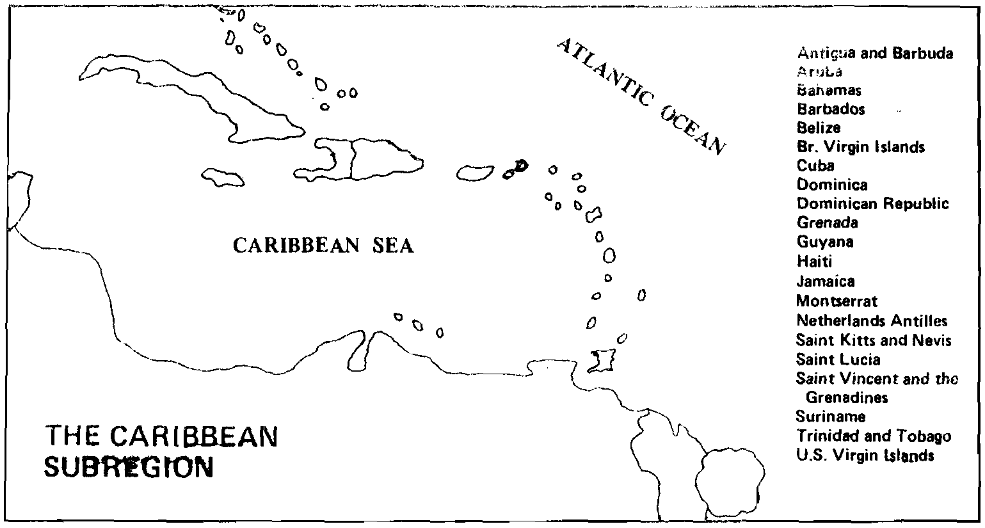
CARIBBEAN DEVELOPMENT AND CO-OPERATION COMMITTEE



GENERAL
LC/CAR/G.279
31 October 1989
ORIGINAL: ENGLISH

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean

CARIBBEAN DEVELOPMENT AND CO-OPERATION COMMITTEE

Twelfth session
Curacao, Netherlands Antilles
4-8 December 1989

A BRIEF OVERVIEW OF ECONOMIC ACTIVITIES OF CARIBBEAN COUNTRIES - 1988 -

UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean

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INTRODUCTION

The practice of beginning an evaluation of economic performance of Caribbean countries with an analysis of global developments is not mere ritual. It is a recognition of the importance of developed industrial country economic performance for Caribbean prospects, in terms of their exports of both goods and services. As the region is also dependent upon imports for most of its consumption and investment goods and as government revenues are closely tied to imports through indirect taxes, the importance of the external sector becomes overriding. Its impact on other macro economic variables such as investment and inflationary trends also becomes clear in such an environment[1].

While this interrelationship with the developed industrial countries is longstanding it is not merely a reflection of history, but more importantly of small size and the resulting openness of their economies. Any discussion of regional performance must, therefore, be placed in a global context since this defines the economic space available to the Caribbean. Similarly, any discussion of policy must focus on the capacity of the region to interface efficiently with the industrialized countries since this is necessary to expand the domestic economic space. The challenge facing the Caribbean policy-maker is, therefore, to develop and sustain a range of internationally competitive export activities which are sufficiently flexible to take advantage of emerging demand patterns and which can, nevertheless, be remunerative in the relatively small scale which represents the scope of their production capabilities.

THE INTERNATIONAL SETTING

The unusually long period of global economic expansion which started in 1983, was sustained in 1988. In fact, at 4.1 percent, the rate of growth increased over the previous year by almost 1 percent and was the highest since 1984. The expansion was also noteworthy in that it was achieved with moderate inflation, although there were concerns at the end of the year that this might be on the increase in some countries. Accordingly, interest rates have been on the increase since 1986, being led by the United States (Tables I and II).

But while the global aggregates are favourable, since the good performance of the developed countries and the Newly

[1] Caribbean countries are among the most open and trade dependent in the world, the value of merchandise trade approaching or exceeding Gross Domestic Product in most of the smaller countries. Trade becomes even more important if the importance of tourism for these countries is taken into account.

Table I

Output<1>

	1983	1984	1985	1986	1987	1988
Global Output	**2.8**	**4.5**	**3.4**	**3.2**	**3.2**	**4.1**
Industrial countries	2.8	4.9	3.4	2.6	3.4	4.1
U.S.A.	3.6	6.8	3.4	2.8	3.4	3.9
Japan	3.2	5.1	4.9	2.5	4.5	5.7
Developing countries	1.9	4.0	3.5	4.2	3.4	3.6
Newly Ind. countries	9.5	9.2	3.8	10.8	11.3	10.5
Latin America	-2.4	3.5	3.5	3.9	2.5	1.4
Debtors<2>	-1.5	2.7	3.3	3.7	2.2	1.9

Source: I.M.F. World Economic Outlook.

<1> Annual percentage changes in GDP, at constant prices
<2> Countries experiencing debt service problems

Industrializing Countries (NICs)[2] of Asia have a significant weight, they conceal a wide diversity of performances. In general, the NICs and China are observed to be on a dynamic growth path, Latin America and the Caribbean on a path of low or no growth, while sub-Saharan Africa has experienced economic contraction. Those countries having debt servicing problems, primarily in Latin America, experienced contracting economies, their real output per capita having declined between 1983 and 1988.

Table II

Inflation and Interest Rates

	1983	1984	1985	1986	1987	1988
Inflation<1>						
Industrial countries	4.9	4.7	4.1	2.3	2.9	3.2
U.S.A.	3.2	4.4	3.5	2.0	3.6	4.1
Developing countries	32.4	38.2	39.7	31.1	40.5	3.3
Newly Ind. countries	3.7	2.6	1.8	1.8	2.3	4.2
Latin America	108.6	133.0	144.9	87.8	130.0	277.6
Interest rates<2>						
Industrial countries	10.9	11.2	9.8	7.5	7.8	8.3
U.S.A.	11.1	12.4	10.6	7.7	8.4	9.3

Source: I.M.F. World Economic Outlook.

<1> In percent.
<2> Long term interest rates, in percent.

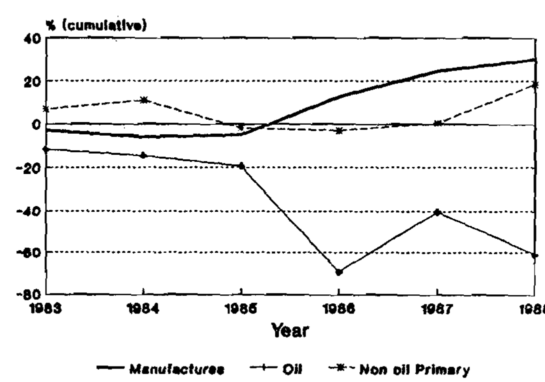
[2] For the purposes of this discussion the NIC's referred to are Hong Kong, Singapore, South Korea and Taiwan.

Domestic demand in the industrialized countries grew steadily from 1983 and after hovering around an annual rate of increase of 3.5 percent for the period 1985-1987, showed a growth of 4.3 percent in 1988. Demand grew fastest in Japan at 7.7 percent, reflecting jointly negotiated policies aimed at re-establishing global balance, but surprisingly was also above average in the United Kingdom, at 6 percent. Yet, while employment, as a consequence, has been growing steadily over the past six years it still remains relatively high at 7 percent in 1988, when compared with the 4.5 percent average recorded for the decade of the 1970s. For most of the developed countries, therefore, with the exception of Japan which recorded a low 2.5 percent unemployment rate in 1988, continued growth does not yet seem to be constrained by labour costs, a fact which might be explained by the rapid increases in productivity which they have achieved in the current decade.

World trade, like the other major indicators has shown positive growth since 1983, the rate of growth increasing steadily since 1985 to a peak of 9.3 percent in 1988. Yet underlying the broad aggregates is a continued deterioration in the terms of trade of the developing countries, which experienced negative rates in five of the eight years of the decade and culminated in a decline of 4.6 percent in 1988 (Table III).

The product category of light manufactures has recorded the greatest gains in world trade prices since 1985, commensurately rewarding those developed and developing countries specializing in the export of these products. Oil producers have at the same time suffered major declines in six of the eight years of the decade, with a decline of over 20 percent in 1988 alone. Non-oil primary producers have also suffered declines in two years since 1985, though prices increased by 18.2 percent in 1988 (Figure 1). As a consequence, while export volumes from the developing countries have been growing steadily and by 11 percent in 1988, their export earnings have not grown proportionally. These trends have accordingly been reflected in the balance of payments of the respective groups of countries.

Figure 1
World Trade Prices



Source: I.M.F. World Development Report

A number of issues loomed large on the global economic agenda in 1988, paramount among them being:

a) the re-establishment of external balances, mainly between the United States, Japan and the NICs of Asia;

Table III

World Trade Indicators<1>

	1983	1984	1985	1986	1987	1988
World Trade Volume	2.7	8.8	3.1	4.4	6.1	9.3
Export volumes						
Industrial countries	2.9	9.9	4.7	2.7	5.3	8.7
Developing countries	1.9	7.1	0.9	9.2	10.6	11.0
Import volumes						
Industrial countries	4.7	12.5	4.6	8.1	6.9	9.5
Developing countries	-2.7	2.5	-0.6	-4.0	5.9	10.2
Export values<2>						
Industrial countries	-0.8	1.3	-0.4	-1.8	0.5	2.2
Developing countries	-3.9	3.6	-4.2	-25.9	0.5	-2.5
Import values						
Industrial countries	-2.2	0.9	-0.9	-9.5	0.0	0.5
Developing countries	-1.0	1.9	-1.7	-9.6	-1.7	2.2
Terms of trade						
Industrial countries	1.5	0.3	0.4	8.5	0.5	1.7
Developing countries	-3.0	1.7	-2.6	-18.1	2.2	-4.6
Fuel exporters	-7.6	0.2	-4.3	-47.7	10.6	-20.7
Non-Fuel exporters	0.6	2.6	-1.7	-1.8	-0.7	0.7

Source: I.M.F. World Economic Outlook.

<1> Annual changes in percent
<2> In S.D.R. terms

b) Renewed concern with inflationary pressures in some of the developed countries, with a consequent impact upon interest rates; and

c) The intractable and worsening situation of those countries having debt servicing problems.

In an attempt to achieve external balance in the United States without having an adverse effect upon global trade, those countries having large surpluses, mainly Japan, the Federal Republic of Germany and the NICs of Asia were prevailed upon to reduce their surpluses in tandem with the efforts of the United States to reduce its deficit. While a measure of co-operation has been achieved, primarily with Japan, the process of re-establishing balance has proven somewhat more difficult than had been expected by the major

Table IV

Balance of Payments on Current Account <1>

	1983	1984	1985	1986	1987	1988
Industrial countries	-18.0	-57.3	-51.1	-17.5	-44.6	-59.0
U.S.A.	-46.3	-107.1	-115.1	-138.8	-154.0	-135.3
Japan	20.8	35.0	49.2	85.8	87.0	79.5
Germany FRG	5.3	9.9	16.6	39.3	45.0	48.5
Developing countries	-62.4	-31.4	-26.0	-42.2	1.4	-19.1
Newly Ind. countries	1.7	6.6	10.2	23.1	30.3	25.8
Latin America	-10.9	-2.5	-4.7	-17.3	-12.0	-11.5
Debtors<2>	-29.7	-19.2	-27.3	-16.9	1.4	-0.4

Source: I.M.F. World Economic Outlook.

<1> In US $billion; includes official transfers
<2> Countries experiencing debt service problems

deficit country, especially in the light of its inability to achieve a significant reduction in its fiscal deficit (Table IV).

In view of the long duration of the cycle of economic growth and the fact that some industrialized countries are beginning to run into capacity constraints, policy has turned once again to dampening inflation before it has a chance to accelerate. There is some uncertainty as to the effect of the current policies. On the one hand, it is feared that they will not go far enough to halt the incipient inflation, yet there is concern that further increases in interest rates will complicate the issue of exchange rate management, particularly in the United States. Further increases could also prove disastrous for the developing countries, by reducing the demand for their exports while at the same time increasing the burden on those experiencing debt service difficulties: a combination of factors, it will be recalled, which ushered in the debt crisis in 1982.

Finally, the problem of the external debt of the developing countries has proven to be more intractable than expected, especially in a period which is conceded by many to have been propitious for their external performance[3]. In part, their problem is exacerbated by the fact that net capital flows to the Highly Indebted Countries (HICs) have been declining as creditor banks seek to reduce their exposure in these countries (Figure 2). As a consequence of their massive repayment schedules, there has been a net outflow of resources for the past six years and it increased from US$ 21.8 billion in 1987 to more than US$ 30 billion in 1988.

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[3] The possibility of increasing interest rates is a major source of concern, since each percentage point rise in LIBOR increases the debt servicing burden of the developing countries by approximately US$ 4 billion.

Table V

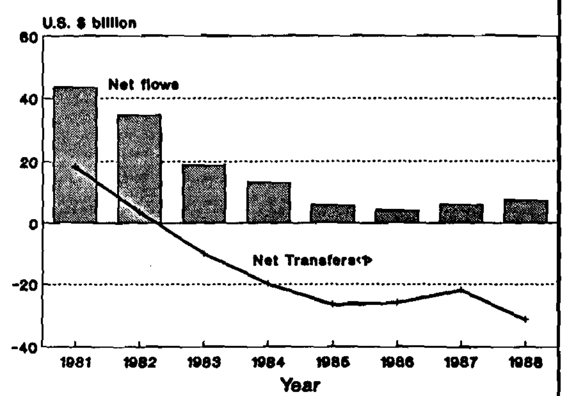
Capital Flows and Debt

	1983	1984	1985	1986	1987	1988
Capital Flows<1>						
Developing countries	76.4	56.7	40.3	47.6	40.9	21.4
Latin America	20.6	15.0	7.2	8.8	13.5	5.0
Latin American Debt						
Total Debt	342.2	358.4	368.1	382.9	411.2	413.8
Debt/GDP	46.4	46.3	45.5	45.5	46.8	44.8
Debt service ratio	40.8	40.9	40.3	45.0	35.5	42.8

Source: I.M.F. World Economic Outlook.

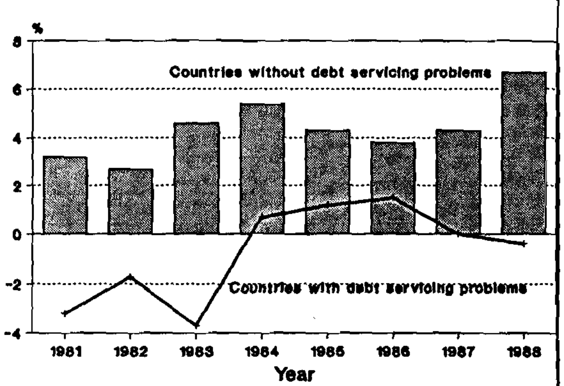
<1> Net external borrowing (U.S.$ billion)

Figure 2
Highly Indebted Countries



Source: World Debt Tables 1988-89
<1>Net flows minus debt service charges

Figure 3
Impact of debt on development
Growth of Real per capita G.D.P.



Source: IMF World Economic Outlook 1989
<1>Highly Indebted Countries

Debt servicing has been possible for most of these countries only through severe economic contraction, so that the growth of those having debt service problems has been negative, while their future growth has been jeopardized as investment has been deferred. The hope of growing out of the debt crisis has not materialized for these countries (Table V and Figure 3).

For the longer-term, the issue of debt relief has been gaining currency among debtors and creditors alike, since debt fatigue seems to be increasing, while there is a growing perception that adjustment policies are primarily geared to the interests of the creditors. In this scenario the probability of defaults is increasing, while there is a growing danger that needed adjustments will be held hostage to the debt issue.

CARIBBEAN ECONOMIES - MAIN TRENDS

Economic performance for the region as a whole was not as strong as in 1987. While most countries continued to record growth in output, it was in general lower than for the previous year. Moreover, as poor performance was recorded for most of the larger countries, almost half of the Caribbean population (47 percent) experienced a decline in income.

Table VI

SELECTED INDICATORS - CARIBBEAN COUNTRIES

	SIZE km2	POPN. 1988	AV.GROWTH POPN.	GDP<1>	GDP/cap 1974	GDP/cap<2> 1988	Debt/cap 1988
Antigua/Barbuda	440	82	0.8	7.8	689	3399	2915
Aruba	193	65	...	...	...	*7500	...
Bahamas	13942	243	1.8	4.3	3362	11447	607
Barbados	431	254	0.2	2.7	1296	5747	62
Belize	22960	180	2.8	3.0	614	*1226	78
Cuba<3>	110860	10414	1.1	2.8	2112	2582	661
Dominica	750	82	0.9	4.8	378	1550	*71
Dominican Republic	49000	6888	2.5	2.2	639	810	220
Grenada	345	106	2.4	4.6	346	1346	65
Guadeloupe	1780	300	...	...	...	*3151	...
Guyana	214970	756	-0.1	-1.4	538	455	2249
Haiti	28000	6285	2.2	0.2	125	*330	*121
Jamaica	11424	2374	1.0	0.9	1038	1219	318
Martinique	1110	300	...	...	...	*3717	...
St Kitts/Nevis	269	47	0.5	5.2	634	2119	36
St Lucia	616	145	2.0	4.7	448	1400	*26
St Vincent	388	114	1.3	6.2	310	1210	*31
Suriname	163265	404	1.0	-3.4	1100	2510	...
Trinidad/Tobago	5128	1234	1.4	-3.0	1778	3782	2012
Br. Virgin Is.	150	12	1.4	7.0	...	9492	...
Montserrat	102	12	0.5	5.2	886	3997	...
Puerto Rico<4>	8800	3294	0.2	5.0	2465	5574	...

Source: ECLAC on the basis of official data.
<1> Average growth rate of real GDP for period 1983-1988; Suriname 1983-1987
<2> In current US dollars
<3> Global Social Product in millions of United States dollars
<4> GDP per capita figures relate to 1975 and 1988
* Denotes latest data available, typically 1986 or 1987

All the economies being surveyed are small, open and vulnerable to external shocks, although there is significant variation in the degree to which these characteristics apply from country to country. In the longer-run, those countries having a more diversified export basket are expected to better weather the vicissitudes of the external environment; yet intense specialization in a few high-growth activities can, in the short- to medium-term, produce significant rewards though at the price of increased vulnerability in the long-run (Table VI).

Such was the situation in 1988, the smaller, tourism-dominated economies showing the most rapid growth. Reinforcing this trend was the fact that many of these smaller economies also benefitted from a buoyant banana industry. Output grew fastest in Montserrat and the British Virgin Islands, at 12 percent and 10 percent respectively, while the slowest growth in the Organisation of

Table VII

Percentage change in GDP
(at constant prices)

	1985	1986	1987	1988
Antigua/Barbuda	7.7	8.4	8.8	7.6
Bahamas	5.2	1.4	4.6	4.7
Barbados	1.2	5.1	2.5	3.5
Belize	2.3	1.5	5.0	7.6
Cuba<1>	4.6	1.2	-3.5	2.3
Dominica	1.7	6.8	6.8	5.6
Dominican Republic	-2.6	2.0	8.1	0.9
Grenada	4.9	5.5	6.0	4.3
Guyana	1.0	0.2	0.7	-3.0
Haiti	0.5	0.5	0.1	-0.8
Jamaica	-4.7	1.9	5.2	1.5
St Kitts/Nevis	5.6	6.3	6.8	4.7
St Lucia	6.0	5.9	2.0	5.0
St Vincent	4.6	7.2	5.7	8.4
Suriname	-2.3	-2.0	-6.6	...
Trinidad/Tobago	-4.5	-1	-6.1	-4.7
Br. Virgin Is.	0.2	4.2	16.0	10.0
Montserrat	5.4	5.1	10.8	12.1
Puerto Rico	2.2	7.0	7.6	5.2

SOURCE: ECLAC estimates derived from country data

<1> Global social product in 1981 prices.

Eastern Caribbean States (OECS) was recorded by Grenada at a still respectable 4.3 percent. Among the non-OECS countries, only Belize, Puerto Rico and the Bahamas exceeded 4 percent, with Barbados recording 3.5 percent (Table VII).

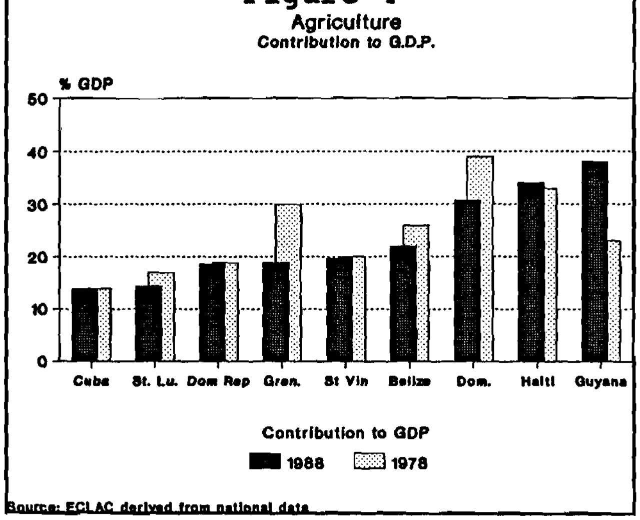
Among the larger countries, growth was not as buoyant, four of them - Haiti, Guyana, Trinidad and Suriname - recording declines in output, with the Dominican Republic down to less than one percent, after recording excess growth of 8 percent in 1987 and Cuba 2.3 percent[4]. Sugar producers and mineral exporters all

[4]The Cuban growth, which follows a decline in 1987, reflects some success in stimulating other areas of its external sector to compensate for declining world market prices for sugar and petroleum and the depreciation of the United States dollar, the currency in which these commodities are denominated. Trade with the market economies expanded by 12 percent, exports increasing by 25 percent. Measurement of the Cuban economy, however, differs and

suffered adverse terms of trade, some of them suffering from adverse domestic developments as well. Moreover, none of the countries registering economic contraction had significant tourist sectors to counterbalance the adverse performance in other areas. Only Cuba and Puerto Rico had developed manufacturing sectors, with only the latter country being in a position to capitalise on the favourable global terms of trade in manufactures. Jamaica showed favourable indicators in all sectors up to the third quarter of 1988 but experienced massive hurricane damage in September, which reduced the expected buoyant overall performance to just over 1 percent for the year.

Output and export performance

Figure 4



Agriculture continues to decline in importance for most countries, although it still makes a significant contribution to GDP for many of them (Figure 4). Even where the sector has not declined as a percentage of GDP this has been due to a decline in other sectors rather than a real increase in output in agriculture. For most countries, however, it remains of strategic importance by virtue of its contribution to foreign earnings through the sale of sugar, bananas, citrus, coffee, cacao and various spices. The two main export crops, sugar and bananas, conform to the general trend in the sector, which is one of decline in output and decreasing competitiveness in global markets, and they survive only because of various preferential marketing arrangements.

Sugar

Sugar exports increased by about 6.6 percent in volume in 1988, due mainly to the good export performance of Cuba and the Dominican Republic. In the former case, increases were due to better climatic conditions than those prevailing in previous years. For the other countries, essentially CARICOM producers, output declined by 3.5 percent, mainly as a result of shortfalls in Barbados, Belize and Guyana. Decreases were due to production cutbacks in Barbados while Guyana suffered from industrial unrest and bad weather. Both Jamaica and Trinidad increased output significantly (Table VIII).

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should not be directly compared to those which measure GDP.

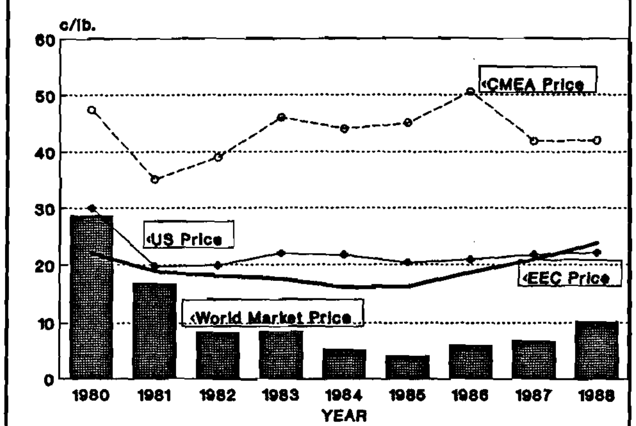
Table VIII

SUGAR EXPORTS<1>

	(Value US$)				(Volume)			
	1985	1986	1987	1988	1985	1986	1987	1988
Barbados	-2	-2	12	5	-3	13	-29	-4
Belize	-30	38	-1	6	-5	10	-20	-5
Cuba<2>	8	-8	-2	2	3	-7	-3	8
Dominican Republic	-42	-16	-5	14	-21	-31	24	3
Guyana	-6	26	-4	-15	4	0	-4	-17
Haiti	-33	-5	22	-40	-29	2	-41	9
Jamaica	-25	25	19	24	-3	-6	-5	12
St Kitts/Nevis	-46	49	19	4	-14	7	-12	3
Trinidad/Tobago	-23	6	-10	29	-7	-16	-14	11

Source: IBRD; ECLAC estimates
<1>Changes in percent
<2>In Cuban pesos

Figure 5
International Sugar Prices
(In U.S. cents per pound)



Source: IMF; ECLAC

Earnings increased more slowly than output, however, at 3 percent, since increases over and above those absorbed by preferential arrangements granted to Cuba, the predominant producer, had to be sold at lower world market prices (Figure 5). Conversely, the Dominican Republic benefitted from an increased quota to the United States. For the CARICOM producers, increases in European Community (EC) prices and increased quotas to the United States served to cushion the decline in output so that earnings actually increased for these countries by 5.4 percent, although export volumes declined[5].

Bananas

Banana exports increased faster in 1988 than in the previous year and returned the region to the rapid rates of increase recorded in 1985 and 1986. While growth has been good as a result of efforts to improve fruit quality and production methods, it is

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[5]Cuban exports in 1988 represented 86percent of regional output. Export volumes increased by 8 percent, yet earnings increased by only 2 percent - fact which served to distort the trend for other countries.

well to note that for the three years prior to 1980 banana exports recorded an average of 225,000 tons per annum, a figure which was not surpassed until 1985. Earnings grew slightly faster than export volumes, due in part, to the depreciation of the United States dollar vis-à-vis the pound sterling (Table IX).

Table IX

BANANA EXPORTS<1>

	Volume ('000 tons)				Value (US$m.)			
	1985	1986	1987	1988	1985	1986	1987	1988
Belize	-2.8	27.2	62.6	21.1	6.5	39.4	56.5	12.5
Dominica	4.0	51.3	19.5	16.6	19.8	114.3	11.6	16.0
Grenada	-3.9	-20.2	2.5	12.3	8.8	0.0	8.1	17.5
Jamaica	18.2	7.7	114.3	-18.2	180.0	119.0	150.0	-15.8
St Lucia	25.1	37.2	-25.5	52.4	39.0	66.2	-20.1	55.6
St Vincent	28.9	-6.4	-5.3	72.2	43.2	7.1	-0.6	74.4
Suriname	6.9	-3.5	...	...	14.6	8.8	...	...

Source: IBRD, ECLAC estimates.
<1> In percent
<2> Totals for 1987 and 1988 exclude Suriname

Saint Vincent and the Grenadines and Saint Lucia recorded fastest growth in 1988. All countries surpassed 1987 output with the exception of Jamaica, which had shown substantial growth up to the third quarter. No fruit were, however, shipped in the fourth quarter since plantations were destroyed by the hurricane. The pace of growth in the banana industry is not expected to continue at the same rate since the reserved United Kingdom market is now almost saturated and most producers are not sufficiently competitive to penetrate third markets, factors which cause some anxiety given the formation of a single market in the EC projected for 1992. Moreover, productivity is falling in some of the major OECS countries as the most productive areas have been cultivated and marginal hillside lands come into production.

Minerals

Bauxite production in the region declined in 1988. This followed a short-lived recovery in 1987 when production was restarted in the Dominican Republic and output increased in Jamaica and Guyana. In 1988, exports contracted in the Dominican Republic and Guyana, in the latter case as a result of unusually heavy rainfall and managerial problems. In Jamaica, the decline in crude bauxite exports was due to marketing problems, with the expiry of a large supply contract with Kaiser/Reynolds. In Suriname half-yearly data suggest that output is increasing from the depressed levels prevailing in recent years due to the reduction of civilian unrest. Together with reduced export volumes, prices remained at

Table X

BAUXITE/ALUMINA EXPORTS

	1985	1986	1987	1988
	Bauxite (US$ m.)			
Dominican Republic	0	0	4	2
Guyana	99	82	84	80
Jamaica	78	97	116	106
Suriname	36	27	...	...
	Bauxite ('000 tons)			
Dominican Republic	0	0	328	207
Guyana	1572	1402	1410	973
Jamaica	2325	2900	3711	3494
Suriname	923	839	...	...
	Alumina (US$ m.)			
Jamaica	212	205	221	253
Suriname	175	178	...	...
	Alumina ('000 tons)			
Jamaica	1622	1600	1572	1576
Suriname	1242	1471	1362	...

Source: IBRD, ECLAC estimates

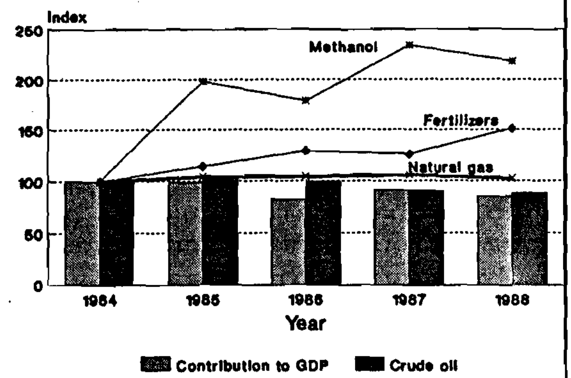
the same depressed levels since 1984.

Alumina production presented a slightly brighter picture for Jamaica. Overall export volumes increased marginally for the year despite severely reduced shipments in the third quarter resulting from the dislocations caused by the hurricane. As with bauxite production, six-month production data for Suriname suggest increased output for the year. Prices of alumina increased for 1988, a factor which is encouraging regional production. Feasibility studies are being carried out to reopen "mothballed" plants in Guyana and Jamaica.

The petroleum sector in Trinidad and Tobago continues to decline as a result of reduced output and a further fall in international prices. The contribution of the sector to GDP as well as to export earnings, denominated in United States dollars, declined in 1988 after a fleeting revival in 1987. Similar comments apply to the output of methanol and natural gas (Figures 6 and 7).

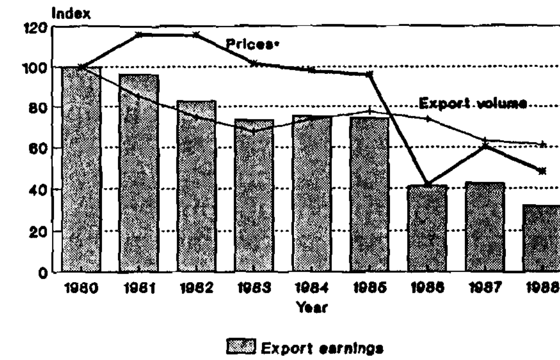
Fertilizer production grew by 20 percent due to increased plant capacity and reflects a sustained effort to utilize abundant natural gas reserves. Methanol production, however, decreased by 7 percent from record levels in 1987 although export earnings increased due to an almost 60 percent rise in prices.

Figure 6
Index of Petroleum Production
Trinidad and Tobago



Source: Central Bank

Figure 7
Petroleum Exports
Trinidad and Tobago



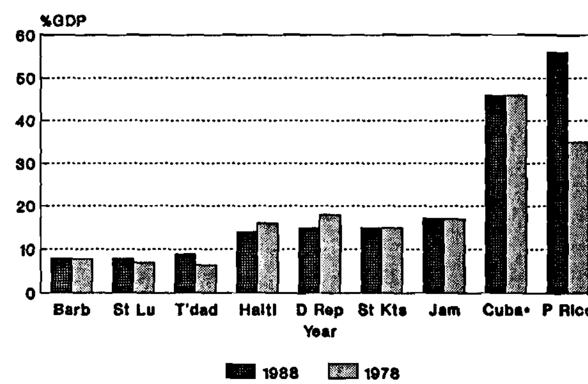
Source: Central Bank
*Prices relate to Venezuelan Tia Juana

Petroleum production in Barbados continued to contract, down by 14 percent in 1988 as compared to a decline of 11 percent in 1987. Natural gas production, however, increased by over 18 percent. The production cutbacks are as a consequence of that country's policy to tailor production, which is not sufficient for export, to world market prices.

<u>Manufacturing</u>

The contribution of manufacturing to GDP exceeds 20 percent in only two Caribbean countries, Cuba at 45 percent and Puerto Rico at 55 percent. In the current decade, manufacturing has tended to stagnate in most countries although growth has been recorded for Saint Lucia, Trinidad and Tobago and Puerto Rico and contraction has taken place in Haiti and the Dominican Republic (Figure 8).

Figure 8
Manufacturing
Contribution to G.D.P.



Source: ECLAC derived from national data
* Refers to Industry

In 1988, manufacturing recorded significant growth only in Barbados, compensating for drastic reductions in previous years caused by the decline of the electronics industry. For the region as a whole, the sector is at a crossroads in which it is faced with two options. On the one hand, remaining oriented primarily to the regional market will result in continued decline as foreign exchange constraints face most CARICOM countries. As the capacity to import is reduced, demand reduction takes place first among the non-essentials produced in the region. At the same time limited foreign exchange constrains output since regional production has grown under a trade regime of import substitution which permitted the production of many foreign exchange-intensive products, some of which are in fact net users of foreign exchange. Moreover, as regional protection rates are being reduced, regional production must face increased competition from third countries which often produce cheaper and more attractive goods.

On the other hand, the manufacturing sector may seek to reorient production from the outset to global markets. Not having a wide range of raw material resources, many of these countries have tended to explore this option by developing assembly type operations where a comparative advantage is derived, at least in the short-term, only through cheap labour. Accordingly, most growth has taken place in free zones in the assembly of garments or electronic components, primarily in the Dominican Republic, Haiti and Jamaica, although free zone garment assembly operations can be found in many countries as they seek to fulfil their quotas into the United States market. The susceptibility of these industries to domestic conditions, both political and economic, was clearly demonstrated in 1988 by the shift of many such enterprises from Haiti to the adjoining Dominican Republic as a result of unsettled political conditions in the former country.

Tourism

Preliminary estimates indicate that tourist arrivals into the Caribbean increased by about 7 percent in 1988. This increase represents a slowing down of growth from that achieved in recent years but is, nevertheless, respectable in view of the almost 14 percent increase in arrivals recorded in 1987. Estimated earnings were also up by about 10 percent (Table XI).

The depreciation of Caribbean currencies vis-à-vis those of Western Europe has served to reverse the declining trend of tourist arrivals from Europe. In fact, such growth as took place in the industry in 1988 was only possible as a result of a 25 percent growth in arrivals from those countries and was sufficient to push up the European share of the Caribbean market from 10 percent to 12 percent. Arrivals from the United States, the predominant market, stagnated, while arrivals from Canada declined by about 4 percent. Arrivals from other destinations, including intra-Caribbean tourists, increased by 2.5 percent.

Cruise ships continue to bring increasing numbers of tourists to the region, increases of over 30 percent being the norm, although declines were recorded in Trinidad and Tobago, Curacao and Saint Lucia.

Table XI

SELECTED TOURISM INDICATORS<1>

	Tourist expenditure (US $)				Stopover arrivals ('000)			
	1985	1986	1987	1988	1985	1986	1987	1988
Antigua	21	18	20	14	7	7	6	10
Bahamas	24	11	4	-1	7	1	8	0
Barbados	9	6	16	21	-2	3	14	7
Cuba	22	29	23	21	16	17	10	0
Dominica	1	29	14	9	-3	13	9	20
Dominican Rep.	17	14	30	13	17	19	16	22
Grenada	43	22	6	9	32	10	0	8
Haiti	5	-9	9	9	6	-25	9	0
Jamaica	0	27	15	-12	-5	16	11	-12
St Kitts/Nevis	28	23	25	14	16	20	17	8
St Lucia	31	32	7	20	10	18	10	12
St Vincent	21	27	20	28	9	0	9	2
Suriname	-32	-13	3	...	-12	-9	-6	...
Trinidad/Tobago	0	-58	10	-12	-2	2	5	-7
Aruba	2	31	29	36	-2	-12	28	20
Br. Virgin Is.	14	23	17	9	7	12	17	4
Montserrat	15	-3	16	6	4	-5	9	6
Netherlands Ant.	13	14	9	14	9	9	12	9
US Virgin Is.	17	0	22	9	3	2	19	3
Guadeloupe	-3	72	13	20	11	14	23	12
Martinique	7	16	95	10	-5	14	19	20
Puerto Rico	6	3	21	15	5	-5	28	11

Source: CTO

<1> In percent

Aruba, Dominica, the Dominican Republic and Grenada recorded the largest increase in arrivals, of over 20 percent, but gains of 10 percent or more were also recorded by Antigua, Guadeloupe and Puerto Rico. No growth was recorded in the Bahamas, Cuba and Haiti, while declines were recorded for Jamaica and Trinidad and Tobago.

Balance of payments

In view of the importance of services to the economies of the region, especially tourism, and the recent poor performance of traditional exports, it is not surprising that most countries have habitually incurred deficits on merchandise trade account. The familiar pattern was repeated in 1988 although, unusually, the deficit declined by about 1 percent as a consequence of buoyant growth of merchandise export earnings (Figure 9).

Exports grew at over 7 percent in 1988, significantly faster than in the previous year. Gains were made primarily by the OECS countries, with the exception of Grenada and Montserrat, where exports actually fell in absolute terms. Barbados, the Dominican Republic after a significant devaluation and the Netherlands

Table XII

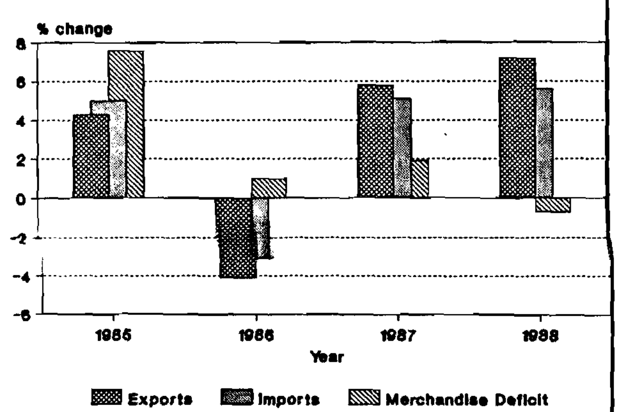
SELECTED TRADE INDICATORS

	Exports (%) 1985	1986	1987	1988	Imports (%) 1985	1986	1987	1988
Antigua	-21.0	4.3	-70.7	24.4	11.0	89.1	-11.3	-10.9
Bahamas<1>	17.4	-0.7	-7.0	-0.9	14.6	2.1	14.0	-9.2
Barbados	-6.6	-20.9	-46.1	11.3	-3.8	-2.4	-16.7	13.0
Belize	-3.3	-20.1	41.9	8.3	-0.5	-3.5	16.6	19.0
Cuba <2>	9.4	-11.2	1.5	2.2	11.2	-5.5	0.2	-0.4
Dominica	11.1	52.6	3.7	21.1	-0.9	0.9	19.0	31.8
Dominican Republic	-14.9	-2.3	-1.5	25.6	2.3	5.1	17.7	1.0
Grenada	23.4	28.5	3.8	-4.7	23.1	20.5	6.2	3.9
Guyana	-1.6	-1.7	14.4	-3.9	3.7	8.2	8.9	-17.7
Haiti	4.2	-14.7	9.9	-0.5	0.9	-13.2	2.6	-1.3
Jamaica	-19.0	3.7	20.3	17.5	-3.3	-14.9	26.8	16.2
St Kitts/Nevis	11.8	8.3	8.1	11.4	3.3	20.5	23.7	18.5
St Lucia	8.8	59.4	-7.5	44.9	5.5	24.2	15.4	23.3
St Vincent	16.2	2.6	-20.7	59.6	3.4	10.2	12.1	24.8
Trinidad/Tobago	2.6	-36.7	3.4	3.9	-18.9	-4.4	-21.8	2.2
Montserrat	-33.3	160.0	15.4	-40.0	7.1	9.4	27.3	5.2
Netherlands Antilles	20.6	-6.4	25.2	43.7	6.3	-11.4	16.4	8.5
Puerto Rico	5.4	7.0	9.7	7.9	6.2	-2.8	8.4	11.2

Source: ECLAC; IBRD.

<1> Excludes oil trade
<2> In Cuban pesos

Figure 9
Merchandise Trade
Growth of Regional Imports and Exports



Source: ECLAC, derived from country data

Antilles all recorded increases in the rate of growth over the previous year. Other countries recording growth, albeit at a reduced rate over 1987, were Belize, Jamaica, recording a surprisingly good performance despite the effects of hurricane damage and Puerto Rico. Earnings fell significantly in Grenada, Guyana, Haiti and Montserrat.

Imports grew at a slower pace than exports in 1988. But they grew at a slightly faster pace than in 1987, which recorded an increase of 5 percent. Fastest growth in imports, reflecting their robust earnings, took place in the OECS countries, mainly in Dominica, Saint Lucia and Saint Vincentand the Grenadines, and while imports were up in all cases they seemed to be slowing somewhat in Grenada. Barbados increased its imports significantly in 1988 after three years of contraction and together with Belize and Jamaica all recorded increases of over 10 percent. Cuba, the Dominican Republic and Trinidad and Tobago all recorded moderate increases in imports while contraction was evident in the Bahamas, Guyana and Haiti.

The merchandise trade deficit remained as intractable as ever in 1988, although it contracted slightly in 1988. After widening by almost 8 percent in 1985, it grew somewhat more slowly in 1986 and 1987 and declined by almost 1 percent in 1988.

The external debt

Table XIII

SELECTED DEBT INDICATORS

	Debt<1>	Debt/cap	Debt/GDP	Debt/XGS
Antigua/Barbuda<2>	239.0	2915	87	107
Bahamas	147.4	607	5	10
Barbados	394.9	1555	26	62
Belize	124.1	689	<5>47	78
Cuba<3>	6450.0	619	25	661
Dominican Republic<4>	3844.0	558	82	220
Grenada	48.7	459	41	65
Guyana<2>	1700.0	2249	<6>482	651
Jamaica	4320.0	1820	122	318
St Kitts/Nevis	29.6	630	30	36
Trinidad/Tobago	2011.8	1630	52	130

Source: ECLAC, derived from national data
<1> In U.S. dollars for 1988
<2> Includes arrears
<3> Refers to debt and exports in convertible currencies
<4> Includes private debt
<5> Figure relates to 1986
<6> Figure relates to 1987

Table XIII sets out some debt indicators for a selection of Caribbean countries. The major debtors, judged by the overall size of the debt, are Cuba, Jamaica, the Dominican Republic, Trinidad and Tobago and Guyana, accounting for about 85 percent of Caribbean debt. If more conventional indicators of the debt burden are used, the ranking changes somewhat, with high ratios of debt/GDP prevailing in Guyana, Jamaica, Antigua and the Dominican Republic. Debt per capita ratios are highest in Antigua, Guyana and Jamaica.

If the debt is seen in relationship to the foreign earnings capability it is still high, despite the trade orientation of Caribbean countries. By all the accepted indicators the major Caribbean debtors are among the most burdened and even in the OECS, which for the most part have a seemingly smaller burden, a useful

Table XIV

EXTERNAL DEBT (US$ m.)<1>

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Antigua/Barbuda	45.5	46.7	54.0	55.7	51.0	64.9	133.9	...	161.7
Antigua/Barbuda<2>	45.5	76.6	84.4	88.7	57.6	75.8	180.7	245.4	239.0
Bahamas	98.0	159.5	228.1	233.9	212.8	193.2	211.2	207.1	147.4
Barbados	81.9	129.7	143.5	173.6	182.6	222.1	291.3	353.4	394.9
Belize	49.2	56.6	63.1	68.4	70.0	87.9	97.7	113.1	124.1
Cuba<3>	3227.0	3170.0	2669.0	2790.0	2989.0	3621.0	3870.0	6094.3	6450.0
Dominica	17.7	24.4	34.4	40.9	43.8	48.8	56.6	...	...
Dominican Republic<4>	2173.0	2549.0	2966.0	3313.0	3536.0	3720.0	3812.0	3795.0	3844.0
Grenada	14.4	26.2	32.1	46.8	48.4	49.3	54.2	48.4	48.7
Guyana	448.7	660.3	679.3	695.1	690.4	759.9	803.9	878.6	882.3
Guyana<2>	448.7	694.3	807.3	962.5	1114.0	1307.5	1477.4	1620.0	1700.0
Haiti	290.0	372.0	410.0	551.0	607.0	600.0	696.0	741.0	785.0
Jamaica	1734.0	2212.0	2690.0	2920.0	3207.0	3499.0	3590.3	4013.6	4320.0
St Kitts/Nevis	10.0	11.9	10.9	11.5	16.6	19.0	19.3	23.6	29.6
St Lucia	18.2	25.1	28.3	29.9	28.0	28.8	31.5	37.2	...
St Vincent	17.0	19.2	21.2	22.7	22.8	24.3	29.6	35.2	...
Trinidad/Tobago	911.2	948.5	1115.0	1306.0	1398.0	1643.0	1897.7	2082.2	2011.8
Montserrat	1.5	2.0	2.4	2.7	3.6	3.7	3.0	2.1	...

Source: ECLAC, derived from national data
<1> Public sector incurred or guaranteed.
<2> Includes arrears
<3> Relates to convertible currency debt; in millions of pesos.
<4>Includes private debt.

indicator of their debt servicing capacity, the ratio of debt service to government revenues, shows an additional aspect of their vulnerability since their debt is essentially public debt[6].

The best efforts of the major debtors have not been sufficient to meet their debt obligations, rescheduling or the regular accumulation of arrears becoming a major aspect of the policy landscape. At the same time, these efforts are having a debilitating effect on economic performance. The exception to this norm is Antigua, which while accumulating arrears, has nevertheless managed to grow quite quickly.

The overall rate of growth of the debt in the region seems to have been moderate in 1988 (Table XIV). This is due to a combination of reasons, but mainly restraint on the part of the larger countries suffering from fairly onerous debt burdens.

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[6] Only the Dominican Republic (21%) and Trinidad and Tobago (50%) have a significant portion of debt owing to commercial banks. For the others, debt is owed primarily to bilateral or multilateral creditors, a factor which limits their options in managing repayment.

Fiscal Operations

Table XV

FISCAL OPERATIONS - CURRENT ACCOUNT
In national currency (m)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Antigua/Barbuda	-4	-9	-18	-13	-7	-2	12	5	20
Bahamas	36	38	12	-4	9	23	12	-9	4
Barbados	46	19	19	54	12	17	43	-21	102
Belize	17	8	-8	-12	-10	-8	6	10	22
Cuba	...	...	...	3640	2618	2881	2916	2074	1990
Dominica	-13	-6	-5	0	1	2	4	12	24
Dominican Republic	165	154	47	27	147	243	745	1471	2451
Grenada	-2	-1	3	7	2	-25	-29	-46	-14
Guyana	-185	-269	-186	-330	-624	-375	-309	-1174	-1202
Haiti	...	-136	-837	-696	-700	-525	-440	-496	-416
Jamaica	-587	-175	-380	-669	-132	311	758	824	1089
St Kitts/Nevis	...	-2	-5	-5	-4	-8	3	3	1
St Lucia	4	-3	-12	-6	-3	2	16	23	44
St Vincent	-3	2	3	-1	1	5	11	11	13
Suriname	20	-51	-81	-202	-217	-314	...	...	...
Trinidad/Tobago	3338	3483	1079	325	251	283	-402	-397	-361
Br. Virgin Is.	3	3	4	2	1	0	...	0	...
Montserrat	1	3	1	1	0	2	1	1	2

Source: ECLAC, derived form country data.

The transformation of current account operations from deficit to surplus has been a central objective of policy for the decade of the eighties and aims at maintaining that delicate balance between healthy growth and onerous tax rates, which could provide a disincentive to growth. Despite the mixed economic performance recorded by the countries being reviewed, the trend remained one toward increased government savings on current account (Table XV). At the same time, policies to review and reform the tax system to make it more efficient continued.

The OECS countries, for the most part, increased their current surpluses, or in the case of Grenada reduced its deficit, for while expenditures increased, revenues increased faster, due to buoyant consumption taxes, import duties and income taxes. Recurrent expenditures increased in part as a result of increased personnel emoluments in almost all countries, ranging from 28 percent in Antigua to 5 percent in Dominica, the exception being Saint Lucia where they contracted by 1 percent.

Among the larger countries, notable changes were also recorded in Barbados, the Dominican Republic and Jamaica. In Barbados the transformation of the 1987 deficit to a surplus in 1988 was effected essentially by increased revenues from personal and corporate taxes and profits, which served to redress large declines in the two previous years. At the same time current expenditures were also restrained although they increased slightly.

In the Dominican Republic, the 66 percent increase in the current surplus needs to be seen in the context of an average price increase of almost 45 percent. But while current expenses were contained to a figure slightly below the rate of inflation, both direct and indirect revenues increased at a somewhat faster rate.

The current surplus increased for the fourth consecutive year in Jamaica, by almost 32 percent in 1988, despite a 30 percent increase in recurrent expenses. The increase in revenues was somewhat surprising in view of the effects of the hurricane on both production and income, for although it was expected that import revenues would have been buoyed up by increased imports for reconstruction, the fact that returns from almost all other taxes increased was not.

All countries incurred overall fiscal deficits, the rationale being that investment is the avenue to modernization and development. Given the backlog which needs to be redressed, the sense of urgency is understandable; yet the decade has already shown that the debt burden can itself create the greatest impediment to development, in the process denying options to future generations.

<u>Monetary developments</u>

Monetary policy, reflecting the mixed performance of Caribbean economies, varied quite significantly from country to country, but in general, higher levels of liquidity prevailed than in 1987. This was most notable in the OECS countries where the expansion in the money supply, at 22 percent compared with 13 percent in 1987, paralleled the buoyant economy. Domestic credit expanded over twice as fast as in 1987, at 19 percent, with credit to the central government continuing to decline though credit to the rest of the public sector rebounded after cutbacks of 50 percent in 1987. Credit to the private sector increased by 24 percent. These developments had the expected impact on the external account, with a reduced rate of growth in net foreign assets, from 27 percent to 19 percent.

Developments in Barbados were somewhat different with deposits growing faster than credit, causing a build-up of liquidity. Yet credit grew over the 5 percent average over the previous five years, to 8 percent in 1988, the bulk of the business going to the construction sector.

In Jamaica, the restrained monetary policy which has been a recent phenomenon, was relaxed in the final quarter of 1988 to accommodate the needs of hurricane rehabilitation. Accordingly, whereas the money supply had been contained to a growth of 7 percent on average for the first three quarters, it almost doubled in the final quarter, the growth being led by quasi-money due to re-insurance inflows and remittances from abroad.

In Trinidad and Tobago, the demand for credit exceeded deposits, with a consequent increase in interest rates. The pressure on credit was exerted mainly by the public sector enterprises, which claimed an increase of 10 percent over the previous year as they turned increasingly to the private banks to fund their activities in the face of reduced central government support. Private sector credit grew modestly, at less than 3 percent, reflecting the depressed state of the economy. Total money supply remained almost constant with the contraction of M1 being almost offset by a compensating expansion of quasi-money.

In the Dominican Republic, the money supply grew by 47 percent, slightly faster than inflation and compares with a 15 percent increase in 1987. Domestic credit increased by 22 percent, the increase going mainly to the private sector to finance the increased cost of imports and construction.

Prices

Table XVI

CONSUMER PRICES
Annual rates of Growth (%)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Antigua/Barbuda	19.2	11.5	4.2	2.3	4.0	-2.0	2.0	...	...
Bahamas	0.9	0.9	6.1	4.2	3.9	4.6	5.4	5.8	...
Barbados	14.5	14.6	10.3	5.3	4.6	3.9	1.3	3.4	4.7
Belize	7.1	13.0	6.8	5.7	3.4	3.3	3.3	2.0	...
Dominica	32.7	13.5	4.4	4.2	2.2	2.1	3.0	2.9	5.2
Dominican Republic	16.8	7.5	7.6	7.0	24.4	37.5	9.7	15.9	44.4
Grenada	36.2	18.8	7.8	6.1	5.6	2.6	1.4	-0.9	6.5
Guyana	14.0	22.2	20.9	15.0	25.2	15.0	8.2	29.4	43.1
Haiti	18.1	7.6	9.0	8.8	8.0	8.4	8.5	-10.4	-0.1
Jamaica	29.0	4.6	6.5	11.3	27.8	26.0	14.7	8.4	9.2
St Kitts/Nevis	17.8	10.4	5.9	2.8	2.7	2.2	0.4	2.6	0.2
St Lucia	19.5	15.1	4.6	1.5	1.2	0.0	2.2	7.0	1.6
St Vincent	17.1	12.7	7.3	5.4	2.7	2.0	1.2	2.0	2.1
Trinidad/Tobago	17.4	14.3	11.4	16.8	13.3	7.7	7.1	10.8	7.8
Br. Virgin Is.	9.7	11.4	10.0	2.5	1.1	1.1	1.8	0.1	...
Montserrat	29.8	7.1	9.8	4.7	5.5	2.7	3.1	3.7	3.6

Source: ECLAC derived from country data

Prices increased somewhat faster in 1988 than in 1977 and continued on the moderate upward trend which began in 1985. For the most part, this is in line with global trends and magnitudes, 8 of the 14 countries for which data are recorded showing annual average price increases of less than 5 percent (Table XVI). These low inflation countries are all quite small, are all remarkably open and make limited use of fiscal deficits. They all regard stable exchange rates as a major cornerstone of policy. Two other countries falling into this category, which had price increases of over 5 percent were Dominica and Grenada, the increases being due, in part, to increased taxes designed to restore fiscal balance.

Due to the openness of even the largest economies in the region, the effect of devaluation is to translate the wide range of imported goods, used either directly or as inputs into "domestic" production, into higher prices. It is, therefore, not surprising that price increases of over 40 percent were recorded in two countries, the Dominican Republic which had a 60 percent devaluation in June 1988 and Guyana. The latter suffered the after-effects of a large devaluation in 1987, continuing shortages in a broad range of capital and consumer goods, and an increase in domestic dislocations in 1988. The other country experiencing a devaluation, Trinidad and Tobago, had a relatively low annual average rate of price increase, at 7.8 percent, since the effects of the devaluation, which took place in the fourth quarter, were not felt until the end of the year. This lag was partly reflected in the December-to-December rate of increase which was 13.8 percent, while the increase recorded for the month of December was equivalent to an annual rate of 60 percent.

The other case of above-average price increase was Jamaica, due to the shortages and dislocations caused by the hurricane. During the first two quarters prices increased at a modest annual average rate of 4.2 percent. For the second half of the year, however, prices increased at an average rate of 15.2 percent due to the destruction of domestic food and poultry production, disruptions to the distribution sector and food-processing industry and increased demand for construction materials.