

**APPROACHES TO SECTORAL DEVELOPMENT STRATEGIES
LUNCHTIME ADDRESS
by
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I. INTRODUCTION

In this very timely conference on Meeting the Competitiveness Challenge in Barbados organised by the Inter-American Development Bank, much has already been said on the subjects of productivity, foreign trade, and integration of labour markets by speakers in the morning session. After lunch much will be said, I am sure, about some industrial issues, notably in tourism and agriculture. From what I have heard the presentations and discussions are very detailed in their analyses of specific variables, industries and issues. They have painted or are painting the focal points on the canvas. What I think I should attempt to do is paint the background: the parts of the canvas which give context and enhance the significance of the central figures.

First, I will outline the international economic and socio-political context and say a few words about key sectors. The rest of my time will be spent identifying broad policies and strategies for sectoral development.

II. THE GLOBAL CONTEXT

Barbados and other countries in the Caribbean Community (CARICOM) seek to chart a course for sustained economic growth and development in a global economic, social and political framework fundamentally different from that which prevailed in the immediate post independent period. To sketch the differences in broad terms, the new rules for engagement with the international economy are open competition and reciprocity in foreign trade instead of unidirectional trade preferences, commercial capital flows (portfolio and direct investment) rather than large flows of official development assistance, and highly selective immigration rather than open access to traditional destinations in Europe and North America. In the international political domain, highly centralised hegemonic

power seems to have triumphed over multipolarity. The Caribbean's geopolitical significance has diminished as a consequence of that trend and because of technological advances in modern warfare, particularly the development of long range ballistic missiles, airborne aircraft fueling systems, and super aircraft carriers. Whatever global political significance CARICOM still retains probably derives from the mutuality of the fight against terrorism and the potential for common cause with other countries disadvantaged by the present international economic order. In the sociological sphere, modern communications technology, the related phenomena of conglomeration and global market power in broadcast and print media, and greatly expanded and cheaper access to international travel facilities are homogenizing values, systems of beliefs, culture and material aspirations and individual behaviours, perhaps giving reality to Vidia Naipaul's mocking descriptive word "mimic men."

The new global framework in all its facets is less benign, less accommodating and more challenging for CARICOM countries. They must devise development strategies which take full account of the new realities. A broad encompassing element of the strategic response is the creation of a Caricom Single Market and Economy (CSME) conceptualised as a means of improving productive efficiency and enhancing international competitiveness towards the goal of substantial improvement in the standard of living of CARICOM residents. In many respects, the CSME is the regional context within which national economic policies and strategies should be formulated.

III. KEY SECTORS

Hollis B. Chenery in the early 1960s introduced the notion of "key sectors" in an economy, advancing the proposition that certain sectors are critical to sustained economic growth because of the backward and forward linkages they have with other sectors which propel the growth of those sectors. However, the strength of intersectoral linkages is not invariant with respect to the technology of production which influences demand for inputs or to the structure of consumption which influences final demand. A sector, hitherto "key", can lose economic importance or gain importance because of changes in production technology or in consumption patterns. It is therefore necessary as a matter of development strategy for an economy as a whole to monitor changes in production technology and in consumption patterns to determine what stance to take in relation to the prospects of its key sectors. Adjustments, when warranted, can range from upgrading of technology and product innovation to managed exit of enterprises from the sector. The first two are usually more socially acceptable.

There are other measures by which sectors can be considered "key". One is the direct contribution of a sector's output to total output, its share in employment and factor incomes, its earnings of foreign exchange in economies where the balance of payments is a powerful constraint on economic growth, and its share

of fiscal revenues. Any one or more of these contributions could qualify a sector as a key sector. Efforts are usually made to consider also the indirect contributions of sectors along similar lines, so that a sector's contribution to changes in a particular variable, e.g. employment, would be the sum of its direct and indirect contributions.

In the context of CSME, one would advisedly pay attention to the economic effects of a national key sector on other countries. One example is energy – petroleum and natural gas specifically – but others include air transport. Growth and performance in Trinidad and Tobago's energy sector can spill over into cost-competitive production in other regional economies which utilise Trinidad and Tobago's energy supplies. Likewise, growth and stability in Jamaica's and Trinidad and Tobago's airline industries would influence the performance of the tourism industry in many CARICOM countries. The possibility of regional effects of national sectors would imply mutuality of interest in some areas of sector development in particular countries and indeed enlightened self-interest in supporting such developments, irrespective of equity participation in those sectors.

IV. POLICIES FOR SECTORAL DEVELOPMENT

Policy interventions on a wide front are required for development of productive sectors in CARICOM countries. Capital investment needs to be encouraged and facilitated with two principal objectives, namely an expansion in the scale of operations and the achievement of technological progress. In the area of international competition, Caribbean enterprises face the disadvantage of insufficiently sized operations. The creation of larger scale production units must be conscious policy. In respect of technology, the positive relationships between technological advances, productivity and product innovation make the case for investments which upgrade the technology of Caribbean enterprises.

The product demand latent in internal markets is another area for policy intervention. Economic policy within recent times has correctly focussed attention on the economic growth stimulus and sustainability that can be provided by export markets assuming that international competitiveness in price and quality can be achieved, that protectionism in extraregional markets does not prevail, and that there is a close fit between the Caribbean product range and the international demand profile. However, the search for export markets should not divert policy attention from the growth possibilities inherent in maximisation of the demand potential of internal markets. In agriculture particularly, there are major instances e.g., sugar, citrus, food crops of considerable scope for import substitution. Furthermore, the internal market can be a platform or a training ground for export competition. Neglect of internal markets is likely to be sub-optimal economic development strategy.

The development of the transportation and communication sectors are of central

significance for intra regional trade and extra regional trade in goods and services. There is growing recognition of the inadequacies of regional air transport for expansion and even the sustainability of existing levels of effective demand in the tourism industry. But those inadequacies also add to production costs for enterprises and may be a serious obstacle to regional enterprise. Furthermore, marine transportation is all but absent. CARICOM lacks capacity to transport by sea goods and persons with acceptable degrees of reliability, efficiency and cost. This is one of the greatest ironies for a geographical region previously united by ships and previously highly competent in the manufacture of ships. Within the communications sector, the main problem seems to be cost and capacity. Reported unit costs are greatly in excess of those of international competitors in exports of goods and services. Capacity limitations are a source of unreliable, often unpredictably discontinuous service. Unless substantial improvements are made, the transportation and communications sectors will prove to be major drags on the economic progress of CARICOM.

As is well recognised, the quantity and quality of human resources are important influences on economic growth. Since on this score, human resources matters to sectoral development, human resource development (HRD) must be an important component of strategies for sectoral development. In these terms, the HRD sector becomes a key sector, the development of which confers enhanced possibilities of growth on other sectors, and the retardation of which handicaps their development, requiring them to expensively source knowledge, expertise and skills from extraregional HRD sectors or failing to progress technologically.

In crafting strategies for sector development, one should not neglect institutional change. Among such changes of undoubted significance are the modernisation of company laws within countries and their harmonisation across the economic union. Modernisation is necessary to ensure that the body of laws are appropriate to contemporary business structures and practices and that they are functional rather than dysfunctional. Harmonisation of laws would reduce information costs and improve understanding thereby facilitating cross-border transactions.

While scale and scope economies are important considerations, enterprise development within a sector becomes more feasible on a regional scale. This should not be interpreted to mean that governments should aim at creating state-owned CARICOM enterprises. The private business sector has shown itself to be quite adept at creating cross-border enterprises in the absence of a particularly enabling framework of laws, regulations, macro-economic and monetary policies and integrated financial systems. On the other hand, the track record of government-owned regional enterprise has been less than creditable. There is much good that governments can do to foster and encourage the emergence of regional enterprise by concentrating on the improvement of the enabling framework rather than venturing into equity investment and management of regional economic enterprises.

Of course, general strategic interventions would not suffice. It is absolutely necessary to formulate sector specific strategies as well. The strategies would have to be based on solid empirical knowledge of the industries within the sector in their national, regional and global settings. It is not readily apparent that Caribbean governments have a really good grasp of the intricacies of their key sectors and industries and have been able to draw upon research and survey results and futuristic studies, etc. It also appears that the interface between governments and the business sector is formalistic rather than close and continuous. The quality of strategies and policies for sectoral development is thus susceptible to considerable improvements through greater interlinkages between governments and the knowledge institutions or knowledge system and between governments and the business community. These interlinkages are what would make really possible the strategic alignment of the supporting framework for competitiveness and growth with the planned expansion of productive enterprises, industries and sectors.