce and promulgate a growth model which small countries could use to reduce the constraints of small size on their ability to gain economies of scale. This model stood squarely with such other models as Lewis' unlimited supply of labour and Rosenstein-Rodan's model of the Big Push, both of which were for comparatively large economies.

Secondly, Demas, in his operational roles in the region, was able to play a pivotal role in developing and promoting a number of programmes which helped to demonstrate the value of the model.

Economic integration relates to the process of pooling markets. Departing from the most favoured nation states, there are different stages in the process ranging from a free trade area where goods and services are free to move unhindered by tariffs across national boundaries, but with such movement restricted to a defined but broader geographical area; to an economic union where there is free movement of all goods, services and factors, a common currency, and, by extension, considerable harmonisation of economic policy and institutional modalities and arrangements. Between these levels one has customs unions and common markets. Functional cooperation relates to the process of economies and governments sharing services on a pooled basis to gain economies of scale. Such sharing can be in production, distribution, public sector services such as education, health, foreign representation, joint procurement of goods and services, and the list is limitless.

Demas' attempts at fostering economic integration and functional cooperation arrangements in the CARICOM area are legendary. His start with CARIFTA – a free trade area of the ex-

English-speaking Commonwealth Caribbean was upgraded, if not in substance, certainly in form and nomenclature, to CARICOM, which would allow a partial movement of goods and some factors of production. The success of his efforts was not constrained by his vision and energy in designing and promoting programmes, but by his own pragmatism, his keen sense of what was politically feasible and, relatedly, his ability to assess the level of commitment of governments and other decision makers.

At the functional cooperation level, there was more success in establishing institutions, even though many were not self-sustaining. The regional solution to the transportation problem of island economies saw Demas giving strong support for the Leeward Islands Air Transport Services (LIAT) and the West Indies Shipping Corporation (WISCO). Financing needs, particularly in the area of equity financing, led to the establishment of the Caribbean Investment Corporation, to make equity capital available to the smaller states and to complement and supplement CDB's loan capital resources. Attempts to address agricultural problems saw the establishment of the Caribbean Agricultural and Research and Development Institute and the Caribbean Food Corporation to finance self-liquidating agricultural initiatives. And the list goes on. All these initiatives originated or were supported by Demas during his tenure at the CARICOM Secretariat and CDB. That the performance of many of these institutions did not live up to expectations is not the issue. Nor is their poor performance sufficient argument that there may not have been need for them.

The pursuit of economic integration and cooperation among small countries is an even greater priority today than it was over the last thirty years. Then, cooperation was being or pursued within an inward-looking, import-substitution, market-protected economic framework. This framework, though it sought to do so, did not necessarily achieve efficiency and cost minimisation because captive preferential markets undermined or removed the efficiencies associated with competition. The structure is different today. A globalised and liberalised economic space with dismantled preferences and an acutely competitive economic environment make economic integration and functional

cooperation even greater economic imperatives for smaller economies. These countries have got to find the means to reduce their per capita costs of production and, hence, improve the international competitiveness of their goods and services.

CONCLUSION

This paper outlined William Demas' economic interests, programmes and preoccupations as revolving around five main themes: development economics, special problems of small states, role of the state, development planning, and integration and functional cooperation and that they all tended to reinforce one broad overarching objective - maintaining Caribbean sovereignty. Even in the contemporary situation, these interests are consistently interdependent and reinforcing of each other and are still largely relevant.

Gordon Lewis asserts that nationals of Trinidad and Tobago show more concern about issues of nationhood than nationals of other English-speaking Caribbean countries, and speculates that this may be due to the heterogeneity of the racial composition of that society. Whatever the reason, this country has spawned such thinkers and activists as Captain Cipriani, C.L.R. James and Eric Williams all of whom have been strong advocates of decolonisation, Caribbean sovereignty and effective self-determination and the benefits of a federal West Indian nation state as a means of achieving and consolidating this objective.

Demas was brought up in that environment and tradition, and embraced the mantle of that objective. He did not use either the route of politics or militant campaigning to try to advance these causes. Instead, he used the economic route, and was as, if not more than, effective as others who used different routes. Despite the breadth and depth of his economic knowledge he focused his economic concerns, programmes and preoccupations around five main themes: development economics, special problems of small states, role of the state, development planning and economic integration and functional cooperation. These, in a mutually consistent and coherent way, reinforced each other to achieve one broad overarching objective - maintaining

Caribbean sovereignty. It is obvious that ultimate and effective sovereignty is about sustainability of economic self-reliance and determination.

He recognised that sovereignty too, was about as much about substance as it was about symbolism, and in his endeavours he advanced both. Just like the “double entendre” of the calypso which is indigenous to his native Trinidad and Tobago, his economic initiative, in general, had a parallel objective – economic substance, on the one hand, and symbolism, on the other. His economic policy advice was aimed at enhancing the region’s growth potential through the grouping and exploitation of broader markets. He was also concerned that such advice was not only regionally generated but helped to improve the region’s bargaining leverage. For example, tariff policy was as much about protecting CARICOM industry and generating revenue as it was about having a bargaining chip for international trade negotiations. His proposals for regional institutional arrangements were as much a means of achieving greater economies of scale through functional cooperation as they were to help the region to create a unified capacity to interface and negotiate with extra-regional countries. His support for a regional food plan had as much to do with exploiting the abundant idle land and labour to create value added and save foreign exchange as it was to minimise the region’s vulnerability in being too dependent on the rest of the world for a basic commodity such as food. Simplicity in tastes, and lifestyles geared towards the region’s endowments was a manifestation of the passion for self-determination through greater self-sufficiency. The special efforts made to fulfill the Southwell statement in the CDB Charter, i.e., that CDB should “pay special and urgent regard to the needs of the lesser developed members”, was a recognition that these countries, the Windwards and Leewards, could be the “Achilles Heel” of the regional integration movement. Even the notion of a flag for CARICOM (a symbolism par excellence) was one of his obsessions and gave him much pride when it was erected and flown.

The English-speaking Caribbean in general, and the smaller countries in particular, have made some economic progress since

the end of the fifties. Obviously, these achievements are the result of a number of factors and the efforts of a number of people and, hence, cannot be attributed to any one individual. Nonetheless, it is fair to say that Demas' contribution has been more than that of many in that achievement, not least of which is the non-partisan leadership and galvanising role which he played in highlighting the region's affairs.

Demas' economic policy advice, his campaign for economic integration and functional cooperation, the regional institutional arrangements which he helped to engineer, his sensitisation of society to the dignity and self-respect of Caribbean peoples, his demonstration that one does not have to leave the region to gain international respectability, the financing which he provided to programmes have all contributed to regional achievements, to a Caribbean sense of consciousness, to a rise in the profile of Caribbean people and society, and have been a source of considerable inspiration and some intellectual leadership to many.

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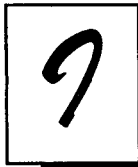
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6

Caribbean Agricultural Development

*Carlisle Pemberton*¹



I am deeply honoured at this opportunity to speak at these special proceedings, honouring the monumental accomplishments of the Hon. William G. Demas. I am also thankful to the organizers and to Dr. Laurence Clarke, in particular, for affording the discipline of Agricultural Economics the chance to thank the Hon. William Demas for his immense contribution to this discipline.

INTRODUCTION

Ours is a discipline somewhat allied to Economics, but still retaining a characteristic image and personality. We do, however, utilize sage offerings from whatever discipline they are offered. And so today, it is my distinct pleasure to tell you of William Demas' sage offerings to agricultural economists, on the subject of agricultural development.

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William Demas, as we all know, has written volumes on the economic status of the Caribbean and of small states. He is being honoured here at a meeting of Regional Central Bankers attesting to his eminence in yet another sphere. I do not, however, know if it is as well known that he has had a passionate interest in the state of the agricultural sector in the region. In looking at his works for this presentation, I have decided to deal with two of his known offerings to illustrate my point. I have reviewed the select biography of his work, to mark his award of the Order of the Caribbean Community (OCC) (along with Sir Shridath Ramphal and Mr. Derek Walcott) and I have chosen to highlight two pieces of this work on agriculture - one that is not listed there, and another that is listed.

AGRICULTURAL POLICY

The first piece of work is a feature address that Demas gave at the Fifth West Indies Agricultural Economics Conference held in Roseau, Dominica, April 5th to 11th, 1970, when he was Secretary-General of the Caribbean Free Trade Area (CARIFTA) Secretariat. This address is published in the proceedings of that Conference. Remember this was 26 years ago, he stated then:

I think that perhaps because of a certain amount of disillusionment with the post-war efforts made in transforming the agricultural sectors of our economies, we are probably running the risk of minimizing the importance of Agriculture and relegating it to a low priority in our development plans and even our development aspirations. Today it is fashionable in many parts of the region to exalt tourism and to defy industry while debating agriculture. Such attitudes (he stated) are to my mind profoundly disturbing.....

He went on:

I do not wish to be misunderstood, I am not seeking to relocate the less developed countries of CARIFTA to the role of hewers of wood and drawers of water for the so-called more developed countries of CARIFTA. The remarks ... apply no less to the so-called more

developed countries of CARIFTA, than to the less developed countries..... What I am asserting is that, if we in the Caribbean wish to develop strong economies and help these societies, Agriculture must, for a long time, continue to be the basis of our economies.

He went on to discuss “the place of tourism and industry”. With respect to industry he stated:

There are limitations on both the kind of industry and the kind of tourism which are being developed in the Caribbean today. ... The industries established in the larger territories, where most of them have gone, have for the most part not brought the anticipated benefits, whether we view such benefits of industrial development in terms of employment (the most important-need of the region), in terms of local value added or in terms of foreign exchange earned or saved. Employment has been minimal and the industries have been highly capital-intensive, incorporating technologies not suitable for the labour-surplus Caribbean economies. Local value added has been minimal, because of the need to import a large proportion of the raw materials used. Many of the younger economists of the region have referred to this kind of industrial development as ‘finishing touch’ industries and I think it is an apt characterization.

Further, when we consider that the big international companies abroad are in a position to manipulate prices of components, it is quite conceivable that countries setting up assembly industries and finishing stage industries can experience a decline in real income. In other words, far from improving the balance .of payments, this kind of so-called import substitution can worsen the balance of payments.

Finally, there has been little foreign exchange earned or saved by the establishment of these industries not only for the reasons mentioned above, but also because a large part of the value produced by these industries has been remitted abroad in the form of tax-exempt profits and dividends and other

payments which are just as important, such as management charges, royalties, licence fees and so forth. This deceptive state of affairs, where you have large increases in the gross value of production of the industrial sector, with very little benefit to the economy, is likely to continue, until such time as industrial development is based, to a much greater extent than at present, on the use of local and regional raw materials and agricultural production.

With respect to tourism he stated:

Tourism can clearly offer great benefits in a relatively short space of time. It can bring in a certain amount of foreign exchange, but part of this foreign exchange immediately leaks out in the form of imports for the tourists particularly food ...

On the other hand, the kind of tourist development we have had recently in the Caribbean has had certain less desirable consequences, including inflated land prices, where it is impossible for a local resident to acquire land to build... for any other purpose, in his own country... It has (also) fostered the development of undesirable social attitudes and an undermining of the dignity and self confidence of the population...

If one accepts this line of thought, then, Demas concluded, the importance of a transformation of the agricultural sector becomes evident. He, however, noted a paradox between agriculture and tourism. On the one hand, the development of the tourist sector may increase the demand for locally produced food, while on the other hand, it could reduce the supply. The supply of food is reduced, he argued, because tourism reduces the agricultural labour supply, since labour loses a lot of its desire to remain in the agricultural sector, when there are possibilities of earning easy money in the tourist sector. Similarly, he noted, industry raises the supply price of labour in other sectors (including agriculture) and this tends to reduce the supply of labour available to agriculture. He thus concluded:

You must not, therefore, think that Agriculture on the one hand and Tourism and Industry on the other, are fully complementary one with another. To some extent they are complementary, but at the same time, if one wishes to devise appropriate development strategies for the West Indies, one must take into account the fact that they are also to a large extent in conflict with each other.

It is perhaps true to say that in the Caribbean, the paradox so well stated by Demas has not been appreciated and Governments still look forward to the promise of close linkages between agriculture and tourism, without recognizing the need to put in place the “appropriate developmental strategies” as proposed by Demas.

To solve the problems of agriculture, Demas suggested a regional framework. As he saw it in 1970, there was the “the urgent need for a regional agricultural policy”. This same subject was again the main agenda item of the Conference of Heads of Government of the Caribbean Community held in Barbados from July 3 - 6, 1996.

AGRICULTURAL DIVERSIFICATION

But how specifically did Demas see the transformation of agriculture proceeding? One means, he stated, was the expansion of trade regionally; a point that had also always been stressed by Sir Arthur Lewis, who not only advocated expansion of regional trade, but also trade among lesser developed countries.

But Demas’ stress in his 1970 address was **diversification**. He stated:

... we have over the long term to shift production from traditional agricultural crops facing market uncertainty abroad. ... to ...new non-traditional crops for export to countries outside of the region. Tropical fruit is a good example. The market in Europe and the North America for this kind of product is growing at a very

rapid rate and even though one must recognize all the difficulties of supplying adequate regular freight services, ...we have to make quite a big effort in at least experimenting or rather intensifying our experiments with this kind of non-traditional agriculture.

The diversification of Caribbean agriculture into non-traditional commodities became a favourite topic of William Demas and is the subject of his second work that I will now discuss.

Demas, in his 1987 publication **Agricultural Diversification in the Caribbean Community** while President of the Caribbean Development Bank, set out a detailed analysis of diversification in the Caribbean. He first gave a background to agricultural diversification in the Caribbean, before detailing the benefits of diversification. The benefits he stated as:

- food security;
- foreign exchange savings and earnings;
- employment generation,
- creation of economic linkages; and
- utilization of underutilized resources.

He then went on to discuss in detail the “reasons for slow progress and guidelines for the future” of diversification in the Caribbean. The areas that he stressed were:

- macro-economic policies;
- credit;
- technology;
- land distribution and land tenure;
- marketing systems and methods; and
- infrastructure.

He concluded the analysis by arguing that the complexity of the agricultural diversification process demands that we take a holistic view. Attempting to deal with any one factor – credit availability, marketing, technology, land distribution and tenure systems, macro-economic policies or infrastructure – without at the same time dealing with the others was likely to be unsuccessful. He argued further that the macro-economic framework of the respective countries must be conducive to agricultural investments in the area we perceive as beneficial. It was important that we recognize the pervasive effect that macro-economic policies have on the agricultural development process and in particular the central role that prices (as well as “good” governmental interventions) play in this process.

Demas went on to suggest that regional and national efforts should go hand-in-hand in the transformation and diversification of our agriculture. Thus, an all-out effort by regional governments should be made to rationalise and coordinate agricultural research work now being carried out by national bodies and by regional institutions such as CARDI and the Faculty of Agriculture of The University of the West Indies.

Finally, and not least, William Demas stated:

The West Indian public will have to accept that a greater degree of local and regional import substitution and replacement in food and agriculture will most likely entail in some cases somewhat higher prices for the food they consume, since so much of the food which we import is highly subsidised by the developed country exporters. But this cost is almost certain to be greatly exceeded by the benefits of a stronger and more diversified economy, a long-term structural improvement in the balance of payments and expanded productive employment opportunities.

To illustrate that Demas’ deep concern for the agricultural sector remained undiminished, when he took up the Directorship of the Andrew Mellon Foundation Project of the UWI, He immediately returned to the subject of agricultural diversification. I was asked by him to lead the agricultural sector study, which I

immediately agreed to, given the stature of the person making the request. He had two ideas:

- Doing some research on the determination for non-traditional commodities of the optimal set of activities to get these commodities from the planting stage to the final export destination for example, in Europe or North America. In other words, could we assist in working out a plan that would help, particularly the OECS in the export of non-traditional commodities. He did not want only a theoretical exercise, but a plan that could be put into practice.
- Secondly, it seems he had been influenced by a new wave of thought at the Institute of Social and Economic Research at the Mona Campus of The University of the West Indies, led by Dr. Helen Mc Bain, that perhaps, just perhaps, there might yet be a glimmer of hope for traditional commodities particularly sugar in CARICOM. These commodities had not died a natural death, but still remained the largest part of regional agriculture. Could we check and find out, in the changing economic conditions in CARICOM, where it was now possible to produce sugar competitively; and could production be competitive without for example a European Union (EU) Sugar Protocol?

Despite a very limited budget, we started the work on the export of non-traditional commodities from the Windward Islands and the competitiveness of sugar-cane production in Trinidad and Tobago and Jamaica. I was very impressed by the interest that Demas had in this research. He kept in touch by lengthy telephone conversations, at a meeting of the project teams in Barbados and through periodic visits by Helen Mc Bain. Through his efforts and his support we were able to devise a practical approach to planning the series of activities necessary from planting and growing of the crop to the handling and shipping of the produce for the nontraditional commodity exports from the Windward Islands. This approach is now being considered by

the Agricultural Diversification Coordination Unit (ADCU) of the OECS. In the case of the sugar-cane industry of Trinidad and Tobago, we found out that perhaps a window of opportunity still exists for a viable future of this industry and we were able to identify a number of areas where, if action is taken, this industry may well be able to survive in an internationally competitive environment.

Finally, I wish to provide two illustrations of the reasons why the writings of William Demas has such pre-eminence among agricultural economists, and why he has been such a source of inspiration and an excellent intellectual guide. In his famous 1965 publication on the **Economics of Development in Small Countries**. Demas, in putting forward a development strategy for Caribbean states, stated the following with respect to agriculture:

What is really being suggested here is that in very small economies with surplus labour, the strategy of development does not call for an attempt to eliminate dualism from the economic structure over the next decade or so in the sense of aiming at equalizing output per man as between the advanced and traditional sectors of the economy, but rather for a controlled and conscious dualism envisaging the maintenance of a gap between output per man in the export sector and in the domestic sectors such as domestic agriculture, construction, and public works. In doing this, of course dualism will be mitigated both through the encouragement of higher yields per acre, and so per man, in domestic agriculture, and through the creation of employment opportunities in construction: for it must be borne in mind that the existence of a large pool of structurally unemployed labour constitutes the most extreme form of dualism....

Therefore the development strategy must seek to prevent the drift from rural to urban areas. While many hold that this drift cannot be stopped since it does not derive from an absence of employment opportunities in the rural areas, I believe that migration out of rural areas can be slowed down by making the countryside a better place in which to live.

This implies measures to raise output per acre, as well, as the provision of better public amenities and the development of community life.

Then, in concluding his address to the Fifth West Indies Agricultural Economics Conference, in 1970, Demas stated and I quote:

I would like to end by discussing what I consider to be two important essentials for the success not only of agricultural policy, in particular, but of development policies generally in the Caribbean.

First of all, I see the need for an appropriate and relevant theory of development, including agricultural development in the Caribbean. Already some start has been made in trying to evolve an appropriate theoretical framework for agriculture in the Caribbean, as well as for other aspects of economic activity in the region. It is my hope that scholars in the region will persevere in these efforts to forge a new theoretical framework, which would guide the empirical researchers in the collection of data.

He went on:

There is however another and perhaps even more urgent requirement for the success of development in the Caribbean. This is the development of a greater sense of commitment among the people - in both the rural and urban areas The region (has) to develop some kind of developmental ideology of its own, an ideology which would be relevant to the historical experience and to the contemporary situation of the West Indies. If there is no ideology to inform the development process and to guide the development effort, it will ... be impossible to secure the commitment of the people, the masses of the people to long-term goals and to efforts and sacrifices required to fulfill these long-term goals. If we in the West Indies continue basing our development strategies on seeking to "attract capital" whatever that may mean, from abroad and giving out unnecessary incentives and having all

institutions, economic and otherwise subordinated to outside influences, it will be impossible to secure such a commitment from both the rural and the urban masses of the countries.

Now I recognize (he said) that it is not strictly the business of agricultural economists to consider the need for development ideologies or even to attempt to formulate them, but I think you will agree with me from your own experience in the region, that trying to have real development in the West Indies, development based on internal effort, or internal changes,... is quite impossible, unless this sense of commitment is developed ... (and) this sense of commitment can never be developed if one continues without some firm ideological basis. A nation cannot achieve anything if it resides in an intellectual and moral vacuum.

Wise and enduring words of William Gilbert Demas.

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The Economics of Development in Small Countries Revisited

*Dennis Pantin*¹



Thirty-one years ago, in 1965, William Demas published a book entitled **The Economics of Development in Small Countries with Special Reference to the Caribbean**. This paper revisits this work in the context of the one day Conference organised in honour of William Demas by the Caribbean Centre for Monetary Studies on October 28th, 1996.

There are five Sections in this paper. First, the paper provides personal reflections on the impact of the book. Second, a summary of the main issues raised in the book is presented. Third, a critique of the work itself is offered. Fourth, a review of the literature is made on the economics of islands on which the work is strangely silent. Fifth, an eco-cultural framework for sustainable economic development of islands is advanced in what

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may be considered a logical extension of the critique of the third Section and the review of the literature on islands in the fourth Section.

PERSONAL REFLECTIONS ON THE BOOK

The publication of this book had a tremendous influence on many students of economics as well as others interested in public policy. I remember personally purchasing the book in 1971 from the UWI Bookshop then run by the late Clifford Sealy and literally running home to read it cover to cover. For me, personally, the book struck many a positive chord. It was produced by a Caribbean person and addressed the question of Caribbean economic reality. By then I had become convinced of the limited usefulness of uncritical study of mainstream economic literature having already completed both 'A'Level Economics and one year of university economics.

Demas' 1965 publication is even more remarkable in hindsight than in 1965. It is difficult to identify any similar publication by a leading economic adviser to any Government in the English-speaking Caribbean since then. The book is even more remarkable for having been produced in five months. Obviously, Demas was working on many of the ideas before his short sabbatical at McGill. In other words, here was an economic adviser who was simultaneously attempting to read the literature on economic development and assimilate it as a necessary input into his practical function as policy adviser. This is indeed commendable.

It is also clear that Demas was part of a regional intellectual process which included fellow public sector economists such as Rampersad and O'Neil Lewis and UWI academics such as McIntyre and Best.

Today, in 1997, I can easily identify any public sector economist who places his/her economic ideas before the bar of public scrutiny.

This paper critiques the work on several grounds. The intention is not to be hyper-critical or to negate Demas' contribution. As noted elsewhere,² this researcher is of the view that the intellectual contribution of earlier generations are the stepping stones for those who come later.

Demas' 1965 publication and his other forays into the world of published 'ideas' marks him as distinct from other 'mandarins' in the public sector. His ease of access to young economists was also another notable feature of his long sojourn in senior public sector positions in the region.³

SUMMARY OF THE MAIN ISSUES

The 1965 book offered a political economy of small countries in general and Caribbean economies in particular. The work is divided into two Parts, each containing two Chapters. Part A provides the general framework. The first Chapter addresses the criteria of "underdevelopment" and "self-sustained growth",⁴ while the second Chapter deals with these issues in the context of small countries. Part B turns to an application to the Caribbean with Chapter 3 describing the 'Characteristics of Caribbean Economies' and the final Chapter addressing 'Problems of Economic Planning in the Caribbean.'

²See D.A. Pantin: **Reflections on the Plantation Economy Conference (1993): Implications for UWI's Research and Teaching**, forthcoming 1997 (Pantin and Mahabir eds.)

³Economic Adviser to the Trinidad and Tobago Government; CARICOM Secretary-General; President of the Caribbean Development Bank and Governor of the Central Bank of Trinidad and Tobago.

⁴These two concepts are used in parenthesis in this paper (but not in the original work) given their loaded meaning in the opinion of this reviewer.

The main problematic of Demas' book is the impact of the **small size of countries** on their developmental prospects. Demas advances five main hypotheses in his book and also identifies a number of advantages and disadvantages of small economies.

The five working hypotheses can be summarised as follows:

1. "Underdevelopment" and "self-sustaining growth" cannot be isolated from the size of a particular country;
2. Self-sustaining growth is defined as a state of affairs in which a country experiences continued economic growth by relying on its domestic savings to finance its domestic investment;
3. To arrive at self-sustaining growth six main ingredients are required:
 - (a) a continued capacity to adapt and apply innovations;
 - (b) the reallocation of productive factors from primary to secondary and tertiary sectors;
 - (c) increased domestic linkages;
 - (d) reduction of the ratio of exports and imports to GDP and/or a shift in the composition of imports away from final consumer goods and towards capital goods;
 - (e) reduction or elimination of dualism in terms of differing sectors operating with widely differing technologies. Large-scale unemployment is identified as a result of dualism. Dualism is also mentioned in terms of social dualism;

- (f) the development of appropriate institutions particularly capital markets, agrarian reform, education and training and incentives.

Demas, therefore, concludes on the basis of the six ingredients of self-sustaining growth mentioned immediately above as an elaboration of the third hypothesis that:

Structural transformation is therefore an indispensable element in self sustaining growth. (Demas, 1965: 20)

- 4. The smaller are national economies, the more adaptable and flexible must be their structures if they are to attain sufficient independence from changing external conditions.
- 5. Full self-sustaining growth is possible only in a very large continental type economy.

Demas also goes on to identify a number of advantages and disadvantages of small countries. Among the advantages cited are the importance of being unimportant; that a little (e.g. foreign capital) can go a long way; social cohesion (after Kuznets) provides a greater resilience to shocks; small countries may break the rules and escape retaliation; small countries could concentrate on highly income elastic speciality products for export; domestic markets are easily unified while devaluation may not lead to a big deterioration in the commodity terms of trade.

Two main disadvantages are cited. First, small countries are trade dependent and manufacturing growth is dependent on exports. The latter is identified as the most crippling disadvantage of small countries.

A CRITIQUE⁵

A succinct summary of Demas' book would suggest that it identified a number of ingredients of structural transformation necessary for self-sustaining economic growth and concluded that only some of these were feasible in small countries. This did not mean that small countries could not achieve progressive economic developmental trends. However, the very fact of small size imposed some outer limits on the development project. One critical factor to the transformation process (independent of the size of countries) was a needed change in attitudes towards savings, investment, and institutional development.

This book, like any other work, can be critiqued in two senses. First, in terms of what it set out to do, or an internal critique. Second, in terms of what the reviewer thinks that it could or ought to have set out to do. Both types of critique need to be realistically located in terms of time when it was produced and the ideas of this period. It would be both ungenerous and unrealistic to ignore the fact that 31 years have intervened since the book was published. Hence the empirical experience over this time and changing economic ideas need to be discounted in any fair assessment. Yet, the intervening period cannot be absolutely ignored.

An Internal Critique

This internal critique will address four issues: the justification of its problematic; the definition of small country, the corroboration of its working hypotheses and finally its policy conclusions.

⁵For an earlier critique see Best (1971).

The Problematic

The book sets out small size as the problematic which will inform its substance. Yet, there is little explicit justification of why small size should be such a dominant factor. In the Preface written in June/July, 1964 Demas notes:

In the course of my work in the field of economic planning in Trinidad, I was led to question the relevance to small countries of much of the accepted doctrine on economic development. I came to the conclusion that a somewhat different approach was necessary for small countries, such as those in the Caribbean... (Demas, 1965:ix)

It would have been helpful for Demas to elaborate on which particular aspects of economic planning in Trinidad and Tobago had led him to question the then current orthodoxy on economic development. Moreover, references to the literature on small economies also would have been useful to buttress this point. Demas does draw heavily on the papers in the classic 1960 Robinson(ed). book of readings on small economies but not in the context of an explicit justification for his selected problematic.⁶

Definition of Small Country

The definition of small country is somewhat elastic:

By size I mean nothing more than the absolute number of persons living in a national economy and its land area. I deliberately exclude either per capita income or....aggregate purchasing power...The sort of country I have mainly in mind

⁶This researcher also is persuaded to the significance of the size factor but the methodological point of emphasis is that justification still is necessary.

is one that is small in both absolute population and land areas. Some are of the view that a small country is one that has less than 10 million inhabitants. Coming from a very small island, I am inclined to the view that a small country is one with less than 5 million people and 10,000 to 20,000 square miles of usable land. But the argument of this chapter is not greatly affected whether we use an upper limit of 5 or 10 million inhabitants. (Demas, 1965: 22)

Close study of this quotation above cannot but lead to some questioning of the indifference to GDP and its per capita expression. Clearly neither of these is sufficient criterion to distinguish between countries. It is difficult, however, to gainsay their necessary status. The critical or sufficient conditions would depend on the basis on which the GDP was generated. Here, Demas usefully distinguishes in the book between enclave economies and others. Nevertheless, a sufficiently high level of GDP could permit the generation of the domestic savings necessary for financing productive investment including in Knowledge. Second, Demas' population benchmark is indifferent between upper limits of 5-10 million people. All of the English-speaking Caribbean economies fall well below this even in 1997 and certainly would have done so in 1965! In fact only two CARICOM countries now have a population of more than 1 million⁷ with the majority having populations of less than 0.5 million.

Similarly in areal terms, most English-speaking Caribbean countries have areal sizes of less than 500 square kilometres with only Guyana and Belize having substantial areal size relative to the 10-20,000 "useable land" benchmark of Demas.

⁷Jamaica with 2.3 million and Trinidad and Tobago with 1.2 million.

Corroboration of Working Hypotheses

Demas does not attempt to corroborate his working hypotheses although acknowledging the desirability of being so. His explanation suggests a sensitivity to the role of methodology but somewhat of a confusion as to its rules.⁸ This is not surprising since the issue of economic methodology would not have been a dominant concern in the 1960s. This gap has persisted to 1990s.

Demas begins, for example, with the curious statement:

First, I should like to warn that the first two chapters will, to a large degree, take the form of working hypotheses. The subject is so relatively unexplored that it will be useful to start by putting forward general propositions based on a priori reasoning and casual empiricism. (Demas, 1965:3/4)

One possible interpretation of the above cited quote is that Demas is suggesting that if the subject was relatively explored then general propositions (i.e. working hypotheses) would not have been necessary. Demas then attempts to explain away his failure to address empirical corroboration:

For it is only with the aid of working hypotheses so derived that more rigorous examination can proceed. Therefore, although I issue a caveat, I make no apology for the lack of systematic rigorous examination of data. However, the analysis and generalizations are based on more than casual examination of the contemporary situation in several economies and of the general lessons of economic history. (Demas, 1965:4)

Comparing the quotations immediately above suggest some confusion on methodological rules. Demas can be interpreted to have been familiar with Verificationism which begins with

⁸See Blaug (1980) and Latisis (ed.) for useful reviews of the debate on economic methodology.

working hypotheses which are then empirically verified or rejected. There was no need to “warn” therefore that the book begins with working hypotheses since this was the only way to begin! The fact that Demas drew on a “more than casual examination of the contemporary situation” and of “general lessons of economic history” suggests that there was empirical evidence in his “head” but that he did not elaborate on same. Although he does not offer an explanation here it is obvious that the five months within which this book was produced did not permit of time for detailed, explicit empirical corroboration.⁹

It is now possible to critique his working hypotheses on the basis of casual empirical evidence, much of it, admittedly, from the hindsight of the more than quarter century which has passed since the 1965 publication.

The first working hypothesis, for example, seems to suggest some correlation between size and “underdevelopment” or self-sustaining growth. The empirical evidence indicates that the countries which have shown the most economic dynamism in the post world war two period have been relatively small. Reference is being made, of course, to the South-East Asian countries of South Korea, Taiwan, Singapore, Hong Kong. The economic advances of these countries can be counterpoised to those of much of the Indian sub-continent, China (up to relatively recently), Africa and Latin America and the Caribbean.

The fifth hypothesis below reinforces the first by suggesting that “full self-sustaining growth” is only possible in large continental type economies. The same empirical evidence advanced above to question the empirical validity of the first hypothesis can also be applied to this fifth hypothesis.

⁹Demas was to later produce a succinct summary of his grasp of Caribbean Economic History in a 1969 booklet (Demas, 1969).

The second hypothesis can also be questioned since it posits a correlation between reliance on domestic savings and “self-sustaining growth”. This hypothesis contradicts the “debt cum development” models which show that, historically, the development project is marked by countries recording net capital imports in their early developmental period and producing net capital exports after they develop.¹⁰

Six ingredients for “self sustaining growth” are identified under the third working hypothesis. Two of these (the first and fourth) can be questioned. The first ingredient proposed by Demas is a “continued capacity to adapt and apply innovations.” This can be questioned. Not only can countries experience substantial economic growth without being major innovative centres but this process may be unavoidable. A review of the lessons of the East Asian NICS by Dahlman et al.(1979) has shown for example that the actual development of technological capabilities begins with assimilation and copying, with innovation becoming central much later in the historical process. Even today the empirical evidence indicates that Japan is still not a dominant technological and scientific innovator across a spectrum of industrial activities.

The fourth ingredient suggests that self-sustaining growth will be indicated, *inter alia*, by a reduction in the ratio of exports and imports to GDP and/or a shift in the composition away from consumer goods. Again, casual empiricism suggests that in the contemporary period of the 1990s all economies (even large continental ones) are becoming more trade dependent. Such global inter-dependence is neither a necessary “negative” and more importantly may simply be unavoidable. The second element mentioned in terms of the structure of imports seems more valid.

The fourth working hypothesis appears to be the only one together with four of the six identified ingredients (of the third

¹⁰See McDonald (1982), Avramovic (1964) for details of the Debt cum Development Model. Also see Pantin (1992) for review of this literature.

hypothesis) which cannot be questioned on the basis of the accumulated empirical evidence since 1965. In other words, small economies do need to be adaptable and flexible (and diversified one may add) in order to retain responsiveness to changing exogenous circumstances. Moreover, there is need to move away from dependence on primary production (agriculture and minerals); to eliminate dualism (including social dualism) and to create appropriate institutions to ground the development project.

Policy Conclusions

The main policy conclusion of Demas' work seems to have been to increase the size of small economies via a process of regional integration:

...the value of regional economic integration in terms of development patterns is that it makes possible a strategy of development based on import-substitution rather than export creation and therefore a less 'dependent' pattern of development. (Demas, 1965: 36)

In one sense this policy conclusion could also be typified as a hypothesis. Empirical evidence in the period since 1965 has shown the limitations of this policy conclusion both within the English-speaking Caribbean itself and across much of the periphery.¹¹

External Critique

Demas' work will now be subjected to an external critique in terms of its implicit assumptions and in what it fails to mention (in particular Lewis on West Indian industrialisation, the special case of islands and the role of short run macro-economic management).

¹¹See Vaitzos, 1977 on the more general experience with Regional Integration.

Implicit Assumption

The main implicit assumption which this review interprets the work to have made is that one can synthesise a general developmental model from the literature on economic development and then apply same to that of small countries. The work appears to contradict itself on this score. In the Preface, as noted earlier, Demas states that he had grown to question "...the relevance to small countries of much of the accepted doctrine on economic development."

Yet, his first two chapters essentially involves a synthesis of much of the dominant literature on economic development. Demas' references covers the main figures in Development Economics in the post-World War two period including W.Arthur Lewis, Rostow, Rosenstein-Rodan, Myrdal, Chenery, Hirschman, Seers and Kindleberger. In fact, the work begins with Rostow's concept of self-sustaining growth which then pervades the remainder of the work:

I shall take as my starting point an examination of the concepts of underdevelopment and *self-sustained growth* (Demas, 1965:3, my emphasis)

The main issues culled from the general literature inform much of what follows in the remainder of the book. In other words, Demas appears to have drawn a general developmental model from his interpretation and synthesis of the general developmental literature and then applied this first to small economies and ultimately to the Caribbean. The first sentence of Chapter 3 which introduces Part B of the book on the Caribbean states for example:

In this and the subsequent chapter I shall seek to apply the general framework set out in Part 1 to the specific case of the Caribbean. (Demas, 1965:95)

It is this implicit assumption which can be identified as a fundamentally wrong signalling device for the intellectual train. Demas shows a familiarity, for example, with much of the work of Seers which he cites but not with his work on **The Limitations of the Special Case** which essentially makes a case for a typology

of economies as the initial stage for analysis and policy prescription. Seers' conclusions followed the articulation of the danger in applying economic analysis from the "special case" of a large, continental-scale economy in the 'economic periphery'¹² to all such economies. Demas clearly is of similar intellectual instinct but presumably had not arrived at this point in 1965.¹³

The literature cited on small economies in Chapter 2 also appears to draw almost completely on the classic 1960 book edited by Robinson with the other references cited relating to the more general (special case?) as noted in terms of the first Chapter. By the time Demas gets to the case of the Caribbean he already has formulated his working hypotheses including those summarised earlier above. In other words, Demas looks at the Caribbean through the theoretical lenses of the dominant literature of Development Economics.

Lewis on West Indian Industrialisation

The most surprising omission of Demas' work, however, is his failure to cite Lewis' 1950 work on **The Industrialisation of the British West Indies**. This omission is difficult to explain for several reasons. First, the fact that this work also addressed the issue of small economies but specifically that of small, West Indian islands. Second, the seminal nature of Lewis' 1950 publication. Third, Lewis also had been an early adviser to the Trinidad and Tobago Government and Demas would have been no doubt familiar with his work.

¹²The concept 'economic periphery' is considered by this author to be less loaded and potentially psychologically self-defeating as opposed to "underdeveloped", "Third World", "developing", "backward", etc.

¹³Seers had the benefit of a virtually full-time academic career with the "distance" for reflection that Demas would not have had. Nevertheless, the implicit assumption needs to be revealed.

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In his 1950 work, Lewis justified the need for special study of small or perhaps more precisely micro-island economies and also for the strategy of export manufacturing. Lewis also made the case for regional integration via a customs union and for a Regional Industrial Development Corporation. Finally, Lewis justified his proposals for foreign investment in terms of the savings and knowledge¹⁴ gaps necessary for successful export manufacturing.

The failure to cite Lewis' 1950 work may only have been an oversight since Demas does address the issue of export manufacturing. However, his views are ambivalent. On the one hand, Demas seems to assume that manufacturing exports are the major route available as opposed to services and in particular tourism:

Even if it is conceded that small overpopulated countries have to export, it may also be argued that they do not necessarily have to export manufactured goods, but may export invisibles, such as tourism, international transport services (shipping and air travel) and financial services.... My general view is that for most small countries such sources of foreign exchange are likely to be a complement to, and not a substitute for, exports of manufactures. (Demas, 1965:59)

Yet, Demas also is not sanguine about both the prospects for export manufactures and also the desirability of export dependence:

The difficulties of capturing exports of manufactured goods are formidable...It may be difficult for a small country to negotiate trade agreements for the sale of manufactures.



¹⁴Knowledge of technology, of management and of export marketing.

Absence of Islands

Although Demas begins by justifying his book on small countries on the basis of the fact that he came from “ a small island” the latter disappears from the explicit discourse even in Part B which addresses the Caribbean.¹⁵ Consistent with this researcher’s acceptance of Seers’ case for a typology of economic systems, it is considered important to address the “island-type” of economy.

Absence of Short-Run Macro-Economic Management

From hindsight, it is interesting to observe that Demas makes no direct mention of the challenge of short-run macro-economic management in Part B on the Caribbean and particularly in Chapter 4 on ‘Problems of Economic Planning in the Caribbean.’

Demas seems to give heavier weight to the constraints that democracy (in terms of both national and industrial relations) pose for the development project:

In considering the development of the Caribbean economies we have to bear in mind two fundamental institutional constraints: the existence of political democracy on classic Westminster lines and the existence of a strong independent and forceful trade-union movementEven a nodding acquaintance with the historical development process of the advanced countries - the U.K., Japan and the U.S.S.R. to take only three extreme types -suggests that full-blown political democracy and a free unfettered trade union movement can impose severe constraints on the growth process. For historically these institutions are to be viewed as the products rather than the concomitants of the developed process. (Demas, 1965:98,99)

¹⁵This is considered (again, perhaps from hindsight) to be such a major lacunae that Section 4 is devoted to a review of the literature on islands and Section 5 to an Eco-cultural framework for small Caribbean islands.

Demas goes on to qualify these statements by stating he does not deny the intrinsic values of democracy and trade unionism but as an economist simply wished to note that their existence will increase the efforts necessary for development.

Demas, for example, identifies the four fundamental limitations to overall planning as “the openness of the economy, the relatively small role played by the public sector, the dependence on foreign commercial capital, and the dominance of international corporations in resource-exploitation.” (Demas, 1965: 141-2)

From hindsight we know that perhaps the single most important requirement is efficient short-run macro-economic management of the economic ship which simultaneously permits of forward propulsion. Such macro-economic management ‘boils down’ to balance of payments management via foreign debt and related exchange rate, fiscal, monetary and commercial policy.

THE ECONOMICS OF ISLAND DEVELOPMENT

There is another glaring omission from the perspective of an external critique¹⁶ in addition to that of failing to cite or review Lewis’ 1950 work on the Industrialisation of the British West Indies. This is the absence of any discourse on the specific problem of island economies although Demas located his concern with small economies in the context of his “coming from a small island.” Again, this gap needs to be considered as part of an external critique which acknowledges the need to discount for the intervening 31 years (1965-1997) since the publication of the work. Nevertheless, the importance of later work is to attempt to add the cumulative knowledge to the present. This Section attempts to add such a perspective by reviewing the literature specially on islands.

¹⁶As noted earlier, an external critique covers what the reviewer thinks the author ought to have addressed. This is different from appraising what the latter actually set out to do.

This review will cover four main issues. First, definition of islands. Second, characteristics of islands. Third, obstacles/constraints of islands. Fourth, general insensitivity of the economic literature (including in the Caribbean) to the reality of "islandness."

Definition of Islands

Dolman notes that, although international law is the normal arena for settlement of definitional concerns, it was only in 1930 that a first significant effort was initiated to define an "island" (Dolman, 1985). Moreover, there is no universally acceptable definition of what constitutes a small island:

The definition of a small island is a matter of interpretation rather than fact. There are more than 500,000 pieces of distinctly subcontinental land territory which can be generically defined as islands. They range in size from sandbanks and pinnacles of rock, virtually without a measurable surface, to extensive land masses such as Madagascar. (Dolman 1985:40)

Two main types of definitional and measurement approaches can be found in the literature on small islands- the socio-economic and the climatic.¹⁷ The first, and dominant approach uses socio-economic criteria to define smallness. The most common indicator used is that of population. Differing studies use a cut-off point of 1, 10 or 15 million people or less to define small societies, with islands merely being a sub-set of the general categorization. Other economic criteria used include land area (or arable land area) or size of Gross National Product(GNP).

¹⁷Several of the papers in Dommen and Hein (eds.) (1985), provide extensive reviews of these alternative definitional approaches.

The second, less dominant, definitional approach uses the climatic influence of islands to distinguish small from continental types. Doumenge provides a helpful summary of this climatic approach:

Islands must be distinguished from continents. The effect of continental mass is to generate by its volume its own conditions of biological and natural environment and of partitioning of space. When an island has an emerged volume large enough to generate its own climatic effects, it enters the continental category. In practice this threshold is reached when a mountainous mass of more than 1,000 metres of average altitude extends over more than 20 thousand sq.km. Islands like Cuba, Hispaniola (Haiti and the Dominican Republic), Iceland, Sri Lanka, Taiwan, Tasmania, etc... not to mention vast entities belonging to arc systems (Japan, Philippines, Indonesia, New Guinea, new Zealand) or included in continental plates (Madagascar, British Archipelago) are thus to be classified in a continentalized island category The true small islands are those which are subject to, and cannot modify, the influence of the oceanic hydroclimate because their volume is too small to have any effect other than to accentuate the contrast within one system. If there is no mountainous mass, oceanic insularity will keep all its characteristics on emerged areas of up to 3,000 to 4,000 sq.km. If there are important mountainous areas rising to above an average of 1,500 to 1,800 metres, oceanic insularity is already modified when the surface of the island exceeds 1,000 sq.km. (Doumenge, 1985:70)

Other categorisations of islands include by latitude (tropical, temperate or arctic), or by altitude, underlying geology or island structure.¹⁸

¹⁸See Hess, 1990:8 for further details of these approaches.

Against the background of this definitional and measurement debate, Dolman defines a small island, for example, as:

...a territory surrounded by a large body of water with a land area of less than 5,000 sq.miles(13,000 sq.km.) and a population of one million or less. (Dolman, 1985:40)

Streeten takes a more pragmatic approach:

We all know that we can define a country's size by its population, or by its area, or by its national income. These criteria do not always give the same results, but we know a small country when we see it. The best simple measure is population. (Streeten,1993: 197)

It is interesting to compare these two approaches with that of Demas who defines a small country as one with a population of less than 5-10 million and "useable land" of between 10-20,000 square miles.

Characteristics of Islands

Four main characteristics have been identified in the literature. First, most island economies are almost completely dependent on their natural environment (including natural resources) for their economic survival. With the exception of Hong Kong and Singapore, most populated small, island economies live off of the earnings of raw material merchandise exports based on their mineral or arable land, (and sometimes fishery resources), or off of invisible service exports based predominantly on tourism which is, of course, dependent on the natural environment.

Second, island economies are marked by fragile ecological systems, easily affected by socio-economic activities. In fact, small islands can be considered, from an environmental impact perspective, to be comprised solely of coastal zones. In other words, there is an immediate, direct impact of terrestrial-based socio-economic activities on the marine environment.

Third, island economies are also highly susceptible to natural hazards particularly cyclones and hurricanes. Many of the current scientific predictions suggest, further, that global climate change, in particular global warming and related mean sea level rise, will exacerbate the impact of natural hazards.

Fourth, island economies represent a bewildering variety of socio-political and economic and ecological systems across the world's continents. Hein notes that islands comprised 71 of the 94 countries, territories or areas, with populations of less than one million as identified in the 1982 UN Statistical Yearbook. (Hein, 1990:35)

Obstacles/Constraints

The dominant and overwhelming concern of much of the literature on small islands, however defined, is with the delineation of the specific problems and obstacles which lie in the way of small islands achieving economic growth and development. The evidence can be found in the titles of publications devoted to small islands, for example, UNCTAD, 1990 – **Problems of Island Developing Countries and Proposals for Concrete Action**; Searwar, 1990 – **Intrinsic Disabilities of Island Developing Countries**; Blackman, 1988 - **Problems of Island Developing Countries**. Briguglio and Kaminarides, in the Introduction to the recent, 1993 special issue of the Journal, **World Development** devoted to **Islands and Small States: Issues and Policies** note, almost as a matter of incontrovertible fact that:

As expected, the majority of authors emphasized the disadvantages associated with small size.

We can distinguish between two categories of problems or disadvantages listed in the literature:¹⁹ those inherent in the condition of 'islandness' and non-island specific socio-economic problems.

¹⁹Although this specific type of categorisation has not been found in the literature review.

Peculiar 'Islandness' Disadvantage

Three main disadvantages can be found in the literature which relate to a particular and peculiar 'islandness' disadvantage. These are physical remoteness from major continents and/or markets; environmental fragility; and a particular vulnerability to natural hazards or disasters.

The economic expression of remoteness lies in the costs of movement of goods or people. Brookfield notes that technical change has been reducing the economics of both ocean and air transport to small islands:

... The modern revolution in shipping and cargo-handling, plus the growing size of aircraft, have greatly worsened the locational disadvantage of islanders over the past 20 years. The modern transport revolution has reached them mainly through the displacement from island trade of socially-useful smaller wooden craft by second-to fifth-hand coastal ships in whole regions such as the Caribbean and the Pacific islands. As maintenance costs and replacement costs of such ships have soared, services have deteriorated and the cost of moving goods and people have risen. (Brookfield, 1990: 27)

Briguglio has estimated transport and freight costs as a percentage of exports between 1987-1989. The average for 139 countries was some 20% of exports. For 117 developing countries it was 23% and for 25 small island developing countries transport and freight costs averaged some 40% of export earnings. (Briguglio, 1993)

In terms of the second disadvantage of ecological fragility, island habitats are prone to a high degree of endemism relative to their size. The Caribbean is reported, for example, to support over 130 restricted range species and nearly every Caribbean island includes or forms an endemic bird area.²⁰

²⁰As cited by Bloomstein, 1993:26.

The third 'island-specific' disadvantage is perhaps the most telling. Briguglio has devised an index of disaster damage between 1970-1989 in 65 countries with disaster incidence. While the overall ratio is 31% , thirteen small island states recorded the overwhelmingly highest ratio of 61%. (Briguglio, 1993).

In the case of the Caribbean, Collymore, McDonald and Brown (1993), have estimated the impact of natural disasters between 1722 and 1990. They estimate that hurricanes have caused 43,000 fatalities in this 268 year period with the total monetary damage between 1960-1990 estimated at US\$ 3 billion. Volcanic eruptions concentrated in three islands have cost 30,621 lives, 29,000 of which were lost in the famous 1902 volcanic eruption in Martinique. Collymore et al also estimate that earthquakes have resulted in some 16,000 fatalities since 1691.

The prognosis for the future also suggests that climate change will lead to an exacerbation of the natural disaster impact. The UNEP background paper for the April, 1994 Small Island Developing countries (SIDS) conference warns that:

The wider Caribbean region with its many island based economies such as fishing and/or tourism is particularly vulnerable to the physical changes associated with climate change and sea level rise. (UNEP, 1993:7)

Non-Island Specific Socio-Economic Disadvantages

There are more instances of this second category of disadvantage in the literature including limited natural resource endowment; reliance on a few primary exports; diseconomies of scale both in production for small domestic markets and in the provision of social and physical infrastructure and public administration; substantial openness of the economy with a high export/import dependence and national security problems.

The examples of Hong Kong and Singapore indicate that human intervention can substantially reduce the significance of most of these widely repeated disadvantages in the literature,

although not necessarily in a sustainable context. Members of the Organisation of Eastern Caribbean States and Barbados have reduced the national security problem, for instance, by a defence treaty which permits of mutual assistance in areas such as prevention of smuggling, illegal immigration, pollution control, customs and excise control, protection of offshore installations and threats to national security.²¹

Hein identifies some of the earliest concerns with small islands as coming as relatively recently as a 1963²² seminar of the Institute of Commonwealth Studies of the Univ. of London on **Problems of Smaller Territories (Benedict, ed. 1967)**; a 1972 Conference in Barbados on **Development Policy in Small Countries (Selwyn, 1975)**; and a 1981 Conference of the Commonwealth Secretariat on **Problems and Policies in Small Economies**.²³ Hein also cites a 1979 Conference on the island states of the Pacific and Indian oceans of the Development Studies Centre of the Australian National University (Shand, 1980); and a 1980 special issue of the World Development journal on Islands.

Selwyn noted in a 1980 paper that:

Concern with islands as a special social or economic category largely stems from the political concerns of many island governments which were aware of the special privileges claimed for other categories of country (such as 'least-developed' or land-locked countries) in international fora. (Selwyn, 1980:945)

²¹See Seawar, 1990 for further details.

²²Hein notes that the 1957 Conference of the International Economic Association on the **Economic Consequences of the Size of Nations**, later edited by Robinson (1960), was not really concerned with either microstates or developing countries. (Hein, 1985).

²³This Conference was chaired by Sir Alister McIntyre, then Deputy Secretary-General of UNCTAD, and currently, 1997, Vice Chancellor of the University of the West Indies.

**General Insensitivity of Economic Literature to
“Islandness”**

There has been a general failure of the economics profession, certainly in the Caribbean, to appreciate the need for a specific theory of development in small islands.²⁴ The reason flows from the fact that most of the economic theorising in the islands simply draw on mainstream literature from large, continental economies and fails to even recognise the fact of islandness. It is interesting to observe for example, that Hein could perceive that:

... in very small economies the importance of trade is overwhelming-imports actually exceed GNP in a number of cases. Yet the work of major economists often either neglect trade altogether or treat it as a secondary factor... It follows that the theories of these authors on which much of economic theory and teaching is still based- are of least relevance to problems of microstates, and could even be misleading when applied to them. It is consequently necessary to use very different approaches. For instance any study (or teaching) of micro states' economics would be justified in starting with a focus on international trade and the external sector and treating the domestic economy as a mere dependent appendage. Similarly the usual distinction between macro-economics and micro-economics is not very helpful in the study of very small countries. (Hein, 1985:22-23)

There is some recognition in the literature, certainly in the Caribbean (as detailed below), of the island factor in terms of smallness, but this does not then result in an equal, or equally weighted, recognition of the existing dependence on the natural environment.

²⁴This assumes that an island is a useful category for economic theory and policy. Selwyn disagrees and argues that it is smallness which is the more relevant category (Selwyn, 1980).

Caribbean Economic Literature

The economic literature on the Caribbean has paid little or no attention, except for relatively recently, to even the relationship between development and the environment.²⁵ One important reason is the majority view among those with economic training that the Caribbean does not represent any special case, as suggested by Seers²⁶ and that one can, therefore, apply economic analyses derived originally for metropolitan economies to the region, with a minor adjustment here or there. The limited Caribbean economic literature on small size has not made any central linkage with the specifics of "islandness", as for example, in the notion of small islands as coastal zones.²⁷

The economic geographers have been more sensitive to this reality. McElroy, Potter and Towle (1990), for example, advanced specific proposals for sustainable development in 21 Caribbean islands with populations under 500,000, and land surfaces of less than 10,000 sq. kilometers, at a 1986 Puerto Rico Conference on sustainable development in small islands.

²⁵For surveys of the Caribbean economic literature see Brown and Brewster, 1974, St. Cyr, 1983, and Bernal, Figueroa and Witter, 1984. For a recent collection of papers on Economics and the Environment in the Caribbean see Girvan and Simmons, ed. 1991), Thomas and others in Cox and Emree (eds.) 1990, see also Persaud, (1993).

²⁶Seers, 1963; 1964.

²⁷The evidence for this can be found in the literature content of economic teaching in the Caribbean, including at the University of the West Indies; and in the policy analyses of regional governments, institutions and business organisations.

ECO-CULTURAL FRAMEWORK FOR SUSTAINABLE ECONOMIC DEVELOPMENT OF SMALL ISLANDS

The review of the literature on islands in Section 4 above reveals an emphasis on disadvantages/problems/obstacles. This Section seeks to provide synthesis in terms of focusing on the opportunities which the realities of islands permit. In particular, the case is being made for an eco-cultural framework.

In terms of the island-specific disadvantages noted above, for example the first, physical remoteness, is relative to technical change. The negative impact of technical change in both shipping and airline transportation on small islands is counteracted by the fact that 'time distance' has closed, given increased transport speed of both marine and air transport. Moreover, telecommunication technology, particularly via satellite communication, has reduced some of the remoteness factor. There is evidence in examples such as distance teaching. Moreover, remoteness could itself be turned into an advantage as Wace (1980) suggests.²⁸ The Galapagos island model illustrates how even the most apparently severe case of environmental hostility can be turned into an income generating economic product.

The second disadvantage, ecological fragility, is only a problem relative to man-made interventions. If the latter can be controlled then the eco-systems of islands are apparently quite robust in themselves.

The third disadvantage, vulnerability to natural disasters, is the most intractable of the three from a policy perspective and is also the one which suggests the most valid case for international support given the exogenous factors which explain climate change, for example.

²⁸Srinivasan (1986) also discusses "The costs and benefits of being a small, remote, island, landlocked or ministate economy".

As noted earlier, many of the non-island specific disadvantages flow from a particular historical experience as the case of plantation economies in the Caribbean.²⁹

It is important to add that there is a less dominant and generally more recent economic literature on small islands which has been attempting to actually provide a positive vision for sustainable development in small islands. This approach is well represented in Beller et al., (eds) (1990), a book derived from a 1986 Conference in Puerto Rico on small islands.

Hein, for example, identifies three categories of potential economic activities in small islands. The first being activities that cause little or no disturbance to the natural environment (such as wildlife sanctuaries). Second, activities that cause radical change to the environment and third, activities that tread lightly on the environment (Hein, 1990).

McElroy and De Albuquerque, also proposed a systems design approach to managing sustainability in small islands at this Puerto Rico Conference.

Another interesting exception to the generally negative focus of the islands literature can be found in Bertram who argues for a radical reconceptualisation of the meaning of “sustainable development” in Pacific micro-economies suggesting that these are not autonomous economic units but sub-units of a regional economy which survive on the basis of rents:

....conventional notions of what constitutes economic development cannot be applied to the very small island economies of the Pacific...Given that these economies are driven by rents...the focus of analysis must not be on production constraints but on questions of incentives, rent-seeking behaviour by households, and the political economy of aid bargaining. (Bertram,1980 :820,810)

²⁹See Best, (1968) and Best and Levitt (1975) and Beckford, (1972) on theories of plantation economy in the Caribbean.

Bertram and Walters have dubbed such economies MIRAB (migration, remittances, aid and bureaucracy) economies. The report of the 1986 Puerto Rico workshop adapts this concept to refer to MIRAGE (migration, remittances, aid, government and education) economies. (Beller, et al.1990:373)

The main proposal here is that development policy in Caribbean islands should be built around an eco-cultural framework. In other words, rather than seek to 'protect' ecological and cultural resources from income generating activity, the proposal is to integrate both. The rationale is that the very features of small islands as detailed earlier in Section 4 do not permit of the luxury of permitting economic activities and settlement and consumer patterns which will impact negatively.

In an adaption of Hein, the proposal is for an eco-cultural framework to optimise economic activities and lifestyles which enhance the region's eco-cultural resources while simultaneously minimising those which negate these resources. Elaboration of this framework would, however, require at least a separate paper.³⁰

³⁰For some earlier ideas by this author see Pantin (1994) and (1996).

CONCLUSIONS

The 1965 publication of William Demas on the economics of development of small countries was a welcome and positive contribution to Caribbean economic thought. From hindsight several elements of the work can be critiqued as has been done earlier in this paper. This does not take away from the contribution made. However, it would be a travesty of Caribbean economic thought if no advances had been made in the 32 years which have elapsed. This paper seeks to draw attention in particular to the work on the economics of small islands as perhaps the most relevant addition to the literature since it incorporates ecological and cultural factors. The dominant theme for the 21st century will be sustainable development and the literature on islands is essential to any such discourse.

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A Comment: On the Presentations on the Economics of Small States

Terrence Farrell¹

9 I read William Demas' book *Economics of Development in Small Countries* a little bit before Dennis Pantin did. I actually found it at Clifford Ledy's bookstore on Frederick Street in about 1969 and was also, like Pantin, very excited by it; so excited in fact that I produced an index for it myself (since it does not have one). I have that index stuck into the back of my copy which is still on my bookshelf. Interestingly, that book was accessible even in terms of its style and its ease of understanding to an 'A' level student. When you go through all of Demas' writings over the years, I think that is one of the things that strikes you about it. He is a very accessible scholar. You can read him and you can understand him, which is more than can be said for many other scholars in the region whose writings I think are very often very difficult to come to terms with. I thought Pantin might have mentioned in the context of his own critique on the question of size, Lloyd Best's views in a very provocative piece on size and survival which was a critique of Demas' book. I think this deserved

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some mention in terms of a debate which Best tried to get going. I think that Demas never really took him up on that issue, not least I think because Demas felt that he had dealt with many of the issues. The points which Best was in fact making, Demas had already made, in his own inimitable style within the book itself.

Pantin identified some policy prescriptions which flow out of Demas' books: import-substituting industrialisation, regional integration, the development of tourism, the critique of currency boards and so on. I think that what underlies all of those prescriptions is what seems to be an argument again in Demas' own very unique style, of West Indian control. I think all of his policy prescriptions are speaking to the need for West Indians to control and manage their own affairs, although I cannot speak for Demas who is here. Today's currency boards, for example, suggested concern for essentially seizing control of our policy-making from the international financial institutions, a control acquired over the last fifteen years must be, I would imagine, of great concern to somebody like Demas. The points which 'Scottie' Lewis made in his introduction to this session about the genesis of Trinidad and Tobago's independence and Jamaica's independence meant that at some point in the early 1960s there was a widespread belief that we needed to take control and manage our own affairs. I think that that belief is very much reflected in Demas' book. In terms of understanding, appreciating and locating a book within that period, Pantin might want to underline the importance of West Indian control as he develops his paper to Demas' policy prescriptions.

Carlisle Pemberton's extensive quotations from William Demas indicate to my mind that everything that you read by William Demas is always so very practical and very sensible; his style and his language are not complicated and his advice is always very sage. He seems to have the ability to cut through to the heart of the issues and to zero in on what he thinks, given his own ideological predisposition, to be the most important issue. That is part of the rich legacy that we have from Demas - his uncomplicated reasoning and his uncomplicated analysis. I think it's a legacy that many of the scholars in the region might do well to emulate in the future.

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Finally, of course, it is interesting that none of us here, either Carlisle Pemberton or Dennis Pantin or myself, has been able to say anything negative about William Demas and his scholarship in respect of small states - testimony, I think to the tremendous value of that work, to the deep thought that he always seems to give to his writing and to his scholarship. Thirty years on, everybody can stand up and say this is tremendously valuable work, that it is still relevant and something that will take us into the next century.

Part IV
The Economics of Integration

8

Caribbean Economic Integration Revisited: Demas and the Chaguaramas Model of Integration

*Norman Girvan*¹



William Demas was one of the chief architects of the Treaty of Chaguaramas. Apart from his personal role in drafting and orchestrating the negotiation of the Treaty, the integration movement owed much to his pervasive intellectual influence. His book on the **Economics of Development in Small Countries** (1965) argued persuasively that regional integration would help to overcome the disadvantages of limited domestic market and narrow resource base inherent in small economies. Demas' genius was to assert a new definition of development as structural

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transformation and self-sustaining growth and to pinpoint the disadvantages of small size as obstacles to this process. Hence, regional integration would be an indispensable instrument of genuine development in small economies.

Demas' work sparked a sharp exchange with Lloyd Best (*Size and Survival*, *New World Quarterly*, 1966). In essence Best argued that rather than size, historically entrenched structures and institutions - the plantation legacy and multinational corporations - were at the root of Caribbean underdevelopment. But even Best conceded that regional integration was a necessary development strategy. Best went on to coordinate the ISER Studies in Regional Economic Integration launched in 1965, a direct outgrowth of Demas' work. The highly acclaimed **Dynamics of West Indian Economic Integration** by Havelock Brewster and Clive Thomas (ISER, 1967) emphasised the scope for developing inter-industry linkages across the region, both deepening and widening import substitution, by combining regional natural resources and regional markets.

Another major intellectual antecedent was Alister McIntyre's paper on **Decolonisation and Trade Policy in the West Indies** (1964). This spoke of resource combination, export substitution, and functional cooperation in export industries across the region. These possibilities were further elaborated in the *Integration Studies* on bananas (Beckford), Air Transport (DeCastro) and bauxite (Girvan).

The body of work formed a fairly coherent whole. Regional integration would address the market and natural resource constraints on national import substitution. Such constraints were manifested in low rates of capacity utilization and heavy dependence on imported inputs. Regional integration would also respond to the requirements of export competitiveness and export diversification deriving from the imminent end of preferences in external markets. For many, the integration project also had the appeal of being a form of resurrected Federalism. Moreover, it helped that Western Europe was busily forming itself into an economic bloc, and hence provided a metropolitan example of a successful integration process.

THE CHAGUARAMAS MODEL AND ITS FATE

Hence, the model of integration underlying the Treaty of Chaguaramas was largely inward-looking and resource-based. Article 4, for instance, lists as one of the principal objectives “the continuing integration of economic activities”. Although the private sector was expected to take advantage of the opportunities created by the establishment of the Common Market, the Treaty also left a major role for state initiative in industrial and agricultural development and in the development of natural resources. This becomes clearer when we examine some of the Treaty’s provisions and the initiatives taken under them.

In the case of industry, Article 46 of the Treaty calls for Member States to promote industrial development by means of industrial programming aimed at achieving greater utilization of the raw materials of the Common Market; the creation of production linkages both within and between their national economies; minimizing product differentiation and maximizing economies of scale consistent with the limitations of market size; and the promotion of intra-regional and extra-regional exports.

As a consequence, a Caribbean Industrial Programming Scheme (CIPS) was set-up with a supporting unit at the Caricom Secretariat. Techno-economic feasibility studies were carried out and possibilities identified in a wide range of resource-based industries including wood products, clay products, fish processing, agro-processing, chemical lime and pulp, cotton, leather, plastic sugar and petroleum-based products. The above list of industries was eventually approved for integrated production in 1986, but no regionally integrated industries ever materialised. Another initiative at industrial programming, the Caricom Industrial Allocation Scheme (CIAS) was also never implemented.

In the case of agriculture, Article 49 of the Treaty commits the member states to the development of a regional plan for the integration of agricultural development and the optimum utilization of agricultural resources to increase production for domestic consumption, intra-regional and extra-regional exports,

and inputs for agro-based industries. This gave rise to the Caribbean Community Programme for Agricultural Development (CCPAD). Candidates identified by CCPAD for expanded production included grains, legumes, fruits and vegetables, spices and essential oils, livestock and livestock products, fish and fish products, and oils and fats. Like CIPS and CIAS, little progress was made on the implementation of the CCPAD programme.

Article 47 calls for Member States to initiate schemes for the joint development of natural resources. The most notable examples of attempts in this direction were the aluminum smelter schemes in Trinidad and Guyana using the energy resources of these countries in combination with Jamaican alumina. The abortive fate of these schemes is well-known.

With regard to private sector activity, it is also well-known that the development of intra-regional trade and investment under the Treaty of Chaguaramas has been disappointing, and fraught with problems between member states. Intra-regional trade has never exceeded 15 % of the total trade of the region, has been confined mainly to consumer goods rather than production inputs (with the notable exception of petroleum), and has been subject to wide fluctuations from year to year associated with trade and currency restrictions.

Recently, there have been encouraging developments in intra-regional cross-border investments, in areas such as tourism, finance, and natural resources. In general, however, there is a notable absence of dynamic in such investment. A survey undertaken by the Consortium Graduate School for the Caricom Secretariat in 1992 was revealing. Only 21 Caricom-based firms with cross-border investments within the region could be identified; of these only 9 actually had subsidiaries in other countries, only 6 of these in manufacturing. Many firms spoke of the costs and barriers to doing business in the region. Problems such as delays in securing investment approval, and restrictions on the movement of capital and labour within the region, were frequently mentioned. It should be noted that at the time, the Caricom Enterprise Regime (CER) was being mooted as a

mechanism to overcome some of the above obstacles. However, most of the companies surveyed were either unaware of the CER proposal or of its provisions, or had no confidence that it would actually be implemented.

The poor record of the Chaguaramas model was one of two main reasons for its demise in the 1980s. The other was the impact of macro-economic and policy developments. Foreign exchange crises, growing indebtedness, and structural adjustment in several more developed countries (MDCS) impacted heavily on intra-regional trade. Privatization, regional trade liberalization and the adoption of “outward-looking” policies put an end to talk of regional industrial programming for import substitution, resource combination, and the like. The World Bank, in particular, mounted a determined opposition to the protective Common External Tariff, with considerable success. By the end of the 1980s, the project for state-sponsored production integration across the region was, to all intents and purposes, dead.

OPEN REGIONALISM: A NEW MODEL OF INTEGRATION?

In a report prepared for the Caricom Secretariat in 1993, Wendell Samuel and I argued for a new model of regional production integration: one motivated by the strategic imperative of achieving structural diversification with competitive efficiency for Caricom countries, and placing greater reliance on market mechanisms and the private sector.

Production Integration

Essentially, private sector-led production integration would mean the combination of factors of production – business entrepreneurship, capital, and skilled labour - across the region. The context of this is the fundamental shifts in the composition of world trade – the rising importance of differentiated and knowledge-intensive goods and services – and the growing importance of non-price factors in international competition such as design, product quality, customer responsiveness, and after-sales service.

The goal of production integration would be to help provide the key elements of international competitiveness at the firm, industry, national and regional levels required to identify and successfully exploit existing and new market opportunities. Major forms for such production integration would be the organization of Caricom-owned regionally integrated enterprises, private sector joint ventures, private sector industrial complementation, and functional cooperation at the private sector and the governmental levels.

Role of the State

Private-sector led production integration still implies a critical supporting role for governments. Theirs is the responsibility to provide the framework of integration, indicating the areas where integration is most feasible, and providing effective supporting measures for private activity. We identified four essential elements of this:

- (i) early establishment of full mobility of factors of production within Caricom within the context of the Caricom Single Market and Economy (CSME);
- (ii) establishment within each member state, with policy harmonisation across the Community as a whole, of a macro-economic environment characterised by low inflation, competitive and stable exchange rates, and low long-term interest rates;
- (iii) provision of an adequate physical infrastructure for intra-regional trade and investment; and
- (iv) implementation of a Common Industrial Policy (CIP).

Single Market and Economy

Priority action in the establishment of the Caricom Single Market and Economy (CSME) should be aimed at securing the free movement of capital, skilled manpower, and entrepreneurship throughout the region. The harmonisation of fiscal, monetary and trade policy, should be the subject of phased implementation, with a set time-table.

We also argued that Governments will need to ensure the provision of adequate maritime transport, and improvements in air transport, as elements in the framework of production integration. In addition, both the private sector and governments can make better use of new information technologies in improving the speed and reducing the cost of intra-regional and extra-regional communication. For this purpose, reliable and low-cost telecommunications is a vital necessity.

Industrial Policy

The fourth essential element is a Common Industrial Policy (CIP) to complement market mechanisms in stimulating private-sector-organised production integration in selected areas. The main instruments for a CIP in the light of current policy regimes and multilateral conditionalities, were seen as:

- (i) support for export promotion and external marketing;
- (ii) fiscal incentives,
- (iii) subsidised credit (subject to conditionalities),
- (iv) subsidised training, and
- (v) support for R&D

It was proposed that the CIP (which would replace the CIPS), would be undertaken using clearly specified criteria and in close consultation with the private sector. Sectors of production integration would also be identified from private sector activity

operating in the context of the framework of the CSME, improved infrastructure, and a stable and appropriate macroeconomic environment. At the time of our review, it was thought that agriculture, agro-industry, furniture, wood products and forestry, tourism, and finance, were good candidates for private-sector-organized production integration. Suggested areas for functional cooperation were science and technology and research and development, engineering and management consultancy, export promotion, export marketing, sales and distribution services.

Integration Projects

The prospects for integration: pessimism or Utopianism? The report by Samuel and myself was generally well-received in the Secretariat and by economists working on the Single Market and Economy studies. However, developments since 1993 would seem to render our proposals somewhat Utopian. Progress towards the establishment of the Single Market and Economy has continued to be slow. In spite of a specially convened Ministerial meeting in 1996 chaired by the PM of Barbados, the July 1996 Heads of Government Meeting shelved important decisions on the matter. Jamaica and Trinidad and Tobago have pressed on with plans for national industrial policies without reference to Caricom. These MDCs also went ahead with establishing NAFTA eligibility on a unilateral basis. Most importantly, Caricom states have turned their attention to NAFTA parity advocacy, the Free Trade of the Americas (FTAA) process, and EU banana question. Rhetoric notwithstanding, economic integration efforts are definitely on the proverbial back burner.

To what can this be attributed? Is the Demas dream of nearly 40 years doomed to wither on the vine? I offer two complementary explanations, one economic/political and the other political economic, for the continuing failure to realise the regional economic project.

The economic/political explanation is the absence of a native business class with a strong vested interest in economic integration. European economic integration has been strongly pushed by large domestic firms anxious to secure an expanded

market and government support to meet the competitive challenges from the Japanese and the Americans. By contrast the West Indian business class has been relatively weak and fragmented in its support for economic integration. Many, if not most, businessmen are more oriented towards metropolitan economic linkages than those with Caricom. Even manufacturers selling on regional markets tend to regard Caricom as a limited proposition because of small populations and limited purchasing power. They look towards Puerto Rico and nearby South and Central American countries as expansion markets. Cynicism over the inaction of governments is compounded by the perception that the Caricom market is not that important anyway.

The political/economic explanation is that governments are concerned with short-term economic issues impacting on their electorates, which Caricom integration is not. Governments in the Windward Islands cannot afford to ignore the banana question, nor can the Government of Jamaica afford to ignore the question of market access for apparel, in order to pursue a venture with distant and uncertain economic, and hence political, returns.

In the light of this analysis the prospects for a sustained renewal of the integration project appear to be dim. However, the issue arises whether the present preoccupations of Caricom governments, which take precedence over efforts at integration, offer any real hope for the future. The phasing out of the Lome arrangements is not a matter of if, but when, whilst the accession of Caricom countries to NAFTA/FTAA appears to be a question of both if and when.

The simple fact of the matter is that a strongly united Caricom with a CSME would carry more weight in the FTAA negotiations than any one state. Extending functional cooperation to other independent states in the region, including Cuba, Haiti, and the Dominican Republic, would expand the room to manoeuvre. This is especially so as a Cuba-US rapprochement by the year 2000 must be considered a real possibility; as must an extension of the EU Caribbean programme to include Cuba.

Functional cooperation would include external economic negotiations, tourism, telecommunications, air and sea transport, education, and science and technology. It would also extend importantly, to control of drug trafficking, an area in which we are all extremely vulnerable. Here, it is difficult to understand why Caricom governments are negotiating unilaterally, rather than collectively, with the United States on drug interdiction Treaties, whilst loudly proclaiming their concern for sovereignty. The dangers to which Carl Parris drew our attention earlier this year are already materialising.²

CONCLUSION

I therefore foresee an expanded Caricom with a Single Market and Economy among the Present Common Market countries at the core, and with membership extended to the non-English-speaking states in the archipelago for the purpose of functional cooperation in the above areas. The vision might appear to be Utopian. But, I submit, it is worthy of the dreams of William Demas, and it provides a stronger basis for the participation of the region in global developments in the early years of the 21st century than the present situation.

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9

Caribbean Economic Integration: Reflections on Some Legal and Institutional Issues

*Cuthbert Joseph*¹



William Demas has been one of the chief architects of the movement for political and economic integration in the Caribbean throughout the past four decades. He and 'Scotty' Lewis, guided by the Federation policy of Eric Williams, were the main authors of the **Economics of Nationhood**. This was a regional plan to promote balanced and integrated economic development throughout the Federation that was to be, but never was. The strategy envisaged was the creation of an independent Federation with strong powers at the Federal centre for economic planning to promote, in the shortest possible time, the economic integration of the disparate and fragmented economies of the

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Region. The Federation and the Federal ideal foundered with the same speed with which it was planned.

Successor attempts at regional integration therefore avoided any notion of political union or any idea of supranationality in the process of economic co-operation. The cardinal legal principle which underpinned the frameworks of CARIFTA, the Eastern Caribbean Common Market (ECCM), and the Treaty of Chaguaramas, has been, and still remains **scrupulous respect for the sovereignty of Member States**. This principle has been enunciated, as recently as May 1992 in the **Report of the West Indian Commission**, in the following words:

Our proposals are rooted in the concept of CARICOM as a **Community of Sovereign States** who by Treaty agree to the pooling of certain of their sovereignties and to exercising them collectively in very specific respects. **It is the sharing of the exercise of sovereignty, not a transfer of it, that is involved in the integration process.** (p.466).

The fact of our being a **Community of Sovereign States** must not detract from our need to be a 'Community' first and foremost— for it is the reality of community that enlarges our prospects as Sovereign States. (p.468).

These quotations encapsulate the basic underlying philosophy, or (to use Kelsen's term) the *grundmorm* that gives validity to all the provisions and institutions embodied in the Treaty of Chaguaramas.

The cardinal legal principle here stated is one that underpins the constitutional arrangement of sovereign states bound together in a confederation. This cardinal legal principle is scrupulously observed, particularly when there are lurking political dangers threatening to convert a loose confederation of sovereign states into a strong federation. But, is this the situation that prevails in the present Caribbean Community that has been constituted by the Treaty of Chaguaramas?

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Article 4 of the Treaty lays down the three basic objectives of CARICOM:

- the economic integration of member states by the establishment of a common market regime.
- the coordination of the foreign policies of Member States.
- functional cooperation within the Community for the promotion of certain economic, social and cultural activities for the benefit of the peoples of the Community.

Both Article 4 of the Treaty and Article 3 of the Annex to the Treaty state the objectives for the establishment of the Common Market regime:

- the strengthening, co-ordination, and regulation of the economic and trade relations among member states in order to promote their accelerated harmonious and balanced development.
- the sustained expansion and continuing integration of economic activities, the benefits of which are to be equally shared among member states, taking into special account the needs of the Less Developed Countries.
- the achievement of a greater measure of economic independence of member states in dealing with states, groups of states, and entities outside the Community.

Obligations

In order to promote the objectives of the Treaty, member states are enjoined to carry out several obligations. These include:

- the taking of measures to ensure the execution of Treaty obligations and Common Market decisions (Art. 7 of the Treaty and Article 1 of the Annex).

- according to the Community and to the Common Market the most extensive legal capacity under their respective municipal laws. (Art. 20 of the Treaty and Art. 63 of the Annex).
- the harmonisation of legislation affecting fiscal incentives to industry, agriculture, and tourism and in other areas critical to the establishment and operation of the Common Market such as companies, trade marks, patents, designs and copyrights, industrial standards, plant and animal quarantine restrictions, labelling of food and drugs, dumping and subsidisation of exports, restrictive business practices, etc. (Arts. 40 & 42 of the Annex).

These obligations have been observed more in their breach than in their observance. Because of the main legal principle underpinning the Treaty arrangement, the Community has relied on the good faith and morality of Member States for the implementation of the Treaty. The Treaty is devoid of effective institutional machinery for its implementation. For all practical purposes, Treaty obligations are normative and not prescriptive. There are no Community legal sanctions for their non-observance.

SOURCES OF INTEGRATION LAW

In order to appreciate the constitutional areas in which the institutional gaps for implementation occur, it is necessary to take a brief glance at the main sources of integration law. In any Community of States engaged in the process of integration *which excludes political union*, the principal sources of Community law are:

- the provisions in the Treaty or Treaties constituting the Community. (This we shall call "primary Community Law").
- the administrative and the legislative acts and decisions of the organs and institutions of the

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Community. (This we shall call “secondary Community Law”).

- the decisions and rulings of the judicial organ or organs of the Community.

The present Treaty arrangements are devoid of specific mechanisms for the settlement of judicial disputes arising under Community law. The current provisions for dispute settlement under the Treaty are mechanisms for the settlement of disputes of a non-legal character. Such disputes arise from differences over the political interests of member states. In the current exercise of Treaty revision, the present provisions catering for the settlement of political disputes may be expanded to make them more effective. But such amendments should be complemented by the introduction of new mechanisms for the settlement of disputes within the Community **on the basis of law.**

In any viable community of states engaged in the integration process, administrative, legislative and judicial action takes place at two levels: first, in the organs of the community; and secondly, in the organs of member states. Effective action at state level is critical to the progress of integration. A big gap in the implementation of the Caribbean integration process arises from the fact that several chunks of both primary and secondary community law do not enter, or are not admitted, into the municipal legal systems of member states. To wit, many of the Treaty provisions do not form part of the municipal laws of member states. CARICOM States, following the common law tradition, are required constitutionally to pass enabling legislation under their respective jurisdictions in order to transform Treaty provisions into municipal law which their respective Courts will enforce.

Not all states have undertaken the exercise to transform the major Treaty provisions into municipal law. And where enabling laws have been passed, there is a lack of uniformity. Jamaica, Barbados and the ECCM States (other than St. Lucia and Grenada) have all enacted enabling legislation in one form

or another. But there is no legislative harmony or uniformity. Quite notably in Trinidad and Tobago, Community legislation has, for the most part, taken the form of amendments to the Customs Act (c. 78:01) by way of subsidiary legislation.

In this context, the 1994 Judgment of Justice Lucky in the High Court of Trinidad and Tobago is quite instructive. (No. S-1499/93). The Case was *D.S.Maharaj Furniture and Appliances Ltd. v. The Comptroller of Customs and Excise*. In this matter, the applicant—D.S. Maharaj Furniture—sought judicial review of an administrative decision of the Comptroller whom the firm alleged illegally imposed duty on certain goods of CARICOM origin which it imported from Grenada into Trinidad and Tobago. Attorney for the applicant relied on provisions in the Treaty of Chaguaramas in claiming duty free entry for the goods in question. In response, Attorney for the respondent submitted that the Treaty had not been fully enacted in Trinidad and Tobago and that the instant provision could not be considered as law by the Court. In his Judgment, Justice Lucky noted *inter alia* that:

Treaties such as the CARICOM Treaty are binding agreements between States which are contracting parties to them. But, to become effective they must be incorporated by legislation into the Laws of the State. The Treaty has not been included *per se* as a whole in the Laws of Trinidad and Tobago, but in part. That part relative to the Case is set out in the regulations.....**These regulations have incorporated certain provisions of the Treaty which do not have the force of law in this Country.** (pp. 8-9) (Emphasis added).

This judgment highlights the serious gap arising from the absence of a central judicial authority with the status of an organ of the Community to give decisions and rulings on the interpretation and application of the Treaty. Such rulings would be binding on all juridical persons subject to Community Law throughout the Community. A central judicial authority is vital to the progressive pursuit of the aims and objectives of the Treaty. Without such an organ, the Community is faced with the competing competence of the courts of the individual member

states in determining questions relating to the interpretation and application of the Treaty. This is quite an untenable arrangement for the juridical viability of CARICOM.

The establishment of a central judicial organ of the Community, endowed with exclusive competence and authority to give rulings on matters of community law, far from eroding the individual sovereignties of member states, will be giving effect, severally and jointly, to these individual sovereignties. For such a central organ, acting on behalf, and in the interest, of the whole and the several parts of the Community, is indispensable for the sustenance and life of CARICOM.

Community Law

Community legal machinery is also necessary to ensure the enforcement of secondary Community law. We use the latter to cover the acts of the organs and institutions of the Community which are legally binding on the juridical persons within the Community. Such acts of the Community organs are necessary for the day-to-day functioning as well as the progressive development of CARICOM. They would necessarily include measures of an executive, administrative, legislative or a quasi-judicial nature effected by the organs and institutions of the Community. Throughout the Community, the juridical persons to be bound by such acts would include the Community organs themselves, member states, and individuals – both natural and corporate – falling within the jurisdiction of member states.

Under the present Treaty, decisions of Community organs (except those concerning the Budget) are not legally binding. The Treaty does provide that “ a decision of [the Conference and of the Council] shall be binding upon each Member State to which it is directed.” (Art. 9 and Art. 8 of the Annex). However, the absence of machinery in the existing Treaty provisions for judicial settlement of disputes at Community level would suggest that the ‘binding’ nature of such a decision is political and not legal. It will be recalled that the *Report of the West Indian Commission* was highly critical of the non-implementation of the decisions of Community organs. “Implementation has been the ‘Achilles heel’ of the integration movement.” (p. 462).

We have stressed that the implementation of the acts of the organs and of the institutions of any integration system is crucial to the survival and dynamic growth of the movement. Of equal importance are the procedures by which such acts are effected. Procedures should be transparent and should entail political accountability. The voting formulas adopted for effecting the acts of the Community organs should reflect the fact that the Community possesses a legal personality of its own, quite distinct from that of its constituent member states. Respect for these criteria would place the competence for effecting such acts in the hands of the political organs – the Council of Ministers and the Conference of Heads of Government. It would avoid giving the Secretary-General and the Secretariat any direct powers to effect secondary Community legislation.

It is of interest to note that in the European Community, the Council of Ministers, comprising one representative of each Member State, enjoy a wide competence in effecting secondary Community legislation. The Community Commission, which is virtually empowered as the Executive of the Community, also has extensive powers in initiating and effecting secondary Community legislation. This second feature of the institutional framework of the European Community has generated a great deal of adverse criticism throughout Europe. A major objection is the fear that the civil service culture of the “Eurocrats”, politically responsible to no institution – not even to the European Parliament – may undermine the political viability of the European integration movement. The Caribbean may draw a lesson or two from this European concern!

A major obstacle to devising effective institutions to accelerate the process of Caribbean integration is the reluctance to attribute to the Caribbean Community a legal personality of its own, quite distinct from that of its constituent Member States. Any such attribution is considered to be the conferment of supranationality on CARICOM to the detriment of the individual sovereignties of Member States. This contention is without legal foundation.

The United Nations General Assembly in 1949 requested of the World Court an Advisory Opinion as to the legal status of the United Nations Organisation *vis-à-vis* its Member States. The World Court enunciated the doctrine that “the subjects of law in any legal system are not necessarily identical in their nature or in the extent of their rights, and their nature depends upon the needs of the Community. Throughout its history, the development of international law has been influenced by the requirements of international life... This development culminated in the establishment of an international organisation whose purposes and principles are specified in the Charter of the United Nations. **But to achieve these ends the attribution of international personality is indispensable.**” (Emphasis added).

The World Court asserted that the Organisation “could not carry out the intentions of its founders if it was devoid of international personality” and that “its Members, by entrusting certain functions to it,... have clothed it with the competence required to enable those functions to be effectively discharged.” The Court concluded that:

... the Organisation is an international person. (Emphasis added). That is not the same thing as saying that it is a State, which it certainly is not, or that its legal personality and rights and duties are the same as those of a State. Still less is it the same thing as saying that it is “a super-State,” whatever that expression may mean. (*Reparation for Injuries Suffered in the Service of the United Nations Case*, Advisory Opinion, I.C.J. Reports 1949, p. 174).

Thus the sole legal basis for clothing CARICOM with an international personality and equipping it with competent organs and institutions is to enable it to perform the functions which Member States entrust to it under the provisions of the Treaty — its constitutive instrument.

**The regime defining the powers and authority
attributed to the Caribbean Community with its constituent**

organs and institutions is not to be sought from sources of constitutional law governing the relations between sovereign States bound together in a Confederate arrangement. Rather, it is to be derived from sources of international law, and, in particular, the law of treaties. For it is treaties that provide the constitutional basis for integration arrangements like CARICOM.

In this context, lines have to be drawn to define the relationship between Community law and the municipal law of member states. Functions and powers attributed to the Community over those which reside with Member States must be consistent with the objectives of integration as expressed in the Treaty instrument. The extent to which delinquent member states could be permitted to ignore treaty obligations should be determined by the principle that the modern trend in treaty law prohibits reservations to fundamental provisions in a Treaty. This is without prejudice to the general exceptions enabling Member States, in emergency situations (such as the protection of public morals, the prevention of crime, the protection of life, security interests, etc.), to claim exemption from the observance of treaty obligations. (Arts. 23 & 24 of the Annex).

CARIBBEAN SOVEREIGNTY

One final point needs to be made about the futility of Caribbean states' continued adherence to the notion of undiluted sovereignty in the Caribbean community of states. The current impact of science and technology transnationally in the post bipolar world is rapidly promoting the globalisation of the world economy. National sovereignty is constantly being diffused in the international community. States are rapidly contracting a network of international treaties to govern the transmission of computerised information, the exploration and exploitation of ocean space, the combating of drug trafficking, the suppression of terrorism, the preservation of the natural environment, international guarantees for investment, and the promotion of trade in goods, services and ideas. Moreover, an increasing volume of transnational activities in these functional areas of

international co-operation is being conducted, on the basis of market forces, by private transnational enterprises operating in a globalised legal setting.

In this international environment, isn't it in the national interest of CARICOM States to accelerate the integration process, especially in these areas of functional international co-operation? Shouldn't member states identify critical areas for accelerated and deeper integration? — (e.g. the exploration of their marine space, the exploitation of the living resources of the Sea, the preservation of the marine environment, the promotion of external trade in specified goods, selected services and in ideas?) Such decisions, taken within the framework of a revised Treaty, would require an enhancement of the international legal personality of the Caribbean Community. This should be done **on a functional and sectoral basis** in order to accelerate and deepen the integration process **in these defined sectors** of the Caribbean economy. Such a strategy could have critical spin-off effects in galvanising the whole integration process forward.

CONCLUSION

To conclude, it is my view that the underlying legal philosophy of the present Treaty should be consigned to the history books as have the failed legal experiments of the ill-fated Federation. This dated legal philosophy seems more applicable to a loose Confederation operating within a political environment as obtained in the German *Zollverein* of the last **century**.

To end, I pose this question: shouldn't the way forward be a deeper and a pragmatic reliance on the up-to-date principles of economic integration law **cast in a Caribbean mould?**

While I await your reply to my final question, I invite you to think about the following dictum of the European Court of Justice in the famous Case of *Costa v. ENEL*, 1964. This decision enunciated the doctrine of the primacy of Community law over national law.

By contrast with ordinary international treaties, the EEC Treaty has created its own legal system which, on entry into force of the Treaty, became an integral part of the legal systems of the member states and which their courts are bound to apply....

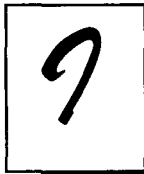
By creating a Community ...having its own institutions, its own personality, its own legal capacity and capacity of representation on the international plane and, more particularly, **real powers stemming from a limitation of sovereignty or a transfer of powers from the States to the Community, the member states have limited their sovereign rights, albeit within limited fields,** and thus created a body of law which binds both their nationals and themselves.

The integration into the laws of each member state of provisions which derive from the Community, and more generally the terms and the spirit of the Treaty, make it impossible for the states...to accord precedence to a unilateral and subsequent measure over **a legal system accepted by them on a basis of reciprocity.** (Case 6/64 [1964] *European Court Reports* 585.) (Emphasis added).

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Outward-Looking Regionalism and Small Integration Schemes: With Special Reference to CARICOM

Anthony Gonzales¹



In view of global changes and the need for countries to integrate into the world economy, regional integration schemes have had to adapt to meet the new conditions. In the last decade or so, the original rationale for regional integration among developing countries has been seriously challenged. An extreme view of the latter is to see all such integration movements as a fundamental obstacle to proper insertion into the world economy.

INTRODUCTION

The concern of this paper is with the case of the very small integration scheme such as CARICOM. The basic questions being

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asked are as follows: how feasible is integration in such small groupings? What is the form of integration that can be most compatible with trends in the world economy? In what areas is discrimination in favour of members of such integration schemes needed to offset the negative consequences of openness? Does integration into the world economy have to receive priority over regional integration?

Currently, the integration movement perceives itself as marginalized by the formation of large trade blocs and globalization. In most instances, its response is a strategy of seeking to simultaneously deepen and widen the regional integration. From a theoretical perspective, however, the blend or choice between regional integration and world (and/or hemispheric) integration is not clearly spelled out. This implies that the baseline for regional integration in terms of some defensible margin of preference continues to remain blurred. As a result, no precise long-term strategy for regional integration seems to be emerging as events unfold and dictate decisions on an ad hoc basis.

The main purpose of this analysis is to describe some key elements of a long-term strategy recognizing that developing countries are under unremitting pressures to structurally adapt their economies. This process of adjustment involves the search for a higher level of national competitiveness which requires significant changes in terms of macro-economic behaviour as well as institutional functioning.

The economic crisis in the Caribbean that deepened at the start of the 1980's called into question the validity of development theories and prescriptions for the region. Integration theory was not left untouched since, simultaneously with the decline in national economies, regional integration entered into a chronic state of decline. At present, the level of intra-regional trade is unsatisfactory; no progress has been made as regards production integration and generally tight controls still exist on factor movement.

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From the outset, the integration movement had the wrong intellectual focus and this did not become apparent until the beginning of the 1980's when further declines in the export earnings of traditional primary products took place and the artificial situation created by the surplus of revenue from oil exports in Trinidad and Tobago disappeared.

Events over the last decade have highlighted the failure of the import-substitution strategy. It required the import competing sector as well as the economy as a whole to be too dependent on the receipts of the traditional export sector. The collapse of the traditional export sectors served to underscore this observation and engendered a massive switch to export strategies throughout most of the region. This change has occurred to the point where some who subscribe to these export-led strategies now see the present form of integration more in terms of an obstacle to a successful export orientation. This can be judged in expressions about the need to enlarge CARICOM, join larger integration schemes and reduce the effective rate of protection at a faster pace. These positions essentially represent attacks on the small market size of CARICOM and the inability to help develop competitive production without enlargement and/or the market forces of the world economy.

Against the background of these developments, integration theorizing has been caught lagging. At present, with the regional import institution approach having been thrown out of the window, there is no persuasive economic rationale for regional integration.

The aim of this article is to see whether there still is an adequate case for regional integration among small geographically-dispersed island economies which would seriously address the need for more openness. This is an area of academic thought that has not been sufficiently explored. The very notion of integration carries with it perceptions of self-reliance, collective economic security and independence. It thus tends to emphasize the pooling of markets and resources as a means of reducing dependence on the outside world. In so far as the latter concepts

remain inadequately assessed, there is thus at times a scepticism regarding greater integration into the world economy.

ANALYSIS OF INTEGRATION

In classical customs union theory integration is only beneficial from a static perspective if it involves net trade creation (Lipsey, 1960). It is seen as incompatible with openness since there exists a strong preference for free trade within the union rather than liberalized trade with the rest of the world.

In the Caribbean, however, early integration thought concentrated on the question of market size. Lewis (1950) argued that customs union was the first necessary requirement for successful industrialization in order to help overcome economies of scale. The focus, therefore, was much more on the dynamic aspects of integration and conceptualizing integration theory as a sub-set of development theory - an approach which was later employed to demonstrate how integration could facilitate development in terms of widening markets and/or a larger resource combination use.

Lewis did not perceive any conflict between regional integration and world integration as did conventional customs union theory. For him, realistically, the region could not be a substitute for extra-regional markets since it did not constitute a sufficiently large market in terms of aggregate demand. Lewis, however, did not tackle the issue of the degree of trade protection that could best be used to blend regional and world integration. In so far as Lewis focussed on the role of foreign investment in promoting extra-regional exports he did not perceive any inconsistency.

Subsequent writers (Demas, 1965), (Brewster and Thomas, 1969), (McIntyre, 1971) tended to place more faith on the size of the regional market either through a strategy of market integration or integration of sectoral production. Demas suggested that regional import substitution driven by intra-regional competition and some state planning and intervention to cover market failures would generate additional market opportunities. The resulting

allocative efficiency was considered sufficient, in the long run, to allow firms to become internationally competitive. Regional integration is thus a way station that would assist in promoting comparative advantage and finally integration into the world economy. Demas, however, did not see the incompatibility between high trade protection associated with regional integration and progressively the need for more international competition (to push firms on the international market that could come from lower trade barriers with the rest of the world. Prebich (1959) articulated such a position in a relatively coherent way. He viewed cost reductions that come from integration as permitting the lowering of average tariffs and thus facilitating integration into the world economy based on international competitiveness and reciprocity.

This is one of the first statements on how regional integration could be efficiently combined with international integration. Belassa (1961) also did indicate that small integration units should operate with moderate levels of effective protection in so far as they needed (more than large economies) the market forces of the international economy to stimulate their search for comparative advantage. It was also shown empirically how the adoption of a common protective regime tends to increase the anti-export bias by increasing tariff barriers and reducing the incentive to export (Morawetz, 1974).

To Demas' credit there was implicitly some version of 'temporary integration' in the notion of the training ground. Integration was seen as necessary for facilitating the attainment of economies of scale and learning by-doing. This transition, however, appears to operate automatically as the infants reached their adulthood. Demas, thus, never developed this concept of transition and later critics pointed to the stickiness of the training ground. In the context of structural adjustment, mainstream World Bank/IMF approaches tend to favour openness from the outset. Small integration schemes are regarded as an obstacle to integration into the world economy in so far as they add to distortions. Rather, these institutions advocate world-scale plants be established from the beginning and do not perceive openness as being premature in terms of building scale and external

economies. They consider most regional groupings as not having the market size sufficient for creating economies of scale. Trade protection in such a situation creates under-utilized capacity, oligopoly and vested protectionist lobbies. Even where economies of scale are not a problem, high external barriers tend to lead to excessive entry as new firms try to get a share of monopoly rents. Cost goes up and excess profits are absorbed by reduced efficiency (World Bank-CEPR, 1992).

The resource combination approach (Brewster and Thomas, 1969), apart from its over-estimation of the size of the regional market, tended to over-stress the importance of natural resources in the transformation process. This has been to the neglect of other factors such as technology, capital and human resources which historical evidence largely favours as being more important than natural resources.

In addition, emphasis on spatial integration of resources tends to lead to a perception of integration as always being positive in so far as a larger pool of physical resources is now available to all members of the integration movement. In relative terms, however, it is quite possible to envisage a hiatus developing at the regional level between physical resources and population which was non-existent or less significant at the national level. This could especially be the case if different weights are attached to various resources.

In general, this argument about national resources poses a major conceptual problem. It is inconclusive as to whether regional integration would lead to more resources and make them available in the right proportions. This is because even the authors of this argument recognize that resources are haphazardly distributed. This means that small size 'per se' does not reduce the occurrence of national resources and especially the critical ones. The authors, however, seem to suggest that there is greater likelihood of finding the optimum set of resources in a larger area (Brewster and Thomas, 1969). This however, is the intellectual trap usually encountered by authors who emphasize natural resources. Even though in probability terms it may seem

attractive, one just cannot assume that greater space will provide them. It may or may not happen.²

More importantly, the possession of basic natural resources does not mean that they are economically exploitable for industrial development. This is a key problem in small resource-abundant countries in the third world. The critical issues of skill and technology, not to mention coordination capacity, have been shown to be more important in determining the location of such production. Any argument about the role of raw materials in the transformation process and their use in the production of basic industrializing materials must therefore include the issue of feasibility, especially in small markets. It should also be prepared to address the question of a desirable path if all those basic materials, or some critical set of them, are not available locally.

The question of feasibility is even more relevant in determining inter-sectoral linkages in small economies. The resource combination approach emphasizes linkages but does not make the case for project viability of this increased level of industrial integration which is central to its notion of structural transformation. The costs of building such linkages are generally prohibitive in terms of the foreign exchange choices that have to be made. In some markets, one is more likely to find that an industry with transformation potential is also one in which export specialization offers the best potential for taking advantage of comparative advantage.

Related to the above is the fact that the gap between the structure of demand and the structure of production results from the need for export specialization as dictated by international markets and the narrow production range (as compared to demand requirements) that is feasible in small countries.

²For the moment, we abstract from the problem of polarization which would result from the absence of resources in some parts of the integration movement.

To a large extent, the feasibility issue was not well addressed since the question of economies of scale was not adequately tackled. One line pursued, for example, was to dismiss entirely the notion of technical indivisibilities by suggesting that several other factors, such as costs of materials, different resource combinations, etc. have reduced the optimum size of plant. This discussion never fully explored the whole range of internal and external economies that is part of the indivisibility argument (Gonzales, 1975). Those economies that were suggested are not as critical in production and marketing as longer production runs and larger outlays for marketing the higher output which lower unit cost. Note that Thomas was proposing economies from lower raw material prices and different raw material combinations. The costs associated with the attainment of economies of scale and learning-by-doing in basic industries will be higher the smaller the size of the union. Industrialization is thus regarded as prohibitively expensive for such countries and it is at times concluded that smaller economies should specialize in primary production even though the disastrous terms of trade effects from an oversupply of such raw materials are recognized (UNCTAD, 1992). In any case, small integration schemes are generally not considered suitable for producing capital and intermediate goods requiring high levels of technological complexity and scale economies.

Finally, with few exceptions, most, if not all, of the above discussion by the two schools is conducted in isolation from consideration of trends in global production. A high level of national self-sufficiency or even autarchy in the use of factors of production is assumed. The possibility of international production factors being mobilized in a systematic way as a means of attaining comparative advantage and overcoming size constraints is rarely

envisaged.³ Even worse, is the absence of trade and in particular exports since end users including those of basic industrializing materials (that were to be produced) are believed to be present in the combined regional market.⁴

TRADE NEUTRALITY/PROTECTION

Both approaches discussed above stressed the importance of trade protection. Neo-liberals question whether protected economies in particular small ones will make the transition to exporting since economies of scale must be achieved on international markets at higher costs and greater risks (relative to domestic markets). Temporary protection under these conditions will tend to become permanent as the industry encounters problems in becoming competitive on the international market. This is more likely to be the case if external economies are sector-specific and protection is economy-wide causing the costs of protection to increase tremendously.

³Lewis of course, was one of the first to deal with this question. He specified the temporary use of foreign capital to acquire market access in labour-intensive products. The interpretation of international factor movement by Lewis was not however altogether correct. Experience has shown that national firms in South East Asia went out and acquired comparative advantage and market access not only on the basis of cheap labour and specialization, but also through international subcontracting in which they gathered technical specifications, know-how, etc. Lewis was to some extent blinded by the Puerto Rican mirage. Some foreign capital may have gone to Puerto Rico for tax purposes as Puerto Rico was part of the U.S. capital market. Foreign capital, however, in an equity sense was not always required. Rather a demonstration of large capable cost-effective firms negotiating international contracts seemed sufficient to avoid a situation in which generous tax incentives were provided.

⁴The small East Asian countries largely solved the coordination problem involved in producing downstream basic materials through trade. See Joseph E. Stiglitz, **Some Lessons from the East Asian Miracle** *The World Bank Research Observer* Vol. 11, No. 2 August 1996.

The case for an active industrial policy, as against general trade liberalization, is based on the benefits to be derived from sector-specific selective policies that successfully pick winners who make the transition to exporting competitively.

More specifically, according to the above school of thought, the optimal solution is temporary protection for new targeted industries and export promotion through subsidies, for example, moderate temporary protection must also be available for existing industries becoming export-oriented. Such selective protection is seen as providing an incentive to export, particularly when scale economies are present.

Trade neutrality is not viewed as generating sufficient investment in infant industries which have the potential to become exporters. Rapid trade liberalization is seen as causing irreversible losses since firms cannot adapt to the changes.

These losses are expected to be greater the larger the role of fixed cost and economies of scale. This can be critical in the transition from import substitution to export promotion when existing capacity must be maximized. The selective use of tariffs by an integration grouping is thus advocated to build sectors of technological capability.

In the small integrated group, the above-described market failure does not arise simply as a result of local capital market imperfections but much more from the very size of the market and the higher costs associated with the larger percentage of output needing to achieve economies of scale on international markets. In addition, government failure increases as economy size shrinks because of more sector-specific nature of economies of scale and the increased selecting of the policies required. Rent-seeking, inappropriate policies based on incorrect information and the inefficiency permitted by protection make the cost of selectivity and intervention proportionately far higher in these economies.

The high costs of selection and intervention as well as achieving economies of scale in the small integration scheme

can be reduced by foreign investment (equity and non-equity) which can provide world scale plants and established markets thereby significantly reducing the costs of learning and obtaining production and marketing economies of scale (Lall, 1982). Such an approach will also ensure that these countries are part of the globalization of production which would allow access to technology transfer. It is evident from the experience that small successful countries such as Singapore, Mauritius and Costa Rica, that have successfully developed export-led industrialization, have employed this strategy of benefitting from industrial relocation from developed countries in order to reduce the costs of industrialization.

If the above is correct, the issue then remains whether trade neutrality or protection will attract such foreign investment. Small economies are generally regarded as more dependent on import competition which opens up trading and achieves a better transfer of knowledge through improved communication and human contact. This could lead to more foreign investment since modern technology can perform better under a more liberalized situation as compared to a context where barriers against imports are faced (Dornbusch, 1992). A more efficient trading environment also opens up opportunities for locating industries that are internationally competitive (World Bank, 1992). The present return of capital to a more liberalized Latin America and the historic flow of capital to East Asia where barriers have been proportionately lower are examples of this observation.

Langhammer and Hiemenz (1990) dismiss all integration experience among developing countries as disappointing in terms of their contribution to development. They argue that what works among the industrial countries cannot work among developing countries. Most integration schemes among LDCs comprise small markets, low incomes, similar factor endowments and similar productive structures. These cannot serve as a basis for trade expansion based on intra-industry specialization and product differentiation. Trade gains for developing countries come from differences in resource endowments and productive structures.

Along the above lines, small integration groups would not be regarded as constituting optimal trading area due to small market size, high external trade dependence, few non-primary exports, and high transaction costs. Regional trade creation gains from market integration are considered negligible, even in a context of outward orientation and trade liberalization (Melo and Panagaruja, 1991). These countries can better seize their dynamic comparative advantage in a multilateral framework and thus diversify their productive structures. Integration would benefit as per capita incomes and the capital stock rise, thus creating more trade opportunities at the regional level.

TARIFFS

In these circumstances, and especially for small countries where trade diversion is more costly, the policy prescription revolves around the elimination of the common external tariff or its reduction to a very low level. Outward orientation, therefore, favours a Free Trade Area (FTA) among such countries since it does not constrain countries to pursue unilateral liberalization and integration with other countries and groups of countries.

According to the above argument, tariffs are not the best form of giving a margin of preference even if it is established that such a margin is necessary. The case for an active industrial policy to narrow the technological gap and promote high-skill and knowledge industries would regard market and production integration to be without any significance if there is not a margin of preference . The main argument for using tariffs to provide this margin stems from the observation that integrated groupings already have experience with them and therefore, it would be easier to employ this instrument. Structural adjustment reforms (trade liberalization, elimination of transfers and subsidies, privatization and other market based policies) as well as the Uruguay Round have recently imposed severe limits on the use of tariffs as well as on the number of instruments that can substitute for them.

Regional programmes of building competitiveness can however be quite as effective as tariffs even though reforms in structural adjustment (elimination of transfers, subsidies, privatization and other market-based policies) and the Uruguay Round have limited the number of instruments that can substitute for tariffs. In this regard, the gains from greater factor movement have not been fully explored. In general, small integration movements have tended to side-step the question of factor movement largely to deal with the issue of polarization. It is often argued that, given the shortage of capital in the LDCs of the common market, free movement of capital would cause a flight of capital to the more developing areas. In the interest of avoiding polarization the regional arrangement instead should be geared to increasing the flow of capital to the LDCs through special promotional mechanisms. In addition, as regards labour, the migration of both skilled and unskilled labour from the LDCs to the industrial centres is considered (particularly insofar as skilled labour is concerned as this is in short supply) a factor that would aggravate polarization. Restrictions on labour movement in the MDCs to deal are regarded to be in the interests of the LDCs. In the MDCs, large pools of unemployed coupled with deficient infrastructure usually provide the case for such restrictions.

FACTOR MOBILITY

It is clear, however, that in a strategy of boosting comparative advantage through a better pooling of resources, greater attention will have to be given to greater movement of selected factors. Skilled labour as well as capital are two key factors which should be given greater freedom of movement. Fears about polarization do not seem to be well founded with such limited movement. In any case, it is doubtful in an integration scheme comprising of small countries, whether the gains from agglomeration are as big as the theory tends to suggest. While it is evident that unfettered movement of factors, particularly labour, could be disruptive, it seems that a careful identification of sectors

where controlled movement would be in the interest of regional comparative advantage could be a superior policy.⁵

The modern analysis employed to discuss the formation of the European Union, has shown that there are gains which can be more important than those of trade creation. These non-orthodox gains stem from reducing remaining barriers to the free circulation of goods, people, services and capital, from economies of scale in tradeable infrastructure, and from coordination and/or harmonization in the provision of public goods and the use of policy instruments such as taxation and financial market regulations. Robson (1993) considers these gains as being as, if not more, important for developing countries. Potentially vast mutual gains may be secured through regional economic cooperation among developing countries when significant externalities and public goods exist and market mechanisms tend to fail. Some regard the potential to be greater in 'software' public goods (education, health, training, environment, R and D particularly in agriculture and investment incentives) rather than 'hardware' infrastructure such as highways, railways, ports, water, energy, telecommunications, etc. (Langhammer and Hiemenz, 1990). Because of high organizational and information costs, most of the above cannot be achieved at the level required to improve regional competitiveness in the he EU unless the regional dimension is employed.

In the European Union (EU), the state, through its industrial policy instruments, is now playing an active role in providing training subsidies, R and D assistance, etc., in order to create specific areas of comparative advantage needed to penetrate targeted markets. The role played by EU Governments as well as the EU Commission is clearly indicative of this. Deliberate policy measures are being adopted both at the national

⁵It is not our intention to dwell on the issue of polarization in a strategy where a rational division of labour has to be determined not only by the competitiveness of member countries vis-a-vis other regional partners but also vis-a-vis outside members.

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and regional levels to counter the competitiveness of Japan and the U.S. Small countries cannot ignore this development and must seek through a process of integration to identify the areas where a pooling of resources would have more impact or could be complementary to any national effort.

Regional policy can also be advantageous in marketing. The substantial economies of scale that stem from joint marketing clearly point the way for regional approaches in certain areas. CARICOM has been able to identify some of these areas as the movement sought to promote extra-regional exports. In the light of growing protectionism and TNC marketing power, regional approaches are also required to deal with the politics of marketing (Gonzales, 1985).

Central to a strategy of creating comparative advantage is the provision of specialist skills at reasonable cost. Economies which are small in terms of available manpower will find it difficult to develop any meaningful range of such skills. The regional pooling of physical manpower resources has clearly been an area identified where the supply of such skills could become more elastic. In addition, the costs of training would also be reduced as sizeable economies could be reaped from lower infrastructural costs and common training methods.

The costs of non-integration should also be taken into account. Physical, technical and fiscal barriers create market fragmentation and inefficiencies and entail a cost at times higher than the gains from trade creation. In small geographically-dispersed unions, these barriers exist in terms of transaction costs, payments obstacles, market entry, etc.⁶

⁶In a union such as CARICOM the costs of non-integration in this sense are high especially since many of the neighbouring countries that form a natural bloc are not part of the integration scheme.

CONCLUSION

The use of regional strengths to boost comparative advantage is now evident in the practice of several export-oriented integration schemes. In today's world the exploitation of comparative advantage is much more complex and can benefit directly from support from regional integration. Such support would come largely from regional policy measures geared to promoting technical progress and less factor restrictions in an economic environment more open to international competition. Even though a regional market generates intra-regional competition and increases aggregate demand which offers greater security to exporters, it is our contention that such gains are marginal in a small integration movement. A larger domestic demand is more likely to facilitate a monopolist exporter who sells way above the average cost in his home market and at marginal cost in foreign markets. Such a subsidy is not justified in our view, except possibly on grounds of serious imperfections in world markets arising largely from uncertainty and the cost of innovation.

In examining the case for regional integration in order to promote comparative advantage, our discussion has emphasized more the impact of integration on technical change (skills, technology, marketing and organization) which will be the most beneficial area for promoting international competitiveness. Market integration, less effective protection, the provision of public goods and externalities at the regional level and factor liberalization are considered as basically supportive and complementary.

By removing or lowering the Common External Tariff (CET) and relying more on competitiveness building measures that result from deepening the integration movement in the direction described above, the CARICOM could pave the way for further integration into the world economy. The movement could thus simultaneously deepen and widen in a form that could be regarded as desirable and in tune with trends in the global economy.

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Part V

Demographics for the Twenty-First Century

11

Persistent Constraints to CARICOM's Development Efforts: Responses for the 21st Century

A Summary of a Panel Discussion

M. G. Zephirin

Chair Person: Maurice Odle¹

Panellists: Lloyd Best, Trevor Farrell, Kari Levitt,
Frank Rampersad and Ewart Williams

9 In a wide ranging and illuminating discussion spanning some three hours, the panel was virtually unanimous in its agreement that Caribbean economies had serious deficiencies in terms of productivity, national savings and investment, human capital formation, income distribution and the living standards of the poor. Two principal explanations for this emerged from the panel

¹Designations of panelists are found in the **'Notes on the Contributors'** at **Appendix V**.

discussion. The first, and most widely held, argued that the policies and programmes required for development and growth are not only well-known, having been developed by Arthur Lewis, William Demas and others, but have some points in common with programmes supported by the International Monetary Fund (IMF). However, Caribbean governments and peoples have been unwilling to fully commit to the implementation of these policies and have, therefore, failed to establish the education and training, machinery and organization required for their implementation. One explanation for this failure of will may lie in the Caribbean's traditional preoccupation with ensuring foreign approbation at the expense of supporting their domestic programmes. There was some suggestion that another may be the inappropriateness of the political system - a theme emphasised by the more radical explanation.

The second, more controversial view, held that the appropriate policies are in fact unknown because the diagnosis of the problem is incorrect. The diagnosis is incorrect because it has been taken from an economic model which is not only ill-suited to the Caribbean, but fails to recognize the complexity of the human situation and ignores the lessons that can be learnt from an examination of East Asia's successful economies, for example.

In his opening presentation, the moderator, Maurice Odle, provided a rapid sketch of the major lines of international thinking on development economics. In the sixties when Demas published **The Economics of Development in Small Countries**, economics courses did not differentiate between states by size. The prescription for development was the same for all - improve national benefits vis-a-vis the imperial metropole. By the eighties economic discussion on development was concerned with governments' taking control of their economies. More recently, the Bretton Woods institutions and the World Trade Organization (WTO) are placing limits on countries' options for taking control of their economic destiny. But the IMF and the World Bank only influence a country when it requires capital to tide it over a crisis period. In contrast, the Uruguay Round leading to the WTO is developing a mandatory trade and investment regime for the entire

world. As a result there will be a change to the international setting within which countries can operate, and that change represents a diminution of options.

The initial speakers on the panel focused on the policies required for sustainable development, rather than on the factors constraining development. Although the IMF was the subject of some implied, somewhat ironical, criticism, their policy prescriptions and those of leading Caribbean economists such as Demas and Lewis were found to have some points in common. Ewart Williams chose to focus on a small component of the subject, adducing seven lessons from the Fund's experience in successful countries:

- Control inflationary pressures and maintain low budget deficits. These, respectively, avoid the distorting effects of inflation and eliminate the primary contributor to monetary instability.
- Maintain simple, easy-to-administer and neutral tax systems which do not distort the allocation of resources. Fiscal balance should be achieved through broad-based taxes and the lowest possible tax rates consistent with revenue requirements.
- Take full advantage of international trade. CARICOM should open its markets to markets abroad as well as to its own members, simultaneously trying to gain access to those foreign markets.
- Use price and wage controls, quotas and licences sparingly.
- Allow public enterprises to operate as enterprises. The public sector management of enterprises often has objectives with hidden costs which tend to become increasingly burdensome over time.

- Define clear borders between public sector and private sector activities. Keep public enterprises only in the case of natural monopolies, such as basic utilities.
- Concentrate public spending on infrastructure and public services with positive returns. Basic infrastructure in the Caribbean, especially in Guyana and the Eastern Caribbean, requires much improvement and, in particular, training for employment has fallen behind.

This concern for appropriate training was also present in the Demas recommendations for sustained development presented by Frank Rampersad. Demas' prescriptions for sustainable development, based on those of Arthur Lewis, had been available to the region for over 25 years but Caribbean countries continued poor, with an increasingly unequal distribution of income, low savings, undeveloped entrepreneurship and balance of payments continually in crisis. Caribbean governments and countries apparently lacked both the commitment to implement the measures required for sustained growth. They have allowed their social capital to deteriorate, permitted worsening income and wealth distribution and neglected the rural sector. At the same time the international economic environment has become riskier, requiring stabilizing government intervention to reduce uncertainty and build confidence. Other small countries have overcome the size constraint. We have the answers – human resource development, rural development with sectoral linkages, productivity improvement, a foreign trade policy which stressed sensitive integration and stabilizing exchange rate policy. The question is whether Caribbean countries have the will to implement them.

Kari Levitt, for her part, argued that the new paradigm of globalization, liberalization, privatization and deregulation monopolizes intellectual discourse in Western world. In a similar vein, the World Bank, without apparent regard to the will of the voter, sees financial markets as disciplining governments and politicians. However, the view the Bank puts forward is often at odds with reality, as the record of Asia's newly industrialized

countries (NICS) and trading blocs demonstrate. In Jamaica there is economic stagnation, social instability, fragile macro-stability and loss of hope. Trinidad and Tobago has economic growth but increased poverty, unemployment and income inequality. We know what should be done but lack the fiscal resources to do it - social capital is allowed to deteriorate, insufficient support is given to small business and there is a tendency to wait for macroeconomic policy and foreign investment to rescue us. The Caribbean needs to adopt a more active stance in relation to its own future, with wide public discussion about the place of the Caribbean and its options in a world of intense global competition.

Trevor Farrell disputed Kari Levitt's perception that there is a lack of fiscal resources, using Trinidad and Tobago as an illustration of how abundant resources and capital do not necessarily prevent economic crisis. In his opinion, the heart of the problem is a political system in which the people running the country have no training for the task. Similarly, someone with a Ph.D. in engineering would not succeed in flying a plane unless trained specifically as a pilot. The persistent constraints to development in the Caribbean are a failure to train statesmen in the range of disciplines which can be described as 'statecraft' and the failure to reform the public service to provide it with the analytical capability required today.

Lloyd Best disagreed with Demas' characterization of small size as the central issue, recalling previous references to the success, in spite of size, of the Far Eastern NICS. The predicament of the West Indies is the failure of the economic diagnosis alluded to by Farrell - the economics of Caribbean economists such as Lewis and Demas have been so good that the sterility of the economics itself has not been understood. The Caribbean is as it is today because it is externally propelled and excessively export-specialized and the institutional framework was established to maintain this orientation. In the Caribbean there is no politics in the sense of the self-organization of people on a private basis for public purposes described by C.L.R James, only the trappings of political activity - campaigns, electioneering etc. The economists of Demas' generation introduced self-organization into the public sector, so there is a tradition of intellectual thought and

monitoring in the public service. But that intellectual tradition is missing in the private sector. Caricom will remain fragmented if we cannot anchor governments in political parties that are common across the region. To do this the calibre of thought available in the public service must be matched at the private level; it is not merely a question of training politicians.

In response to a question from the floor, Trevor Farrell asserted that Britain's poor performance relative to the rest of Europe demonstrates that Britain's methods for running a modern state are defective. Like an airplane, the modern state requires at least one engine. In both Italy and Japan, for example, the political situation is chaotic but Japan has a superb civil service and Italy had first a civil service and now has a very strong private sector. The United States depends on the private, not the public, sector and the people chosen to run their departments of state are chosen on the basis of managerial capability and technical skills. Trinidad and Tobago's current competitive advantage in the region results from difficult and unpopular policy decisions taken between 1986 and 1991. Such decisions required that the future significance of the decision for economic management be understood. Technical decisions cannot be made where the decision-makers are not competent in the relevant areas – a problem common to several countries of the region.

Best maintained that the problem lies in the fact that those who are knowledgeable do not have access to the relevant jobs and that political conditions are not such as to allow qualified people to be selected for those jobs. Trinidad and Tobago is an extreme example of this phenomenon - voting is mindless because people understand that this is the best they can do, given that the creation of a nation which would allow a different approach has not yet been achieved.

The second problem arises because fitness to rule was judged in terms of assimilation to the coloniser and the educational system was set up to achieve this. At independence a complete change of orientation was required but institutions and individuals have been selected on the basis of the old order and may now constitute a limit on change. The generation of

Demas and Best are presiding over a disaster and the problem is that these economists are excellent in terms of a situation and a culture which are no longer relevant.

Demas himself then asked for guidance regarding alternatives to the present disastrous course. Best replied that the diagnosis made in the Caribbean was wrong and that the analysis of the problem required a wider viewpoint than is offered by economics. The Caribbean has the resources to overcome their constraints but policy-makers have learnt to interpret their situations in ways that are alien to the actual domestic situation. Learning the nature of Caribbean reality, sensitivity and commitment are required in order to understand the landscape. The University of the West Indies has the task of creating a cadre of people who can understand these things and take an integrated approach, rather than maintaining different faculties to teach different aspects of the same reality. They may not succeed but they have not yet tried properly. Arthur Lewis' excellence was a hindrance because, confident of the relevance of the economic paradigm, he presented clear, simple prescriptions (analyses) which, in the view of some, bore no relation to the realities of the West Indies.

In another rejoinder, Demas pointed out that politicians may be less incompetent and irrational than suggested by some of the speakers because filling the saving gaps of 3% of GDP may require a taxation effort or public sector savings so great as to jeopardize political stability.

Best retorted that politicians are not incompetent but impotent. Resources have to be generated within the extant institutional framework but the model we use does not take account of reciprocity, the redistribution mechanisms required to transfer resources and a mechanism to provide mutual support. Such arrangements are not covered by western economics which is narrow and sterile, omitting the complexity of the human

situation, something just being recognized by the Human Development Report (HDR).²

A change of values in the region is required to use the resources available and that change of values has to come from a generation even younger than the current generation of UWI undergraduates, replied Professor Levitt. A profound questioning of the basic economic model of development is currently underway, launched by recent Human Development Reports, especially that of 1996. These basic ideas have been accepted in some form by most of us but the HDR says that beyond a certain level an increase in income *per capita* will deliver very little increase in the standard of living, meaningfully defined. This implies that material consumption in the so-called developed countries is over-consumption. Society cannot do without reciprocity. Professor Levitt agreed with Farrell and Best that the correct diagnosis cannot be found in economics but maintained that we can learn from the experiences of other parts of the world, including Asia. Appalling mal-distribution of assets and income in some parts of the region, including Jamaica, is dysfunctional; while there is enormous talent and commonsense in the region, the organization of the political, economic and social order prevents people from using that talent. We need to stop thinking in conventional terms about exporting manufactures etc. - our competitive advantage lies in the location, national environment (which requires protection), culture and nature rather than in manufactures produced by cheap labour. There is something in what Best says because people do not think of government as an instrument of the people. A change in values is required - development that is inequitable and destructive of the environment, and an economy which depends on a free market which creates losers and winners, must be questioned.

²The Human Development Reports are published annually by the United Nations Development Programme

12

Socio-Economic Development and the Standard of Living in the Caribbean in the New Millennium

Dwight Venner¹



e could not have picked a better time in the history of this region, the Commonwealth Caribbean, than four years away from the new millennium to honour William G. Demas. In true Demas fashion it is a time for sober reflection and analysis in order to determine the path we will take in a time of great flux, great apprehension, and at the same time of great expectations.

¹Mr. Dwight Venner is the Governor of the Eastern Caribbean Central Bank, St. Kitts, Nevis.

The evolution of the international economic system in recent times has put some fairly binding constraints on the choices we have, but certainly we can exercise some influence over our own destiny if we use the resources at our disposal, particularly our human resources, and our ability to think. It is therefore important that we summon a collective Caribbean vision of what we would like the region to be in the 21st century.

It is therefore out of a sense of necessity and not clairvoyance that I have entitled this presentation **Socio-Economic Development and the Standard of Living in the Caribbean in the new Millennium**. To do justice to this subject one has to review where we have come from in both thought and achievements in order to peer, as it were, into the future.

INTRODUCTION

Most of us date the modern West Indies from the year 1938 when the Caribbean people revolted against the subhuman conditions which prevailed in the various colonial territories. Out of these social upheavals was born a need to replace the existing socio-economic conditions with a type of existence more in keeping with the aspirations of a resilient and talented people. The way forward, however, was circumscribed by economic doctrines which defined the boundaries of our economic endeavours and the political framework in which economic intercourse should take place, not to mention the social inhibitions which individuals or groups faced in the economic marketplace. The distance we have travelled between 1938 and the present is not understood by most and sadly is not known to many. It is even sadder to contemplate could have gone further if we had exercised the opportunity to do so collectively.

Suffice it to say that there is no ironclad guarantee of perpetual forward movement as has been painfully brought home to us in the 1970s, 1980s, and even now as we contemplate entry into the 21st century. Our region can experience serious reversals if it does not conjure up the appropriate social, economic and political strategies to see us safely through.

Caribbean citizens at this juncture must think deeply and act quickly on the future of their region in the new world order. It is a matter we cannot take for granted and that we cannot leave to the generosity of others. The region's socioeconomic development must be grounded in the reality of an international economic system untethered by the need to extend privileges to developing countries in return for ideological homage to one stream of thought or another, as well as the nature and quality of the domestic resources at its disposal.

SOCIO-ECONOMIC DEVELOPMENT

With these in mind the region has no option but to relate its socio-economic development to some realistic vision of a standard of living and quality of life for ourselves and for future generations. It is for this that we should now lay the groundwork, as a matter of both urgency and necessity.

I propose to attempt a definition of a standard of living which may be attainable if we pursue the appropriate policies which optimize the use of our resources. We then need to place this in the context of a lifestyle and quality of life which are compatible we need to return to the basic imperatives of any economic system, namely, Production, Distribution and Consumption.

Production

Production is the utilization of Land, Labour, Capital and Technology to produce a commodity or service. The quantity and quality of these so called factors of production are critical to the final output and must of course meet the criteria of cost and acceptability to the final consumer within the confines of the producing state or somewhere else in the international system. All societies wrestle with the question of efficient production, and the development of societies has been historically linked to the mode of production of that society at any particular point. In the historical context we can trace the mode of production from communalism through slavery, Feudalism, Merchant Capitalism, Industrial Capitalism to Socialism. Each mode of production is

characterized by the relationship between factors and, in particular, between **CAPITAL and LABOUR**. In the Caribbean, the most dominant historical mode of production has been slavery, that is, modern slavery, as opposed to the historical equivalent. The Caribbean variant was linked to merchant capitalism and provided the fuel for industrial capitalism, at least in Britain.

This slavery was associated with what is referred to by Lloyd Best and Arthur Lewis as colonies of exploitation which have as their basis for existence the production of a staple crop, sugar, using transported labour and fitting into a nexus of relationships which defined trade between colony and the metropole. Such relationships have survived in one form or another and have conditioned our subsequent economic development. We can identify such arrangements as “imperial preference”, where colonial produce had preferential access to metropolitan markets and in return metropolitan goods did not pay duties on entering colonial markets. Of course, the division of labour between what was produced and by whom had been clearly established on the doctrine of comparative advantage, i.e., agricultural staples by the colony and manufactured goods by the metropole.

We can see in the preferential access of our bananas to the United Kingdom and subsequently the European market, a relic of this arrangement, although there has been substantial modification. For instance, metropolitan goods no longer enjoy preferential access. However, reciprocity is once again returning to the arrangement, with our preferential access being phased out

Returning to the dominant historical mode of production, however, it is clear to see that it continues to condition our socioeconomic development to this day in the relations of production, people’s attitude to work, the acceptance of protection as an inevitable part of the production process and our attitude towards competing in the global economy.

It is clear, however, that competitive production will be a major constraint on the region’s standard of living in the new millennium. The region thus needs to tackle this problem as a

matter of urgency. -It cannot, as we have tended to do in the past, start distributing benefits before they are produced. But I will come back to this important question of production.

Distribution and Consumption

Distribution may refer, firstly, to the production between the various factors **LAND, LABOUR, CAPITAL ETC.** and, secondly, the mechanisms of moving commodities from producer to consumer.

The first defines for us in the region the limited access to good land by the majority in the agricultural community, the relatively unskilled nature of our labour force, and the scarcity and high cost of capital, given the low level of savings and the underdeveloped nature of the financial system. These have a depressing effect on the level of production.

The second confirms the bias towards importation and commercial activities geared to distributing goods produced elsewhere. Again this has been an inhibiting factor to production, particularly export production. This leaves us, therefore, with consumption.

Consumption is the main purpose of economic activity. Goods and services are produced not as ends in themselves, but in satisfaction of the needs of individuals and communities. It is, therefore, in a sense consumption which ultimately defines the standard of living and the quality of life.

The question which must then be posed is how we in the Caribbean, in the basic things which define the standard of living and the quality of life, compare with other countries now, and what targets we are aiming at as we enter the 21st century. The next question is, can this be achieved with present or future resources and policies?

Finally, can the goals we set ourselves be more obtainable and sustainable for us as single independent entities, or as a fully integrated region?

Quality of Life

In the first place, the Commonwealth Caribbean compares favourably with other developing countries on the United Nations quality of life index. In such cases as life expectancy, infant mortality and educational achievements in primary school enrollment the region has done quite well, with some states such as Barbados in the higher levels of performance. The situation is, however, somewhat uneven across the region and this is what needs to be addressed.

It is possible to identify a number of indicators and from an established benchmark attempt to define certain minimum standards of life for the region. The basic things one would look for in defining a standard of living would be:

- (1) Food, Clothing, Shelter
- (2) Education and Health Care
- (3) Employment - Transportation
- (4) Consumer Durables
- (5) Culture, Sport, Community Development
- (6) A positive environment

Food supplies our basic biological needs and has been clearly the reason for agriculture being a primary industry. The importance of food can also be seen from the policy and statistical points of view. It is a critical item in the basket of goods used for computing the cost of living and its weighting in the index is an indicator of the stage of development of a country. From the policy standpoint, each society should provide a reasonable proportion of its food from its own resources, to ensure the security of its supplies. This implies that the efficiency of the agricultural sector must be improved over time and in fact the society may want to subsidize a certain element of its agriculture as a matter of policy. Such is the case in most developed countries, e.g., the USA, Europe and Japan, who collectively urge us to remove subsidies or reject protection for agricultural exports. This has significant implications for our agriculture and, therefore, the

reform and restructuring of this sector has become one of the most vital and urgent issues for us in the region.

With respect to clothing, the need for this item varies with climate and necessity. Again the standard of living will vary according to people's capacity to choose from different styles, etc. There is a link here with the manufacturing sector which can either inhabit the low end mass production entity based on cheap labour, or the high value designer element which is inevitably highly profitable.

In the case of shelter, the ability of a country to house its population adequately is a critical mark of the standard of living. Houses are big ticket items requiring massive investment not only in the house itself, but in the infrastructure - electricity, water and sewage, roads, telephones, etc. to service housing development. While the construction industry which produces houses is a big plus for employment, it can have some negative effects on the balance of payments. We ought, however, to strive for a decent level of housing for the greatest number of people in our communities.

It has been said with some justification that the successful states of the future will be defined by the quality of the human resources at their disposal. Education will therefore become a defining factor in the determination of the, standard of living, not as an end in itself, but as a means of serving the increases in production and productivity that will make production internationally competitive.

In this area we have a long way to go, but it must be made a priority. While we have done reasonably well in primary school enrollment, we have to consolidate this by curriculum reform and move expeditiously to the secondary and tertiary levels with emphasis on the areas in which we can exploit international opportunities for high value endeavours. The target for these educational attainments can be set in both quantitative and qualitative terms.

The standard of health care in the region is reasonably high at the primary level, although there is considerable room

for improvement in some countries. It is presently at the secondary and tertiary levels that we will come under pressure, as the population ages and the cost of provision of health care escalates. Careful policy choices will have to be exercised in this area in setting standards which are attainable and financeable.

One of, if not the, major problem in the Caribbean is that of employment or rather unemployment. It is presently at socially unacceptable levels and is creating social problems which are very expensive in terms of lost potential output and expenditure on security and incarceration. We need to come to grips with this problem if our socioeconomic development is to be assured. We will therefore have to make this the defining element of our policies in both the social and economic spheres. We will return to this later.

Another area of great importance is the means of internal transportation, which not only defines the viable economic space in which goods and services can be efficiently produced and distributed, but has an impact on social and community activities as well. The means and method of transportation have become a major problem in the region.

Access to consumer durables is vital as not only an index of affluence, but also in taking the drudgery out of work and leaving more time for the leisure and cultural activities which are the hallmark, some say, of civilised existence.

This leads us to the areas of Culture, Sport and Community Development, in which individual achievement and community values come together to enrich the society.

Finally, we live in islands or mainland territories which are noted for their sunshine, beaches and ambiance. It is incumbent on us to preserve, cherish and pass it on unimpaired and improved for future generations.

GLOBAL IMPLICATIONS

Within the elements set out above, achievement of minimum and acceptable standards is one of the goals we ought to set ourselves as a region, recognizing that such goals are relative and subjective. For instance, we are geographically located in the middle of the Western Hemisphere between North and South America, being closer to the former in language and access than the latter. We also have democratic institutions and records which match theirs, and so it should not be surprising that we show a preference for their lifestyle by our patterns of emigration. The standard of living is therefore, in a sense, defined for us and we must now find the wherewithal, both in terms of policies and resources, to achieve those goals. Our success will depend on our understanding of the global environment and our willingness to make common cause in the region of the fundamental issues which now confront us.

In a world which has gradually and then dramatically slipped its mooring from the stability of fixed exchange rates and certifiable enemies in the military/ideological domain, to enter the turbulent waters of an open competitive climate in which economics has superseded ideology as the main area of contention between nation states, there are a few points of reference which need to be highlighted.

Firstly, the three organizing principles of the new system would seem to be;

1. Globalization
2. Liberalization
3. Deregulation

Secondly, the world has rearranged itself into three major regional groupings.

1. The Americas - dominated by the USA
2. Europe - led by a United Germany
3. Asia - influenced by Japan

All three leading countries are said to practise different levels of capitalism.

Thirdly, there are groups of countries which have been linked together under the rubric of emerging markets and which would include the following:

- (a) Russia and the so called countries in transition to market economies.
- (b) China and India – the two most populous countries in the world, which are liberalizing their economies with two distinctly differing political systems.
- (c) The large countries of Latin America, Brazil, Mexico, Argentina, Chile – which have changed their traditional inward-looking policies and are open to foreign markets and foreign investors.
- (d) Two sets of high performing countries in Asia, namely, the well known gang of four, South Korea, Taiwan, Hong Kong and Singapore, followed by the highly populated, resource rich countries of Indonesia, Malaysia, Thailand and the Philippines.
- (e) New Zealand, which stands out as a country that has probably gone the furthest in pursuing free market policies to the hilt, and which presents itself as an experiment of a basically high income agricultural economy, undergoing significant structural change, through the removal of subsidies, protective mechanisms, and all impediments to the working of market forces.
- (f) Finally, South Africa, a country which has, at least politically and constitutionally, transcended the worst form of racial discrimination, and is now attempting to transform its economy into one which will redress the balance between blacks and whites. However, it also has the capacity to stimulate growth in the

Southern African region, and hopefully provide a model for further progress on the continent which lags significantly behind all others in human and material progress.

While there are significant differences between these countries, they all have in common large domestic and regional markets and policies which are attracting the major flows of investment both domestically generated and from abroad. The countries which are not included in this select group, among which are the countries of the Caribbean, will find themselves in difficult straits as we move inexorably towards systems of economic intercourse based almost entirely on assumptions of perfect markets and the efficient allocation of resources on a global basis, without taking into consideration the differing capacities and points of departure of the various nation states in the international community.

International Community

The challenge for the international community is tremendous and will require more **VISION, COORDINATION and ENLIGHTENED SELF-INTEREST** than are being currently exhibited by the major industrialized countries. The question revolves around the evolution of a system which will take account of the fact that the majority of the states in the international community will languish and experience severe economic and social deprivation if measures are not put in place to ensue the orderly evolution of the international economic system. The rich inhabitants of the globe, given the state of communications and interdependence, will not be able to insulate themselves from the resultant chaos in the rest of the world as social and economic decay would lead to destitution, disease, and the transmittal of these to the north through migration and other channels.

It is not out of place to repeat that it would be in the enlightened self-interest of the developed countries to establish an international system which encourages the widest spread of investment and the distribution of incomes on a more equitable basis.

The international community had to confront three major problems in the recent past, namely:

- (a) The possibility of a nuclear holocaust through the Arms Race
- (b) The problem of apartheid in South Africa
- (c) The development problem (universal)

Two of these problems have been resolved, which leaves us with the most fundamental of all, the development problem. The other problems which have come to the fore, namely, the **Environment, Terrorism and Drug Trafficking**, can be linked either directly or indirectly to the development problem.

We have now entered an era in which the organizing principle of economic intercourse in general, and trade in particular, levelling the playing field. The former arrangements of reciprocal access to the markets of the developed countries are no longer in vogue and the principle of reciprocity is the basis on which all recent trade negotiations have been entered into. The new arrangements negotiated under the Uruguay Round and leading to the establishment of the World Trade Organization have set the foundation for this new sentiment and have further set the stage for multiple arrangements between states at all stages of development.

In this new environment in which countries and their firms are battling intensely for market share, there has been tremendous jockeying for position at the regional level, resulting in many bilateral and multilateral free trade arrangements between willing states.

With respect to firms there have been two developments. Firstly, mergers, acquisitions, amalgamations, and strategic alliances are the order of the day. Secondly, restructuring, re-engineering and diversifying in order to meet the competitive environment.

The net result has been that the global economy has undergone, and is undergoing, a wrenching structural adjustment process not unlike that meted out to poor countries by the IMF. The imperatives for this adjustment lie in the fact that not even the developed countries could defy the laws of gravity or economies by running continuous fiscal deficits. The new international capital markets would seek to punish any participants who did not conform to accepted principles of sound policies and therefore there has been a shift in power and influence to bond traders, currency speculators and mutual funds.

Given the need for deficit reduction and the unprecedented high levels of unemployment in the industrial countries, systemic problems work their way through the international system. In this environment, aid flows suffer as they are politically unsupportable, as are open non-reciprocal trade policies which are accused of exporting jobs in the face of high levels of unemployment. Debt relief is also a hard sell in context of the fragility of the lending institutions which may have to be bailed out by the taxpayers.

THE CARIBBEAN CHALLENGE

This is the environment in which we exist and states like the Caribbean, the so called excluded or marginal states, will have to make common cause in order to have any impact on the system. The international system needs as a matter of urgency to establish new, orderly and enduring systems of rules, regulations and dispute resolution processes which can bring the global economy in for a soft landing in the 21st century.

In the face of this external environment the countries of the Caribbean have to make a strategic decision on the political and economic arrangements needed to address the problems before us. The reasoning behind this is fairly simple if the case of the high performing Asian economies is any useful guide. These newly industrialized countries have demonstrated that they can achieve economic growth with equity, which translated into a higher standard of living. Two notable features of the experience were their massive mobilization of both labour and capital and

the flexibility of the production process. It is possible to link them to the role of public policy, vision and planning. The cases of Taiwan and Singapore certainly imply a great deal of state direction of the economy which was influenced by market signals. By comparison, the mobilization of resources, particularly labour, as evidenced by the high levels of unemployment in the Caribbean, and the quality of state intervention has not been of the same calibre. It is also my considered view that markets are not sufficiently developed to let unbridled liberalization be the *premium mobile*, so to speak, in our case. Our case, and again this is a personal view, is one in which the massive mobilization of resources and their efficient utilization can only take place in a regional context where the political framework allows for quick and flexible decision making.

It is clear that present Caricom arrangements do not make allowance for this as they simply represent an aggregation of singular political constituencies instead of an overriding regional umbrella. The mobilization and aggregation of the resources on a scale needed for sustainable global penetration of markets are not any where near possible under the present regime where we do not accept the need for closer political and economic arrangements or for a full and complete opening up to foreign interests.

It would seem that as an alternative to the second circumstance above, we will have to deal with the first which will go a long way in giving us degrees of freedom in dealing with globalization and liberalization.

On the assumption that suitable political and economic arrangements could be made, we would then have to deal with the creation of an appropriate paradigm of economic development for the region which would have as its ultimate objective achieving the defined standard of living and quality of life that we would have set ourselves.

As part of this umbrella strategy we would have to address our policies with respect to the various sectors and their

production possibilities. An important area would be agriculture. We would have to define a regional agricultural policy geared to:

- (a) providing as much food as it is economically efficient to produce;
- (b) acquiring foreign exchange from our export crops;
- (c) providing raw materials for our agro processing industries; and
- (d) maintaining the ecological system and providing the ambiance for supporting the tourism industry

We must also encompass fisheries and forestry under this rubric as the former should be a major industry under a region-wide jurisdiction.

Land reform would clearly be a major factor in any agricultural policy, as we need to provide suitable land to the farming community for them to have the security of tenure to increase output.

We are all clear with respect to an appropriate policy of human resource development to mobilize our labour resources. This lends itself not only to more production and productivity, but also enlarges the size of the domestic market, both materially and in terms of purchasing power.

We need a well thought out and clinically executed external relations policy if we are in any shape or form to adjust successfully to changes in the international environment. It is only states which are adept at accessing information on markets, new products and technology as well as major economic actors in the public and private sectors of foreign states which will have any chance of success in the new era. Accordingly, we will have to review the costs, benefits and orientation of our current external representation. The point is simply that with new political arrangements the problem should resolve itself.

In the macroeconomic sphere we must carry through on good fiscal and monetary policy so that we can encourage the

mobilization of domestic savings and attract foreign savings and investment on favourable terms.

These are by and large are the policies and strategies which should usher us into the 21st Century with some success.

CONCLUSION

In conclusion, one must state the premise on which we will successfully navigate our way into the new millennium.. It is on the basis of the creation of a new West Indian state, clothing itself with its lessons of the past, bringing together as an example to the rest of the world the reality of people of different races living together in harmony, and of democratic institutions which are constantly being refined and structured to the purpose of human fulfillments. It is about a people who collectively in the field of sport – cricket, athletics, and netball – exercise a dominance out of all proportion to their numbers. Of a region whose excellence in the arts, music, literature, and dance demand recognition and in turn fulfill our own desire for recognition. Of scholars who through sheer force of intellect, provide the international community with an understanding of why the thrashing of apartheid and all forms of discrimination is in humanity's interest.

As we honour William Demas, we must be very clear in our minds that this has been no ordinary man. In good times and in bad, in sickness and in health, he has steadfastly stuck to his belief that we must go forward as one united region. We can pay him no greater tribute than to pursue his dream and vision relentlessly, as we seek to achieve the standard of living and quality of life our people so richly deserve for their enduring struggle from the time of the middle passage into the coming millennium.

I end with a poem called ***Time*** which was given to me by one of my aunts – **Jennie Jacobs**, which I think sums up the character and life of the **Hon. William G. Demas**.

TIME

*Take time to work,
It is the price of success*

*Take time to think,
It is the source of power*

*Take time to play,
It is the search for perpetual youth*

*Take time to read,
It is the fountain of wisdom*

*Take time to be friendly,
It is the road to happiness*

*Take time to dream,
It is hitching your wagon to a star*

*Take time to love and be loved,
It is one of life's glories*

*Take time to laugh,
It is the music of the soul.*



Part VI
A Postscript

A Postscript – Contemporary and Future Caribbean: A Comment on Demas’ “Critical Issues in Caribbean Development”

Laurence Clarke

Since producing his **The Economics of Development in Small Countries (1965)** and **Essays on Caribbean Integration and Development (1976)**, both the subject of much review and comment in this publication, William Demas has had to his credit some three decades of practical experience in key positions in the region. His recent publication, released only in November 1996, **Critical Issues in Caribbean Development: West Indian Development and the Deepening and Widening of the Caribbean Community** has therefore had the benefit of

these maturing years of Demas' professional development and formation. In a sense, however, and perhaps even more so than those personal experiences, this latest work may have been shaped and influenced by a number of events and developments that have dramatically redefined the global and regional financial landscape, over the past two decades in particular.

RELEVANT GLOBAL DEVELOPMENTS

As noted earlier by contributors to several of the presentations in this publication, the main global and regional financial landmarks of the seventies and eighties that were likely to bear on the financial and economic development of the Caribbean were: (a) The collapse in the early 1970s of the Bretton Woods Monetary System and the consequential move from fixed to flexible rates of exchange; (b) the emergence of the oil crises of the early and late 1970s and the impact of petrodollars on financial and credit systems; (c) the Mexico-driven LDC debt crisis of the early to mid-eighties, precipitated by high global interest rates and reckless lending in the seventies by private financial institutions in their effort to recycle "petrodollars". With the resultant 'stagflation' phenomenon; (d) the growing trend towards technological innovation in real and financial sector activity world-wide and the pronounced implications for global financial integration and fusion; (e) the pre-eminent re-emergence of the multilateral financial institutions in the context of their renewed emphases on structural adjustment and stabilization programmes and the realities of poor governance, adverse impact of international trade and fragile local financial environments for the newly developing countries in the Caribbean and elsewhere; (f) the realities of the Mexican financial crisis of 1994/95 underpinning new dimensions of the problem of economic management in developing countries, especially smaller ones, in an environment over the past 5-10 years of unbridled liberalization of fiscal, financial, exchange and trade regimes, typically part and parcel of programmes of adjustment and stabilization and driven by the multilateral financial institutions (MFIs); and (8) the intensification of the economic integration effort both in Western Europe and North America, and among more progressive groups of developing

nations (ASEAN; Southern Africa; Latin America etc.). This, at a time of a new global trade order - a rethink of GATT and the emergence of the World Trade Organization (WTO).

What this all means in reality is that a generation away from Demas' original seminal thoughts on the economics of development in small economies and on the theory and process of integrated development, the landscape and atmospherics of Caribbean economies have changed dramatically. The environment for small Caribbean and similar economies is, without a doubt, far more complex now than in the early post-independence years. It is, therefore, within this changed framework and against a path of tremendous shocks and upheavals over the past three decades or so, that Demas revisits the themes of his earlier writings in his **Critical Issues in Caribbean Development** publication.

CRITICAL ISSUES

Deepening of CARICOM

In this latest work, Demas argues that the deepening of CARICOM has to be built on three key areas of: (i) economic integration through a single market; (ii) common services and functional cooperation; and (iii) coordination of foreign policy. Integration is, however, merely a facilitating framework and is by itself ineffective. A high degree of political cooperation is vitally necessary for such deepening within the CARICOM integration movement. Further, a strong CARICOM is important because the alternatives are either marginalization or *de jure* or *de facto* 'absorption' in a highly dependent mode into one or more much bigger and more powerful country or group of countries.

Trade

With reference to increasing regionalization of trade, he argues that for CARICOM, the Free Trade Area of the Americas (FTAA) is an alternative to the expansion of NAFTA. FTAA will permit CARICOM and other sub-regional integration movements to maintain and strengthen the links among their member

countries and between themselves and other sub-regional integration groupings (including NAFTA) in the hemisphere. The systematic dismantling of the region's Common External Tariff is quite worrisome because of the absolute loss of protective devices and revenue-raising import duties. Nor should the recent formation of the Association of Caribbean States (ACS) decrease the imperative towards stronger CARICOM integration; it should increase it. Membership in the ACS must not negate the importance of CARICOM.

Widening CARICOM

In the short and medium terms, a CARICOM relationship with one or more non-English speaking independent islands of the Greater Antilles may be more practical than an ACS single market or economic union. CARICOM countries should not try to negotiate anything individually, especially in external relations. CARICOM must go beyond a single market (free trade, CET, complex factor mobility, coordination of national economic policies, financial and monetary cooperation and integration). It must ensure cooperation in joint investments between private sectors of member countries and in production and intra/extra-regional marketing.

Demas further argues that CARICOM also has to provide an "environment conducive to export-oriented development policies as well as efficient regional import-substitution". Internal and external macro-economic stabilization, increasing productivity, higher levels of domestic savings and productive sector investment, human resource development are necessary though not sufficient, for sustained development. Greater integration is necessary for CARICOM to work meaningfully with larger and more powerful countries. However, "we should not take actions that can fragment CARICOM, for example, by each or some CARICOM member state or states entering into partial or full trade and economic cooperation agreements with third countries or groupings of such countries....". Increased integration would also permit "Widening in the form of closer relations with our neighbours on the basis of trade, financial

and economic cooperation; collaboration in science, technology, culture and in education and training”.

International Competitiveness

At the same time enhanced international competitiveness must be accorded the highest priority in replacement of continued external dependence. In the process, Caribbean nationals will have to expend more energy and resources in generating revenues from non-tourism services (engineering, architectural, economic and financial consultancies, construction contracts, computer software, financial services, telecommunications, informatics, education and medical/recreational services). He stresses that there can be no self-sustaining development – the ultimate aspiration of West Indian societies – without stabilization. Sustained fiscal deficits are unacceptable. “The IMF is undoubtedly correct in its emphasis” in this area. At the same time, while Sir Arthur Lewis’ view on the centrality of appropriate trade, exchange rate, incomes and productivity policies was correct, his emphasis on devaluation in a small-country, West Indian context for restoring export competitiveness and wider macro-balance, was questionable in both past and present Caribbean circumstances. In addition, the development of adequate levels of human and social capital in economies is critical, especially in the context of the formation of ‘social partnerships’ for incomes and price policies, adjustment efforts etc.

Planning

Advocating continued careful planning in Caribbean economic development Demas cautions in micro-states such as the Caribbean, that care must be exercised against -

- too rapid liberalization of these economies;
- total divestment of state-owned enterprises - some minority stakes should always be maintained. Employees must be offered equity stakes wherever possible;

- total deregulation of price and other controls – deregulation should be accompanied by oversight mechanisms;
- unbridled private enterprises - these must be encouraged to become more efficient and internationally competitive;
- wanton abandonment of economies to the ‘magic of the market place’. No such magic exists – the “market must be given an important but by no means excessive role”. In fact “the state must intervene sometimes: giving incentives (particularly to foreign exchange – earning activities); providing some special tariff protection and cheap credit” etc. It also has to encourage improved public sector efficiency.

Governance

Demas also emphasises that governance of the institutional aspects of the integration process remains an issue, even after, or perhaps because of, the recommendations of the West Indian Commission’s Report (1992) where an alternative was suggested to fill an oversight function for CARICOM.

Although there have been some opportunities and suggested frameworks for a political union in the region,¹ none has so far made any substantial progress. A Federal union of all members of the OECS (plus Anguilla and the British Virgin Islands),

¹For example, the Mitchell/Compton Initiative for the OECS, the 1991 Manning Initiative for Trinidad and Tobago, Barbados and Guyana; the Grenada Declaration of 1971; a proposal by the late Dr. Cheddi Jagan in a 1996 lecture to the Institute of International Relations (St. Augustine) for a West Indian Union, without a single nation-state, federal or unitary, but one with common symbols such as West Indian citizenship, etc.

together with the larger states of Barbados, Guyana and Trinidad & Tobago forming a confederation of four states, might be workable. These might later on be merged into a political union of all the CARICOM members in the Eastern and South Eastern Caribbean. There could be, however, no binding political union without an economic union. It would be "Like the grin of the Cheshire Cat – a grin but no cat!"

Monetary Integration

Further, Demas reiterates, as he did two decades ago in earlier landmark works, that the region also needs monetary integration, as it "may be a condition precedent to achieving exchange rate stability and other forms of monetary stability. And once we have monetary integration our future prospects for exchange rate stability will be greatly enhanced". This process must, however, definitely go beyond simple convertibility of currencies 'inter-se'.

Finally, in a postscript to the main thoughts of the publication, Demas expresses strong views against the underlying implications of adoption of the "Shiprider Agreement" being proposed by the USA, and accepted by a few CARICOM states already, pointing out its counter-productive implications for the region in terms of the preservation of the region's national sovereignty, economic independence and basic identity. It is a recipe for recolonization, he stressed.

CHALLENGES FOR THE FUTURE

In evaluating the overall message and likely impact of this latest book **Critical Issues In Caribbean Development**, there emerge several aspects of the likely environment, policies and structures with which the Caribbean Community will need to grapple. Many of these have been addressed at the dawn of the next century and beyond by the contributors to this volume, in greater detail and specificity than could be possibly done within the confines of this concluding section. But a few of these aspects must necessarily be articulated, if only for the sake of

completeness, and as an overall summary to this latest publication.

Firstly, Demas and many of the contributors take the view that both a deepening and widening of CARICOM are necessary and that one cannot proceed without the other, in the run-up to and beyond the start of the 21st Century. Whether this means a stronger CARICOM that will include other “Caribbean Basin” countries or NAFTA or FTAA is a matter of detail. What is clear, however, is that integration confined to existing member countries, is a non-starter. As St. Rose mentions, this new form of “open regionalism”, with a distinct outward emphasis about which Gonzales commented is critical. The existing CARICOM arrangement does not represent an optimum economic space, and must be redefined and expanded with other emerging geographically and economically contiguous arrangements. There appears no alternative.

Secondly, while the private sector in a more deeply integrated and widened CARICOM, will probably have a greater role to play in future arrangements, Demas continues to argue, and other commentators agree (Girvan, St. Rose and most of the panelists at the Conference), that the role of the State has to be meaningful. Whether State intervention takes the form of planned national or sectoral activities, through the national budget, or through the regulatory arrangements for the financial and monetary systems, such involvement will be necessary for orderly management of small, open economies such as those in the Caribbean.

Thirdly, the effectiveness of the State’s role in the 21st century, is circumscribed not only by the capacity of the region’s private sector to respond but by the ability of the region to create and efficiently employ its ‘social capital’. A national social contract and cohesiveness that has by and large eluded most Caribbean countries in most of their post-independence development. It is this critical ‘factor of production’ that has been, for the most part, missing in national and private production and development functions in the region.

Fourthly, in different ways both Norman Girvan and Cuthbert Joseph underlined the importance of reinforcing institutional structures to strengthen CARICOM and post-CARICOM arrangements. Whether these be 'supra-national' judicial structures to more effectively operationalise CARICOM decisions or other forms of structures to stimulate more cross-border activities and flows within and outside of the region, it is common cause that institutions are presently weak, at the national and regional levels. Robust structures would need to be built, as Demas himself has come to recognize and admit.

Fifthly, one of the key challenges for the region in the forthcoming years will undoubtedly be its capacity to develop and transform itself structurally, while maintaining orthodox notions of its sovereignty. Demas was right in condemning the implications of the Shiprider Agreement, but many take the view in the region that such sovereignty is already compromised by the strangleholds presently had by 'drug-barons' in CARICOM economies and by distortions that narco-dollars have already introduced into the region's financial systems. They argue that whatever external support can be gained should be welcome and that notions of sovereignty are relative, in a world of a global village anyway. While there is merit in both elements of this argument, in matters of this sort, concerted, coordinated, multilateral approaches will always yield greater value-added to the region than any attempt to grapple with these issues on a one-to-one, bilateral basis. Opportunities for 'exploitation' of 'small' by 'large' are clearly greater in alternative scenarios. In this regard, the key challenge for the region in the next century would appear to be the building of capacity to bargain from a position of regional strength, and in a coordinated way.

Finally, when all is told, it is likely that the 21st century will present for the CARICOM region even greater challenges than have so far manifested themselves in the region in most aspects of economic, social and political life. As Governor Venner clearly articulated in his presentation, this will require distinct paradigm shifts in the nature and scope of economic responses. High on the agenda for Caribbean economies would have to be the business of what Governor Venner labels their 'socio-economic

development'. This implies that Caribbean development priorities must not be purely economic in scope, as the adjustment exercises in the 1980s and early 1990s have so clearly dictated, but will need to take account of the imperatives of sustained social development. As Demas himself clearly understood thirty years ago and still emphasizes, central to such social development must be ample doses of political will. The assurance of better governance, through the creation of more relevant institutions, political systems and administrative frameworks will unquestionably be required. These would appear to be critical ingredients for any new paradigm that could be broadly acceptable for effective Caribbean development in the 21st Century.

CONCLUSION

It is, therefore, within such a framework and a reinvigorated capacity of the region to readily rise to the challenges of the next century that the Demas vision of three decades ago must be objectively evaluated.

Under the prescient stewardship and ideas of William Gilbert Demas and his venerable peers, the economic nation of the Caribbean community has come a far way since political Independence. Yet Demas would be the first to admit that the dream of a truly Pan-Caribbean nation – politically and economically – has not yet been realised. His critical contribution in this regard, however, has been the way he has so deftly charted the region's necessary course and carefully signalled the appropriate direction through the clarity and thought of his foresight and experience.

Appendices

- W.G.D. : A Biographical Profile**
- Principal Bibliographical Works: W.G.D.**
- List of Participants**
- Programme of Proceedings**
- Notes on the Contributors**

Appendix 1

William G. Demas: A Biographical Profile

- 1929 – Born in Trinidad and Tobago.
- 1941 – Gained exhibition scholarship from Tranquility Boys' School to Queen's Royal College.
- 1947 – Won Island Scholarship from Queen's Royal College.
- 1948 – Entered Emmanuel College, Cambridge University to read Economics Tripos.
- 1951 – Gained Cambridge University Baccalaureate in the Economic Tripos.
- 1953 – Master of Arts in Economics from Cambridge University.
- 1955 – Master of Letters from Cambridge University for postgraduate research on the History of Economic Development of the West Indies 1870-1913.
- 1955-57 – Research Officer in Public Finance, Queen Elizabeth House, Oxford University.

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- 1957-59 – Adviser on Trade Policy to West Indian Trade Commissioner in London.
- 1959 – Adviser in the Ministry of Finance, Trinidad & Tobago.
 - Acting Economic Adviser to Government of Trinidad and Tobago.
- 1960-67 – Head of the Economic Planning Division in Office of the Prime Minister, Trinidad and Tobago.
 - Coordinated and prepared Five Year Development Plans for Trinidad and Tobago.
- 1964-65 – First Research Fellow at The Centre for Developing Area Studies at McGill University, Canada.
 - Delivered Four Lectures in the Keith Callard Lecture Series, McGill University.
- 1965 – Published **The Economics of Development in Small Countries**, McGill University Press.
- 1967 – Permanent Secretary, Ministry of Planning and Development, Trinidad & Tobago.
- 1968-70 – Economic Adviser to the Prime Minister of Trinidad and Tobago.
- 1970-74 – Secretary General of the Commonwealth Caribbean Regional Secretariat, Georgetown Guyana.
- 1974 – Published **West Indian Nationhood and Caribbean Integration**.

- 1974-88 – President of the Caribbean Development Bank.
- 1975 – Published **Political Economy of the English Speaking Caribbean.**
 - Chairman, Ministerial Commission to Review Functioning of East African Community.
 - Statement to the Fifth Annual CDB Board of Governors Meeting entitled **Change and Renewal in the Caribbean.**
- 1976 – Published **Essays on Caribbean Integration and Development.**
 - Statement to the Sixth Annual Meeting of the CDB Board of Governors entitled **Commitment, Skill and Organisation.**
- 1977 – Statement to the Seventh Annual Meeting of the CDB Board of Governors entitled **CDB: A Bank and a Development Institution.**
- 1978 – Statement to the Eighth Annual Meeting of the CDB Board of Governors entitled **Creating National and Regional Linkages in Production.**
- 1979 – Statement to the Ninth Annual Meeting of the CDB Board of Governors entitled **CDB and Its Environment.**
- 1980 – Statement to the Tenth Annual Meeting of the CDB Board of Governors entitled **Ten Challenges of the 1980s.**

- 1981 – Chairman of the Group of Caribbean Experts commissioned to prepare **Strategy for the Caribbean Integration Movement During the Decade of the 1980s.**

- 1981 – Statement to the Eleventh Annual Meeting of the CDB of Governors entitled **The Viability of the OECS States.**

- Statement to the Eleventh Annual Meeting of the CDB Board of Governors entitled **The Viability of the OECS States.**

- 1982 – Statement to the Twelfth Annual Meeting of the CDB Board of Governors entitled **Two Dimensions of Caribbean Development Strategy.**

- 1983 – Chairman of the UN Development Committee on Development Planning.

- Statement to the Thirteenth Annual Meeting of the CDB Board of Governors entitled **Making CDB More Effective.**

- Member of Group of Commonwealth Experts on Reform of International Monetary, Financial and Trading System which prepared Report entitled **Towards a New Bretton Woods: Challenges for the World Financial and Trading System;** Commonwealth Secretariat, 1983.

- 1984 – Coordinated, on behalf of the CARICOM Heads of Government, the preparation of a Report on Measures for Structural Adjustment in the Member States of the Caribbean Community.

- 1984 – Statement to the Fourteenth Annual Meeting of the CDB Board of Governors entitled **Adjustment and Recovery in CARICOM Economies.**
- 1985 – Statement to the Fifteenth Annual Meeting of the CDB Board of Governors entitled **A Crucial Year for the Bank and the Borrowers.**
- 1986 – Chairman of Group of UN Consultants on Economic Cooperation Among Developing Countries in Trade and Finance which produced Report on **South-South Trade and Finance: Strengthening the Weakest Link** published by the United Nations, 1986.
 - Delivered lecture on **Consolidating Our Independence: The Major Challenge for the West Indies** at the Institute of International Relations, St. Augustine, UWI as part of Eric Williams Distinguished Lecture Series
 - Statement to the Sixteenth Annual Meeting of the CDB Board of Governors entitled **Men, Women and Children in Development.**
- 1987 – Statement to the Seventeenth Annual Meeting of the CDB of Governors entitled **Agricultural Diversification in the Caribbean Community: Some Issues.**
 - Published *Seize the Time: Towards OECS Political Union.*
- 1988-92 – Governor of the Central Bank of Trinidad and Tobago.
- 1988 – Published *Perspectives on the Future of the Caribbean in the World Economy.*

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- 1990 – Member of the West Indian Commission appointed by the CARICOM Heads of Government to formulate proposals for advancing the goals of the Treaty of Chaguaramas which established the Caribbean Community and Common Market (CARICOM) in 1973. Committee published its Report entitled **Time for Action**.
- 1992-95 – Director, UWI/Andrew Mellon Foundation Project on Selected Critical Issues Facing the Caribbean in Regional and International Relations.
- 1996 – Distinguished Research Fellow at the Caribbean Centre for Monetary Studies, UWI, St. Augustine.
- 1996 – Published **Critical Issues in Caribbean Development: West Indian Development and Deepening and Widening of the Caribbean Community**.

(Extracted from Demas Conference Presentation by Marius St. Rose, Vice President, Caribbean Development Bank).

Appendix 2

Principal Bibliographical Works:

Hon. William G. Demas

“Adjustment and Recovery in the CARICOM Economies”: **Statement at the Fourteenth Annual Meeting of the Board of Governors**, Kingston, Jamaica, May 1984 and Bridgetown, Barbados: Caribbean Development Bank, 1984.

“Agricultural Diversification in the Caribbean Community: Some Issues”. Bridgetown, Barbados: Caribbean Development Bank, 1987.

“Alister McIntyre and Caribbean Political Economy.” *Social and Economic Studies*. Vol. 38, No.1, March 1989.

“Arthur Lewis and his latest Development Policy Model for the Caribbean”, *Social and Economic Studies* Vol. 29, No. 4, December 1980.

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“Caribbean Community and the Caribbean Development Bank”. Port of Spain, Trinidad [s.n.], 1975.

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“Commitment, Skill and Organisation”. **Statement to the Sixth Annual Meeting of the CDB Board of Governors.**

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“Consolidating our Independence: The Major Challenge for the West Indies”. St. Augustine, Trinidad: Institute of International Relations, 1986.

“Creating National and Regional Linkages in Production”. **Statement to the Eighth Annual Meeting of the CDB Board of Governors.**

“A Crucial Year for the Bank and the Borrowers”. **Statement to the Fifteenth Annual Meeting of the CDB Board of Governors.** Caribbean Development Bank, Bridgetown, Barbados, 1985.

“Development Problems in the Small States of the Caribbean and Suriname” (with Crispin A. Sorhaindo). Bridgetown, Barbados, Caribbean Development Bank, 1987.

The Economics of Development in Small Countries, With Special Reference to the Caribbean.

Montreal, Canada: McGill University Press, 1966.

Essays on Caribbean Integration and Development. Mona, Jamaica: Institute of Social and Economic Research, University of the West Indies, 1976.

Experiences in Regional Integration: The Latin American Experience. London: Third World Foundation for *Social and Economic Studies*; Boulder, Colo.: Westview Press, 1985.

“Food Production and Agricultural Diversification in the Caribbean Community”. In *Caribbean Affairs* Vol. 1, No. 2, 1988.

- "From CARIFTA to Caribbean Community". Georgetown, Guyana: Commonwealth Caribbean Regional Secretariat, [1972?].
- "Internal and External Linkages of the Guyana Private Sector". *Caribbean Affairs*. Vol. 2, No. 2, April/June 1989.
- "Making CDB More Effective". **Statement to the Thirteenth Annual Meeting of the CDB Board of Governors.** Bridgetown, Barbados, Caribbean Development Bank, 1983.
- "The New Caribbean University". An address given on the occasion of his installation as Chancellor of the University of Guyana, October 23, 1975.
- "Perspectives on the Future of the Caribbean in the Third World Economy". In *Bulletin of Eastern Caribbean Affairs* Vol. 14, No. 3, 1988.
- "Political Unity in Perspective". *Caricom Perspective*. No. 41, January/ March 1988.
- "The Political Economy of the English-speaking Caribbean: A Summary View". Bridgetown, Barbados: Cedar Press, 1976.
- "Seize the Time: Towards OECS Political Union". Bridgetown, Barbados: [s.n.] 1987.
- "Ten Challenges of the 1980s". **Statement to the Tenth Annual Meeting of the CDB Board of Governors.** Bridgetown, Barbados, Caribbean Development Bank, 1980.
- "Three Aspects of the Caribbean Community". Address given at the National Youth Leaders Conference of the Barbados Youth Council, February, 1979.
- "Towards a Structure for the Caribbean University". Paper presented to the Second Meeting of the Inter-Governmental Committee on Caribbean University Education. Barbados, February, 1976.

“Towards West Indian Survival: An Essay”. Black Rock, Barbados: The West Indian Commission Secretariat, 1990.

“Two Dimensions of Caribbean Development Strategy”. **Statement to the Twelfth Annual Meeting of the CDB Board of Governors.** Bridgetown, Barbados, Caribbean Development Bank, 1982.

“The Viability of the OECS States”. **Statement to the Eleventh Annual Meeting of the CDB Board of Governors.** Bridgetown, Barbados, Caribbean Development Bank, 1981.

West Indian Nationhood and Caribbean Integration. Bridgetown, Barbados: CCC Publishing, 1974.

“What the Caribbean Community is All About”. Interview given when he was President of the Caribbean Development Bank, 1977.

Appendix 3

List of Participants to the Demas Tribute and the xxviii Annual Monetary Studies Conference

- | | |
|-------------------------|---|
| Abraham, Ms. Allisha | - Caribbean Centre for
Monetary Studies (CCMS) |
| Adhin, Mr. Rakesh | - Central Bank of Suriname |
| Adrien, Mr. Peter | - Eastern Caribbean Central
Bank |
| Alleyne, Mr. Dodderidge | - |
| Alvarez, Ms. Yvette | - Central Bank of Belize |
| Anthony, Dr. Myrvin L. | - University of Strathclyde |
| Arnold, Gov. Keith | - Central Bank of Belize |
| Baldeosingh, Ms. Kay | - The Express Newspaper |
| Barnes, Mr. Ainsworth | - |
| Barnett, Dr. Carla | - Central Bank of Belize |
| Bennett, Dr. Karl | - University of Waterloo |
| Best, Mr. Lloyd | - Tapia House |
| Bissember, Ms. Enid | - CARICOM Secretariat |
| Boamah, Dr. Daniel | - Central Bank of Barbados |
| Bourne, Prof. Compton | - University of the West Indies,
St. Augustine |
| Byron, Ms. Sharri | - University of the West Indies,
St. Augustine |

Carrington, Mr. Edwin	- CARICOM Secretariat
Caton, Ms. Arlene	- CCMS
Chang Fong, Ms. Amoy	- Central Bank of Trinidad and Tobago
Clarke, Mr. Christopher	- Central Bank of Trinidad and Tobago
Clarke, Dr. Laurence	- CCMS
Craig, Ms. Wendy	- Central Bank of the Bahamas
Craigwell, Mr. Michael	- CCMS
Craigwell, Dr. Roland	- Central Bank of Barbados
Danns, Ms. Donna	- Consultant
Dass, Mr. Wayne	- University of the West Indies, St. Augustine
David, Ms. Hilary	- Central Bank of Trinidad and Tobago
De Souza, Mr. Lucio V.	- ECLAC
Demas, Hon. William G.	- Institute of Social and Economic Research, UWI Mona
Douglas, Mr. Seymour	- Caribbean Development Bank
Downes, Mr. Darrin	- Central Bank of Barbados
Duarte, Mr. Simon M.	- Association of Caribbean States
Duprey, Mr. Laurence	- CL Financial Ltd.
Ellis, Mr. Clarence	- Consultant
Farrell, Dr. Terrence	- Fujitsu-ICL
Farrell, Dr. Trevor	- University of the West Indies, St. Augustine
Ferracho-Williams, Ms. Jackie	- Eastern Caribbean Central Bank /Antigua Investment Bank
Fletcher, Dr. Richard	- Inter-American Development Bank, Washington
Forde, Dr. Penelope	- Central Bank of Trinidad and Tobago
Francis, Mr. Fitz	- Businessman

Francis, Ms. Michelle	- Central Bank of Trinidad and Tobago
Ganga, Dr. Gobind	- Bank of Guyana
Ghartey, Dr. Edward	- University of the West Indies, Mona
Girvan, Prof. Norman	- Consortium Graduate School of Social Sciences, UWI, Mona
Gonzales, Dr. Anthony	- Institute of International Relations, UWI, St. Augustine
Greene, Dr. Edward	- Pan American Health Organisation
Greenidge, Mr. Carl	- Africa Caribbean Pacific Secretariat
Harewood, Gov. Ainsworth	- Central Bank of Trinidad and Tobago
Hart, Mr. Calder	- Home Mortgage Bank
Hamilton, Ms. Jacqueline	- University of the West Indies, Mona
Haynes, Mr. Cleviston	- Central Bank of Barbados
Hodge, Ms. Lenore	- Central Bank of Trinidad and Tobago
Hospedales, Mr. Jerry	- Central Bank of Trinidad and Tobago
Howai, Mr. Larry	- First Citizens Bank
Jahangir-Abdoelrahman, Ms. Saira	- Central Bank of Suriname
Jeffers, Mr. Henry	- Central Bank of Trinidad and Tobago
Jefferson, Dr. Owen	- Bank of Jamaica
John, Ms. Joan	- International Monetary Fund
Jones, Ms. Marlene	- CCMS
Jones-Hendrickson, Dr. Simon	- University of the Virgin Islands
Joseph, Ms. Anne	- Central Bank of Trinidad and Tobago
Joseph, Dr. Cuthbert	- Legal Consultant
Khan, Mr. Glenn	- CCMS

- | | |
|---------------------------------|---|
| Kim, Dr. Sang | - University of the West Indies,
Mona |
| King, Mrs. Mary | - University of the West Indies,
St. Augustine |
| King, Dr. St. Clair | - University of the West Indies,
St. Augustine |
| Langrin, Dr. Brian | - Penn State University |
| Leseman, Mr. Erik | - Central Bank of the
Netherlands Antilles |
| Lindsay-Nanton,
Ms. Gillian | - United Nations Development
Program |
| Madeira, Mr. David | - CCMS |
| Maresca, Mr. Frank | - Inter-American Development
Bank, Trinidad |
| Maurin, Mr. Alain | - University of Guadeloupe |
| McBain, Dr. Helen | - Institute of Social and
Economic Research |
| McIntyre, Sir Alister | - University of the West Indies,
Mona |
| Modeste, Mr. Nelson | - South Carolina State
University |
| Morais, Ms. Chevanese | - Bank of Jamaica |
| Nicholls, Sir Neville | - Caribbean Development
Bank |
| Nicholls, Dr. Shelton | - University of the West Indies,
St. Augustine |
| O'Meally, Ms. Rosalie | - University of the West Indies,
Mona |
| O'Neil Lewis, Mr. J. | - Former Ambassador |
| Odle, Mr. Maurice | - UNCTAD |
| Ould El Hadj, Mr. Sidya | - ECLAC |
| Oumade Singh,
Mr. Roopnarine | - Republic Bank Ltd. |
| Pantin, Mr. Dennis | - University of the West Indies,
St. Augustine |
| Peart, Mr. Kenloy | - Bank of Jamaica |
| Pemberton, Dr. Carlisle | - University of the West Indies,
St. Augustine |
| Pemberton, Mr. Gerard | - Development Finance Ltd. |

Persaud, Dr. Bishnodath	- Environmental Consultant
Ramirez, Mr. Roberto	- CCMS
Ramkissoon, Mr. Ronald	- Republic Bank Limited
Rampersad, Mr. Frank	- University of the West Indies, St. Augustine
Ramsaran, Dr. Ramesh	- Institute of International Relations, UWI St. Augustine
Regis, Ms. Irma	- CCMS
Robinson, Mr. Wayne	- Bank Of Jamaica
Russell, Ms. Patsy	- CCMS
Ryan, Dr. Selwyn	- Institute of Social and Economic Research, UWI, St. Augustine
Salvary, Mr. Peter	- CLICO Investment Bank
Samuel, Dr. Wendell	- Eastern Caribbean Central Bank
Sato, Mr. Setsuya	- World Bank
Seerattan, Mr. Dave	- CCMS
Smith, Ms. Nicole	- University of the West Indies, St. Augustine
Stewart, Ms. June	- Central Bank of Trinidad and Tobago
Stoddard, Mr. Dominic	- Central Bank of Trinidad and Tobago
Sergeant, Mr. Kelvin	- Central Bank of Trinidad and Tobago
Stewart, Mr. Robert	-
Seymour, Ms. Josephine	- Central Bank of The Bahamas
Sudama, Hon. Trevor	- Ministry of Planning and Development, Trinidad and Tobago
Tropper, Mr. Peter	- IFC
Usher, Mr. Peter	-
Van Eyndhoven, Mr. Jan	- UNDP
Venner, Gov. Dwight	- Eastern Caribbean Central Bank
Wayne, Ms. Evelyn	- CARICOM Secretariat
Wagner, Ms. Angela	- Central Bank of the Bahamas

- Watson, Dr. Patrick - University of the West Indies,
St. Augustine
- Williams, Dr. Herbert -
- Williams, Dr. Marion - Central Bank of Barbados
- Williams, Mr. Oral - Eastern Caribbean Central
Bank
- Williams, Mr. Ewart - International Monetary Fund
- Wood, Mr. Anthony - University of the West Indies,
Cave Hill
- Zephirin, Dr. Mary G. - Consultant

Appendix 4

Programme of Proceedings

in honour of the

HON. WILLIAM G. DEMAS

Monday October 28, 1996

OPENING SESSION

- Chairman:** Mr. T. Ainsworth Harewood, Governor,
Central Bank of Trinidad & Tobago
- 9:00 a.m. Welcoming Remarks -
Gov. Ainsworth Harewood
- 9.10 a.m. "Hon. William Demas - THE MAN" -
Sir Alister McIntyre
Vice Chancellor, The UWI
- 9:30 a.m. **Opening of XXVIII Monetary Studies
Conference -**
Hon. Trevor Sudama
Minister of Planning & Development,
Government of Trinidad & Tobago
- 9:50 a.m. **Feature Address -**
Mr. Dwight Venner
Governor, ECCB

10:20 a.m. **Concluding Remarks -**
Professor Compton Bourne,
Principal (Designate), The UWI
St. Augustine, Trinidad & Tobago

10:30-10:45a.m **COFFEE BREAK**

SESSION II Book Launch -
Chairperson: Prof. Kari Levitt,
Prof. of Economics, The UWI

10:45-
11:15a.m

Three CCMS Publications:

*“Liquidity Management in Liberalizing
Economies”*

“Central Banks of the Caribbean: A Profile”

*“An Updated Bibliography of the Regional
Programme of Monetary Studies” -*

Dr. Laurence Clarke, Executive Director,
Caribbean Centre for Monetary Studies;
and

*“Liberalizing a Regulated Banking System:
The Caribbean Case”, on behalf of*

Dr. Marion Williams, Deputy Governor,
Central Bank of Barbados

SESSION III Chairman:

Dr. J. O’Neil Lewis,
Former Trinidad & Tobago Ambassador
to Washington

11:15-
12:55p.m

**THEME - "DEMAs - ON THE
ECONOMICS OF SMALL STATES AND
DEVELOPMENT"**

- Paper I "Demas and the Economics of Sustainable Development in Small Caribbean Islands" -
Mr. Dennis Pantin, Snr. Lecturer and
Head, Dept. of Economics, The UWI
- Paper II "Demas and the Sovereignty of the English- Speaking Caribbean" -
Mr. Marius St.Rose, Vice President (Operations),
Caribbean Development Bank
- Paper III "Demas on Agricultural Development" -
Dr. Carlisle A. Pemberton,
Snr. Lecturer and Head of Department,
Department of Agricultural Economics, The UWI

Discussant - Dr. Terrence Farrell, Regional
General Manager, Fujitsu - ICL Ltd.

DISCUSSION

1:10-
2:30p.m.

LUNCHEON - HOLIDAY INN - Toasts by
Sir Neville Nichols, President of
Caribbean Development Bank
and

Mr. Edwin Carrington, Secretary-General
of the Caribbean Community Secretariat

SESSION IV Chairman:

Mr. Carl Greenidge
Deputy Secretary General
African Caribbean Pacific Secretariat

2:45 -

4:30p.m

**THEME: DEMAS - ON INTEGRATION AND
DEVELOPMENT**

Paper IV “Caribbean Economic Integration
Revisited” -

Prof. Norman Girvan, Director
Consortium Graduate School,
The UWI

Paper V “Caribbean Economic Integration:
Reflections on Some Legal and
Institutional Issues” -

Dr. Cuthbert Joseph,
International Jurist &
Attorney-at-Law

Paper VI “Outward-Looking Integration in
the Small Integration Movement” -

Dr. Anthony Gonzales,
Senior Lecturer,
Institute of International
Relations, The UWI.

DISCUSSION

4:30 - 4:45 **COFFEE BREAK**

SESSION V

Moderator:

Dr. Maurice Odle,
Deputy Director, UNCTAD

4:45 - 6:45 p.m

PANEL DISCUSSION

**THEME: DEMAS - THE DEVELOPMENT
ECONOMIST AND REGIONAL
PUBLIC SERVANT**

**TOPIC: “Persistent Constraints to
CARICOM’s Development Efforts:
Responses for the 21st Century”**

- | | |
|---------------------|---|
| Mr. Lloyd Best | – Economic Consultant |
| Dr. Trevor Farrell | – Senior UWI Lecturer |
| Prof. Kari Levitt | – Professor of
Economics, The UWI |
| Mr. Frank Rampersad | – Economist and
Coordinator of
University Centre
Project |
| Mr. Ewart Williams | – Assistant Director,
International Monetary
Fund |

7:00 - 9:00 p.m

COCKTAILS

Presentation to be made to Hon. William G. Demas

Appendix 5

Notes on Contributors to the Publication

- | | |
|----------------------|---|
| Mr. Lloyd Best | – Economic Consultant |
| Prof. Compton Bourne | – Principal, The UWI,
St. Augustine, Trinidad &
Tobago |
| Mr. Edwin Carrington | – Secretary-General of the
Caribbean Community
Secretariat |
| Dr. Laurence Clarke | – Executive Director, Caribbean
Centre for Monetary Studies
(IMF Technical Assistance
Programme) |
| Dr. Terrence Farrell | – Regional General Manager,
Fujitsu, ICL ltd. |
| Dr. Trevor Farrell | – Senior Lecturer, The UWI |
| Prof. Norman Girvan | – Director, Consortium Graduate
School, The UWI |
| Dr. Anthony Gonzales | – Senior Lecturer, Institute of
International Relations,
The UWI |

- | | |
|------------------------------|--|
| Mr. Carl Greenidge | - Deputy Secretary General,
African Caribbean Pacific
Secretariat |
| Mr. T. Ainsworth
Harewood | - Governor, Central Bank of
Trinidad and Tobago |
| Dr. Cuthbert Joseph | - International Jurist &
Attorney-At-Law |
| Prof. Kari Levitt | - Prof. of Economics, The UWI |
| Dr. J. O'Neil Lewis | - Former Trinidad & Tobago
Ambassador to Washington |
| Sir Alister McIntyre | - Vice-Chancellor, The UWI |
| Sir Neville Nicholls | - President of the Caribbean
Development Bank |
| Dr. Maurice Odle | - Deputy Director, UNCTAD |
| Mr. Dennis Pantin | - Department of Economics, The
UWI |
| Dr. Carlisle A. Pemberton | - Senior Lecturer and Head of
Department, Department of
Agricultural Economics,
The UWI |
| Mr. Frank Rampersad | - Economist and Coordinator of
University Centre Project,
The UWI |
| Mr. Marius St. Rose | - Vice-President (Operations),
Caribbean Development Bank |

- Hon. Trevor Sudama – Minister of Planning and Development, Government of Trinidad & Tobago
- Mr. Dwight Venner – Governor, ECCB
- Mr. Ewart Williams – Assistant Director, IMF
- Dr. M.G. Zephirin – Economic Consultant and Former Adviser to the Governor, Central Bank of Barbados