

TWO DIMENSIONS OF CARIBBEAN DEVELOPMENT STRATEGY
STATEMENT BY
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TO THE BOARD OF GOVERNORS
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CONTENTS

- I. [INTRODUCTORY REMARKS](#)
- II. [ANNUAL REPORT FOR 1981](#)
- III. [FASHIONS IN DEVELOPMENT STRATEGIES](#)
- IV. [NEED FOR CLEAR THINKING ON TWO CRUCIAL DIMENSIONS OF DEVELOPMENT STRATEGY](#)
- V. [FURTHER ELABORATION OF THE VERTICAL DIMENSION](#)
- VI. [FURTHER ELABORATION OF THE HORIZONTAL DIMENSION](#)
- VII. [POLICY INSTRUMENTS FOR PURSUING AN APPROPRIATELY BALANCED DEVELOPMENT STRATEGY](#)
- VIII. [TOWARDS A GREATER DEGREE OF ECONOMIC SELF-RELIANCE IN THE CARIBBEAN](#)

I. **INTRODUCTORY REMARKS**

Mr. Chairman, Distinguished Governors, Your Excellencies, Directors, Observers, Guests:

Exactly ten years ago, in 1972, we held the Second Annual Meeting of the Board of Governors of our Bank here in St. Lucia.

I am sure that all of us are very happy to be once more in St. Lucia - the "Helen of the West" - with its great natural beauty and the charm, liveliness and hospitality of its people.

Our pleasure is heightened by the fact that the Board of Governors is meeting under your chairmanship. We are all aware of the outstanding contribution which you have made to the economic and social development of St. Lucia. All of us are also aware of the active and important role which you have played in Caribbean integration. Your unwavering support for the Caribbean Development Bank and for the Caribbean Community is a matter of record. Not so well known, perhaps, is your pioneering role in initiating and promoting the Organisation of East Caribbean States which is now, contrary to the doubts of the pessimists and the fears of the timid, a reality.

II. ANNUAL REPORT FOR 1981

During 1981, the Bank continued to make, on the whole, satisfactory progress both as a Bank and as a Development Agency. Our Annual Report for 1981 provides you with all the necessary detailed information and statistics to enable you to judge for yourselves the validity of this assertion.

One of the points which stand out in the Report is the fact that the economies of virtually all our borrowing member countries sailed through troubled waters in 1981. What is more - and this is common knowledge - during the rest of this decade of the nineteen-eighties, our economies will continue to be faced with a difficult international environment. Hence the need for another look at the development strategies which would best serve as a bridge over the troubled waters which lie ahead.

III. FASHIONS IN DEVELOPMENT STRATEGIES

There are fashions in development economics and development policies. At one time, the emphasis was on a high rate of accumulation of physical capital combined with rapid growth of modern industry. At another time it was on education and human resources. At yet another time it was on agriculture and rural development. Subsequently, the emphasis was on "meeting the basic needs of the people".

More recently, the emphasis has been on stimulating the larger modern private sector firms - both foreign and local - and on an outward orientation of the economy. Indeed, the term "import substitution" is now in some quarters almost as pejorative as the words "State ownership and control of productive activities".

IV. NEED FOR CLEAR THINKING ON TWO CRUCIAL DIMENSIONS OF DEVELOPMENT STRATEGY

Exactly ten years ago, in 1972, my illustrious predecessor, Sir Arthur Lewis, a West Indian of St. Lucian origin, in his Statement to the Annual Meeting of the Board of Governors of our Bank held here in St. Lucia, dealt with the issue of a comprehensive development strategy for the Caribbean within a simple but powerful analytical framework. He argued that the achievement of continuing

economic growth, structural transformation of the economy and adequate employment creation in our countries depended crucially on the manipulation by the authorities of four policy variables and the interaction between them: productivity, foreign trade policy, exchange rate policy and incomes policy.

It should be noted that in discussing foreign trade policy he allowed for both import substitution and for exports and that in discussing productivity he dealt not only with the need for high rates of national savings and domestically financed investment, but also with the need for a dramatic increase, through education and training, in the number of persons with middle-level and para-professional skills.

I cannot hope to improve on the essentials of his analysis - although at the time I wrote a few comments suggesting certain qualifications to, and different emphases in, his main arguments. My more modest aim today is to cast clearer light on the issue of a Caribbean development strategy appropriate to the decade of the eighties by examining two crucial dimensions of such strategy:

- a. the "vertical" dimension - that is, should we strive for development from the top or development from below? This is the question of whether the engine of growth in production should be at the top or at the bottom of the economic and social scale; and
- b. the "horizontal" dimension - that is, should we look inwards or outwards for markets and sources of goods and services and for scarce factors of production?

(a) Issue of Planning versus the Market

I shall have something to say on the role of the private sector, both local and foreign, in discussing the vertical dimension. But I will say nothing on this occasion on the already much debated issue of planning versus the market; for it seems to me that even in countries where the private sector appears to have very great freedom of action, there is usually some kind of indicative planning, often combined with a wide range of government influence and even controls on economic activity. The most striking examples of these - not at all well known - are Japan and South Korea, generally regarded as among the most economically successful of developed and developing countries, respectively. Indeed, a close examination of the world today does not reveal any signs yet, either in centrally-planned or in market economies, of the "withering away of the State"!

(b) Summary of the Vertical Dimension

The first dimension - the vertical one - deals with the question of whether the authorities in our countries should start from the top and encourage big foreign and local investors in the large-scale modern sector of the economy or from the bottom and try to increase production and productivity among the small and the

poor. The former approach is the traditional one and relies on the "trickle-down effect in transmitting income to the poorer groups - partly through the expansion of employment in the larger firms which are supposed to save and re-invest a high proportion of their profits, partly through the automotive re-distributive effect of a progressive tax system combined with government-expenditures which benefit the poor and partly through prosperity in the modern sector increasing the demand for goods and services largely produced by the small man - for example food, petty retail distribution and the output of small-scale enterprise generally.

However, by the beginning of the seventies, it was felt that in practice the "trickle-down" approach - in spite of high rates of overall economic growth - still kept the majority of the people of the developing countries in great poverty. An opposite approach was therefore put forward.

The opposite approach is aimed at improving "human capital" among the poor and small-scale producers through the provision of education and training, low-cost housing, health services, pure drinking water supplies, etc., taking direct measures to ensure that the domestic pattern of production matches closely the composition of demand of the poorer groups (who form the majority of the population), thus making for production of relatively labour-intensive and simple-technology goods with a lower import content as compared with the consumption patterns which would prevail in the absence of this approach; and to take other steps (that is other than improving human capital) to increase production among the small people and the poorer groups in both urban and rural areas - such as provision of credit and inputs, extension and technical assistance, improved marketing facilities, feeder roads, etc.

In practice, emphasis varies as between these three sets of measures depending on the particular country, its size and degree of participation in international trade, its resource base, its rural/urban balance and the degree of poverty of the masses.

This latter approach is termed "meeting the basic needs of the people" or the "direct attack on poverty".

(c) Summary of the Horizontal Dimension

The other dimension - the horizontal one - deals with:

- c. the relative emphasis to be placed on extra-regional foreign trade as against production for national and regional markets;
- d. the volume of capital inflows - overseas aid, external borrowing on commercial terms and foreign private investment, as against reliance on local financing in both the public and private sectors;
- e. the use of foreign as against indigenous and adapted technology;
- f. the use of foreign expertise as against massive programmes of institutional and on-the-job training of local personnel;

- g. training for local and regional job opportunities as against a policy of training for emigration; and
- h. more generally, national and regional self-reliance as against excessive external economic, psychological and intellectual dependence.

(d) Overlapping between the Vertical and Horizontal Aspects

In some cases, the vertical and horizontal aspects overlap. This can be most easily seen in the case of policies designed to reduce total imports and to change their composition away from "luxuries" and towards "essential" items meeting the basic needs of the poorer groups. In this case, the same measure can at one and the same time serve the purpose of both a more inward-looking economy and a basic needs approach to development. Another example is heavy reliance on foreign private investors to establish export-oriented industries; this strategy combines the vertical dimension of trickle-down with the horizontal dimension of extreme outward orientation of the economy.

(e) Need for Appropriate Blends in Both Dimensions of Development Strategy

As regards the vertical dimension, we need a combination of both trickle-down and basic needs strategies, with the exact blend between the two depending on the particular sector, sub-sector or activity under consideration.

With regard to the horizontal dimension, a little reflection shows that in the Caribbean, as indeed in all other developing countries, we need a combination of inward-looking strategies in the various sectors, sub-sectors and activities of the economy.

In this connection, let me be immodest for a moment. In an article on "The Economics of West Indies Customs Union" which I wrote in late 1959 and which was published in the March 1960 issue of the well-known University of the West Indies journal "Social and Economic Studies", I said as follows:

"The West Indies suffers from the 'complex fate' of having to be both inward-looking and outward-looking at the same time, although on balance the outward-looking side should predominate."

Looking back after more than twenty years, I have no reason to change this view.

In the Caribbean of the eighties, it is not a simple case of "either/or" with regard to both dimensions. It would be just as wrong to think that every sector, sub-sector or activity in production should be entirely export-oriented as to urge that we should rely entirely on trickle-down effects.

What we need is a set of comprehensive national and regional development strategies combining in the right proportions inward-looking and outward-looking elements and trickle-down and basic needs elements. Such a strategy must aim at high rates of economic growth, since in the longer run sustained economic growth is a necessary, although not sufficient, condition for achieving sustained increases in the standard of living of the poorer urban and rural groups. Indeed, we need a coherent and comprehensive development strategy which is not lopsided but is instead well-balanced, internally consistent and designed to achieve high rates of economic growth, diversification and strengthening of the economic structure and desirable levels of productive employment. And we need to achieve these objectives without serious pressure on the balance of payments beyond the normal current account deficit which requires to be financed in the process of development (sometimes called the "development deficit"). The difficulties in determining the appropriate blend and relative emphasis in each of the two dimensions are quite severe and depend on the size, resource-base and geographical location of the country concerned, the availability of statistical data, the quality of economic analysis available to the authorities and, to some extent, the political ideology of the country concerned.

This having been said, we may have to consider certain sequential emphases. For example, in critical periods we may have to put more stress on economic growth and economic recovery rather than on employment creation or meeting basic needs, while in other medium-term periods we may have to shift the emphasis towards the latter approach.

(f) CDB in Relation to Comprehensive Development Strategies

In the Bank we have tried, in formulating our five-year lending programmes for our borrowing member countries, to reflect this comprehensive and balanced development strategy to the maximum extent consistent with the national strategies, policies and objectives of these countries.

V. FURTHER ELABORATION OF THE VERTICAL DIMENSION

Let us discuss in greater detail the vertical dimension. Since we need high rates of economic growth as a necessary, although not sufficient, condition to promote the fulfillment of the basic needs of the people and employment creation, it is clear that we need to encourage and promote vigorously the local and regional modern

private sector and that we have to attract foreign private investment technology on a selective basis consistent with the short-term and long-term national economic advantage.

At the same time, it should not be taken as evidence of lukewarmness of outright opposition to foreign private investments if we seek to reserve sectors of the economy for national enterprise - whether State or private or a mixture of the two. For virtually every country in the world (even the most developed and market-oriented) treats national enterprise more favourable than foreign enterprise at least in some respects - however welcoming it may be to the latter. While equality before the law should be assured to foreign private investments, there may well be certain areas which should be reserved for State and/or private national ownership - in full or in part.

Examples are: exploitation of natural resources (particularly minerals, agriculture, forestry and fisheries); limitation on access by foreign enterprise to local bank credit; and restriction of the full right of such enterprise to participate in certain small-scale activities, particularly small-scale manufacturing and service activities producing for the home or regional market and using relatively simple technologies and small amounts of capital per worker; relatively small-scale construction; and certain professional and technical services. These are best left to indigenous enterprise and personnel.

For just as there is a case for protection of particular industries (for a limited period of time) on the well-known "infant industry" grounds, so is there a case on "infant economy" grounds for protecting local entrepreneurs in the hope that in the long run such protection will be reduced as local enterprise learns to compete more effectively with foreign enterprise by acquiring the necessary entrepreneurial, managerial and technical skills.

While the modern private sector in manufacturing, tourism and mining and refining can be an important engine of growth, we cannot rely solely on its trickle-down effects. We say this in the light of the experience of the 1950s and 1960s in the Caribbean where, in spite of the fact that some of the countries had a high rate of growth in the manufacturing, tourism and mining and refining sectors based on large part on a relatively large inflow of foreign private capital, unemployment (both in terms of absolute numbers and as a percentage of the labour force) actually increased. There were also very few linkages created between the different sectors of the economy, while the local food-producing sector languished.

This kind of trickle-down effect not only left serious imbalances and lack of linkages in the economies, but it also worked too slowly to meet within a reasonable timeframe the aspirations of the poor and the unemployed. This means that in the 1980s we must combine the high growth-rate trickle-down approach with some kind of basic needs approach (suitable to the Caribbean and therefore

emphasising relative labour-intensity in manufacturing production and increased productivity per acre and per man among small farmers). And we must also pursue strategies in the modern private sector which seek to encourage more labour-intensity and greater use of local and regional resources as inputs. As we shall see shortly, a less protective and more export-oriented industrial development strategy may be of some assistance in promoting more labour-intensity in the growth process.

We must also in the interest of employment creation seek to encourage and promote not only the medium-sized and large-scale local private sector enterprises but also the small-scale private sector -small manufacturing and service industries and small and medium-scale agriculture. These smaller-scale activities tend to have lower capital-labour and capital-output ratios than the larger-scale activities in the modern private sector - that is, they need less capital per worker and per unit of output, thus promoting employment and economising on scarce capital.

This leads me to reflect on the precision of the term "private sector". It is a very ambiguous term. It is always necessary to specify as precisely as possible which element of the private sector we are thinking of:

- . the large-scale foreign private sector (mainly the transnational corporation) engaged in manufacturing, tourism, mining and refining and the provision of financial services;
- a. smaller foreign private investors in manufacturing and tourism;
- b. local privately-owned large-scale and medium-sized enterprises in modern private sector enterprises engaged in agriculture, manufacturing and tourism (the directly "productive" sectors) and in important service sectors such as banking, insurance, construction; etc.;
- c. small enterprises in agriculture, agro-industry, manufacturing and services (as well as craftsmen and makers of handicraft); and
- d. local medium and large-scale privately-owned enterprises in the distributive sector largely geared to importing goods.

Omitting the last-named (e), all of these activities need encouragement and promotion by the authorities - with the long-term aim of building up vibrant local and regional enterprises which could, in association in certain specific areas with large-scale and smaller foreign-owned enterprises, make the economies more dynamic and more export-oriented in the manufacturing sector.

Particularly needed are policies and programmes to improve production and productivity in the small-scale private sector - that is to say, small industry, small service businesses and small farmers. The same holds for the small individual and

family craftsmen and makers of handicraft products, particularly in relation to the tourist industry, where there is a strong case for imposing quantitative restrictions on a regional basis on imports of certain foreign-made souvenirs and craft items.

With regard to the larger firms in the last-named activity, distribution, they should be encouraged to move in the direction of becoming producers and exporters of locally-made manufactures.

The basic needs and anti-poverty approach, as also the growth-oriented modern private sector approach, strangely enough, both tend to lead some of us to forget the role of medium and large-scale physical economic infrastructure - Electric Power, Drainage and Irrigation, Telecommunications, Ports, Airports, large-scale Water and Sewerage projects, Main Roads, etc. We must pay due attention to the need for economic infrastructure, while being strict and prudent in embarking on such projects by taking into account the budgetary implications, the need for Public Utilities to be profitable, the increased external debt burden where such projects are financed from foreign loans, the need for cost/benefit analyses of the projects concerned and the fact that the stimulation of directly productive activity, and not just the construction of huge structures for their own sake, is the true objective of the provision of such economic infrastructure.

VI. FURTHER ELABORATION OF THE HORIZONTAL DIMENSION

We now elaborate on the horizontal dimension - whether we should be inward-looking or outward looking in various sectors, sub-sectors and activities. We start with the subject of Trade and Protection in Manufacturing.

(a) Trade and Protection in the Manufacturing Sector

It is undoubtedly the case that manufacturing industry in the Caribbean, because of the small size of both the national and regional markets, must be predominantly oriented to extra-regional markets. It is also true that high levels of protection, particularly by means of quantitative restrictions, must for many (although not all) products be phased down over a period of time as a means of tilting the balance of incentives more in favour of extra-regional exports as against national and regional import-substitutes. In this way, an over-protected and therefore high-cost and inefficient industrial structure would be avoided and economies of large-scale production achieved.

In this connection, three specific dangers of excessive protection of industries deserve emphasis. The first is that in many cases the establishment of assembly industries may produce the phenomenon of "negative value-added" for the economy. Where an import-substitute assembly-type industry replaces imports,

the price of imported inputs for the locally assembled products may be raised by the overseas supplying company. Added to this would be the payments overseas of dividends, interest and technology and management fees - to that in the new situation there will be a net loss of foreign exchange to the economy or "negative value-added". It should be noted that here I use the term "value-added" in the special sense of the actual value of production accruing to the nationals of a given country from a particular type of economic activity, after deductions have been made for imported inputs and outflows of incomes earned by non-nationals. Thus, although it is seldom taken into account, negative value-added can also occur in export industries. This would be the case if the gross value of export earnings of these industries fell short of the value of imported raw materials, components and technology including foreign payments for educating and training the workers plus remittances of profits and dividends associated with foreign investment plus external interest payments for related infrastructure plus of course, subsidies (on Public Utilities and Industrial Estates) given to boost the profitability of the industries in question.

The second specific danger of a high level of protection for manufacturing industry is that it creates incentives to producers to shift resources into import-substitution industrial activities and away not only from export industries but also from food production - particularly for the local and regional markets.

The third specific danger is that in import-substitution strategies virtually all imported raw materials and other inputs as well as capital goods may enter duty-free. This makes the "effective rates of protection" (that is, the protection on "value-added") higher than the "nominal" rate of protection on the gross value of final output. Apart from the loss of government revenue, it also discourages local and regional production of inputs and encourages capital-intensity in the manufacturing sector.

The foregoing considerations point to the need for close appraisal of manufacturing projects in terms of cost/benefit analysis which looks not only at the financial profitability of the project to the investor but also at its economic rate of return - that is, its net contribution to the national economy as a whole.

Taking into account all the relevant factors, it cannot be denied that our manufacturing sector must in future be heavily oriented to extra-regional markets in the interest of achieving efficiency and economies of large-scale production, maximising foreign exchange earnings and creating incentives for local and regional production of food and of inputs into the manufacturing sector. This should also help with employment creation in our manufactured exports insofar as our comparative advantage in international trade reflects our situation of abundant supplies of labour and a shortage of capital.

The question that arises next is what type of export-oriented industries we should establish if they are to have the maximum effect on foreign exchange earnings

and employment in the short-term and on self-reliant development in the longer run.

It is obvious that the simple "enclave" or "offshore assembly" or "segmented production" type of industries tend to be relatively heavy employers of labour. On the other hand, such industries tend to employ mainly unskilled (and therefore poorly paid) workers and seldom have linkages with the rest of the economy. Moreover, there is little, if any, participation of local and regional factors of production (whether capital or management or skilled labour) other than unskilled labour at the same time as they make heavy demands on economic and social infrastructure.

Our businessmen and national and regional planners must therefore aim at having our countries move up the scale from the simple "enclave" industries to more sophisticated and technology-intensive industries requiring a relatively high level of skills and capable of having more linkages with the rest of the economy. On the other hand, workers in the Region should realise that they cannot expect high and increasing wages in export manufacturing unless the level of skills and productivity is being continuously raised partly by their own efforts and partly by training schemes provided by the manufacturing firms and by the governments.

Sub-contracting by locally-owned and managed firms for exports abroad to companies (or their affiliates) which supply the components to be locally assembled and the development of joint ventures with foreign capital in export-oriented industries are obviously more valuable to the economy from both a short-run and a long-run point of view than the simple "enclave" industries.

Leaving aside two most valuable types of export industry - namely natural resource-based industries (which are often heavily capital-intensive) and processing industries based on local production of agriculture and raw materials - the most desirable type of manufacturing export industry is one where there is local control of, or substantial participation in, the capital and management of the enterprise, use of a reasonable proportion of local inputs, and scope for employment of relatively skilled labour per unit of capital invested.

Finally, needless to say, many existing import-substitution industries can gradually become oriented to extra-regional markets.

(b) Looking Inwards within a Larger Area - Regional Integration

The case for a largely outward-oriented industrial strategy cannot be refuted. But this does not mean that we have exhausted all possible opportunities for national and regional import-substitution, particularly the latter. This is where regional economic integration becomes relevant. Integration is really an extension of the inward-looking strategy to a group of neighbouring partner countries. Integration can facilitate economies of large-scale production not always available on the

basis of the national market alone and can also bring together natural, human and financial resources to produce certain products with high regional value-added. In addition, exporting to other countries in the integration grouping can be viewed as a training-ground for exporting manufactures to extra-regional markets.

Some twenty prima facie feasible national and regional import-substitution industries have been identified for the CARICOM region and the Standing Committee of Ministers of Industry has started an allocation exercise based on such studies. This is to be a continuing process and more viable import-substitution industries for the national and regional markets will no doubt continue to come up.

(c) Economic Cooperation among Developing Countries

Exports of manufactures can also be promoted to other parts of the developing world as part of the recent movement to Economic Cooperation Among Developing Countries.

First of all, there is the possibility of the widening of CARICOM in due course to include more islands of the Caribbean Archipelago and Suriname. There are also distinct possibilities of some kind of linkage being established between the Caribbean Community and the Andean Group in South America, with Mexico and Brazil and with the Central American Common Market, if the latter is revitalised. Looking even further afield, there are also wider possibilities of South-South cooperation in production and trade - for example, with Nigeria and the other members of the Economic Community of West African States (ECOWAS), provided that air and sea transport links are developed.

(d) Opportunities in North-South Trade

One of the difficulties faced by developing countries such as those in the Caribbean in exporting manufactures is protectionism resorted to by developed countries. Where such protectionism is reduced, however, opportunities for exporting manufactures to the developed countries arise. In this connection, the fact of free access to the European Economic Community under the Lome Convention and the possibility of free access to the North American market under the Caribbean Basin Initiative provide good immediate and medium-term opportunities for extra-regional exports of manufactures to the industrialised countries of the North.

(e) Tourism

Tourism is evidently a service activity which can earn significant amounts of foreign exchange. A large tourism sector in our small and very small countries is bound to be based on an outward orientation. But the pursuit of a regionally-oriented tourism side by side with outward-oriented tourism should not be ignored.

(f) Scope for Small Enterprises

Whether the strategy is outward-looking or inward-looking, there will always be scope for production for the local and regional markets by small enterprises in industry, agro-industry, small-scale indigenous tourism and small-scale services. The latter in some cases may be geared to tourism (taxis, entertainment, restaurants, etc.). These are forms of "inward-looking" activity which can not only meet local needs directly but can also in part be indirectly geared to the expansion of the directly foreign exchange-earnings sectors of manufacturing, agro-industries and tourism.

(g) Agriculture and Food Production

Moreover (and very obviously) we have to be inward-looking in the case of good production for the local and regional market, since the necessary land and labour are available in all our countries and since our food import bills are so massive, while we try to be export-oriented both in traditional export crops and newer forms of agriculture, such as fruit, vegetables and other types of horticulture.

We should, however, note that, in all developing countries, protection of agriculture (as well as certain "sensitive" manufactures such as textiles and garments) will long be essential, as has been and is still being demonstrated by this kind of protection practiced by the most highly developed countries even up to this day.

(h) Energy

Very obviously, in the field of alternative sources of renewable energy, both conventional and non-conventional, we have to be inward-looking, aiming at production predominantly for the national market. Moreover, the strict conservation of imported energy, which is daily becoming more urgent, is another inward-looking activity.

(i) Financial Services

In vital areas such as banking, insurance and financial services generally, there is scope for a greater degree of "looking inwards". However, there is still scope for foreign enterprise in specialised areas -for example, in certain types of international commercial and merchant banking which have access to overseas financial resources and in reinsurance.

(j) Technology

This is also the case in technology where we have to be both inward-looking and outward-looking at the same time. We can do this by developing local technology and by adapting imported technology so that it can better meet the needs of the local and regional environments. It should, however, be stressed that the regional building-up of high-level technology capability must rest on the development of a strong science and mathematics base at both the secondary and tertiary levels of education.

(k) Use of Foreign Expertise

Since, like nearly all other developing parts of the world, and in addition, because of the fact that our countries have either small or very small populations, we still need to depend heavily for some time on overseas expertise in many fields - even if we were to maintain existing, and to create new, Common Services and Pools of Exports on a regional and sub-regional basis. What should be kept in mind and actively pursued is the goal of regional self-sufficiency in certain specific areas within a certain time-frame. In addition, where foreign expertise is used by both the public and private sectors, counterparts should be assigned to the exports, whatever the sacrifice in doing so may be, so that local and regional personnel can take over after the experts finish their contracts, thereby not prolonging unduly the need for such overseas expertise.

(l) Emigration

With regard to outward migration of both semi-skilled and highly trained personnel, our educational and training efforts must always be aimed at creating skills for use within the Region. We should not deliberately train people for export. To do so would erode national and regional self-confidence and weaken the sense of national and regional dignity and identity.

Moreover, there is the purely economic aspect. For a tremendous amount of national resources goes into the education and training of personnel with middle and high-level skills. If there is some degree of "over-spill" of skilled and highly trained people into other parts of the world, that is to a large extent unavoidable, though regrettable, and could be accompanied by the benefits of the migrants' remittances. Indeed, serious studies of the costs and benefits to our countries of emigration need to be undertaken.

(m) Source of Capital Investment

Reliance on foreign capital can take three forms - aid, commercial borrowing and foreign private investment and know-how. Our countries (both LDCs and MDCs)

will continue to need high levels of inflows of highly concessional finance for at least the rest of this decade. The reasons are well-known: serious budgetary difficulties, a weak balance-of-payments position and a low rate of savings in both the public and private sectors. But our aim should be to considerably reduce the need for high levels of aid inflows during the decade of the nineties.

With regard to foreign private investment, we should as far as possible try to "de-politicise" and "de-ideologise" this aspect of our economic life and view it in pragmatic terms in the light of two criteria (which must in each case be simultaneously satisfied):

- . whether it makes a net contribution to our national income, our balance of payments and our employment situation; and
- a. whether it contributes in the long run to a more self-reliant type of development or whether it institutionalises and perpetuates our under-development and excessive external dependence on, as opposed to appropriate interdependence with, other countries and areas of the world.

(n) The Special Issue of Employment Creation in Construction and Non-Tradeable Services

It may be thought that a state of reasonably full employment in our countries could be brought about by the expansion of "non-tradeable" activities such as Construction and both publicly and privately provided Services (other than those that earn foreign exchange such as Tourism). However, this strategy is feasible only if the necessary foreign exchange is available. If it is not available, local recipients of income from these activities will be spending a large part of their incomes on imported goods without themselves generating any foreign exchange earnings. Indeed, as demonstrated in recent years, foreign exchange availability in our countries is one of the major constraints not only to economic growth and structural transformation, but also to employment creation. This consideration strengthens the case for a predominantly export-oriented industrial development strategy.

There are just illustrations of the way in which we have to be both inward-looking and outward-looking at the same time, depending on the particular sector, sub-sector or activity.

VII. POLICY INSTRUMENTS FOR PURSUING AN APPROPRIATELY BALANCED DEVELOPMENT STRATEGY

Finally, I wish to refer to the instruments to be used to get the right balance

between the inward-looking and outward-looking and the trickle-down and basic needs elements in our economic strategy. We need two such sets of instruments.

One set is the greater use of the price mechanism in the allocation of resources. We have "to get prices right", as the economists put it. This means improving the internal terms of trade for agriculture by removing price controls on local food production so as to stimulate output, replacing in many lines of manufacturing protective quantitative restrictions by reasonable levels of tariffs, constantly reviewing our exchange rates, interest rates and levels and structure of indirect taxes and re-examining constantly the extent of subsidies on consumer and producer goods and levels of charges by Public Utilities and other State-owned enterprises.

The second set of instruments supplements the use of the price-mechanism and consists of the use in certain instances of more direct governmental influence and intervention - for example, national indicative planning, including the drawing-up of a Public Sector Investment Programme and indicating the sources of financing; State involvement in the ownership and control of certain key economic activities and Public Utilities (provided that these are well-managed and reasonably autonomous in their day-to-day operations); developing and promoting appropriate technology; direct export promotion measures; skills training; changing patterns of land tenure; other institutional improvements and innovations; imposition or retention of quantitative restrictions on imports of food and certain "sensitive" manufactured items; exchange controls; selective credit controls; and, above all, the adoption of some kind of incomes policy, difficult as this may be.

The use of such non-price direct measures by the State is anathema these days to some people. Such attitudes are strange. For the logic of combining the "magic of the market" with certain non-coercive forms of overall and sectoral planning and government direct measures and interventions in specific areas in the economies of both developed and developing countries - even those with largely private enterprise orientation - has long been accepted by the vast majority of economists and practical men alike. Indeed, in no part of the world does the euthanasia of the mixed economy appear to be imminent.

VIII. TOWARDS A GREATER DEGREE OF ECONOMIC SELF-RELIANCE IN THE CARIBBEAN

But true development - which combines self-sustained growth, structural transformation and employment creation - must in the end always be inward-looking, even where there is heavy export-orientation in production and trade and heavy reliance on external finance and imported technology.

So far, we have been examining the concepts of inward-looking and outward-looking in the rather literal and tangible sense. Here the essential issue is the extent of involvement of a country in the international economy - that is, the degree of self-sufficiency. This is a question of degree since no country - even huge countries such as the USA, USSR and China - can completely isolate itself from the international economy. But it is possible to view the matter in a deeper and more fundamental sense - that is, self-reliance.

In the last analysis, even in small and very small countries such as ours, self-reliance means the will and the determination of the people of the member countries of the Caribbean Community, acting in concert, to earn their way in the world rather than to continue to be chronic supplicants for the assistance of donor countries and the international community. At the present juncture, as we have already seen, large capital inflows on highly concessional terms are necessary for the rest of this decade, given the severe foreign exchange and budgetary problems of most of our countries; but such large inflows of concessional finance should be utilised to enable the economies to stand on their own feet by making the necessary structural adjustments to overcome not only the centuries-old pattern of dependent and lopsided underdevelopment, but also the unfavourable international economic situation which emerged in the 1970s and will almost certainly continue in the 1980s. The vital factor in all this must be our human resources, suitably educated and trained, and motivated to work hard and productively, to save and mobilise financial resources for development and to search relentlessly for new opportunities for production, for technological innovation and adaptation and for markets.

In the end, therefore, while the economies of the Region need a predominantly outward orientation in many aspects of production, trade, technology and finance, they also need to be inward-looking in deeper and more fundamental aspects of self-reliance, the most important being the "internalisation" of the economy - that is to say, the creation of a regional economy, with the impetus of growth, structural transformation and employment creation being increasingly generated from within our countries and our Region from our own human, technological and financial resources. In other words, we must learn how to earn our way in the world by a combination of individual, national and regional efforts.