

# Chapter 1

## A Call to Action: the Caribbean We Want

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### 1.1 Overview

The Caribbean region faces numerous economic, social and environmental challenges. The economies have been caught in a low-growth trajectory and falling total factor productivity (TFP), accompanied by high-debt ratios. Since 2000, while real per capita growth rates in developing countries averaged around 4 per cent per annum, the comparable figure for the Caribbean Common Market and Community (CARICOM) was just around 2 per cent. While the small size of the private sector, the lumpiness of government investment and unfavourable external circumstances have contributed significantly to the poor performance of regional economies, weather-related shocks have also served to derail their development efforts. With the expected intensification of adverse weather events resulting from climate change, and Caribbean countries' limited resources and capacity to respond, the road ahead for the region is expected to be even more challenging.

The region will also continue to face economic shocks arising from its dependence on fuel and food imports. Building resilience will help to buffer the region against over dependence on imported foods and fuel. Oil price shocks (high prices) have historically derailed economic growth prospects and provide an incentive for alternative energy. Indeed another strong incentive for developing alternative energy sources is the pending threat of climate change, and the growing imperative to mitigate its impact by reducing CO<sub>2</sub> emissions. The development of clean alternative energy is paramount. Climate change also poses an existential threat to the small island economies of the Caribbean. Their geographical location and natural beauty, which make them attractive to tourists, also present challenges related to hurricanes and storms.

Climate change is projected to bring an intensity in climatic and environmental shocks. In recent times, the world has experienced an intensification of extreme weather patterns – namely extreme droughts and severe flooding, tsunamis, earthquakes and cyclones – which have led to the loss of lives, property, crops and environmental resources. Moreover, it is also recognised that Caribbean countries individually lack the capacity and financial resources needed for contingency planning and dealing with the challenges of climate change. Resources are needed to build capacities to adapt and capitalise on emerging technologies aimed at providing clean energy. The threat here is significant: the countries that have contributed the least may be required to bear a disproportionate share of the burden of climate change.

These countries are also confronted with socio-economic issues in the form of high unemployment and underemployment, especially among young people. Youth unemployment and underemployment result from a complex set of circumstances, such as the absence of economic opportunities, a mismatch between skills and available employment openings, and inadequate educational exposure. Regardless of the reason, the impact is evident: inadequate human and social capital development and a rising crime rate (World Bank and UNODC 2007; UNDP 2012; Clarke and Popo 2014) constitute the more intractable issues confronting the region. They threaten citizen security and impose heavy costs on the economies and society. Another social trend, ageing population structure, is predicted to escalate through to 2050, resulting in high dependency ratios that are likely to threaten the solvency of pension schemes and other forms of social security.

The region must also come to grips with a number of global trends, some of which may offer economic opportunities, while others may test resilience. Technological advances will accelerate the cross-border flow of goods and services, which are increasingly knowledge intensive. Communication technologies are expected to facilitate the 'on demand' economy, with app-based and cloud-based solutions linking the supply of and demand for services with the touch of a button.

While we cannot say with certainty what new technologies will be operational in 2050, we are fairly certain that the future will be one that is integrally linked with technology. Caribbean economies must, out of necessity, be strategically positioned to participate in and benefit from the opportunities. Strategic positioning calls for honing the skills and competencies required for meaningful participation in the knowledge economy. A number of studies have identified these requirements as intrapersonal, interpersonal and technological or information and communication technology (ICT), in addition to the core educational subjects. Critical thinking, problem solving, creativity and entrepreneurial skills, together with an ability to work in teams, are identified as requirements for all cadres: middle management, professional and senior management.

## 1.2 Motivations

A review of regional issues and global trends, along with the expressed aspirations of national and regional stakeholders, reveals a long list of critical issues. These include, but are not limited to:

- development of human resources for optimal engagement with the knowledge economy;
- considering the ageing population and its implications from social and economic perspectives;
- fuller integration of young people into productive and rewarding pursuits;
- engineering a shift in the economies to encourage greater participation, by the private sector;
- mainstreaming the environment, particularly mitigation and adaptation, in the development process;

- dealing with oil price volatility and energy security; and
- addressing the issue of high and rising crime and citizen security.

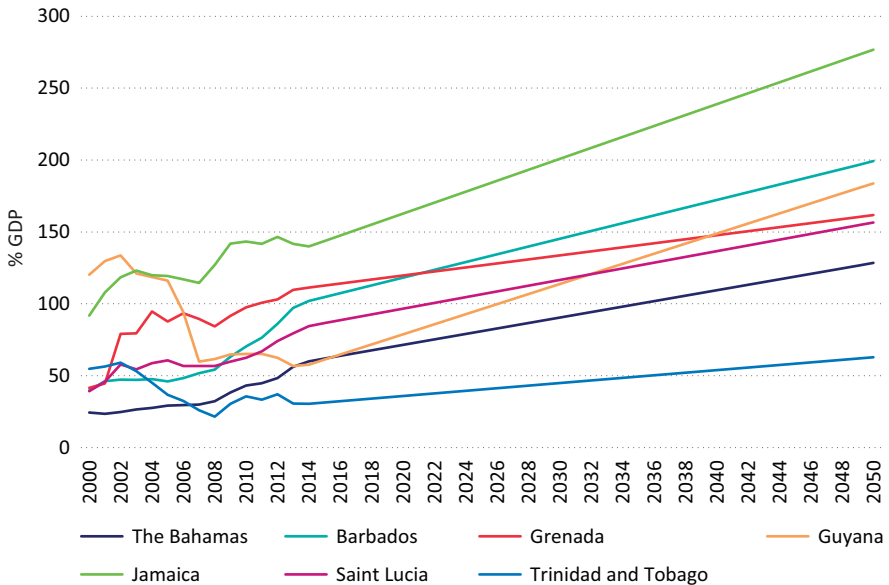
Failure to address these issues will undoubtedly hamper the ability of the region to capitalise on the wave of opportunities emerging globally and achieve its growth and development goals. Indeed, on the current policy path, it is expected that the region is likely to regress to lower levels of development. Motivated by the need to urgently arrest these developments and safeguard the future of this region and transform it, the Commonwealth Secretariat has undertaken this research.

The analysis begins with an investigation of where the current policy path will lead, using a model to simulate the potential future impacts of emerging trends, likely shocks and current policy initiatives over the medium term, i.e. 35 years, to 2050. The modelling framework is a tool for examining the impact of the social, economic and environmental problems facing the Caribbean and exploring alternative development pathways for the region.

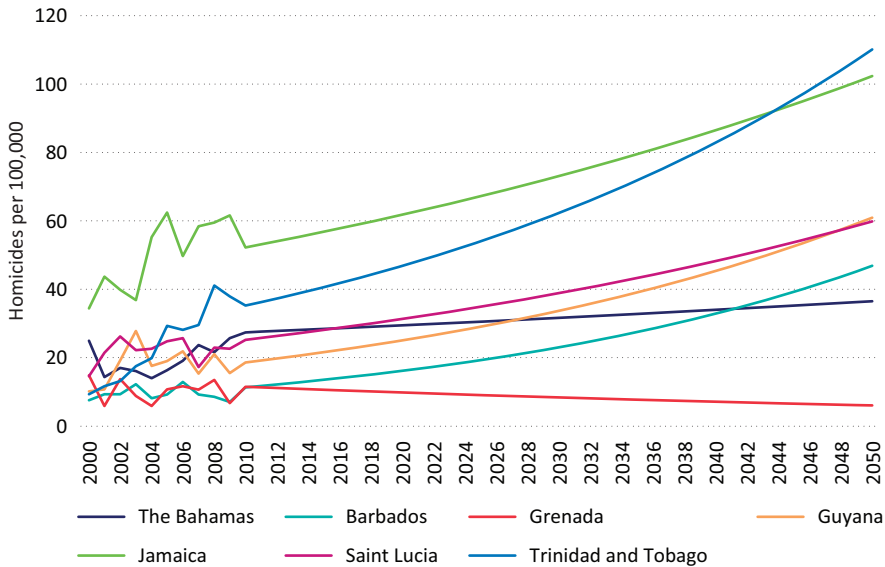
Using a sample of Caribbean countries, it was found that the current development path would lead to higher and even more unsustainable debt burdens. Five out of the six countries under study would have a debt-to-gross domestic product (GDP) ratio above 100 per cent, while for two countries this could exceed 200 per cent (see Figure 1.1).

These projections suggest that interest expenditure on the debt will probably become a major drain on public finances in the future, reducing the funds available for development. When combined with the slowdown in growth expected over the

**Figure 1.1 Projected debt-to-GDP ratio under baseline**



Source: Authors' projections

**Figure 1.2 Homicide rate per 100,000 under the baseline**

**Source:** Authors' projections

medium term due to declining competitiveness, it is likely that most Caribbean countries would face worsening socio-economic conditions.

Under this 'business-as-usual' scenario, crime and disorder is forecast to rise in the region. Figure 1.2 shows that in Jamaica, as well as Trinidad and Tobago, the rate of homicides per 100,000 is projected to rise to alarming levels. This trend, however, is not limited to these countries. By 2050, the smaller states of the Eastern Caribbean are also projected to have rates of homicide similar to those currently being reported in Jamaica.

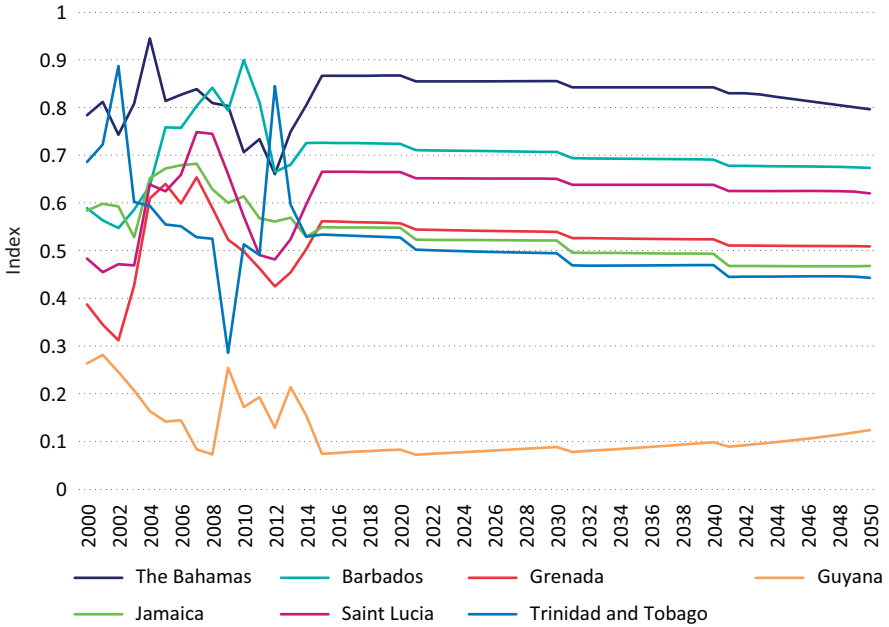
Not surprisingly, as shown in Figure 1.3, based on the socio-economic projections highlighted above, the resilience of most Caribbean countries is likely to fall over the period under analysis. Figure 1.3 provides the baseline projections for the resilience index put forward by Briguglio et al. (2008) and is based on the indices of macro-economic stability, micro-economic efficiency, governance and social development.

Most countries in the region are expected to experience a reduction in the resilience index, particularly Jamaica, due to rising debt and deteriorating socio-economic conditions, with the added implication of increasing their susceptibility to external shocks, lengthening their recovery period.

### 1.3 The Caribbean we want

Clearly this is not the Caribbean we want, but what if anything can be done to arrest these developments and safeguard the future of the region? How can the region be

**Figure 1.3 Resilience index under baseline**

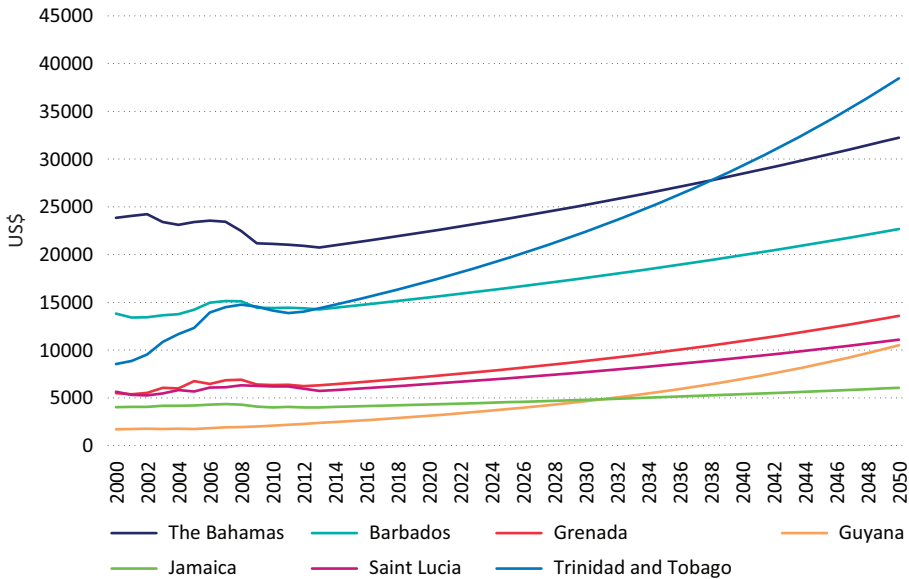


**Source:** Authors' projections

truly transformed? The important question is 'transformed to what?' What is the Caribbean we want? In our assessment of both the current situation and emerging trends, the Caribbean we want could include and be characterised by:

- creative and enterprising economies in which innovation is the driver of productivity;
- young people fully integrated into national development;
- a stable society where people are safe, secure and prosperous;
- environmental sustainability mainstreamed into the development process; and
- countries built on clean, resilient energy systems that make use of plentiful, local, renewable resources, and are capable of providing stable supplies of energy to all sectors of their society.

Building on these possible visions for the region, this study articulates a strategy to circumvent the projected low levels of growth, high debt and low resilience in the region. The model considers a number of policy interventions aimed at building resilience (see Figure 1.4). These include increased productivity, export growth, increasing youth employment and fiscal reform. In the model, an assumed 2 per cent per year increase in productivity has the greatest impact on resilience among the Caribbean countries considered. While these are clearly not new policy

**Figure 1.4 Impact of policy to increase productivity by 2%**

**Source:** Authors' projections

prescriptions, there is value added in distilling the imperative for change, which we hope will catalyse a move from visioning and strategising to implementation of a set of concrete actions. The transformative impact of implementing many already-acknowledged actions – clearly outlined in pre-existing development strategies – is again illustrated using the modelling tool. It shows the Caribbean region with significantly improved development outcomes arising from longer-term planning and focus on implementation. The key is not just the actions/policy prescriptions, but also the approach to development planning.

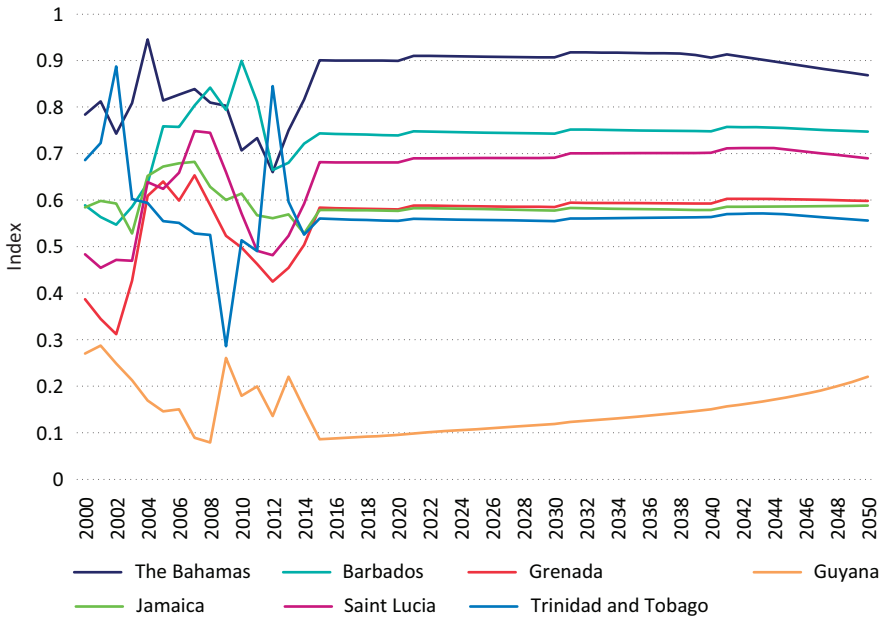
The growth in productivity would also have a positive impact on resilience in the region. By 2050, most of the countries in the sample would be on their way to building resilience (see Figure 1.5). Most countries would exceed their peak resilience index score. The results are vastly different from a 'business-as-usual' scenario.

If such a focus on regional productivity is combined with policies aimed at stimulating export growth in the Caribbean, it is likely that the growth and debt targets set by the regional governments will be within reach.

Interventions aimed at enhancing productivity and exports are also expected to improve public and external current account balances in all countries. Only three countries (Barbados, Guyana and Jamaica) exceeded the debt-to-GDP ratio of 100 per cent by 2050, and only Grenada and Jamaica are unable to attain external current account surpluses by 2050.

Given the trends highlighted for crime in the baseline scenario, the study also considered a policy scenario aimed at enhancing the skills of the young people in

**Figure 1.5 Resilience index: projected impact of policy to increase productivity by 2%**



Source: Authors' projections

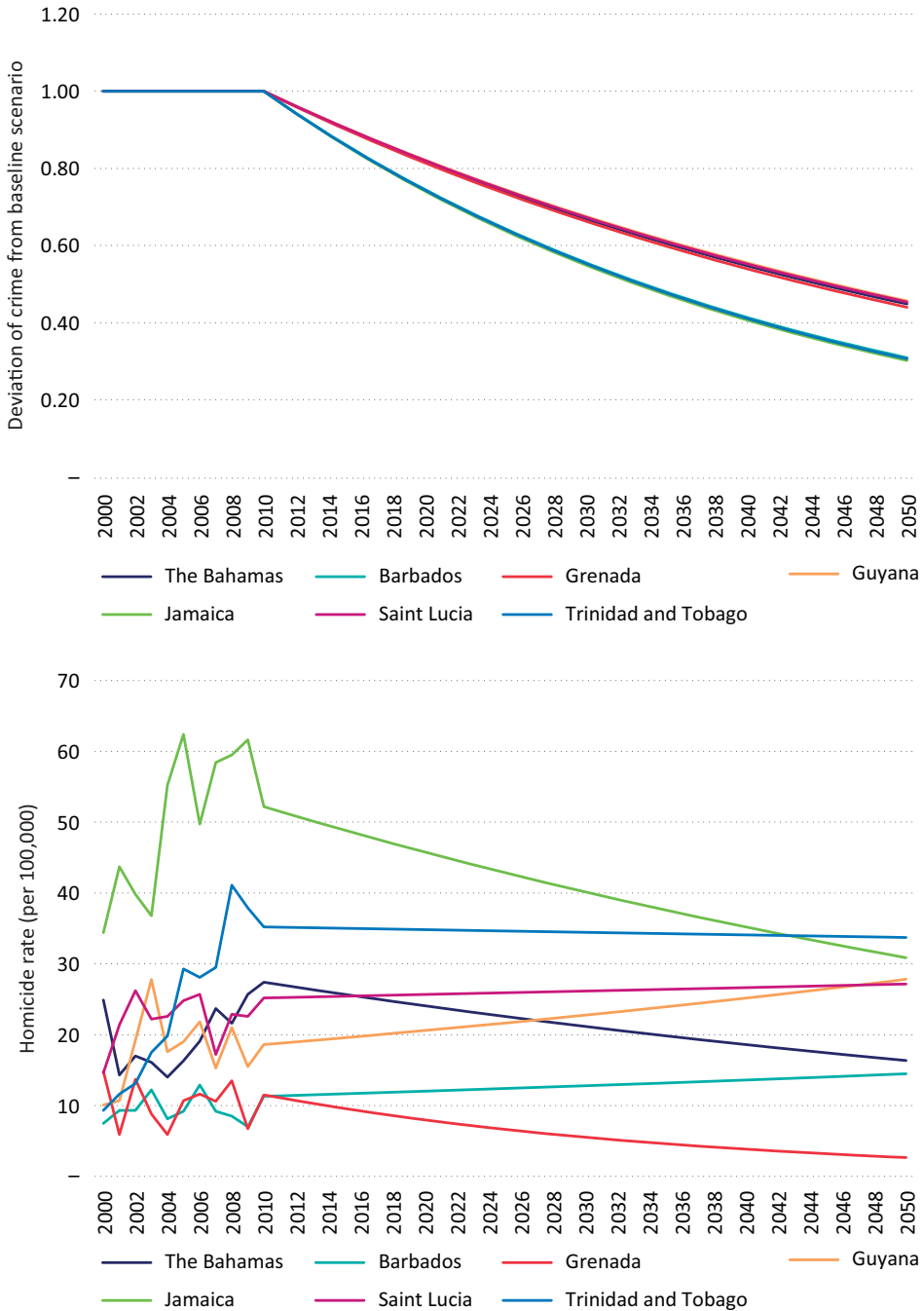
the region and providing job opportunities. Such policy interventions resulted in a reduction in crime to modest levels in most countries (see Figure 1.6).

Fiscal reform in the future is expected to be targeted around reduced government expenditure, given the challenges faced in relation to raising revenue.

A fiscal goal of reducing expenditure by 30 per cent is projected to significantly reduce the debt levels in all countries, with only Jamaica having a debt-to-GDP ratio above 100 per cent by 2050 (see Figure 1.7). Such reform would also have benefits in relation to the external current account.

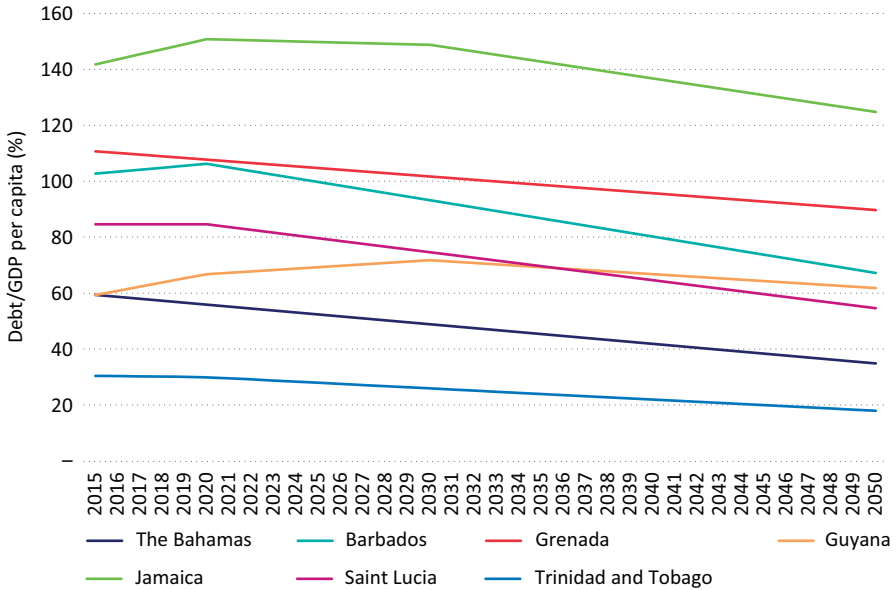
However, this improved outlook hinges on a shift from short-term problem solving to long-term strategic planning. As is evident from the analysis, should regional economies continue on their current policy paths, they would regress economically – with serious social and environmental ramifications. The challenges posed by their size and the complexity of the environment within which these countries operate have been compounded by development strategies that focus on short-term problem solving to the detriment of long-term strategic planning. Indeed, patchy approaches to reforms and inconsistencies in addressing key challenges have contributed to volatile and, often, mixed development results. A myriad of problems and their complexity have overwhelmed regional policy-makers and development partners alike. In this context, we believe that the best approach for moving forward is to ask ourselves the seemingly simple questions: what is the Caribbean we want and how do we begin to a map a way to get there?

**Figure 1.6 Projected impacts of enhancing skills of youth and providing job opportunities on crime**



Source: Authors' projections

**Figure 1.7 Projected impact of fiscal reform on debt-to-GDP ratio**



**Source:** Authors' projections

This project, entitled ‘Achieving a Resilient Future for Small States: Caribbean 2050’, seeks to address these questions and provide key recommendations on how Caribbean member states can build their resilience and improve their development prospects. Answering these questions must be done over a long enough period to effect meaningful change and achieve the desired results: hence the choice of the year 2050.

In terms of content, the study contains an assessment of the main challenges and opportunities for the region, scenario modelling of where the region could be by 2050, and finally a broad vision for the region derived from feedback from the stakeholder consultations and inputs from the CARICOM Strategic Vision. The vision itself contains sector-specific goals for achieving the vision, which are further elucidated in the sector-specific strategy chapters.

The overall findings of the study are presented in section one of the book, while section two contains the detailed sector studies. Chapter 2 outlines the context within which Caribbean countries are operating and includes a discussion of emerging global trends to frame the understanding of what the world is likely to look like in 2050. Chapter 3 considers a range of possible paths for the region, depending on the policy choices made and the context within which countries are operating. Chapter 4 presents our view of the Caribbean we want and how to get there, entitled ‘The Road to 2050: The Caribbean We Want’. Section two provides detailed studies on the energy sector (chapter 5), private sector development and innovation (chapter 6), youth development (chapter 7) and finally citizen security (chapter 8).

## Note

- 1 Deodat Maharaj is the Deputy Secretary-General for Economic and Social Development at the Commonwealth Secretariat. He is a national of Trinidad and Tobago, with more than 20 years' experience working on development at the national, regional and international levels. Inputs were made to this chapter by Marsha Atherley-Ikechi, Anthony Clayton, Ryan Peterson, Tom Rogers, Winston Moore, Sylvia Charles and Christine Clarke.

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