

**RESEARCH NOTE**

## **Convergence of Caribbean Economies: A Critique**

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**Abstract:** *In his paper 'A New Frontier for Caribbean Convergence', Winston Dookeran attempted to define how the Caribbean region should respond to new global challenges. He rightly identified a conflict between integration and convergence, in that structural integration is a problem that could be overcome by greater convergence, the latter defined as regional expansion with increased competitiveness via financial integration and the clustering of industries in which private-public-sector partnerships have an important role to play. We argue here that, although Dookeran's analysis opens up important lines of enquiry, there are three primary omissions in this idea of convergence: first, the use of supply push, meaning the development of regional capital markets, systems of transport and communications, the pooling of resources, and an expanded education sector; second, how the demand for this supply push will be selected and generated; and finally, how to overcome the current production mores of the region's entrepreneurs, which are grounded in a culture of import-buy-sell which is sustained by one-horse export economies. We suggest that, by creating a national - or even regional - innovation system it may be possible to transform the on-shore sectors into genuinely export-oriented sectors.*

**Keywords:** Economic Diversification; Caribbean Convergence;  
National Innovation Systems

The paper 'A New Frontier for Caribbean Convergence' by Winston Dookeran is currently enjoying regional - and even extra-regional - attention.<sup>1</sup> The author postulates an initiative, not to supplant the Caribbean integration movement, but to add to it; to create an Economy of the Caribbean Sea characterised by what he terms 'Caribbean Convergence'. In this context, convergence is not to be confused with the formally defined concept in economics. The paper declares that the CARICOM institutions have reached their limits. They are enslaved by the methods of the past and paralysis of thinking, in that the underpinnings of that project were trade and markets. It also states that trade and markets should be buttressed by production, distribution and competitiveness.

Indeed, the above five factors are crucial to any sustainable economy, whether that of an individual country, the region as a whole, or otherwise. Further, the paper correctly sees that the Caribbean Sea economies should respond to the new challenges thrown up globally, in order to capture emerging production opportunities. In so doing a greater role (not defined in the paper) is postulated for public-private partnerships which are driven by non-state entities. It is worthwhile noting here the reticence of the regional private sector to engage in risk-taking in the development of regional industry, something that was recognised as far back as Sir Arthur Lewis' groundbreaking treatise on the industrialisation of the British West Indies.<sup>2</sup>

Dookeran problematises the relationship between the integration and convergence of the regional economies, stating that structural integration is a problem and convergence should be the appropriate response for the Caribbean development process. Convergence consequently includes the expansion of CARICOM (the intent of the ACS) to include the Dominican Republic, the Dutch and French islands and French Guiana. Later, this definition is extended to also include making the region resilient and globally competitive, involving finance, clustering, infrastructure and production. What is said to be new in the approach of the paper is a novel form of private-public sector partnership which calls for building regional capacity to address global challenges. This is possibly in response to an earlier study which showed that the region is operating on the periphery of the global production space and its low level of skills inhibits economic development into globally competitive products.<sup>3</sup>

For Dookeran, regional development has to stand on the following pillars: inclusive and equitable development;

transformative growth in the capital sector; pooling of regional resources and restructuring domestic-foreign investments and finance; innovative and entrepreneurial competitiveness (driven by ICT in efficiency and innovation/entrepreneurship); and adaptive and re-aligned institutions, in particular the necessity for low cost terrestrial and aerial linkages and communication technology.<sup>4</sup> In recognition of the fact that the recommendations are primarily at the conceptual level the paper says that the detailed specifics of the objectives and strategies should be studied and spelled out by research and policy groups. In response, CARICOM has established commission on the economy and another on regional transportation. It must be noted that Sir Arthur Lewis's solution for regional industrialisation of the West Indies utilised similar objectives: production, diversification and investment were seen as key to economic development.<sup>5</sup>

The paper also recommends the formation of a single regional stock market as an added advantage to expanding regional production, trade and equity markets. The international evidence does not fully support this centralisation and even potentially suggests the importance of competition among capital markets. Moreover, Avinash Persaud, chairman of the London-based Intelligence Capital Ltd, has questioned the rationale of individual Caribbean countries - including Trinidad and Tobago (T&T) - pursuing the establishment of stock exchanges, as well as securities markets, which will not easily impact the larger financial world.<sup>6</sup>

Central to the above pillars has to be a strategy of production integration (clustering, for example) with the emphasis on it being private sector led; the important issue being to design appropriate modalities to stimulate this private sector response. Again it is noteworthy that we have seen numerous attempts in T&T to stimulate such a response - including negative listing and Pt Lisas - but to no avail. The paper closed with the recommendation of twelve points in an action plan that are included under the headings of integrated transport logistics, capital market mobility, energy and food security policies, and a finance policy.

## **A CRITIQUE**

There are three primary omissions in the paper. The first is that it focuses on the supply-push to develop its central objective of convergence. In other words, it is believed that, if we were to establish a regional capital market, a regional transport and

communication system, pool our resources, widen the regional market, the production process would organically spring into action. We have enlarged our education system with the hope that the supply-push of more tertiary trained people would impact positively on economic development in T&T. We have actually seen the opposite causal effect: there has indeed been growth of GDP because the sale of commodities has facilitated increased spending on education, which has increased the supply of certified people. However 79 per cent of these people emigrate.<sup>7</sup> Farther afield it is said that India's production of trained IT staff, itself a supply-push, is what has resulted in its global ICT industry. This view ignores that expatriate Indians in the US saw the demand for such skills and were the bridge that connected the US demand to the Indian supply.

The second omission - which relates to the first - is that the paper does not show how the demand which will utilise this supply push will be selected and generated. Moreover, how will it respond to acute global challenges such as population growth, shortage of clean water, shortages of cheap and essential commodities, climate change, global warming, increasing oil prices, renewable energy etc.?

The last - and perhaps the most critical - omission relates to how we should address the production mores of the region's entrepreneurial population, a class that has generally operated and been protected behind the one-horse economies driven by foreign investment. As even Lewis himself noted, Caribbean entrepreneurs traditionally prefer to import-buy-sell as opposed to taking the risk of industrial and productive activity.<sup>8</sup> How is the public-private sector relationship going to address this problem?

The success of convergence or integration of the Caribbean countries is predicated on the need for them as a group, not only to trade among each other, which a larger Caribbean market could encourage, but as individual entities to produce high value innovative goods and services that they can export to the so-called developed world (and thereby successfully finance imports not built in the region). Anthony Clayton of the University of the West Indies (UWI) and his colleagues argue that an economic transformation of the region based on incremental innovation is high risk; what we actually require is disruptive innovation that produces game changers.<sup>9</sup>

Similarly, Vishnu Persaud - former Head of Economic Affairs at the Commonwealth Secretariat and also a Professor at UWI - who

was recently honoured by the Barbados government for his outstanding work in public service regionally and internationally, does not believe that the immediate requirement is regional solutions or more regional integration.<sup>10</sup> He asserts that 'immediate economic restructuring at the national level is absolutely critical, rather than an emphasis on a regional approach, which is more of a longer-term imperative'. For each entity to participate in disruptive and innovative activity, its human resource has to possess the skills, the technological abilities, to produce goods and services that are globally competitive. As Ricardo Hausmann and Bailey Klinger have argued, the region as a whole is operating in the sparse sections of the global product space and as such does not have the skills to jump to the production of these higher value exports.<sup>11</sup> The Caribbean experience has been one in which the production of educated human resources is insufficient to generate the specific specialised skills required to compete globally on account of three phenomena: the lack of necessary cutting-edge research and development; the historical reluctance of the private sector to invest in riskier industrial activity; and the lack of identification of potential global market demands.

The immediate objective of the various regional countries then has to be the long-term transformation of their economies - to 'plant people', according to the Chinese proverb - and choose wisely certain general technological areas that focus on the problems and challenges of the emerging global economic centres. There is no quick fix for the transition from the plantation economies of the region to the envisioned state. Hence countries that have lost their preferential advantages, along with those that will be hit by a reduction in tourism traffic, will indeed suffer as they restructure their economies. In the meantime, they will have to try to serve the successful global entrepreneurs: for example, by repairing ships, expanding and making their plantations more efficient by improving productivity via foreign technology, and even grasping at climate change opportunities (Florida, for example, is becoming too cold to grow some of its staple tropical crops).

The various regional institutions - CDB, CARICOM, CARIFORUM, and the ACS - can support the region's countries by providing the philosophical vision, the tools, financial help, and technology directions in order for them to reconstruct their capacity and capabilities. None of this will happen by configuring an enabling

environment. Caribbean Convergence will not occur without the necessary direct intervention to produce the skills and the new companies that can perform in the emerging global markets.

The paper has certainly put the age-old problem of regional economic development on the agenda once more, but it has not, as yet, fully addressed the strategic management problem.

### **STRATEGIC MANAGEMENT OF THE ECONOMY**

In light of Vishnu Persaud's comment that the immediate requirement relates to national economic restructuring, the following will demonstrate how the strategic management of the economy could be undertaken for T&T, implying that such a framework – if not, at present, the details – could be applied to other regional entities.

The vision of this strategic management process is sustained generation of wealth, the creation of well-paying jobs, and the equitable distribution of the proceeds of economic expansion to the wider population. However, care must be taken in defining these objectives since they are about a future which is inherently unpredictable and uncertain. A realistic objective could be the creation of an economic system that can adapt to this uncertainty of the future: a so-called 'Experimentally Organised Economy'.<sup>12</sup> According to Michael Porter's longstanding stages of growth theory, economic development depends on improving the productivity of the national economic factors of production.<sup>13</sup> This progress depends therefore on upgrading competitive advantage via the upgrading of the factors themselves: from basic factor advantage to investment, and then to the innovation stage, facilitating the ability to compete globally in highly productive endeavours; it involves exploiting the challenges to the global economy (climate change, food and water shortages etc.) or, say, entering the current competition of writing applications for mobile phones.

By contrast, Hausmann claims that the region is operating in the sparse areas of the global production space, with limited skills to exploit these kinds of activities. It will consequently be unable to progress without direct governmental intervention. This is because, even where local skills are extensive – such as in T&T's energy sector – they are ring-fenced and therefore of little help in reconfiguring the country's broader on-shore economy.

T&T's local activity is also in the basic factor-driven stage upstream in the energy sector, and its government used its wealth to secure loans to build the downstream natural gas industry. This investment did not develop advanced factors of production: it bought turnkey plants, provided training programmes to manage and maintain these facilities; a process that continued when greater FDI was invested in the industry. Unfortunately there is little indication that the local private sector is improving the economic factors of production either on- or off-shore. Though the possession of petroleum resources (or other commodities, or even tourism) could in theory deliver reasonable per capita income, such factor-driven economies have poor foundations for sustained economic growth.

In the investment stage, competitiveness depends on the nation's ability to invest aggressively in imported technologies to compete in sophisticated markets. The technologies are absorbed and further improved upon locally. Such improvements lead to innovation where firms create novel products, services and processes. By contrast, T&T's private sector is satisfied to use the wealth generated off-shore to provide for the basic needs of the population via the process of 'buy-markup-sell' long ago identified by Lewis. In sum, the private sector is unwilling to take the required risk to meaningfully industrialise. Furthermore, the local banking/finance sector sees no need to take these risks as it makes plenty of money by financing on-shore commerce.

The T&T Government had previously hoped for local private sector investment downstream of the natural gas-based plants, but this has not generally been forthcoming. Recently it has been calling for on-shore diversification via local innovation through the provision of industrial parks, tax incentives, the declaration of various growth poles across the country, small disparate loans to entrepreneurs, improving enrollment in general education, and even encouraging public innovation via a national competition.

But are these sufficient in the context of Hausmann's call for a direct intervention by the government?<sup>14</sup> The challenge facing T&T in the face of global economic uncertainty is to build an adaptive economic system: one that is capable of altering its structure, behaviour and interactions with others in response to pronounced uncertainty, both locally and globally.

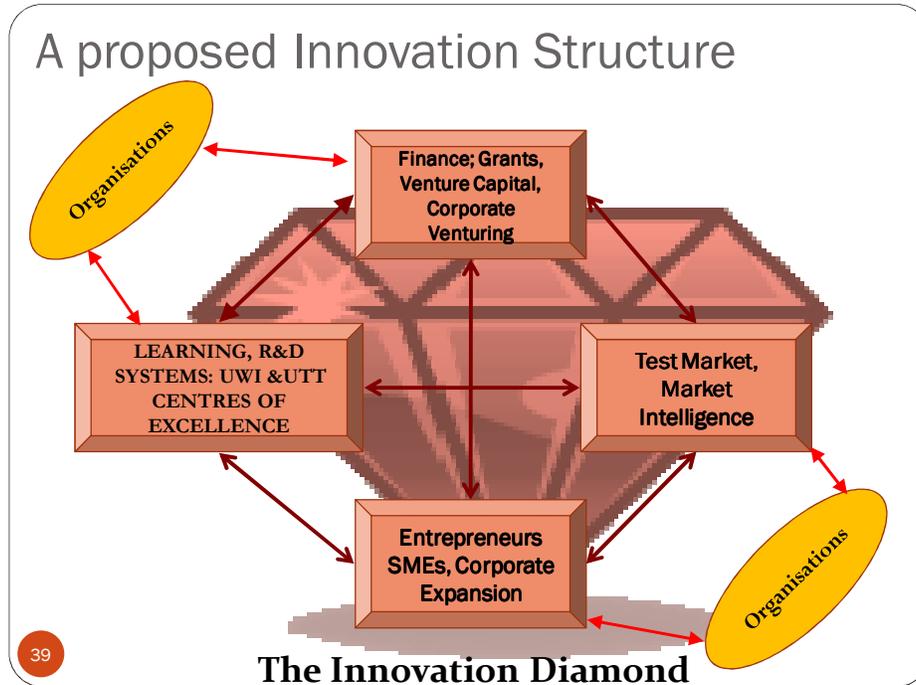
Economies are complex adaptive systems, but they can exhibit a degree of structural irreversibility due to the bonds formed during their development.<sup>15</sup> These can inhibit their ability to adapt to

current economic discontinuities, a good example being T&T's depletion of petroleum resources and the emergence of cheap shale gas elsewhere. However, learning is key to the ability to adapt. Learning by experience - by doing things, in particular - teaches us how to recognise the early signals from the economic environment, and how to collate these signals to foretell the now unknown risks and challenges. It is perilous to comfort a population with the hope that economic success is simply about encouraging more FDI to go looking in the deep for more oil or gas, or that the tourists will return once the crisis has passed. T&T's petroleum resources have sheltered the economy from the broader challenges of the global economy for at least sixty years. They have constrained its stakeholders' experiences, so contributing to the historical bonds that have made it impossible for the private sector to respond to both past and present local and global threats. This is the giraffe syndrome, such that with six foot legs, because of its conditioning, the animal can be penned in by a three foot fence. Such an economy cannot self-adapt, it cannot escape its history.

The key is to create an embryonic adaptive economy by building a new adaptive and innovative spiral in which actions set off by the spiral expand and build on their own momentum towards greater adaptability of the larger economy. Such a spiral constructs and interconnects institutions, local and global networks. It builds redundancy, the symbiotic partnerships (clusters) that can respond to uncertainties and the demands of local and global economies. It also includes the processes of technological information and knowledge acquisition; their diffusion and adaptation, and hence innovation.

It is indeed a government driven National Innovation System - the Innovation Diamond shown in Figure 1 - in which centres of excellence are created that focus on R&D directed at economic development and services to the innovative and emerging entrepreneurs. The Innovation Diamond is designed using the framework of the Triple Helix which was first introduced by Henry Etzkowitz.<sup>16</sup> Formal institutions have to be established to manage and provide these activities, among the re-directed universities (and other R&D organisations), the government and the embryonic private sector (provided via centres of excellence). These activities have to be integrated and interconnected with a finance infrastructure, test market and market development with a scope that includes the global market.

**Figure 1 - The Innovation Diamond**

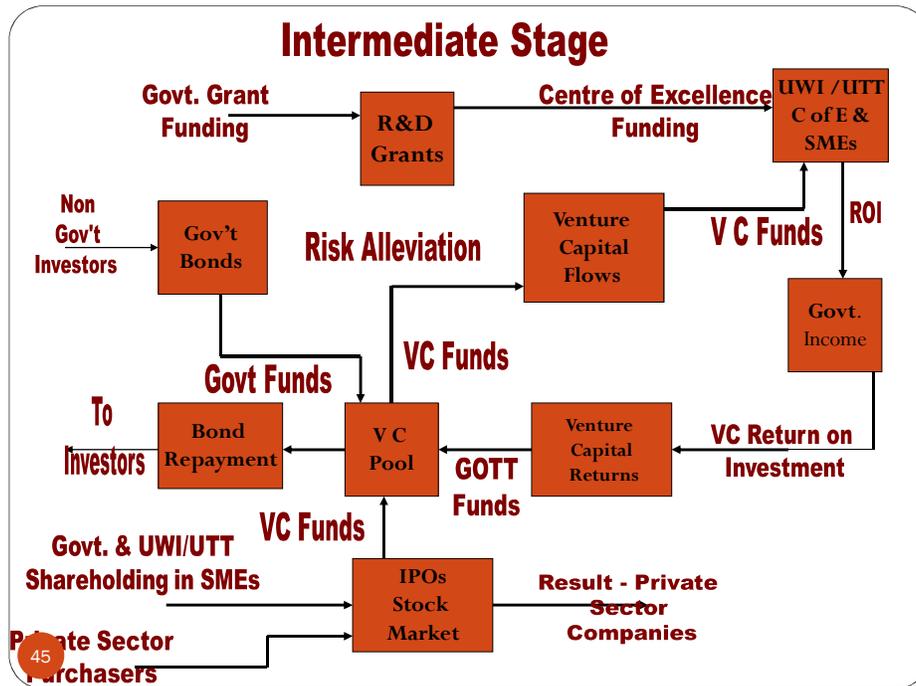


Source: Mary K King; 'Economic Stages of Growth', presentation given to the Congress of the People (COP), August, 19<sup>th</sup>, 2009.

The two initial processes of the Innovation Diamond are legitimisation (obtaining buy-in from the public) and foresighting (deciding on the broad economic needs and technological focus of the innovation system). Others include the management and protection of intellectual property, business support for innovation and entrepreneurship and facilitating marketing and market development. The crucial process is the financing of all activities whose consummation will take many years. In T&T and the region, history will inevitably bestow this role (financing) to governments, which will have to continue to facilitate earnings in the current economy and, over the longer term, build towards this adaptive economy. Though it is not expected that the present local private sector will participate in financing elements of the high-risk and new adaptive economy, it could indeed be encouraged indirectly to do so by government assuming the risk via long term bonds to the private sector (Figure 2) which can provide the high-risk funding

for the new economy. Eventually the local private sector can also participate in the spiral of the adaptive economy via government IPOs of the successful innovative start up companies.

**Figure 2 – Funding Strategies**



Source: author's own design (copyright: Mary King).

But who has done this before? Are the regional entities too small to attempt this kind of economic development? Indeed, in a recent report by the IDB entitled 'Is There a Caribbean Sclerosis?', it is claimed that though the average growth rate of small economies (3.5 per cent) is lower than the rest of the world (3.8 per cent) the standard deviation of small economies' growth is actually larger. This implies that smallness is not a binding constraint on economic growth; indeed, this is something that is widely identified in much of the 'small state' literature.<sup>17</sup> What moreso negatively affects the growth of small economies includes low productivity, low competitiveness, weak institutions and a non-dynamic and non-innovative private sector. Hence any growth constraint imposed on the regional entities by size can be overcome by a diversification that focuses on innovation, building a relevant private sector to

compete in new global sectors, along with the required institutions, thereby creating the Innovation Diamond.

## CONCLUSIONS

In conclusion, this short research note offers the follow suggestions as a way forward:

- 1) Immediate focus should be on the national restructuring of the various economies.
- 2) Aim to generate specialised economic factors, particularly the human resource.
- 3) Choose general and a limited number of areas to become globally competitive, even utilising the nation's comparative advantages.
- 4) Examine the history and current structure of the economy and put in place an embryonic entrepreneurial/innovative system based on the Triple Helix framework.
- 5) Ensure that the financial system is also in place. The local and international linkages and of fundamental importance a system that can acquire, implement and innovate in the chosen technologies.

The last of these could indeed present a challenge to some nations given their heavy debt burden. Hence the multilateral agencies that are helping these nations, in particular the Caribbean Development Bank, should include in their agendas this economic restructuring. The new BRICS bank is an interesting development, and may well open up new sources of financing too.

## NOTES ON CONTRIBUTORS

Mary K. King, BA (UWI) Mathematics and Economics; Owner and Founder of Mary King and Associates Ltd, a Market Research company. She has been an Independent Senator for seven years and Minister of Planning, Economic and Social Restructuring and Gender Affairs for one year in the T&T Parliament. She has also been an economics columnist for the *Trinidad Guardian* and the *Trinidad Express* newspapers. Mary has developed the concept of the Innovation Diamond, which is the centre-piece of her articles on the diversification of the T&T economy, though its ideas can be applied to the wider region. Much of this work has been developed in newspaper articles (the philosophy of the Tapia House group of which she was a member) and has represented the economic infrastructure which supported the work of UWI's Focus Group on Research and Innovation, the result of which is a recent paper delivered at a conference commemorating Sir Arthur Lewis.

St. Clair A. King, BSc (Glasgow), Electrical Engineering, SM (MIT, Cambridge) Electrical and Control Engineering, PhD (Glasgow) Control Engineering. He joined UWI as lecturer in Control Systems in 1968 and resigned in 1999 at the level of Professor, Electronics and Instrumentation. He created an outreach industrial group, The Real Time Systems Group (RTSG) which holds copyrights for software systems designed and implemented for the energy sector, TSTT and T&TEC. In 1999 this group was spun out into the private sector as Ixanos Ltd, which today is a thriving firm continuing the work of the RTSG. Because of the experiences and problems associated with the creation of such a group and company, this author felt it necessary to become intimately involved with economic growth theories and was chosen to chair the UWI focus group on Research and Innovation.

## NOTES

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