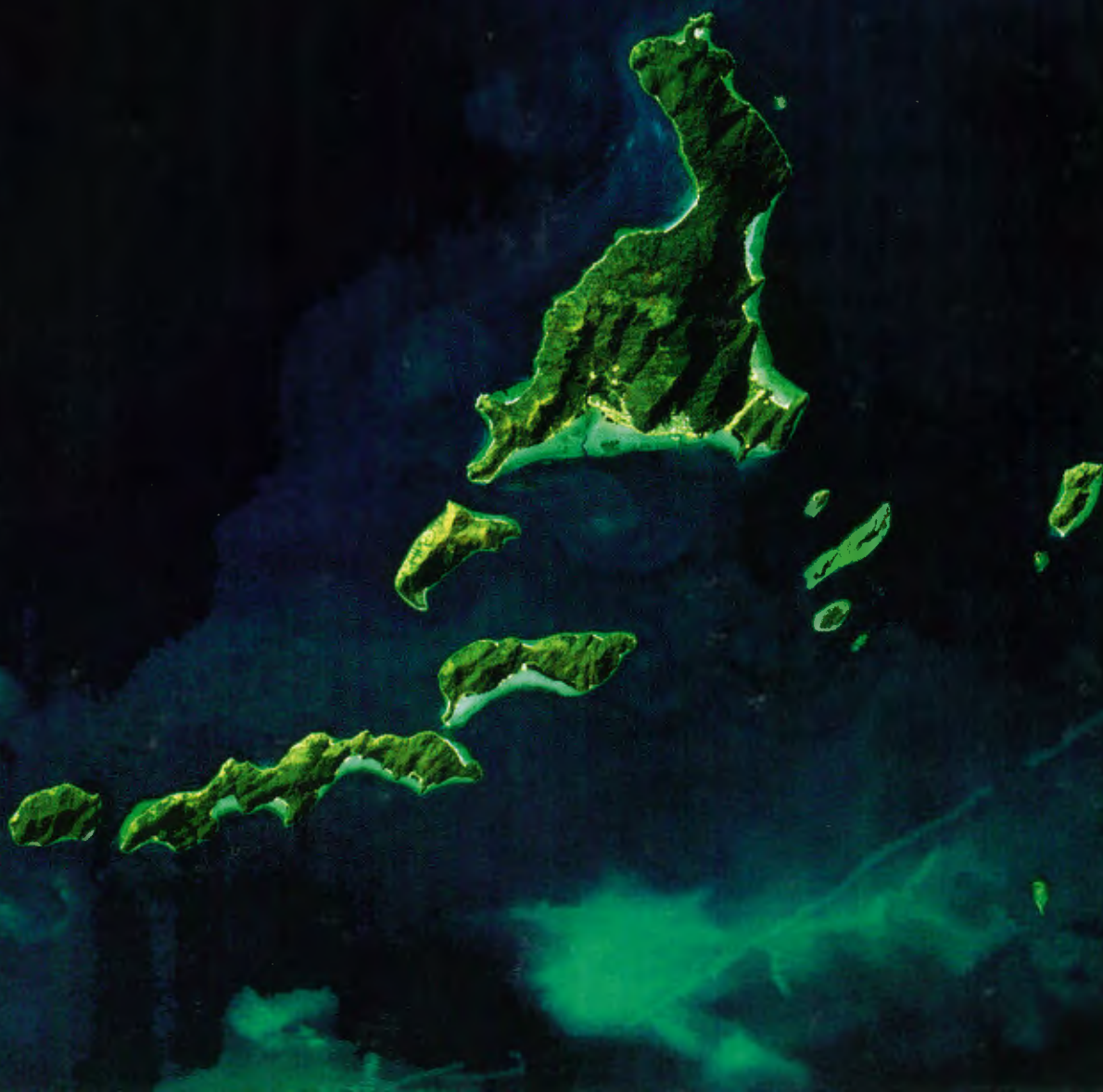


South Pacific and Caribbean Island Economies

A COMPARATIVE STUDY



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A Comparative Study

Te'o I. J. Fairbairn and DeLisle Worrell

A study conducted by
The Foundation for Development Cooperation
for the South Pacific Forum Secretariat

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Preface

This study has been conducted by The Foundation for Development Cooperation for the South Pacific Forum Secretariat. The original research proposal was made by the late K. William Taylor, Vice-Chairman and Founder of FDC, to a meeting of officials of the Forum's Smaller Island States (Cook Islands, Kiribati, Nauru, Niue, Tuvalu) in November 1993. Mr Taylor had the satisfaction of seeing the report finalised in November 1995, shortly before he passed away at the end of that year, after a long illness.

The Foundation's proposal was inspired by successive World Bank 'Country Studies' of Pacific island economies, which had commented unfavourably on the economic performance of Bank member states in the Pacific, compared with comparable island states in the Caribbean region. The Bank referred to what it described as a 'Pacific Paradox', the situation of indifferent economic performance despite high levels of external assistance, favourable natural resource endowments and relatively prudent macroeconomic management. It was apparent that higher levels of external assistance could not explain comparatively good Caribbean performance (since ODA receipts were, in fact, at significantly lower levels in that region). Hence the FDC proposal for a study that could systematically examine the reasons for the performance differential, going well beyond commonplace observations, such as that greater isolation alone, or closer proximity to markets, or different historical experience, were sufficient explanation.

The Smaller Island States officials endorsed FDC's proposal, and in due course it was referred by the Forum Secretariat to CREIT (the Forum's Committee on Regional Economic Issues and Trade). Forum member governments, represented at a CREIT meeting in May 1994, approved the conduct of this study by the Foundation, as well as Terms of Reference and criteria for the selection of a subset of countries in each region for particular attention. Australia subsequently offered to contribute substantially to the cost of the study. A further commitment of resources by the South Pacific Forum Secretariat made it possible for the study to commence, with The Foundation for Development Cooperation committed to covering the shortfall in revenue required for its completion.

The Foundation retained the services of Dr Te'o I. J. Fairbairn, a citizen of Western Samoa, and Dr DeLisle Worrell, Deputy Governor of the Central Bank of Barbados, as consultants to perform the study. An Advisory Committee was convened by the Foundation to review the work of the consultants. This committee comprised Mr Savenaca Siwatibau, Director of ESCAP's Pacific Operations Centre, Dr Keith Worrell, Head of the Economics and Programming Department of the Caribbean Development Bank, and Dr E. K. Fisk, of Canberra. The text has been modified in many particulars, in accordance with their comments.

In preparing for the study, the Foundation was fortunate to have the support of Sir Neville Nicholls, President of the Caribbean Development Bank, who assisted us in identifying our Caribbean consultant. In addition, Sir Neville most generously permitted Dr Keith Worrell to participate as a member of the Advisory Committee. He made possible Dr Worrell's attendance at a meeting of the committee in Australia, and at meetings with officials of AusAID and the Forum Secretariat, respectively. Subsequently, while the consultant team was travelling in the Caribbean, staff of the CDB provided institutional and logistic support.

The Foundation acknowledges with gratitude the assistance of staff of the South Pacific Forum Secretariat, under the leadership of its Secretary General, the Honourable Ieremia Tabai, GCMG in conceptualising, planning and executing this study. We also acknowledge the Secretary General's grant of permission for it to be published, though this does not necessarily indicate the endorsement by the Forum Secretariat of any particular recommendations of the report. The Foundation acknowledges the commitment and professionalism of Te'o Fairbairn and DeLisle Worrell, as well as the contributions of the many people in both regions (listed in an appendix to this report) who shared their knowledge and experience with the consultants. We are grateful to FDC's Program Officer Mark Otter, who has contributed to the report at several stages of its development including preparing an index, and to PJ Granville-Edge who has had primary responsibility for the typescript as well as administrative inputs.

FDC has prepared this report believing there is much that governments of small island states in the South Pacific can learn from their counterparts in the Caribbean. As to geographical coverage, it is concerned broadly with the regions covered by the South Pacific Forum and CARICOM. Eight countries were visited by the consultants (Fiji, Vanuatu, Kiribati and Western Samoa in the South Pacific, and Barbados, Dominica, St Lucia and St Vincent and the Grenadines, in the Caribbean region). While the larger states of Papua New Guinea and Jamaica are not specifically included, many of the report's generalisations have application to these two countries.

The Terms of Reference for the study charged us to recommend policies and strategies that Pacific island countries might adopt or adapt from the Caribbean experience. While the traffic is not all one-way, with much information of value to Caribbean governments, the primary focus has been on Pacific needs and priorities. To that end, our consultants' recommendations on new initiatives for regional cooperation, with particular reference to private sector development, are addressed to issues which include the need to nurture the activities of 'regional firms', to fill crucial financing gaps, and to improve export and investment promotion. They also propose national-level strategies for private sector development, as well as specific regional initiatives in a number of other fields. We hope the report will be received positively in both regions as a constructive contribution to economic policy discussion.

The Foundation, as an independent policy research organisation, is particularly concerned to identify development policy challenges and opportunities affecting Australia and its Asia–Pacific neighbours. Its work program emphasises practical, policy-oriented research, and it seeks to influence action based on the findings of such research. FDC is pleased to have been given the opportunity to explore new avenues for development cooperation between the South Pacific Forum governments, and to consider the scope for mutually valuable consultation and cooperation between the two regions. While visiting the Caribbean, it was made clear to us that such contacts would be welcomed.

Finally, the Foundation acknowledges with gratitude the assistance of the Australian Agency for International Development, which provided additional assistance in 1996 to support the publication of this report and its distribution. AusAID's financial support should not be construed as necessarily indicating its endorsement of any particular recommendations of the report.

John D. Conroy
Executive Director
The Foundation for Development Cooperation

9 November 1995

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Note: Unless otherwise designated, all dollar amounts
in this report are in United States dollars.

Acronyms

ACS	Association of Caribbean States
ADCU	Agricultural Development Cooperation Unit (Caribbean)
AIDAB	Australian International Development Assistance Bureau (now AusAID)
ANU	Australian National University
AusAID	Australian Agency for International Development (formerly AIDAB)
CAIC	Caribbean Association of Industry and Commerce
CARDI	Caribbean Agricultural Research and Development Institute
CFSC	Caribbean Financial Services Corporation
CARICOM	Caribbean Community
Cariforum	An association of CARICOM and other regional signatories to the Lomé Agreement
Carifta	Caribbean Free Trade Area Agreement
Carsec	CARICOM Secretariat
CARTIS	Caribbean Trade Information System
CCA	Caribbean Conservation Association
CCCCBG	CARICOM Council of Central Bank Governors
CCL	Caribbean Congress of Labor
CDB	Caribbean Development Bank
CEDA	Caribbean Export Development Agency
CEDP	CARICOM Export Development Project
CFSC	Caribbean Financial Services Corporation
CGCED	Caribbean Group for Cooperation in Economic Development
CIDA	Canadian International Development Agency
CMCF	CARICOM Multilateral Clearing Facility
CMI	Caribbean Meteorological Institution
Concacaf	Caribbean and Central American Football Association
CREIT	Committee on Regional Economic Issues and Trade (South Pacific)
CTO	Caribbean Tourism Organization
CXC	Caribbean Examinations Council
DR	Dominican Republic
ECCB	Eastern Caribbean Central Bank
ECDS	Eastern Caribbean Drug Service
ECODEF	East Caribbean Organization of Development Foundations
ECSEDA	Eastern Caribbean States Export Development Agency

EEZ	Exclusive Economic Zone
EIB	European Investment Bank
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EU	European Union
FDI	Foreign Direct Investment
FFA	Forum Fisheries Agency
NLTB	Native Land Trust Board (Fiji)
NZODA	New Zealand Official Development Assistance Programme
FSM	Federated States of Micronesia
FTIB	Fiji Trade and Investment Board
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HoG	Heads of Government
HRD	Human Resource Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
LDC	Less Developed Country (within CARICOM)
MDC	More Developed Country (within CARICOM)
MFI	Multilateral Financial Institution
NAFTA	North American Free Trade Association
NDF	national development foundation
NGO	non-governmental organisation
ODA	Official Development Assistance
OECS	Organization of Eastern Caribbean States
PIACC	Pacific Islands Association of Chambers of Commerce
PIANGO	Pacific Islands Association of NGOs
PFL	Pacific Forum Line
PNG	Papua New Guinea
PPP	Purchasing Power Parity
PSIP	Public Sector Investment Program (Fiji)
RERF	Revenue Equalisation Reserve Fund (Kiribati)
RSS	Regional Security System (Caribbean)
SIDSNET	Small Island Developing States Network: Feasibility Study Report
SPBEA	South Pacific Board for Educational Assessment
SPC	South Pacific Commission
SPF	South Pacific Forum
SPFS	South Pacific Forum Secretariat
SPOCC	South Pacific Organisations Coordinating Committee

SPOCTU	South Pacific Oceanic Council of Trade Unions
SPPF	South Pacific Projects Facility
SPREP	South Pacific Regional Environment Programme
SVG	St Vincent and the Grenadines
TCSP	Tourism Council of the South Pacific
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USAID	United States Agency for International Development
USP	University of the South Pacific
UWI	University of the West Indies
UWICED	University of the West Indies Centre for the Environment and Development
WAND	Women and Development Unit (Caribbean)
WTO	World Trade Organization

Terms of reference

Objective

To compare and contrast the economic performance of the island states of the Caribbean and the South Pacific regions during the past decade with the aim of:

- identifying and analysing the reasons for the generally higher rates of economic growth in the Caribbean, and
- making recommendations on policies and strategies that Pacific island countries might be able to adopt or adapt from the Caribbean experience in order to improve their own economic performance in the context of sustainable development.

Scope

- 1 The study should take into account the following influences on economic activity:

The human context

- (a) Historical, political and legal (including land tenure systems)
- (b) Socio-cultural
- (c) Health and education
- (d) Demographic (including fertility, mortality and patterns of population movement, including external migration)
- (e) The role and status of women

The physical background

- (f) Geographic (including distance from external markets, and between national markets within each region)
- (g) Physical (natural resource endowments, etc.), and
- (h) Environmental (including vulnerability to natural disasters).

- 2 Within this context, the study should then proceed to identify and assess the most critical economic and institutional factors which have contributed to generally higher rates of economic growth in the Caribbean including, for example:

- (a) Sectoral sources of growth
- (b) The role of government (including what incentives have been provided in Caribbean countries, if any, to boost production and/or increase employment in both local and export production)
- (c) The role of the private sector
- (d) Infrastructure (especially transport and communications, and the importance of transportation costs in the overall cost structures of Caribbean producers)
- (e) The role of external assistance (ODA)

- (f) The role of other external financial flows (FDI and remittances)
 - (g) Financial development, domestic savings and capital formation
 - (h) The role of regional institutions
 - (i) The role of the community and of community attitudes
(including the relative importance of subsistence economic activity,
and of informal sector economic activity)
 - (j) Real wages and labour productivity
 - (k) Distributional issues, including the nature and incidence of
'poverty' and trends in the distribution of income
 - (l) What comparative advantages, if any, are exploited by
Caribbean countries
 - (m) How important is preferential market access in
the economic growth of Caribbean countries
 - (n) How much of Caribbean growth is attributable to
export-oriented activity
 - (o) How important is technology in productive activity in Caribbean
countries. Has production been primarily capital intensive or
has labour productivity been the product primarily of intense effort
by workers, and
 - (p) Growth in the services sector.
- 3 Other considerations
- (a) In reviewing the above factors, attention should be paid to the
sustainability of current economic policies and practices
(for example, including, but not restricted to, mining, logging
and fishing).
 - (b) The validity and relevance of the study's findings will be influenced,
to a large degree, by the quality and coverage of the data incorporated
into GDP calculations, in particular the effects of:
 - (i) the inclusion of expatriate individuals and foreign-owned
enterprises in income and product calculations, which obscures
our understanding of the absolute levels and relative shares of
income accruing to island people
 - (ii) the relative weighting given to the non-monetised subsistence
sector (about which there may be limited up-to-date
statistical data)
 - (iii) the relative importance of unrecorded informal sector activity
for people's livelihood and welfare, and the trends in growth
of such income and
 - (iv) whether other significant unrecorded economic activity
(including extra-legal activity) exists.

The study should therefore provide comment on the extent to which these (and any other) factors affect the study's findings and conclusions.

Executive summary

Broad comparisons

The South Pacific Forum encompasses nations of great cultural diversity, spread across a vast ocean area. The Caribbean nations share a common culture, and are members of a chain of islands closely aligned to each other. The Pacific island countries (PICs) are mostly archipelagoes; in the Caribbean the Bahamas is the only nation that is an archipelago. PICs are remote from major markets, whereas the Caribbean is located very close to the world's largest market.

On the other hand, both the Caribbean and the South Pacific inherit a colonial legacy which makes for similarities in public administration, health, educational and social systems. Countries in both regions are very open to trade and finance, and there has been extensive and continuing migration. Both regions are subject to devastation by natural forces, and both are impelled towards closer association by global forces.

Economic growth rates

Growth rates in the Caribbean are higher and income per capita is also growing more quickly. This remains true even after allowance is made for differences in purchasing power of income, the possible understatement of subsistence production in the South Pacific, differences in income distribution and environmental considerations. Examples of growth industries are tourism in the Caribbean and in some PICs. Sugar production has increased in the Caribbean and in Fiji, and has contributed to growth, along with forestry in Solomon Islands, and fishing in Solomon Islands and Fiji.

In both regions, macroeconomic management that ensured stable prices and exchange rates has been conducive to growth, together with a sound regulatory framework. Difficulties in both regions included market fluctuations and threats to preferential markets. The Caribbean is ahead of the South Pacific in terms of social indicators of development.

Regional institutions

Both the Caribbean and the South Pacific have a wide range of regional institutions. CARICOM was established with a target of establishing a single regional market through free trade, a common external tariff, regional investment, fiscal incentive regimes and functional cooperation. The CARICOM Heads of Government meet twice per year, and a sub-committee of Heads meets every quarter. The CARICOM Secretariat, which services the community, is hampered by funding and staffing problems. The Caribbean Export Development Project was

set up to promote regional exports. The East Caribbean states which share a central bank and currency have formed the Organisation of Eastern Caribbean States, with a secretariat that has two parts, administrative and economic.

The South Pacific Forum meets annually, and its secretariat provides assistance on (inter alia) economic development, energy matters, telecommunications, air and marine transport, and export promotion. The Forum Secretariat provides joint representation internationally in some areas and has drawn up a regional strategy, endorsed at the 1995 Forum, aimed at improving the effectiveness of regional assistance programmes. It has an agreed division of labour with the South Pacific Commission (which includes a somewhat larger group of countries) and other regional organisations, and takes the lead role for the region in the areas of trade and economic development.

Both areas have regional universities: the University of the West Indies (UWI), which is older, larger and offers a wider scope of programs, and the University of the South Pacific (USP), which is a leader in distance education. The Caribbean Examinations Council is widely used, in contrast to its South Pacific counterpart. The Caribbean Development Bank, which has no South Pacific parallel, has been highly successful and influential. The Caribbean Tourism Organisation and the Tourism Council of the South Pacific have similar aims, but the Caribbean body has a very much larger scope and program. There is no South Pacific equivalent of the CARICOM Council of Central Bank Governors, which is mandated to monitor economic convergence among members. Both regions have umbrella groupings of non-governmental organisations. The Caribbean has a small but economically significant number of regionally owned private sector companies, but this situation has no parallel in the South Pacific.

Priorities for government

Experience in both regions suggests government should give high priority to a stable economic environment. Policy makers must be skilful and well informed, because good policy arises from conviction on the part of officials and the population they serve that the chosen strategy is the correct one. Government needs to provide efficient, transparent regulations for private business. All governments visited have programs for improving the quality of public service and reform of the public sector. There is a common trend towards privatisation, but obstacles have been encountered, including lack of interest by the private sector in some PICs. The Caribbean has a two-tier regional scheme for fiscal incentives.

There are various arrangements for public-private sector collaboration in the two regions — some formal, others informal. Few are really satisfactory. Institutional arrangements for managing the economic strategy are also seldom satisfactory. There are widespread data deficiencies, and insufficient government funds and human resources are devoted to this requirement.

Macroeconomic policy, sectoral issues

The countries visited had sound fiscal policies, in contrast with excessive fiscal spending in larger countries in both regions. They kept exchange rates stable, supported by foreign exchange reserves sufficient for intervention. Economic liberalisation policies are being pursued everywhere, but with unrealistic expectations about the gains to be realised.

Tourism is the most buoyant sector in the Caribbean. While PICs have tourism potential, the investment required to realise it is usually very considerable. PICs need to combine knowledge and resources more effectively at the regional level so as to maximise gains from fisheries. Traditional agriculture, threatened by expected changes in traditional markets, is in decline in some countries. Of a large number of diversification attempts, only a handful have been successful. In countries where forestry is of economic significance, the current rate of exploitation is often unsustainable. There are only a few instances of agro-processing success. Transport infrastructure is good in the Caribbean, but in need of upgrading in the South Pacific.

Human resource development priorities

The Caribbean is much better endowed with skills than are PICs, which have serious shortages and gaps. But the Caribbean is still short of its skills requirement. PICs with educational deficiencies will need to invest in teacher training, school buildings and educational equipment and supplies. Elsewhere in the South Pacific, and in the Caribbean, the priorities are to increase quality at the secondary level and intake at the tertiary level. Health services are relatively advanced in both regions, which face similar problems of lifestyle-related diseases. There is a need to improve the quality, responsiveness and accessibility of health services, including preventive health care.

Private sector development

The Caribbean has a stronger entrepreneurial base than does the South Pacific. Some Caribbean-owned companies operate regionally and there is an active Caribbean Association of Industry and Commerce. There are opportunities for private companies in tourism, agriculture and light manufacturing in both regions, and for fisheries in the South Pacific. Governments should encourage foreign investment and joint ventures, help gain better access to overseas markets, and establish more diversified sources of development capital. Privatisation of government enterprises also offers opportunities for the private sector. The finance gaps identified were equity capital shortages and small enterprise finance. National development foundations have been established to provide small enterprise finance in the Caribbean, and the Caribbean also has a regional venture capital company. Trade promotion agencies or units have been set up in both regions.

Land issues

Traditional forms of land tenure are a constraint on investment in PICs, where customary land tenure arrangements create uncertainty. No such concerns arise in the Caribbean. The subsistence sector makes a significant contribution to the economic life of PICs, but is of scant importance in the Caribbean.

Cultural factors

Efforts are ongoing in both regions to preserve and revitalise their vibrant cultural traditions. In the South Pacific the relationship between traditional culture and economic development is complex, with beneficial features as well as aspects that inhibit development. The Caribbean has been relatively successful in investing modern lifestyles with Caribbean cultural content.

Environmental issues

Both regions have a vital interest in environmental protection, and there is a variety of institutions working in this area. SPREP is a stronger and more effective coordinating body than any analogous environmental organisation in the Caribbean.

Savings, investment and foreign aid

Investment in the Caribbean and the South Pacific has been high, in the range of 30–40 per cent of GDP. Foreign savings has been a major contributor, especially Official Development Assistance (ODA) in the South Pacific. PICs need to convert high investment rates into faster growth. The Caribbean attracts fairly large amounts of foreign direct investment, but PICs only a trickle. ODA is a major element for all PICs, and for most of the Caribbean. It has been used effectively for building infrastructure and improving human resources.

Competitiveness issues

The Caribbean and PICs have always been export oriented, and efforts at import substituting industrialisation have never had much impact on growth. But exports have been losing market share, and are threatened by loss of traditional markets. To restore competitiveness it will be necessary to improve productivity in traditional exports and increase diversity into non-traditional. In both traditional and non-traditional exports, emphasis must be on high labour productivity, high quality and innovative marketing, building on the successful experiences to date.

The case for regionalism

Regional cooperation is essential to overcome human resource limitations in both the South Pacific and the Caribbean. It is a way to bring to bear more skills and greater knowledge to influence the international environment in which the countries must sell goods and services. It broadens the scope of knowledge available

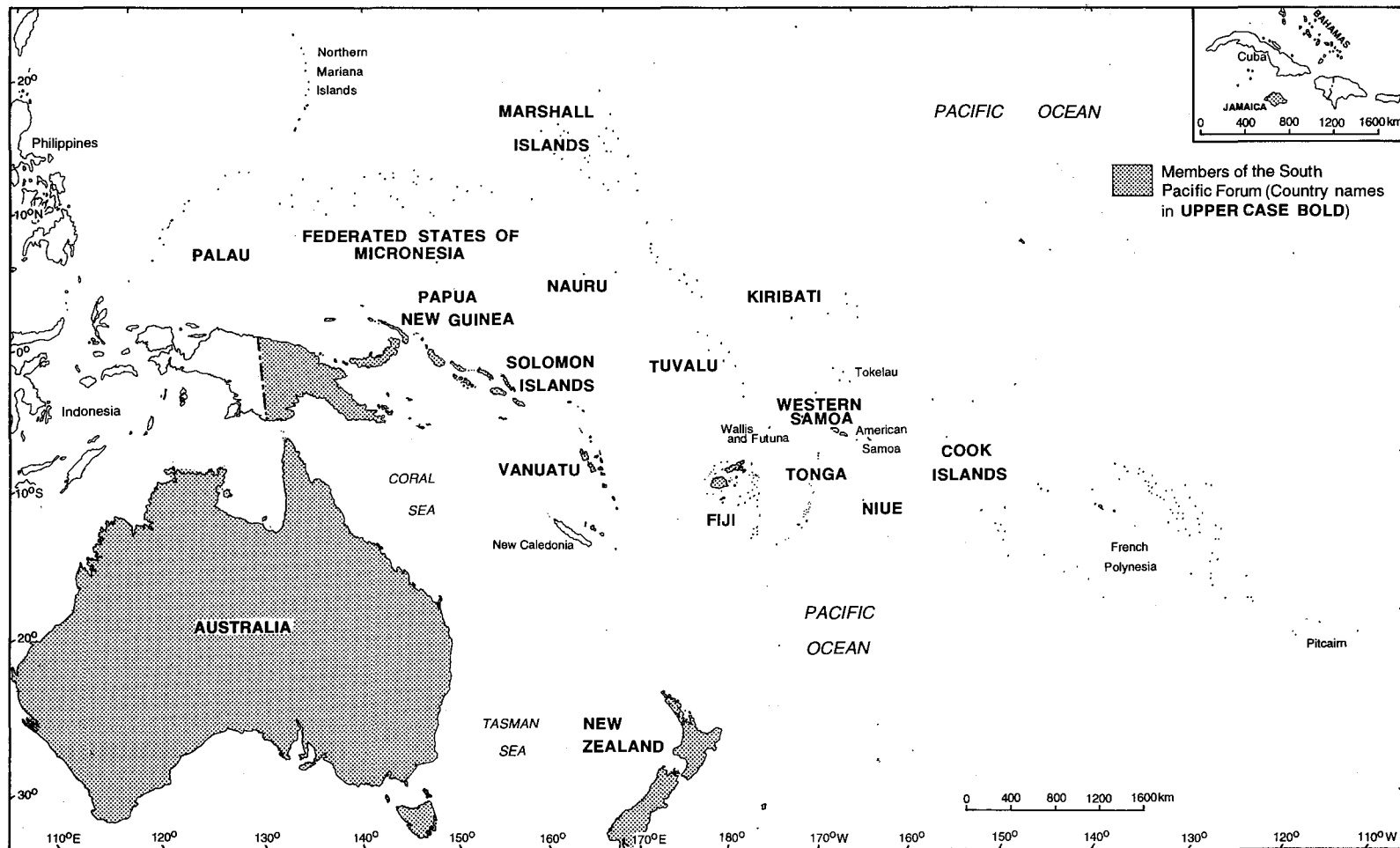
to domestic producers and provides economies of scale. It also accelerates the diffusion of knowledge. Joint marketing deepens market penetration and complements national and firm-level marketing. Common currencies reduce transaction costs, and regional arrangements may save on administrative costs. A common market may be seen as a commitment on the part of its members to stable macroeconomic policies, thereby improving the investment climate.

Recommendations

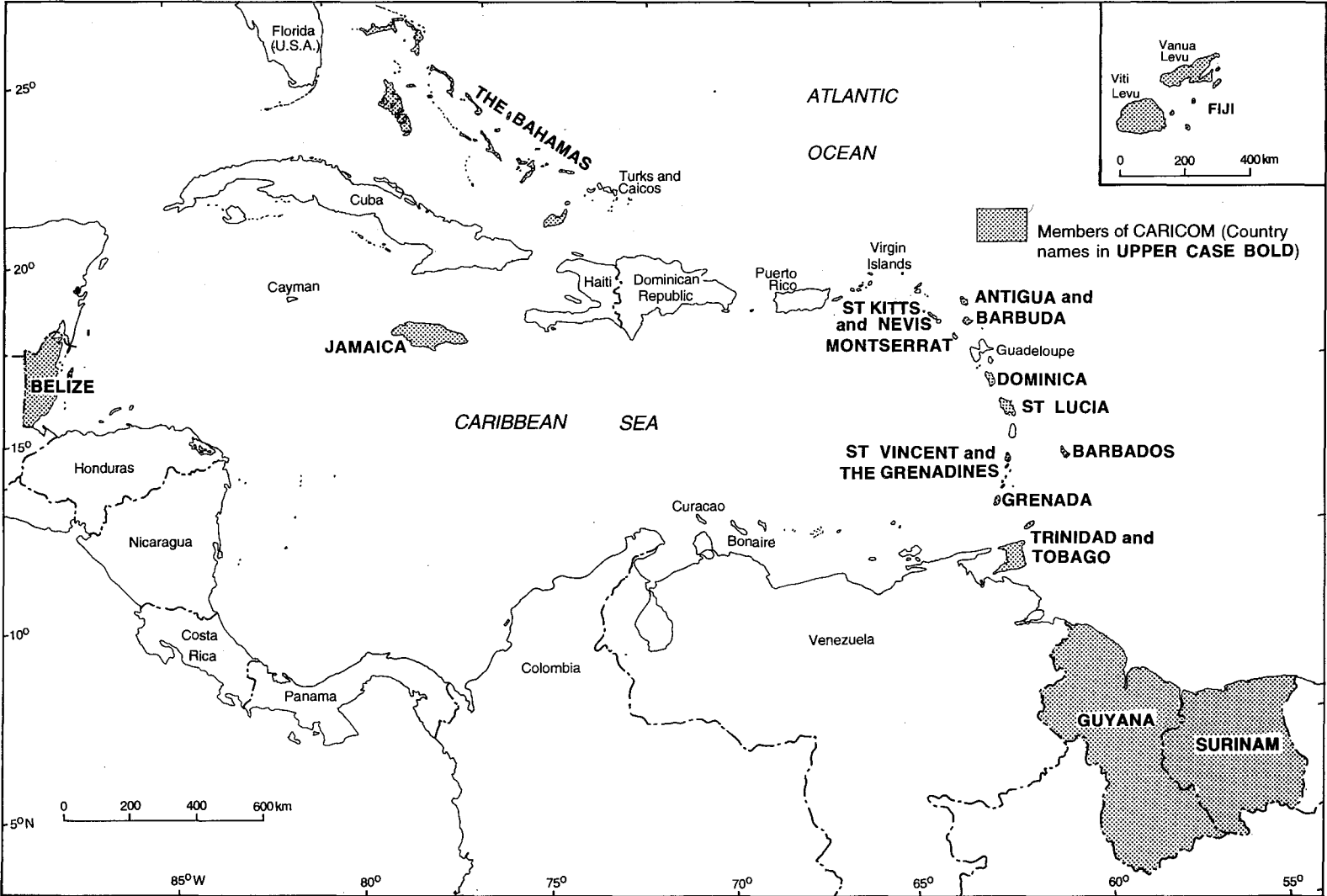
Our recommendations are that Pacific island governments should:

- (1) maintain macroeconomic policies to ensure economic stability: low fiscal deficits, stable market-driven exchange rates backed by central bank intervention with adequate foreign reserves, low inflation and moderate external debt. They should also improve the efficiency of public administration
- (2) take measures to stimulate the growth of the indigenous private sector, in particular, by means of venture capital funds and national development foundations
- (3) establish working mechanisms for private–public sector collaboration on economic strategy
- (4) establish high-powered regional investment promotion and export marketing facilities
- (5) revisit the idea of a regional finance institution, especially to support the growth of private firms that are regional in scope
- (6) take steps to set up an examinations council that has comprehensive regional coverage
- (7) investigate the possibility of a regional drug service
- (8) establish a powerful regional information centre at the South Pacific Forum Secretariat
- (9) establish links between corresponding organisations in the Caribbean and the South Pacific
- (10) re-examine the feasibility and benefits of an economic union.

Map of the South Pacific region



Map of the Caribbean region



1 Introduction and background

Scope of study

This study was born of the suspicion that small island countries share many economic characteristics, enough to permit generalisations about the kind of economic policy that is best for them. That notion undoubtedly was the basis for the comparisons made by the World Bank between the island economies of the South Pacific, the Indian Ocean and the Caribbean respectively.

How well founded are these comparisons? Has the Caribbean economic performance been sustained? Have all Caribbean countries done as well as those identified in the World Bank study? Has growth been accompanied by improvements in the wellbeing of the islands' populations? Have the benefits been widespread? Have women participated equally? Is growth environmentally sustainable? Have Pacific island countries reaped other benefits to compensate for slower growth? And what generalisations may be derived? These are among the questions we have been asked to explore.

The study will derive insights for the regions covered by the South Pacific Forum (SPF) and CARICOM. The South Pacific Forum includes Fiji, Tonga, Niue, Cook Islands, Western Samoa, Kiribati, Tuvalu, Vanuatu, Solomon Islands, Nauru, Papua New Guinea, Federated States of Micronesia, Marshall Islands and Palau. CARICOM includes The Bahamas, Jamaica, Belize, St Kitts and Nevis, Montserrat, Antigua and Barbuda, Dominica, St Lucia, Barbados, Grenada, Trinidad and Tobago, Guyana, Surinam, and St Vincent and the Grenadines (the last two mentioned constituting a single independent nation).

As far as possible, we have analysed background material for all the countries in both groupings. Again, to the extent possible, we present statistics for all countries except Papua New Guinea which falls outside the category of small island states. The text contains references and illustrations from all countries drawn from background materials and the authors' own research.

However, limitations of time and finance meant that eight countries had to be selected for in-depth investigation, including visits, interviews with public officials and the private sector, and the study of budget speeches, strategy papers, reports of companies and government institutions, and other material. The countries selected are: from the South Pacific — Fiji, Kiribati, Vanuatu and Western Samoa; and from the Caribbean — Barbados, Dominica, St Lucia, and St Vincent and the Grenadines. While Papua New Guinea and Jamaica are not specifically included in this comparative study, many of the generalisations derived apply to these two larger states to a greater or lesser degree.

Broad regional descriptions

The South Pacific Forum encompasses most countries and the largest proportion of population and land in the South Pacific region. Members range in size from tiny Niue to Papua New Guinea which is huge by comparison, both in area and population. Only the dependencies of France, the United Kingdom and the United States are not included, and they are far-flung and small. Most Pacific island countries are archipelagoes, covering a wide sea area, and many are distant from their neighbours, and quite remote from major industrial centres, as the regional map (p. xix) shows. Most are independent nations; a few are semi-autonomous dependencies. Except for the hereditary kingdom of Tonga (where a minority of parliamentarians are elected) governments are all elected by universal adult suffrage.

There is great racial diversity in the South Pacific, with Melanesians in the west, Polynesians in the east and Micronesians in the north. Different languages are spoken; in Melanesia there may be scores within a single country. There is a corresponding diversity of culture. Nonetheless, a wealth of cooperative arrangements has grown up, often under the impetus of metropolitan governments in London, Paris and Washington, not to mention Canberra and Wellington. Most have proven useful, and have persisted.

CARICOM countries account for about one quarter of the insular Caribbean population and an even smaller proportion of the land mass. However, by virtue of their much higher per capita incomes, they command a much larger proportion of the region's income. The largest Caribbean island nations — Cuba, Haiti and the Dominican Republic (DR), which is an entirely different country from the very much smaller island state of Dominica — are not members of CARICOM, though Haiti and the DR are observers. The dependencies of the United States, United Kingdom, France, Venezuela and Colombia are not members. These include Puerto Rico, the fourth largest insular population. The Netherlands' Antilles and Aruba, which have independent governments but maintain a special relationship with the Netherlands, are also observers.

CARICOM also includes three non-island members, Belize in Central America and Guyana and Surinam (the most recent addition) in South America. Reference is made to Guyana in a number of contexts in this study even though it is not an island state, because it represents for the Caribbean a kind of extreme case in terms of a number of development indicators.

In contrast with the South Pacific Forum, CARICOM excludes a major segment of the Caribbean. However, CARICOM is, despite its shortcomings, a functional economic and administrative unit, which does act jointly on many issues and is moving towards a declared intention of establishing a single economy among its members. This implies above all the integration of the CARICOM economies into a single regional entity allowing for unobstructed trade between members (but with a common external tariff), and the free movement of capital and labour between member countries as well as standardisation of trade, financial and related

procedures. For example, in the single economy, a citizen of Belize could undertake in Guyana any commercial, financial, production or other economic activity on an equal footing with Guyanese; beyond free trade and factor movement it involves comparable legal and administrative frameworks.

Except for the Bahamas, and St Vincent and the Grenadines (the latter a single political unit), CARICOM states consist of one or two islands, with population sizes ranging from Montserrat (10,000) to Jamaica, with almost three million, and land area ranging from Montserrat (still much larger than Niue) to the Bahamas, which comprise a scattered group of islands, some quite large. Most Caribbean islands are situated in the semi-circle that encloses the Caribbean Sea, from the Gulf of Mexico (at the south of the North American landmass) to the Gulf of Paria, off the north coast of South America (see map, p. xx). The nations of CARICOM are in that chain, interspersed among non-members. With the exception of Surinam, CARICOM members speak English as their native tongue. They also inherited Westminster parliamentary institutions, which continue to exist though with some variations. Governments are all elected by universal adult suffrage.

Historical and administrative aspects

In both the South Pacific and the Caribbean a historical legacy helps to bring countries together. The colonial powers introduced common administrative systems, educational, health and social systems, and very similar institutions. Colonial administrations often interchanged personnel among Caribbean islands, establishing familial ties that have persisted. CARICOM nations are also linked by trade and tourism, particularly between neighbouring countries. Migration has always been controlled, but there has nevertheless been sizeable migration between neighbours such as Grenada and Trinidad.

In the South Pacific some intra-regional private investment flows have taken place in recent years, notably from Fiji to Solomon Islands, Vanuatu and Tonga, and from Papua New Guinea to Tonga. In the Caribbean such flows are relatively small in relation to total investment, but they are of long standing, and have been growing in importance in recent years. Both have tried, less successfully than they would like, to craft common approaches to external trade, investment incentives and allied areas. Both the Caribbean and Pacific island countries are drawn together by cultural affinities and, in the case of CARICOM, by a common language.

Geography and communications

The remoteness of the South Pacific is in marked contrast to the Caribbean, where distances between islands are very short. The islands are close to the American continent, with some CARICOM members actually on the mainland. Airline connections among CARICOM countries and with North America and Europe are

frequent, though expensive on less travelled routes. Marine connections are very good going north and south but problematic for east–west traffic, except between neighbouring countries. In the South Pacific distances are very great, air and sea connections are few and infrequent, and travel and transport very costly. Since most countries are archipelagoes they have the added burden of high internal transport costs, most extreme in the case of Kiribati.

National endowments

Both the Caribbean and Pacific island countries are relatively well endowed with natural resources although considerable variation exists in the resource endowment of individual countries. Except for the small coral atolls, as represented by Kiribati, Tuvalu and, to a lesser extent, Dominica (where there is little flat land), all these countries have significant areas of arable land suitable for some form of agriculture, both commercial and subsistence. The agricultural potential of the larger countries such as Guyana, Barbados, Papua New Guinea and Fiji is particularly high.

In relation to forestry resources (mostly tropical hardwood varieties), the best potential again lies with the larger countries, notably Guyana, Papua New Guinea, Fiji and Solomon Islands. In fisheries, the South Pacific countries have a considerable advantage by virtue of their jurisdiction over extensive sea areas under the Exclusive Economic Zones or EEZs (an estimated 30 million square kilometres). Even so, the fisheries resources of the Caribbean countries are not insignificant.

Almost without exception, all these island countries are well endowed with beaches, scenic and recreational areas and year-round warm weather as a basis for developing major tourism industries. Both regions have substantial deposits of key minerals, for example, gold and copper in Papua New Guinea, nickel in New Caledonia, gold in Guyana, bauxite in Jamaica as well as oil in Barbados, and Trinidad and Tobago. Gold is also found in Fiji, phosphate in Nauru, and a significant potential for gold, copper and oil is present in a number of other Pacific island locations. Large deposits of manganese nodules and cobalt encrusted on sea-mounts have been identified in Kiribati as well as in several other parts of the South Pacific region.

Economic aspects

CARICOM countries and PICs, like most islands, are very open economies, with ratios of trade in goods and services to GDP that are among the highest anywhere. Because domestic markets are too small to offer economies of scale to producers, and because of the small base of human and physical resources, the islands all specialise in the production of a few commodities and services for export, importing most items used in domestic consumption. This is inevitable in island

nations, to the extent that lifestyles rise above the subsistence level. The islands also depend heavily on remittances and short- and long-term capital flows.

In both regions, migration has also been a channel through which the islands have established ongoing links with the wider world. In smaller islands resident populations have sometimes declined because of migration — in the Caribbean (Montserrat) and in the South Pacific (Western Samoa and Niue).

Cultures

There is great cultural homogeneity within CARICOM; in contrast, the South Pacific Forum is a grouping of great cultural diversity. CARICOM countries all share the same cultural roots, a mixture (predominantly) of African and European, combined in ways that have produced distinctive forms of music, dancing, cuisine, religious expression, architecture and folklore. Differences exist among countries, but they are minor and are diminishing over time as the culture evolves in a process of creative cross-fertilisation within the region. For example, Indian influences are characteristic of Guyana and Trinidad to an extent not common elsewhere, but Indian foods, especially the bread called *roti*, are now common throughout the region.

Each Pacific island country has its own ancient culture, and in some countries many distinctive cultural practices exist side by side. This inhibits the emergence of a regional identity and a sense of shared purpose. The variety of native languages means that the evolution of contemporary forms of cultural expression is confined to relatively small pockets, where small amateur groups lack the resources that drive the evolution of Caribbean music, festivals and culinary traditions. In the Caribbean, the vibrancy of cultural evolution has lessened the tension between development and preferred Caribbean lifestyles, and has contributed to a sense of Caribbean nationhood (for a discussion of this subject see Appendix 1). As a result the constituency that is working enthusiastically for regional development is much smaller in the South Pacific Forum than in Carsec.

Climate

CARICOM island countries and most PICs are subject to violent tropical disturbances known as hurricanes or cyclones, which may bring winds approaching 200 kph, rainstorms, flooding and destructive wave action. Many countries have experienced volcanic eruptions and earthquakes. Sizeable sums must be expended in premiums to insure against those risks for which insurance is available, and a significant proportion of investment and government expenditure must go toward disaster preparedness. Even with these precautions an abrupt decline in national income is usually unavoidable in the wake of disasters.

Illegal drugs

The South Pacific has so far been spared the impact of the worldwide scourge of illegal drugs. The Caribbean has been affected by the insatiable demand for illegal drugs in North America, because the islands are a natural geographical link between major producing areas in South America and the North American market. However, domestic production and usage is not an economically significant activity in any Caribbean island visited. Jamaica is the only English-speaking Caribbean island suspected of an economically significant trade in illegal drugs.

Pressures toward regional association

Both the Caribbean and the South Pacific Forum are impelled towards regional association by threats of loss of identity in the modern world. The new climate of international negotiation has abandoned the principle that fairness requires that there be compensation for disparities in size. The increasing sophistication and complexity of international transactions requires high levels of skill and information, over a wide range of issues, a requirement which no CARICOM country or PIC can adequately meet. In the Caribbean, and to a much lesser extent in PICs, there is a massive invasion of American cultural artefacts, redefining lifestyles through the design of houses, the way people dress, what we eat and even the games we play. There is also pressure from multilateral financial institutions (MFIs) and bilateral donors to conform to a strict economic orthodoxy. There is ignorance and neglect of island nations in many international fora. These are all factors which motivate the desire for closer regional association, in the hope that the island nations collectively can better assert their individuality.

2 Economic growth, economic status and social indicators

Inter-regional comparisons that have been made, for example, by the World Bank (1995b, p. 1), indicate that the economic achievements of the Caribbean countries have generally been superior to those attained by the Pacific island countries. Particularly from the mid-1980s, the Caribbean countries have grown at a faster pace than those of the Pacific, although the gap appears to have narrowed considerably over the past few years. Levels of per capita income are, on average, several times higher in the Caribbean than in the South Pacific region, suggesting significant disparities in living standards and welfare. Social indicators of health and educational standards are also decidedly superior in the Caribbean.

2.1 Economic growth

Contrasting regional performances

The contrasting growth performances of the Caribbean and Pacific island regions have been highlighted in recent national income data presented by the World Bank (1995b, p. 2). Over the 1983–93 period, the annual growth rate of real GDP recorded by the selected Caribbean countries was at least 1 per cent above the comparable rate for the Pacific islands (Table 2.1). The growth differential is sharper when the real aggregate GDP figures are adjusted for relative population growth. (However, given that the corresponding growth rate for a group of African and Indian Ocean island countries is much higher than that recorded for the Caribbean, the performance by the Caribbean economies can be considered no more than a respectable one.)

Table 2.1 Average growth performance, 1983–93 (per cent per annum)

Items	Pacific ^a	Caribbean ^a	Africa and Indian Ocean ^a
Real GDP	2.2	3.2	5.4
Population	1.7	0.9	2.0
Per capita real GDP	0.5	2.3	3.4

Source: World Bank 1995b, p. 1

a Selected island economies

The World Bank report did not spell out the underlying reasons for the superior performance of the Caribbean countries. However, in an earlier report, the Bank highlighted the advantages arising from proximity to the large high-income American markets (World Bank 1993, p. 1).

In relation to the Pacific island countries, the World Bank drew attention to the so-called Pacific Paradox of slow growth despite high levels of external assistance, favourable natural resource endowment and reasonably prudent economic management. It indicated that Pacific island countries needed to make more effective use of external aid and develop more growth-oriented policies as vital prerequisites for sustainable and accelerated growth. While the description of natural resource endowments as favourable throughout the South Pacific region is too strong a generalisation, the Bank's assessment must be studied carefully, and its implications explored.

Differences between the two regions in the pace of economic growth were most pronounced during the period 1985–90 (Table 2.2). Economic growth among Caribbean countries generally accelerated over this period, with Guyana, Trinidad and Tobago and, to a lesser extent, Jamaica, being the main exceptions. Average growth rates of around 7 per cent per annum were attained by at least seven Caribbean countries. In contrast, the record of growth among Pacific islands was rather mixed, but generally it was one of slow (and somewhat erratic) growth, with only Solomon Islands and (possibly) the Cook Islands performing reasonably well (although not necessarily sustainably). The average annual growth rate for the Caribbean of around 4.5 per cent was well above the corresponding rate of 1.5 per cent for the Pacific islands.

More recently, in 1991–94, economic growth in the Caribbean has slowed, while it picked up among Pacific island countries. Mainly responsible for the improvement in the performance of the Pacific islands has been a firming up of growth in Vanuatu and significant economic recovery in Fiji and Western Samoa.

The result has been a considerable reversal in growth performances, with Pacific islands, as a group, outperforming the Caribbean economies. Preliminary GDP data for 1989–93 indicate that real GDP increased by an annual rate of around 1.5 per cent for the Caribbean as against 4.2 per cent for the Pacific islands, or 0.5 per cent and 2.2 per cent, respectively, on a per capita basis (World Bank 1995b, p. 2). Estimates of GDP for 1994 show that Vanuatu and Western Samoa at least are still subject to great volatility in growth, suggesting that the superior performance during 1989–93 cannot be taken as evidence that these countries have developed a capacity to sustain high rates of growth on a consistent basis. The Western Samoa economy in particular is still plagued by the effects of severe cyclone destruction over the 1990–91 period as well as more recent damage to agriculture from the taro blight disease.

Other comparisons

A closer examination of the growth experience of individual countries in both the Caribbean and South Pacific regions reveals several other notable features (Table 2.2). Predominantly reflecting a common state of extreme vulnerability to external shocks (including natural hazards), the observed pattern of national income growth in both regions is characterised by considerable volatility. However, it is apparent that this volatility is somewhat less pronounced among Caribbean countries. The greatest fluctuations appear to have been experienced by two Pacific island countries, Fiji and Western Samoa, reflecting the impact of exogenous shocks in the form of political instability and severe cyclonic devastation.

It is also apparent that, from the mid-1980s, and in sharp contrast with the Pacific islands, success in achieving rapid growth in the Caribbean has been widely based. As noted, as many as seven Caribbean economies achieved rapid growth, averaging between 6 per cent and 7 per cent per annum, with several, notably Belize, St Kitts and Nevis, performing particularly well. Somewhat paradoxically, the best performances were achieved by CARICOM's so-called less developed countries (LDCs), particularly the six smaller members of the Organization of Eastern Caribbean States (OECS). CARICOM's more developed countries (MDCs), comprising Barbados, Guyana, Jamaica, and Trinidad and Tobago, could only record low or negative growth, implying static or declining per capita incomes.

In relation to the Pacific islands, the overall record of economic growth over the past decade has been disappointing, with none attaining growth comparable with the Caribbean LDCs. The best (albeit modest) performance was recorded by Solomon Islands, with an average growth rate of around three per cent per annum, and more recently by the Cook Islands, with a somewhat higher rate of growth. In both these cases, however, growth has been narrowly based and occurred against a backdrop of severe macroeconomic instability. The performance of the remaining Pacific islands has been one of low or negative growth which, when measured against relatively high rates of population growth would, in many cases, have resulted in a significant decline in per capita income and living standards. It remains to be seen whether the recent improvement in growth recorded by Fiji and Western Samoa (both projected to grow by around 4 per cent in 1995) can be sustained. For Fiji, projected growth is based entirely upon prospects in the tourist and sugar industries, using existing capacities and against a background of relatively low levels of private and public sector investment.

Table 2.2 Growth in real GDP (per cent per annum)

Caribbean countries	Antigua and Barbuda	Barbados	Dominica	St Kitts and Nevis	St Lucia	St Vincent and the Grenadines	Belize	Grenada	Guyana	Jamaica	Montserrat	Trinidad and Tobago
1980-84	4.8	10.0	5.6	4.3	2.6	5.6	0.7 ^a	3.5 ^a	(4.5)	0.5	2.3	1.4
1985-89	8.3	3.3	5.2	7.3	4.7 ^b	6.9	7.6	5.5	(1.0)	2.3	7.2	(3.7)
1989	6.3	3.6	(1.1)	6.7	9.1	7.2	12.5	5.7	(4.9)	6.8	11.5	(0.9)
1990	3.5	(3.1)	6.3	3.0	4.4	7.1	8.9	5.2	(3.0)	5.5	14.7	1.5
1991	4.3	(4.2)	2.0	3.9	2.3	3.1	4.6	3.2	6.0	0.5	(23.7)	2.7
1992	1.3	(6.2)	2.6	3.0	7.1	3.6	10.3	0.6	7.8	1.4	(1.5)	(1.7)
1993	3.5	0.6	2.2	4.5	2.9	3.0	3.5	(1.3)	8.2	1.2	(0.3)	(1.7)
1994	3.0	4.0	-	3.0	1.8	2.0	1.6	2.3	8.5	1.0	0.2	4.0

Pacific islands	Fiji	Kiribati	Vanuatu	Western Samoa	Solomon Islands	Tonga
1984	8.2	5.2	6.9	(1.7)	3.8 ^c	-
1985	(3.4)	(5.6)	1.8	3.6	(2.0)	-
1986	7.7	2.0	(2.0)	5.1	2.5	-
1987	(6.6)	(2.9)	0.4	1.2	5.4	(3.5)
1988	1.0	10.9	0.6	0.1	6.2	0.7
1989	1.8	(2.2)	4.5	1.9	1.0	(2.0)
1990	4.7	(2.9)	5.2	(9.4)	1.7	6.4
1991	0.6	2.8	4.4	(1.9)	10.5	0.3
1992	3.1	3.1	1.0	(1.3)	0.9	3.7
1993	1.9	2.9	4.0	5.3	4.0	4.3
1994	3.7	-	2.3	(6.0)	-	-

Source: CDB 1994, pp. 18-39; World Bank 1995b; various other official sources
a 1981-84; b 1985-87; c 1981-85

2.2 Sectoral analysis

Caribbean economies

As noted above, many of the small Caribbean economies experienced robust growth from the mid-1980s. Such rapid growth contrasts with a record of low or negative growth attained by the more developed Caribbean countries, as well as almost all the Pacific island countries. The success attained by the small Caribbean countries can largely be ascribed to tourism and its dynamic effect on the rest of the economy. Other sectors also acted as propelling factors in growth, including expansion of other exports, business and financial services, and a high volume of inflows such as external aid and remittances. Success in establishing a sound macroeconomic framework and fostering private sector development, including foreign direct investment, also played a vital role.

Tourism

Tourism and related activities appear to have made the greatest contribution to growth for virtually all OECS economies and, to a lesser extent, the larger Caribbean countries, including Belize and Jamaica. The mid-1980s saw a resurgence in tourism (following a situation of relative stagnation during the 1970s and early 1980s), especially with the restoration of economic growth in the United States and Europe. A more dynamic tourism sector was a dominant factor in the relatively rapid growth in the overall service sector that took place during this period.

Agriculture

In relation to agriculture, an improvement in the economic circumstances of the main markets, particularly the United States, combined with the effects of a stronger US dollar (for example, on banana export earnings), provided a favourable milieu for the expansion of export supply. The traditional sugar producers — Belize, Guyana and Jamaica — were able to achieve good returns with beneficial effects on output and growth. Improved prices for bananas led to increased output by Dominica, St Lucia and St Vincent and the Grenadines, and several other suppliers which, in turn, boosted growth. Manufacturing proved volatile but was generally a declining sector. However, several Caribbean countries, such as Barbados, benefited from the establishment of manufacturing assembly operations, while one or two others gained significant benefits from the introduction of business and financial services.

Macroeconomic policies

Success in the design and implementation of sound macroeconomic policies also contributed significantly to rapid growth by the OECS economies. Prominent policy elements included prudent fiscal policies, the maintenance of stable exchange rates, a sound regulatory framework and a disciplined monetary stance (with the East Caribbean Central Bank, ECCB, exercising a controlling influence

in its own region). Such policies paved the way for the achievement of relatively high savings and investment rates, an active private sector and a reasonable inflow of foreign direct investment. In the case of the MDCs, particularly during the 1980s, the macroeconomic fundamentals were weak, which significantly undermined the capacity to sustain growth.

Pacific economies

As was the case with the Caribbean countries, such growth as has occurred among Pacific islands has been largely due to tourism and associated activities, including transportation and construction, as well as the exploitation of available agricultural and other natural resource products. Tourism has been a major stimulus to economic growth in Vanuatu and the Cook Islands, and appears to offer the most significant development potential for these and other Pacific island countries.

In relation to agriculture and other primary sector activities, the leading products include sugar in the case of Fiji, forestry products in Solomon Islands and in Vanuatu, and fishery products in Fiji and Solomon Islands. Other activities that have contributed in some degree to economic growth in a number of countries are industrial assembling operations for export in Western Samoa, financial services in the Cook Islands, Vanuatu and Western Samoa, and garment manufacturing and export in Fiji. Regarding the quality of macroeconomic management, with one or two exceptions, the record has been relatively good (although in many cases the achievement of external stability was buttressed by external aid).

General growth issues

Achieving sustainable growth by both Caribbean and Pacific island countries is inherently difficult, given a state of chronic vulnerability to the vagaries of external forces combined with a narrow range of development options. Tourism, for example, although offering major growth potential, is highly sensitive to cyclical fluctuations in the industrial countries and is also highly competitive. Markets for major export products can suddenly collapse while such preferential market access as is presently enjoyed can just as quickly be withdrawn. The small mono-product economies are particularly vulnerable to these external forces.

For the Caribbean countries, the threat of the removal of existing preferential arrangements for a number of leading export products, notably sugar and bananas, is a source of concern for the producing countries. Sugar enjoys preferential access to both the US and European Union (EU) markets, and any erosion or removal of such benefits could have major repercussions on the economies of Guyana and Jamaica. Likewise, a loss or diminution of existing preferential access for bananas would have a major adverse impact on the economies of the small OECS countries as well as some of the MDCs. Those with significant manufacturing industries could also suffer from increasing international competition. Such competition is

likely to intensify, given current global commitments towards achieving a more liberal world trade environment.

Regarding the Pacific islands, vulnerability to swings in external market conditions and changes in trading arrangements is ever-present. In the case of Fiji, the capacity to sustain growth appears to be threatened by uncertainties over preferential arrangements with the EU applying to sugar, and by the increasingly competitive nature of the international garment industry. Increasing competition from Asian suppliers poses difficulties for a number of Pacific island countries in the production of coconut by-products for export as well as processed fish. In the case of Solomon Islands, the capacity to sustain the export of logs — the main source of growth in recent years — is limited by the effects of destructive and unsustainable logging practices currently in operation.

For both Caribbean and Pacific island countries, developing the appropriate set of policies capable of paving the way for accelerated and sustainable growth will not be easy (see Chapter 5). Much will depend on the capacity to respond positively and flexibly to external shocks, and to formulate growth-oriented policies set against a sound macroeconomic framework. Structural policies aimed at achieving greater economic diversification are particularly important, especially in relation to opportunities in tourism, agriculture and light export-oriented industries. The developmental role of foreign direct investment is particularly crucial, while efforts to achieve more effective use of aid resources are equally important.

2.3 Per capita income

Inter-regional differences

Superior economic growth performance in the Caribbean stands alongside significantly higher levels of per capita income. The level of per capita income in the Caribbean (as measured by Gross National Product) is around 2.3 times the average for the Pacific islands. Specifically, in 1993, the level was \$3,700 against \$1,600. (These compare with a corresponding figure of \$1,980 for the African and Indian Ocean countries.) Such per capita levels place the Caribbean region in the middle developing country category, and the Pacific islands in the upper range of low income developing countries (Table 2.3).

GDP per capita incomes in the Caribbean range from a low of up to \$1,000 for Guyana to \$7,000 for Antigua and Barbuda (with Barbados close to the latter). The modal value is \$2,000–3,000. The comparable range for the Pacific islands is around \$500 for Kiribati to \$3,900 for the Cook Islands. Fiji, with a corresponding figure of \$2,470, is next to the Cook Islands (although per capita income for the small island of Nauru — which benefits from phosphate mining — is of the order of \$5,000). Several Pacific countries have GDP per capita of less than \$1,000.

Inter-regional comparisons based on GNP, which allows for net factor incomes from abroad, make little material difference to the pattern revealed by GDP figures. In the case of the Caribbean countries, GNP per capita is consistently below the level of GDP (taking into account the difference in year) reflecting the prevalence of net outflows of factor earnings. The difference is particularly striking for Antigua and Barbuda whose economy, notably the tourism sector, is heavily dominated by foreign investment. For the Pacific islands, a number of countries appear to be benefiting from net factor inflows from abroad. This is apparent for Kiribati and Western Samoa in particular, with the former benefiting from considerable flows of investment income from abroad.

Inter-regional (and inter-country) comparisons based on measured national income figures can be highly misleading, and can give an inaccurate picture of relative real income and hence living standards and welfare levels. More meaningful comparisons would need to consider such relevant factors as differences in the cost of living, the relative importance of non-monetary subsistence production and the pattern of income distribution. Major methodological differences in the compilation of national income statistics are also relevant.

As well, allowing for unilateral transfers from overseas, particularly in the form of personal remittances, does little to diminish inter-regional differences in per capita income levels. Such transfers, which are mostly sent by kinfolk residing and working overseas, are apparently a significant source of income for almost all Caribbean countries and for many Pacific islands. Unfortunately, detailed data on remittance flows are not available although in the case of the Caribbean countries, some clues may be obtained by reference to the 'net current transfer' item in the balance of payments of individual countries. Such data suggest that Dominica, St Lucia and St Vincent and the Grenadines are major beneficiaries.

For the Pacific islands, the main recipients are the Polynesian countries, notably Western Samoa, Tonga, the Cook Islands and Niue, where overseas migration has been longstanding. For Western Samoa, net remittance flows have, over the recent period, averaged around \$40 million per annum, equal to \$250 per capita or 20 per cent of GDP. Such levels of remittance per capita are unlikely to be matched by other countries in the Caribbean and the South Pacific, with the possible exception of Tonga (where the level of remittances per capita is similar to that of Western Samoa).

Table 2.3 Caribbean and Pacific island countries: GDP, Gross Domestic Product total and per capita 1993; and GNP per capita 1992 (at current market prices)

Countries	GDP total (1993) (\$m)	GDP per capita (1993) (\$)	GNP per capita (1992) (\$)
Caribbean countries			
Antigua and Barbuda	456	7,083	4,870
Barbados	1,640	6,225	6,530
Dominica	196	2,700	2,520
St Kitts and Nevis	192	3,990	3,990
St Lucia	487	3,550	2,900
St Vincent and the Grenadines	242	2,334	1,990
Belize	550	2,550	2,210
Grenada	260	2,720	2,310
Jamaica	3,730	1,509	1,345
Trinidad and Tobago	4,630	3,720	3,940
Pacific countries			
Fiji	1,920	2,470	2,010
Kiribati	38	500	700
Vanuatu	187	1,160	1,200
Western Samoa	122	748	940
Solomon Islands	245	708	710
Tonga	148	1,590	1,350
Tuvalu	10	1,070	-

Sources: CDB 1994, p. 12; World Bank 1995b, pp. 100-176; World Bank 1994b, pp. 18-19

Data issues

The data on national income for the two regions can exaggerate differences in real income levels. This can happen because of differences in costs of living and difficulties in accounting for non-monetary subsistence production where it occurs. A useful way of adjusting measured national income figures to allow for differences in the cost of living is by applying purchasing power parity (PPP) procedures. This involves comparing prices for a common and representative basket of goods and services and preparing an index of relative costs which can then be used to adjust nominal income figures. Real GDP per capita, expressed in terms of PPP, has been published by UNDP for 1991 only and then for a limited number of Caribbean and Pacific island countries (UNDP 1994, pp. 129–30). These show that income per capita for Barbados was close to \$10,000 and about half this level for Fiji. Income levels for Dominica and St Vincent and the Grenadines were close to \$4,000, but those for Vanuatu and Western Samoa were around \$1,600 to \$1,800. For what these estimates are worth, they indicate that, Fiji excepted, real per capita incomes for the Pacific island countries covered are well below Caribbean levels.

Accounting for subsistence production

Another possible source of distortion in national income comparisons between the two regions derives from subsistence production and the way it is treated in national income compilations. In the Caribbean, except to a limited extent in Dominica and St Lucia, production for subsistence has virtually disappeared. By contrast, among Pacific island countries, the subsistence mode remains very strong and is a major source of income (and welfare) particularly among the rural sector. For this reason, estimates of subsistence contribution to GDP are widely made and used. Recent GDP estimates, for example, show that value added by the subsistence sector contributed 5 per cent to GDP in Fiji, 8 per cent in Vanuatu and 20 per cent and 25 per cent in Western Samoa and Kiribati, respectively. However, on the basis of our enquiries, we suspect that the real value of this production has probably been significantly underestimated.

We found that, in some cases, estimates of subsistence output provided only for agricultural and fisheries activities and not for those in allied areas including services, construction, furniture making and local government services provided by traditional leaders. In the absence of clear methodology, valuation procedures have tended to err on the low side.

A proper accounting for subsistence sector activities in Pacific island countries would significantly raise the level of measured national income, and contribute in some degree to narrowing measured income differences.

The informal sector

As in the case of subsistence production, and for much the same reasons, it is also common for other informal sector activities to be underestimated significantly in national income accounting. Such activities embrace those that take place outside the ambit of the formal monetary sector, and apply particularly to produce vending, repairing and servicing activities in urban and rural off-farm areas. From the available evidence, it is apparent that informal activities are extensive in both regions, but particularly so among Caribbean countries. Even so, any bias in favour of one region or the other is likely to be small, and probably of little consequence in the evaluation of relative real per capita income levels.

As with subsistence production, a stronger effort should be made to account properly for informal sector operations in national accounts compilation.

Income distribution

Income distribution is another major factor that must be considered when assessing relative income levels, and from a welfare perspective it is particularly important. Again, an assessment of inter-regional differences is not possible because of lack of data. However, in the case of the Caribbean, it would appear that the attainment of a reasonable degree of equity in income distribution may be complicated by such factors as relatively high levels of open unemployment found in many countries throughout the region, a more advanced (profit-oriented) corporate sector, and the absence of large subsistence sectors (with their pervasive sharing traditions).

The effects of such unemployment, which is as high as 25 per cent of the workforce in some cases (for example, Barbados) are, however, mitigated to some extent by the availability of unemployment benefits, usually of limited duration, and by informal income support mechanisms through strong extended family structures. Urban-rural disparities appear to be high in the Pacific and the larger Caribbean islands, but there is little differentiation in Barbados and smaller islands with well-developed infrastructure.

Other relevant issues

Many other factors would appear to be relevant in relation to national income comparisons between the Caribbean economies and the Pacific island region. These include the extent of environmental degradation that has taken place in the process of wealth creation, and the questionable sustainability of current policies in the area of natural resource exploitation. (A notable example of unsustainable growth in the Pacific islands is provided by Solomon Islands where indiscriminate logging practices threaten to exhaust commercial hardwood forests within a decade.) It can also be argued that such inter-regional, not to mention cross-border, comparisons should go beyond a consideration of national income 'flows' to include financial

stocks or assets that some countries have been able to accumulate over time — as for example, the large trust funds built up by some South Pacific states such as Kiribati, Tuvalu and Nauru. Ownership of such assets brings with it an entitlement to receive a financial rent. But it can be argued that it also bestows upon the owner ‘psychic’ rents derived from the sense of security and wellbeing which such ownership provides.

What has been said above, particularly in relation to disparities in cost of living and non-monetary subsistence income, suggests that great caution is needed in the assessment of measured national income data when drawing conclusions about the real income levels and living conditions in the two regions. Nonetheless, even if all these factors could be adequately accounted for, it would appear that income differences between the two regions remain large.

2.4 Social indicators

Valuable insights on living standards and human welfare can be obtained from a consideration of social indicators relating to education and health (see Chapter 6 for more detailed discussion of these factors). On the basis of selected key indicators, shown in Table 2.4, there is little doubt that the Caribbean countries have been more successful in meeting the educational and health demands of their populations. Also, in terms of the Human Development Index (HDI) — a composite measure of longevity, knowledge and standard of living published by the United Nations Development Programme (1994d, pp. 129–31) — several Caribbean countries rank in the high human development category. Thus, Barbados ranks as number 25 (out of a listed 174 UN countries), the Bahamas 26 and Trinidad and Tobago 39. Nine other Caribbean countries are listed among the medium-level group with HDI ranks ranging from 67 to 105. Only five Pacific island countries are included in the ranking, with Fiji being classified with a high human development rank while Western Samoa, Vanuatu, Solomon Islands and Papua New Guinea are included in the medium group.

Health

The Caribbean superiority is most striking in health. Life expectancy is relatively high, ranging from 68 years to 75 years which means a gap of around 10 years in comparison to Pacific islands where the corresponding range is from 60 to 66 years. Differences in infant mortality rates (per 1,000 live births) are equally striking; for many Caribbean countries, this rate is around 20–30 while for most Pacific islands, mortality rates are twice the Caribbean level. As Table 2.4 shows, only three Pacific islands have attained infant mortality rates comparable to the Caribbean level.

Table 2.4 Selected social indicators
(1992 or most recent estimates)

Countries	Life expectancy at birth (years)	Infant mortality (per 1,000 live births)	Population per physician (no.)	Adult literacy rate (per cent)	Primary school enrolment (per cent)	Secondary school enrolment (per cent)
Caribbean						
Antigua and Barbuda	74	19	1,123	-	-	-
Barbados	75	10	-	99	110	93
Dominica	75	15	2,950	94	117	45
St Kitts and Nevis	70	19	-	-	98	71
St Lucia	72	18	3,830	82	136	43
St Vincent and the Grenadines	70	17	3,750	96	127	39
Grenada	70	26	-	-	-	-
Trinidad and Tobago	72	10	1,205	-	98	54
Pacific						
Fiji	72	23	2,020	85	80	51
FSM	64	52	-	81	-	-
Kiribati	58	60	1,960	90	84	7
Marshall Islands	61	63	-	93	166	-
Solomon Islands	-	44	-	23	103	-11
Tonga	68	21	-	99	70	99
Vanuatu	62	45	5,000	70	94	17
Western Samoa	65	25	2,470	98	136	26

Sources: World Bank 1993; CDB Statistical Unit; AusAID, Pacific Economic Policy Section, Canberra.

Note: Life expectancy and education data for the Caribbean countries are from 1993 or most recent estimates. Data on adult literacy and school enrolment come from World Bank (1994a).

Education

Regarding education, both the Caribbean and Pacific island regions have made notable progress which is reflected, for example, in high adult literacy rates and primary school enrolments. With a few notable exceptions, particularly in the Pacific island region, the level of adult literacy is unusually high for developing countries. However, in both regions, many countries still face serious weaknesses in the health and education fields. Common problems found in many of these countries include low levels of secondary school enrolment (implying high drop-out rates at pre-secondary school level and, in some cases, limited facilities), inadequate teacher training, serious shortcomings in literacy and numeracy levels, and inadequate teaching facilities, particularly in rural primary schools. In health, access to basic health facilities remains weak for a number of Pacific islands, while much more needs to be done, particularly in the South Pacific, in the preventive health and public awareness arenas.

Critical areas for the Pacific

The social indicators for the Pacific islands, and particularly the Melanesian states such as Solomon Islands, Vanuatu and Papua New Guinea, point to a number of critical problem areas that need to be addressed urgently. In the case of Solomon Islands, for example, the adult literacy rate is around an unacceptably low 20–30 per cent, while it is around 50 and 60 per cent for Papua New Guinea and Vanuatu. For Solomon Islands, Papua New Guinea, Marshall Islands and Kiribati, life expectancy varies from the mid-50s to around 60 years. The infant mortality rates for Vanuatu, Kiribati and Marshall Islands are well above 60 per 1,000 live births. Such weaknesses in the field of social development in the South Pacific are now no longer present in the Caribbean. The only exception is Guyana where both education and health indicators seem to be lagging considerably behind the rest of the Caribbean countries.

Women's issues

Social indicators for women are highly fragmentary but the limited evidence available suggests that, in both regions, the gains over recent years have been impressive, although particularly in the case of some Pacific island countries, major weaknesses still exist. Among the Caribbean countries, the participation rate for females in the labour force is, in many cases, not much different from that applying to males, while high rates of school enrolment, both primary and secondary levels, apply to both sexes. The same is largely true of literacy levels.

Among South Pacific countries, despite recent advances, there are still major gaps that need to be addressed. Thus, the gross primary school enrolment rate for females in Vanuatu is reported to be significantly below that for males (and the same is true of Solomon Islands where the female enrolment rate is of the order of

60 per cent). In Fiji, the adult literacy rate for females lags significantly behind that for males (84 per cent versus 90 per cent). The same is true of Vanuatu (60 per cent versus 68 per cent), while in the case of Solomon Islands, the literacy rate for women is an abysmal 17 per cent.

Throughout the South Pacific, the participation rate for women in the labour force remains very low relative to males. This is illustrated by Fiji where the participation rate for women is 23 per cent as against 80 per cent for men. In Kiribati, women account for only 26 per cent of formal sector employment against 74 per cent for men. In Solomon Islands, only 16 per cent of women participate in the cash economy as against 37 per cent for men.

Poverty

Poverty, at least in its most extreme form, does not appear to be a serious problem among Caribbean and Pacific island countries. An unpublished study (Greene 1994) quotes poverty levels below 20 per cent of population for CARICOM countries other than Guyana and Jamaica, with rates as low as 5 per cent and 8 per cent for the Bahamas and Barbados respectively. Such a state of affairs can be largely ascribed to major advances achieved in the provision of basic educational, health and welfare services (including minimum safety net benefits, at least in the Caribbean) and, particularly in the South Pacific, good access to land and other family-based resources.

Nonetheless, in both regions, a significant number of individuals and groups live below the poverty line (in the sense of not being able to attain a minimum acceptable standard of living). *The Pacific Human Development Report* (UNDP 1994a) indicates that serious problems exist at least in Papua New Guinea, Solomon Islands, Vanuatu and Kiribati. Population growth rates exacerbate the problems of poverty. For example, Solomon Islands has one of the highest population growth rates in the world at 3.4 per cent (UNDP 1994a, p. 13).

Poverty in the South Pacific has the potential to escalate rapidly. Such poverty is reflected in poor housing and sanitation, inadequate access to health services, and the absence of regular sources of employment and income. In a number of countries, for example, Fiji and Antigua and Barbuda, there is some evidence that poverty has been on the increase over the recent period, despite a reasonably good record of economic growth. This trend has led to investigations into the issue of poverty in the Caribbean by the Caribbean Development Bank, and in Fiji by an official Poverty Task Force.

For both regions, a major challenge is to ensure that the process of growth (and urbanisation) is not accompanied by growing poverty, and that adequate measures are taken to cope with existing poverty. In this, measures to stimulate employment, ensure reasonable equity in income distribution, provide adequate basic services (including housing) and ensure at least minimum safety net benefits, are of obvious importance.

2.5 Some conclusions

Over the past decade, many Caribbean countries have experienced robust growth, even allowing for some slowing down in the last few years. The performance of the smaller countries of the OECS countries has been particularly notable. A disappointing performance by the larger MDCs, particularly Guyana, Trinidad and Tobago, had the effect of pulling down the aggregate growth rate for the Caribbean as a group, but the overall growth performance was still decidedly superior to that of the Pacific island economies. In relation to real per capita income levels, the disparity in favour of the Caribbean countries is fairly large, and this conclusion holds even when taking into account national income data distortions discussed above.

The many reasons why the Caribbean countries have generally performed better than the Pacific islands are complex and not easily disentangled. Certainly, a detailed analysis of the main factors involved — geopolitical, historical, political, demographic and cultural — is beyond the scope of this report. It is possible, however, to point to a number of factors that appear to be highly relevant in explaining the contrasting growth experience of the two regions over the recent period. Such factors, as brought home to us in the course of our discussions and from reference to the available literature, highlight the advantages enjoyed by the Caribbean states, as listed below (see Box 1). Many of these and related issues, some of which have been touched upon in the previous section, will be discussed more fully in following sections.

Box 1 Advantages enjoyed by the Caribbean states (by comparison with the Pacific island states)

- geographical proximity to the large American market
- more developed infrastructures, financial markets, and entrepreneurial base (largely the result of an earlier start in the development process)
- success in developing education and training facilities to international levels
- more open policy stance in efforts to attract foreign direct investment
- a realisation of scale economies in certain functional areas of cooperation as a result of regional integration
- relatively high rates of domestic savings and investment financed therefrom
- low population growth (thereby easing pressure on social services, etc.)
- relative freedom from traditional cultural forces that can sometimes frustrate efforts to promote economic efficiency and growth.

3 Regional institutions

Both CARICOM and Pacific island countries have built an impressive network of regional institutions, many similar in function (see Appendix 3). But the objectives of regionalism differ between the two regions: CARICOM aims to constitute a single market in the region, while PICs appear to have no wish to go beyond effective cooperation. Arrangements in force in CARICOM are regarded as way stations on the path to full integration.

3.1 Major Caribbean institutions

Caribbean Community (CARICOM)

CARICOM was established by the Treaty of Chaguaramas (in Trinidad) which envisages the development of a single economic community among the countries of the English Caribbean. Earlier these countries had been more ambitious, forming a political federation in 1958. The collapse of the West Indies Federation in 1962 left a deep wound in the Caribbean psyche, but it did not extinguish the sense that the region shared a common destiny. It was argued that the federation had not been well grounded in economic reality. CARICOM was therefore intended to lay a firm economic base by integrating members' economies. The Treaty of Chaguaramas envisaged a common market with free trade internally, regional investment management, a common fiscal incentive regime, and a common external tariff, all in the first phase. Later, the region would move towards capital and labour mobility. Alongside the economic initiatives were arrangements for functional cooperation in health, education, labour, legal issues, tax administration, foreign affairs, relations with MFIs, sports, culture and women's issues.

A secretariat for CARICOM, known as Carsec, was established in Georgetown, Guyana to administer the provisions of the Chaguaramas treaty. It reports to the CARICOM Heads of Government (HoG) who meet twice per year, with a sub-group of HoG, known as the Bureau of HoG, meeting quarterly. Carsec has a major section devoted to regional and international trade issues, with another devoted to manufacturing investment and incentives. The secretariat also houses 'desks' for each functional area, such as health, women's issues and sports.

Fruitless concentration on internal trade issues absorbed a disproportionate amount of CARICOM's first decade and a half (a situation mirrored to some extent by present South Pacific regional deliberations). The removal of barriers to internal

trade and the establishment of a common external tariff, thought to be a relatively painless first stage, proved a tortuous process because of divergences in members' economic performances and inappropriate response to external shocks in some countries. In their frustration over lack of progress in this area CARICOM leaders lost sight of the fact that it was never expected to make more than a slight contribution to CARICOM economic growth. Internal trade mechanisms are, moreover, not needed for deepening of the community.

More recently CARICOM has refocused on central issues. The most significant to date is the establishment of the CARICOM Export Development Project (CEDP), evidence of the region's determination to energise an export-led strategy, especially in non-traditional areas. Unfortunately, CEDP, though on the right track, is only a token of what is required. Countries of the region have been grudging in contributing their own resources, though this might be the catalyst for additional external funding.

CARICOM has taken initiatives to formulate a new investment strategy for the region, with strong emphasis on incentives that promote investment in several countries of the region, pooling human resources and finance (Girvan et al. 1993). Other initiatives have focused on legal and administrative hurdles to the single CARICOM market (Field-Ridley 1991). Exchange rate strategies are another area of concern; divergences of economic performance were reflected in currency instability in the largest member countries. This is unquestionably the greatest barrier to the single CARICOM economy. It is being addressed by the CARICOM Council of Central Bank Governors (CCCCBG), an affiliate association reporting to the HoG.

CARICOM Secretariat (Carsec)

Carsec has acted as the focal point for thinking about regionalism, for the coordination of the economic relationships of the Caribbean, and for planning responses to changes in the world economy. The secretariat lacks its own resources for these activities but acts as the coordinator for specialist research on such issues as the North American Free Trade Association (NAFTA), the World Trade Organization (WTO) and problems of debt relief. It has coordinated negotiations for the Lomé Conventions, the Uruguay Round etc., but is never given the mandate to lead the negotiations or to act on behalf of the region. Even when negotiating together in such forums, the CARICOM countries do so as separate entities serviced by the Carsec, along with their own technical teams.

Carsec is hamstrung by inadequate funding, the resulting insufficient resident expertise, and the episodic character of regional policy making. Decisions are made in response to reports of task forces drawn together to deal with specific issues, but there is no ongoing expertise to expedite implementation, resolve teething problems or troubleshoot unexpected difficulties. Carsec's failure to establish a powerful and comprehensive regional documentation and information centre, with

access from across the region, leaves a yawning vacuum. No regional information centre exists.

Carsec is unfortunately located in the poorest CARICOM country, the one worst served by telecommunications and air links, inconveniently situated at the eastern and southern extremity of the region, with the worst social and economic infrastructure. Not surprisingly, it has difficulty in recruiting skills, and its efficiency is much impaired as a result.

The Secretary General is the only CARICOM official whose post carries some executive power. Despite their frequent consultations the HoG are mainly preoccupied with national issues. As a result, although CARICOM has increased its effectiveness to the point where its services are now taken for granted, it is still unable to take initiatives, and finds itself reacting to events elsewhere which pose a threat to the Caribbean.

Organization of Eastern Caribbean States (OECS)

The less populous members of CARICOM are in the Eastern Caribbean. They share a common currency and have an economic community of their own, though they remain individual members of CARICOM. Within CARICOM these countries have special status, which allows them to maintain some safeguards against unequal competition from larger members. This is an important provision to promote a sense of fairness in the community. These countries have formed themselves into the Organization of Eastern Caribbean States (OECS), with the notion that their similar size, economic and political interests make it feasible and perhaps imperative that they integrate more speedily than the rest of CARICOM.

The OECS maintains an administrative secretariat in St Lucia (on a beautiful hilltop site at Morne Fortune) and an economic affairs secretariat in St Johns, Antigua. This is an inconvenient split which inhibits the organisation's effectiveness. Nevertheless, the OECS has accelerated integration among its members, and with associated institutions it provides many common services. Still, the OECS plays second fiddle to the powerful and energetic Eastern Caribbean Central Bank, the region's most dynamic official institution. Efforts at political union among some of the OECS — the four Windward Islands, so called — which offered a more central role to the OECS secretariat, have stalled for the time being.

3.2 Major Pacific institutions

South Pacific Forum Secretariat

Even though its functions are less inclusive in theory, in practice the South Pacific Forum Secretariat (SPFS) operates in remarkably similar fashion to the Carsec,

servicing the Pacific island country HoG, coordinating regional approaches in areas of common economic interest, overseeing areas of functional cooperation, and acting as the focal point for a range of associated institutions. Notably absent from this list of functions are the issues of a single market and a common currency. The South Pacific Forum (SPF) is not the only all-embracing regional institution; it shares that function with the South Pacific Commission (SPC), which predated it and includes a larger number of countries. Guidelines for a division of labour have been worked out, and the activities of these organisations and other SPF/SPC affiliates are coordinated by a joint grouping called the South Pacific Organisations Coordinating Committee (SPOCC), in an effort to avoid duplication. It is an arrangement which no-one is enthusiastic about, but which seems the best that can be done.

The SPFS differs from CARICOM in that it includes Australia and New Zealand, industrial countries which stand in relation to PICs in much the same way as the United States does to the Caribbean. With all its deficiencies CARICOM is a creation of Caribbean countries alone, it reflects Caribbean perspectives exclusively, and its core financing is all from Caribbean member countries' contributions. SPF is funded in the main by Australia and New Zealand (through their official aid programs, AusAID and NZODA, respectively), which naturally expect a say in its objectives and activities.

Fortunately, this does not create for PICs the problems which similar arrangements with the US would create for CARICOM, because Australia and New Zealand appear to respect the sensibilities and aspirations of PICs to an extent unimaginable in the US. The situation does, however, reflect the disparity of economic capacity between the Caribbean and the South Pacific. There is a great disparity of human resources as well, reflected in the differing staffing of regional institutions in the Caribbean and the South Pacific. In the Caribbean expatriates are rare, except on short-term assignments; in the South Pacific they may comprise 50 per cent or more of the established staff.

The SPFS provides technical assistance for members in the development of their economic policies. It is a conduit for technical assistance from extra-regional donors, ensuring that funding is influenced by regional priorities. A regional strategy aimed at improving the effectiveness of regional assistance programs was approved at the 1995 Forum Meeting. It seeks to ensure that the areas targeted reflect genuine critical needs which can be met more cost-effectively through joint regional use of resources.

The Secretariat offers technical assistance in energy policy and provision of energy, telecommunications, maritime matters and civil aviation.¹ In a very modest way it

1 These technical areas are soon to be phased out or transferred to other regional organisations following a recent Secretariat-wide review which recommended an increased focus on the 'core' areas of sustainable development, trade and investment.

helps to promote the region's exports, and provides technical assistance for institutions that promote investment and trade. In international negotiations the SPFS provides technical and administrative support, and it provides representation for the region in some international fora, something Carsec has never been empowered to do. There are special programs for smaller Forum countries.

3.3 Regional universities

The regions of both CARICOM and SPF are served by regional universities playing a pivotal role in the enhancement of the region's human resources. Both the University of the West Indies (UWI) and the University of the South Pacific (USP) are considered insufficient for the regions' needs, and in need of faster expansion, but they are both limited by inadequate funding. In the South Pacific, the two universities in Papua New Guinea (the University of PNG and the PNG University of Technology) also serve something of a regional role, especially for neighbouring Melanesian countries. The problem of under-funding is chronic at UWI, which is midway through a 10-year period of continuous expansion. A major reconsideration of funding mechanisms and financial adequacy is now under way.

In contrast with the regional universities, whose graduates hold their own with their peers in the industrial world, the establishment of national universities — in Western Samoa and Guyana — has been problematic. However, these small nations may support community colleges and technical institutes which may achieve good quality if thoughtfully planned and carefully implemented. There are examples in Fiji, Barbados and St Lucia.

University of the West Indies

UWI was established on a sound footing over forty years ago, as a college of London University. This ensured that its graduates were of high quality and able to gain acceptance in graduate schools in the United Kingdom and North America. UWI graduates proceeded to make a name for themselves in the region and beyond — as prime ministers of CARICOM countries, directors of international institutions, and professors at leading universities in North America, as well as in other areas of distinction. The ranks of UWI graduates include the Nobel literature prize winner of 1993, the poet Dereck Walcott of St Lucia.

UWI's programs now cover a wide range of academic and professional disciplines, and several postgraduate programs. There are campuses in Jamaica (the original one), Trinidad and Barbados, and university centres in every CARICOM country. The university also offers an extensive program of distance education, in collaboration with other tertiary institutions. UWI graduates staff public administrations throughout the region, except in Guyana, and are prominent in law, medicine, engineering, agriculture and, increasingly, in business.

The staff of the UWI is predominantly West Indian, a reflection of the improvement in the region's tertiary education in the past generation. The university publishes several learned journals, the best known being *Social and Economic Studies*, which is over forty years old. A university press has recently been established. There are university research institutes for social and economic studies, medicine, gender studies, the environment and other areas, mostly leading a rather precarious financial existence.

University of the South Pacific

USP is a younger and smaller institution, still in the process of establishing its reputation in the world of learning. Hitherto it concentrated on humanities, sciences and social sciences, apart from the agriculture faculty in Apia, Western Samoa but is now launching its first professional school with a law faculty to be located in Port Vila, Vanuatu. Ninety per cent of USP's core funding is contributed by the island members of USP; Australia and New Zealand contribute the remainder directly. Australia and New Zealand also fund scholarships for Pacific island nationals attending the university.

Because of the vast distances that separate PICs, USP maintains a very much more elaborate and sophisticated extension service than does UWI, including facilities to allow for an entire degree program to be completed through distance education, in some instances. More than half of USP's student register is non-resident, but because the non-residents do not carry a full load, resident students still account for most teaching time. USP is already having an effect on the human resources of PICs, with increasing numbers of public servants having degrees from the university. Diffusion to the private sector and the professions depends on funding for expansion. So far, only short-term courses have been offered in administration, mainly for the public sector.

USP faces continuing challenges, to which it is responding with innovative programs. Apart from financial stringency, Australia and New Zealand compete away applicants of the greatest ability, and there have been national tensions on the campus. However, the example of UWI suggests that investment in the regional university yields rich rewards, materially and psychologically.

Regional examination standards

The Caribbean boasts another influential institution in the Caribbean Examinations Council (CXC). It has standardised the curriculum for CARICOM countries and set performance standards that command international respect. UWI, universities in North America and UK, employers and other tertiary institutions are assured of the capability of certified students. In addition CXC has become a respected innovator in educational circles. It has promoted and helped to develop a Caribbean-oriented curriculum and teaching materials which echo native

culture and elevate Caribbean role models, without compromising standards. It has encouraged a sense of regional fellowship among the teaching profession, as examiners meet yearly to review scripts.

CXC is the essential secondary qualification in all CARICOM countries except the Bahamas, which, for reasons of its own, struggles to gain recognition for its national certificate. At present the CXC offers certificates equivalent to the 'ordinary' level of the Oxford and Cambridge General Certificate of Education. Extension to the 'advanced' level is contemplated, but has been delayed because the much smaller numbers of students imply a much higher unit cost.

The fact that PICs do not conform to a similar uniform body is the bane of the USP. Most countries offer their own certification at secondary level, and standards vary. Only a handful subscribe to a common examinations council — the South Pacific Board for Educational Assessment (SPBEA) — and considerable USP resources must be devoted to making up the deficiencies and discrepancies in standards among countries. National certification systems are unable to reap the economies and externalities the CXC realises by combining skills and scarce expertise. As a result the development of curricula and the build-up of teaching materials show little sign of a take-off that might bring the South Pacific to rival the Caribbean.

3.4 Financial institutions and related issues

The Caribbean Development Bank (CDB) has been a very effective vehicle for promoting economic development in the Caribbean. It has acted as the conduit for \$1 billion of development finance, mainly from outside the region, dispersed according to priorities determined by the Caribbean. It acts as the umbrella organisation for disbursements from MFIs to smaller countries, thus saving on administrative costs.

CDB is a Caribbean institution, with the majority equity and voting control in the hands of the Caribbean members.

It enabled the Caribbean to practise limited self-help, since some (rather small) proportion of the financing comes from the capital contributions of the Bank's borrowing member countries. It has garnered special trust funds especially to address the needs of smaller and weaker members.

But CDB is much more than a source of finance. Through its training programs over the past two decades it has produced a cadre of skilled project managers, loans analysts, project evaluators, debt management specialists, etc. It acts as a source of advice and guidance to Caribbean countries, through the offices of the President and senior officials, participation in regional economic summits, inputs to national policy making when invited to do so, and technical studies initiated on its own

account or on behalf of countries. CDB also assists the region and its members in dialogue with the MFIs, especially in the overviews of regional macroeconomic policies, sectoral performance and development strategy undertaken every two years under the aegis of the Caribbean Group for Cooperation in Economic Development (CGCED).

The meetings of the CDB's Board of Directors (usually seven per year) are, in effect, a college of top financial officials who, over time, develop an unrivalled view of regional development programs. The growing network of CDB alumni and past staffers is proving a valuable, if presently underutilised, resource, and CDB's training and technical assistance have vastly enhanced the absorptive capacity of Caribbean countries.

Overall, CDB has become such an integral part of financing and formulation of economic strategies and regional coordination that it is difficult for the Caribbean to envisage life without it.

The OECS countries share a common currency, the East Caribbean dollar (EC\$), issued by the ECCB, the most influential central bank in CARICOM. Its constitution enables ECCB to discipline member governments, to assure currency stability and low inflation. The collective decision rules overrule individual governments which may be under domestic pressure to overspend. ECCB has developed good information systems, backed by mechanisms for dissemination — reports, regular seminars and discussions for bankers, the private sector and government officials. It has taken a lead on issues of strategic importance for the region, such as the response to changing international arrangements for the marketing of bananas, and the development of capital markets. The staff participate in all MFI consultations with members.

In order to advance progress towards monetary union, Caribbean HoG recently approved the formation of the CARICOM Council of Central Bank Governors (CCCBG), which meets twice yearly. It puts a formal seal on meetings of economic policy makers, financial regulators, information specialists and others which had been taking place for many years. They began over twenty years ago with the establishment of the Regional Programme of Monetary Studies, a collaborative program of the UWI, the University of Guyana and central bank economists, with an emphasis on policy research. It has produced a large body of work, much of which has appeared in *Social and Economic Studies*, along with several volumes of collected papers. Joint research teams have been put together to prepare policy papers on such issues as monetary union and the potential effects of the common market.

The CCCBG has the potential to monitor indicators of economic performance actively, to assess how quickly CARICOM economies are converging on stable prices and exchange rates, with sustained growth. The Council is also working on the harmonisation of financial regulations, the exchange of information and shared expertise in the development of information systems.

Currency issues

Almost from the time of their inception in the 1960s and 1970s, CARICOM central banks set up clearing accounts with each other for the settlement of regional transactions. In the late 1970s the banks decided to simplify this arrangement, by centralising all accounts in an agency with which each central bank would hold a single account — the CARICOM Multilateral Clearing Facility (CMCF). If Guyana needed to pay Trinidad and Tobago at settlement date, while Barbados needed to pay Guyana, Barbados could make payment directly to Trinidad and Tobago. Initially the settlement continued on a monthly basis, as it had with the bilateral arrangements. Later settlement periods were extended to quarterly, which allowed for the build-up of debit and credit balances. Full settlement was not required, provided outstandings remained below agreed limits. This was a simple and effective way of economising on the use of foreign exchange, and offering trade credit among CARICOM members.

The system worked flawlessly until a fateful decision was made to include payments for oil supplied by Trinidad. Oil had been excluded, sensibly, because its volume and value were out of all proportion to other trade. Once included the settlements were all one-sided, in favour of Trinidad. Oil was included in the facility precisely at the time when Guyana was experiencing difficulty in keeping its trade payments up to date. Even so, there would have been little damage done had credit limits been enforced; instead, when Guyana reached its limit and failed to settle, it was allowed to continue to pass oil 'payments' through the facility. No action was taken until the Guyana debit was equal to the entire credit allowed to all members, at which time the CMCF was suspended. The Guyana debt was subsequently converted to a long-term loan by those CMCF members in credit at the time of the suspension. Central banks have reverted to bilateral arrangements and monthly settlements.

Recently, CCCBG initiated steps to encourage the use of national currencies throughout the region, a common practice in the East Caribbean and Jamaica in the days when all currencies had stable values in terms of sterling. In recent times floating currencies (for Jamaica, Trinidad–Tobago and Guyana) were not accepted outside the country of issue, for fear their value might suddenly depreciate. Central banks in countries with fixed exchange rates stand ready to repatriate and give value for any currency collected on their behalf by other central banks. In floating rate countries, commercial banks are being encouraged to offer rates for the purchase of regional currencies and to make arrangements for their repatriation to the country of issue. This is not an attractive proposition, unless the volumes are large. It remains something of a mystery why their central banks are unwilling to quote a daily rate at which they are prepared to accept currencies collected on their behalf by other regional central banks, some of which are quite willing to provide that facility.

In the South Pacific, Governors of regional central banks, including the Governors of the Reserve Banks of Australia and New Zealand, now meet annually. The prime purpose of such meetings is to discuss international financial and economic issues and how they impact upon Pacific island economies. Key issues that have recently been addressed include financial sector development, stabilisation and adjustment policies, the possibility of establishing a payments and clearing system among themselves, and ways to counter 'get-rich-quick operators' who find their way into the region. In contrast to the CCCBG, which has an active program and is required to implement steps in a process of deepening financial integration, the South Pacific Governors' meetings are purely consultative.

Regional initiatives in tourism

Tourism is now the Caribbean's main export, and the Caribbean Tourism Organization (CTO) has grown from modest beginnings to become the principal information source on Caribbean tourism, and the focus of effective technical assistance to the sector. CTO covers the entire Caribbean basin (a definition which includes all the islands and the Caribbean littoral on the mainland), and its annual and monthly statistical publications are the most comprehensive and valuable monitors of the region's tourism performance.

CTO's core finances come from subscriptions of its members, who are both governments and private companies, and it provides a model of private-public cooperation. Its annual conference is the premier occasion for dialogue between the private sector and government officials, and it provides an exposition of products and services for the industry, including modern information services. CTO obtained finance to execute a major marketing program for the region as a whole, and it provides research design, training and supervision for national tourism expenditure surveys. Its effectiveness is out of all proportion to its small core staff.

The South Pacific has a newer, smaller tourism organisation, the Tourism Council of the South Pacific (TCSP). It has undertaken some national tourism surveys, and is beginning to establish a network of overseas representatives, a facility which CTO does not offer. It needs to attract greater participation and finance, if it is to become really influential.

Regional approaches to exports and investment

Both CARICOM and PICs have established specialised institutions to provide investment promotion, market research, project development assistance, technical assistance and other support for exports and non-tourism services. CEDP and the East Caribbean States Export Development Agency (ECSEDA) provide general services for exports, for CARICOM and for the OECS, respectively. They are the most promising recent progeny of the integration movement in the region, still a long way from maturity but already playing a pivotal role. CARICOM has

specialist agencies for agriculture in the Caribbean Agricultural Research and Development Institute (CARDI) and the Agricultural Development Cooperation Unit (ADCU), the former for CARICOM, the latter for the OECS. PICs have the influential Forum Fisheries Agency (FFA), which has no equivalent in the Caribbean.

Transportation arrangements

Both regions have transportation companies that are wholly owned by the member governments, the Pacific Forum (shipping) Line (PFL) and LIAT, the commuter airline of the East Caribbean. CARICOM governments have agreed to privatise LIAT, but the process has been long drawn out. In the South Pacific the proliferation of national airlines is in marked contrast to the unified approach to shipping services.

3.5 Other regional cooperation

There is a range of institutions for functional cooperation in both regions. The South Pacific Regional Environment Programme (SPREP) coordinates regional environmental activities for its 22 member countries. It is well funded, in contrast to the Caribbean, where the comparable centre, the Centre for the Environment and Development (UWICED) in Jamaica is relatively new and much less generously funded. Most countries of CARICOM belong to the Regional Security System (RSS) which provides joint training and a joint command structure for national defence forces to meet a range of emergencies. There is a regional police training school for the East Caribbean — excluding Trinidad–Tobago and Guyana — in Barbados. Barbados also hosts the Caribbean Meteorological Institution (CMI).

There are a number of institutions for regional integration of the private sector, non-governmental organisations and trades unions. They variously do training, advocacy, research and try to secure a voice in policy formulation. In the region of CARICOM the Caribbean Congress of Labour (CCL) is the longest established, predating the economic community. The Caribbean Association of Industry and Commerce (CAIC) is relatively new, the major organ of the private sector. It has made its mark under the energetic leadership of its first executive director, who has now come to the end of his tenure. It ranges beyond CARICOM, including members from the French Antilles, Haiti and the DR.

There are a number of small regional environmental NGOs, loosely coordinated through the Caribbean Conservation Association (CCA). On gender issues there is the Women and Development (WAND) organisation, a largely autonomous organ of the UWI. The Caribbean Council of Churches has a regional development arm that specialises in community-oriented development projects. There are regional

professional associations for medicine, law, secretarial services, insurance, accountancy, economics, banking, etc. Regional sporting organisations include the West Indies Cricket Board of Control, the Caribbean and Central American Football Association (Concacaf), the Carifta Games organisation, etc.

In the South Pacific there is the Pacific Islands Association of NGOs (PIANGO) and the South Pacific Oceanic Council of Trade Unions (SPOCTU) but there is no coordinating body of the private sector. Churches and religious organisations play a conspicuous role in regional interaction in education and social services, and there is an umbrella Pacific Council of Churches.

In the Caribbean there is a growing number of firms which are regional in their scope. The largest are regional trading companies of long standing, originating in Jamaica, Trinidad–Tobago and Barbados. They have diversified into manufacturing and tourism, and some have established production beyond the Caribbean. There are also insurance companies with a regional presence, going back many years. They too are diversifying, mainly into related financial services. Recently, the region has witnessed a new regional thrust in banking — mainly from Trinidad into the Eastern Caribbean — and in tourism, primarily by two Jamaican companies. There are no indigenous counterparts in the South Pacific.

CARICOM and PICs are both in the process of redefining their relationships to their regional neighbours. The initiative of CARICOM countries has led to the recent formation of the Association of Caribbean States (ACS). Its form and functions are still vague, in the minds of most. CARICOM and the other regional signatories to the Lomé Agreement (DR and Haiti) have constituted an association called Cariforum. Its only purpose seems to be to reconcile project preparation for finance from the European Union. In the South Pacific SPC provides the link between Forum countries and neighbouring islands (for example, non-independent territories).

4 The role of government

Economic issues and social aspirations

In our discussions in some Pacific island countries, reservations were expressed about a government strategy that stresses the fastest rate of growth. Growth brings disruptive changes to the social order; the faster the growth, the more disruptive the changes may be. Some leaders thought it would be unfortunate to precipitate the destruction of familiar lifestyles and distinctive cultures, in pursuit of material gain. However, traditional lifestyles limit the development of human capabilities in many ways. Once there is access to education, telecommunications and travel, it may not be possible to exercise control on the pace of economic change. In the final analysis democratic governments will have to respect the views of their citizens. Government's task is to ensure that citizens' choices are well informed. In particular, in the South Pacific, there is need for citizens to understand the trade-off between some aspects of preferred traditional lifestyles and improved material welfare.

Society must be made aware also of the resource constraints so it is understood that aspirations and expectations will be limited by the economy's productive capacity and competitive position.

These considerations did not arise in discussions in the Caribbean, where it is assumed that the target is the fastest growth that the country can sustain. Caribbean populations already enjoy or aspire to modern lifestyles and societies. They are so well connected to North America and Europe by telecommunications and travel that nothing can be done to change aspirations. Moreover, the Caribbean culture has shown resilience, and in areas such as music and festival arts has become the inspiration of North American sub-cultures. Caribbean leaders still worry publicly about cultural penetration from North America, but the emerging modernised Caribbean culture retains much of the old Caribbean flavour.

Nonetheless, Caribbean aspirations for material enhancement in lifestyles have come up against economic constraints repeatedly in the last two decades. Before governments were able to print money the economy put an automatic brake on such aspirations: private companies and households could only spend what they earned (and remittances from abroad) because few could attract foreign loans. Government could spend only what it earned in taxes and other revenues, plus foreign development financing. With the advent of central banks governments could print money to pay or lend to firms and households, temporarily raising spending power above earnings.

This created no problem in the short run. However, where CARICOM countries expanded the money supply rapidly over many quarters, the result was severe economic contraction and, in most cases, prolonged instability. It is not yet clear that Caribbean populations have learnt the lesson that growth rates are limited by earnings on international markets and cannot be inflated at will by government spending.

4.1 Key issues for government

Stable economic environment

A vital role of government is to provide an environment of economic stability, with guaranteed rights of property and a climate of fair play. The importance of these factors may be readily illustrated from recent experience in the Caribbean and the South Pacific. In the OECS countries a stable exchange rate and low inflation were accompanied by robust investment and economic growth. In contrast, after a period of conservative fiscal policy and strong investment in the early 1980s the Barbados government indulged in overexpansion in the late 1980s, leading to a loss of confidence and contraction of private investment. In Fiji, after the burst of investment following the restoration of political stability in 1987, investment is once more in the doldrums because of uncertainty over property rights, and apparent lack of confidence in the government's ability to formulate and implement sound long-term policies firmly.

National conviction

Good economic policy arises from conviction by government and the population, and cannot be imposed by donors, MFIs or any other outside agency. In Barbados the drastic correction of government overspending could be put into effect in 1991 because of public conviction of the value of the fixed exchange rate as a hedge against inflation. In Solomon Islands it proves difficult to obtain policies for sustainable forestry development because of a lack of domestic political consensus in favour of a slowdown in exploitation, which would depress some livelihoods in the short term. In the Caribbean policy makers are finding difficulty in reconciling their stated strategy of pursuing high income and ecotourism with the growth of cruise, casino and other downmarket activity, for want of national consensus. In both PICs and CARICOM, the export promotion is in danger of floundering for want of agreement on priority areas for a strategic effort.

Administrative effectiveness

Governments have a responsibility to provide effective regulations and to administer them efficiently. In all countries visited, in both regions, we heard complaints — as often from officials as from the private sector — of poor administration and delays. All aspired to a 'one-stop shop', but in every case reality was very different, and responsibility was diffused. The best system on offer had

energetic promotion officers to guide the potential investor through the bureaucratic maze. Financial regulations should be designed to ensure the viability of registered financial institutions, to avoid money laundering and to attract firms of good reputation. Caribbean countries have established a network and a special project to consult and collaborate on the regulatory framework in CARICOM and other countries of the region, and to exchange ideas and information. The operations of offshore financial firms are of special concern in both regions. This is reflected in the work of the Caribbean Regional Bank Inspectors and in the establishment of the Financial Commission in Vanuatu, the principal offshore centre among PICs.

Governments face an ongoing challenge to improve the delivery of services. There are no global measures of government efficiency available, and lapses cited are usually anecdotal. Governments are large — relative to the overall economy — in all PICs and CARICOM, and taxes uncomfortably high. None of these countries maintains an excessive military or other obvious wastage on current account. There have been some notable white elephants on the capital account, but they are all now completed or stopped. To contain or reduce the tax burden and improve or extend government services requires improved delivery systems. A variety of programs is in place in all countries.

One is less sanguine about the prospects for public sector reform. All countries struggle to contain the wage bill, but there is little chance that global policies will achieve a noticeable reduction. Drastic cuts in pay or personnel result in growing tension and declining service. In Vanuatu a 20 per cent cut in government employment following a seven-week strike has resulted in loss of skills and reduced government effectiveness. Fiji has tightened government spending controls and fiscal management, and imposed surcharges on those responsible for unauthorised expenditure. The Barbados government is developing better measures for cash management and fiscal accountability, but the extent of penalties and sanctions for excess is still unclear. In St Lucia tight government financial administration is under stress from a public sector wage demand, but government has been standing firm.

Public sector reform will not be achieved quickly; it requires persistence and strategies which, though for immediate implementation, have targets for achievement in the medium to long term. An important element is a highly skilled, well-trained civil service which is allowed to develop professional motivation, and a reward system which gives full recognition to exemplary non-partisan public service.

Issues of land

Of particular concern in both regions is the problem of land holding and land use. There is a general lack of clear criteria and procedure, and an unacceptable degree of arbitrariness in decision making. In Fiji and Vanuatu uncertainty about customary rights remains a barrier to tourism development. The same goes for

Western Samoa, despite the provision of legislation permitting the leasing of customary land on a long-term basis. In Barbados haphazard permissions for the alienation of land designated for agricultural use in the country's physical development plan have produced anomalies and potentially unsustainable development. For example, if all the golf courses for which permission has been obtained are actually developed, the country's already difficult water problem will become a major crisis.

4.2 The privatisation of public enterprises

Most governments, but not all, accept that privatisation of most public enterprises will increase their efficiency. That proposition must be carefully demonstrated, by analysis of each case. The case for privatisation is stronger when governments own many commercial enterprises, such as banks, manufacturing companies and farms. There can be no presumption that privatisation will lead to improvements, or that it will be successful, in cases where the private sector is very weak, there is a wide divergence of private and social returns, or very long gestation periods for investment.

Furthermore, where privatisation is desirable, its success depends on an appropriate regulatory framework. Privatisation may economise on the use of high-level skills in government, but it cannot eliminate the need for those skills.

Fiji has corporatised its telecommunications, uncovering problems in the regulatory framework which have now led to preparation of legislation to facilitate future privatisations. The Government of Vanuatu has set up Vanuatu Holdings to manage public shareholdings, new investment incentives and divestments. The new Kiribati government has frozen the privatisation program, pending review. Western Samoa has identified a wide range of government enterprises and activities for privatisation, but implementation has been limited.

In the Caribbean the pace of privatisation has been slow, and the results mixed. The Government of Barbados sold shares in publicly held companies as a means of obtaining foreign exchange quickly in 1991, and has since sold a loss-making hotel and cement plant, but it is yet to decide on other enterprises. The Government of St Lucia has successfully offered part ownership in the electricity company LUCILEC for public subscription. In many other instances governments show no inclination to divest commercial enterprises such as banks where a strong case may be made for privatisation. However, Barbados has declared its intention to divest the Barbados National Bank.

4.3 The incentive regime

Pacific countries

A study for the SPFS suggested that harmonisation of fiscal incentives was not worthwhile. Already some Australian and New Zealand firms are finding Southeast Asia a less hospitable environment than they had expected, and are showing renewed interest in Fiji. The complaints constantly heard in Fiji were that deregulation was one-sided, concentrating on trade reforms which were harmful to some manufacturers but neglecting deregulation that might be beneficial; the cost of business was too high, freehold land unavailable, and the bureaucracy too slow. In response, the Fiji Trade and Investment Board (FTIB) has set up a one-stop shop, using moral suasion to pilot investors through the bureaucratic maze. There is a special loan scheme for Fijians, with subsidised interest rates.

The Vanuatu investment climate is recovering from the uncertainty resulting from government turnarounds (including the expulsion of an Australian Acting High Commissioner in 1992). The legal framework for land titles needs to be improved, while the administration of land issues tends to be tardy. Electricity and water tariffs are too high. Promising developments include a new investment code under preparation which is designed to avoid past infelicities. The recent investment by reputable foreign companies in two hotels is expected to reassure others. A program to encourage ni-Vanuatu to expand beef production has been successful and the price guarantees for copra by the marketing board have maintained production, though at some cost to the government.

In Kiribati government is perceived to be pro-private sector, but there is a dearth both of local private initiative and foreign interest. Local entrepreneurs complain that the aggressive accumulation characteristic of capitalist enterprise is inimical to the i-Kiribati social organisation — probably destructive of it, at least in the crowded circumstances of Tarawa — and results in social ostracism.

Regarding Western Samoa, a recent initiative has been an attempt to streamline incentives legislation through amalgamating existing legislation into a single Act, the Enterprise Incentives and Export Promotions Act. Further efforts to promote industrial and tourism investments include an upgrading of industrial estate facilities, and improved investment facilitation services aimed at simplifying appraisal and application procedures.

Caribbean countries

The incentive regime is under review in the Caribbean by the Inter-American Development Bank (IDB) and CDB. CARICOM countries adhere to a harmonised scheme for fiscal incentives which has two levels, one for more developed countries of the region and a second with more generous provisions for

the OECS and smaller members. In none of the countries is the administration swift and transparent; no-one has a list of criteria which guarantee eligibility and allow investors to know in advance what qualifications are needed. The private sector invariably cited as disincentives the high costs of electricity and other utilities and, in particular, telecommunications costs.

Although trade and tariff reform have featured prominently in economic policy discussions between Caribbean countries and multilateral financial institutions, and a reform of the CARICOM Common External Tariff is on the way, trade liberalisation has had little effect on Caribbean growth. What effects there have been appear to be negative. Oppressive price restrictions were never characteristic of the East Caribbean countries which are the main focus of this study and they were removed in Jamaica, Guyana and Trinidad and Tobago in the 1980s. Tariff levels were relatively low and import substitution was confined to a narrow range of items.

A careful rebuttal (by Hilaire et al. 1990) of a flawed World Bank study on CARICOM trade (World Bank 1990) exposed the weakness of the World Bank's argument for trade liberalisation. A recent IDB report (1995) corrected the World Bank's calculations of the average rate of tariff in CARICOM. The rate turns out to be 11 per cent rather than the 40 per cent quoted by the World Bank.

4.4 Collaboration between government and the private sector

Governments of PICs understand the need for cooperation between private sector and public administration in the development of economic strategies and there is a variety of mechanisms for achieving this. Fiji has the most developed system, with economic summits every two years, the most recent being in May 1995. There is also a Consultative Committee on Economic Studies with representation of government and the private sector which meets monthly. Vanuatu has adopted a French-style Chamber of Commerce, bringing together government and the private sector. In Western Samoa, a Macroeconomic Policy Coordinating Committee was formed in 1993 for the purpose of facilitating economic and financial management, but has yet to get into stride, while in Kiribati consultations are held on an ad hoc basis.

The Government of Barbados has consulted with the private sector on the development of an economic strategy which it is soon to publish. Government, trades unions and private sector organisations collaborate on a National Productivity Board, a body which conducts training and gives technical advice on wages, productivity and industrial organisation. However, the administration which took office in September 1995 is yet to reactivate the joint committee which oversaw the economic strategy. Other CARICOM countries visited did not have any formal mechanisms for public-private sector collaboration. The governments of Dominica, St Lucia and St Vincent all have a reputation in CARICOM for

being private sector oriented, but many business organisations complained that these governments did not consult the private sector before devising economic strategy and developing investment projects that are intended to serve the private sector. The building of a new cruise ship terminal in St Vincent is one example.

4.5 Management of economic strategy

Fiji has a sophisticated system for macroeconomic management, with a macroeconomic committee comprising the Reserve Bank, the Ministry of Finance, the Planning Office and the Bureau of Statistics, and a Budget Committee (whose members include the Permanent Secretary for Finance, the Secretary of the Public Service and the Director of Economic Planning), preparing the technical groundwork for the Budget, and incorporating that into a three-year Public Sector Investment Program (PSIP). There is also an Economic Strategy Committee, chaired by the Prime Minister. In Vanuatu there are informal discussions between the Reserve Bank and the Treasury in anticipation of the Budget, but there are no structured measures for developing a strategy. The Development Plan has been abandoned, to all intents and purposes. Donors consult frequently to compensate.

We wish to emphasise the importance of an effectively functioning coordinating mechanism, involving key macro, planning and sectoral ministries, as a basis for achieving sound and effective execution of government development goals.

The reports, seminars and conferences of the Eastern Caribbean Central Bank (ECCB), and the meetings of its monetary council, are the principal intelligence for ongoing economic management in the OECS. Countries do prepare national development plans, but they are never used as a basis for guiding or evaluating economic policy. There are organisations for operational planning and strategy at the sectoral level, such as the Dominica Diversification Implementation Unit for agriculture in that country. St Lucia has a government cash management system which manages cash flows daily. A fortnightly meeting of senior finance officials and senior officials of the Central Bank provides the framework for Barbados' economic strategy and a monitoring system for the economy's performance.

4.6 Data collection and dissemination

Reliable and reasonably up-to-date data on key economic aggregates and variables are a vital prerequisite to sound national economic and financial management. None of the countries in either region devotes sufficient attention, or sufficient financial and human resources, to the collection and dissemination of economic data. The conceptual framework used is very sophisticated, including the measurement of subsistence production. However, statistical services lack the funds and skilled manpower to carry out the surveys needed to collect data, and are

forced to make approximations with which they are patently uncomfortable. These are better than nothing, and the best that may be done with available resources, but the margins of error are considerable, if unknown.

CARICOM countries are plagued by widespread data inadequacy. Although fiscal, financial and balance of payments data are generally available, essential data such as unemployment rates are unavailable in some countries, and data on income distribution are not available anywhere on a current basis. Some series — for elements of real GDP, average expenditure per tourist — are based on crude estimates, and other data are late or subject to wide margins of error (for example, trade data in most countries). ECCB and EAS/OECS have helped to fill gaps in the data for OECS countries; ECCB manages the balance of payments and debt, and EAS provides advice, training and consultancy on economic statistics to national statistical offices. Barbados plans to launch a study on ways to remedy deficiencies in its statistical data gathering mechanisms.

Governments in the Caribbean and the South Pacific have a vital role in formulating and popularising economic strategy, setting in place adequate regulation and monitoring, providing incentives and consistent measures to reassure the private sector of its commitment to the economic strategy, and providing data and information on economic performance and social development.

In all this activity there must be full collaboration with the private sector, including employers, employees and NGOs. Governments must continue to strive for increased efficiency and effectiveness, paying particular attention to areas where service is slow and unreliable. Government will, in the end, have to respect the wishes of the populace, so a fully informed public is an essential objective.

5 Macroeconomic policy, sectoral issues

Overview

Generally, all the countries visited followed sound macroeconomic policies, reflected in price stability and an absence of foreign exchange crises. In contrast, some other Pacific island countries and CARICOM countries — PNG, Solomon Islands, Cook Islands, Jamaica, Guyana — were afflicted with balance of payments crises, high inflation, unstable exchange rates and high interest rates, stemming mainly from unsustainable fiscal deficits.

With respect to fiscal policies the countries we visited (with the possible exception of Vanuatu) had low deficits, and their governments were able to realise current account savings sufficient to cover at least one-third of government's capital expenditure. Borrowing for government investment was often on concessional terms, with a significant grant element in the case of PICs. Only Barbados, with a much higher per capita income level than the others, borrowed on commercial terms. Infrastructure was financed by grants or by loans of long maturity. These conservative fiscal policies were a vital foundation for economic stability.

Current challenges

However, fiscal problems remain, and in all countries. In Fiji the deficit was contained at the expense of government investment. That should not be allowed to continue. Government has decided to freeze employment in the public service in order to reduce the proportion of current to total expenditure. The Vanuatu government has attained fiscal balance by abrupt staff cuts which have rendered administration ineffective in many areas. Government needs to recruit additional trained staff, and to embark on an extensive program of upgrading the skills of the remaining staff, in order to raise the level of performance. This involves additional expenditure which may put a strain on the budget.

In Kiribati a recent government wage increase will widen the deficit. To date, the Revenue Equalisation Reserve Fund (RERF) interest has been sufficient to finance the deficit and leave enough to reinvest to maintain real value of the RERF. With the increase in current expenditure there may not be enough reinvestment to maintain the real value of the RERF. Western Samoa is currently committed to a 'steady as you go' budget (for 1995–96) aimed at reducing the current account deficit and restoring a more sustainable fiscal position. (Over recent years the fiscal

deficit rose as high as 12–15 per cent of GDP as a result of a dramatic increase in cyclone rehabilitation expenditure, on the one hand, and heavy debt repayment obligations on the other, associated with a government-owned airline.)

In Barbados, after many years of careful fiscal management government indulged in massive expansion in the late 1980s, leading to a balance of payments crisis in 1991. It was addressed by an adjustment plan whose main plank was drastic fiscal contraction. The fiscal deficit is now at a sustainable level, but it has been contained only by reducing government investment to levels which may soon impair the country's growth potential. A further contraction of the current expenditure may be needed, but government is fighting shy of the possible further loss of jobs in the public sector. Dominica, St Lucia and St Vincent and the Grenadines have so far maintained government savings and investment, but current demands for wage increases by public servants, if acceded to, could erode public savings, particularly in St Lucia.

5.1 Monetary and foreign exchange policies

Managing the exchange rate by foreign exchange intervention is the most important task of monetary authorities in PICs and CARICOM. (In Kiribati and other countries which have no independent currency, issues of monetary and foreign exchange policy do not arise.) Fiji, Vanuatu and Western Samoa have used basket weights to attenuate fluctuations against all currencies in their chosen baskets. For small economies that may be the best policy, leading to the closest approximation to a stable real effective exchange rate. Modest appreciation in the conventional measures of 'effective' exchange rates does little to impair a country's competitiveness, but currency instability is a major deterrent to investment. Low fiscal deficits (and surpluses in some cases) have meant there was no expansion in domestic money supply due to financing of government by the monetary authority.

The ECCB has been the guardian of monetary and exchange rate stability in the OECS, through strict management of lending to government. The ECCB does not lend to banks or other financial institutions, so lending to government is its only way of boosting the money supply. As a result, the ECCB has been able to maintain a fixed peg to the US dollar, the currency of the Caribbean's main trading partner and the currency in which the overwhelming proportion of foreign transactions are denominated. The ECCB maintains foreign exchange reserves more than sufficient to sustain that rate, by supplying foreign currency on request by banks or governments. The Central Bank of Barbados has followed a similar policy, though on one occasion, in 1991, its foreign exchange reserves dwindled and it was unable to intervene. The financial system voluntarily rationed foreign exchange until adjustment policies were put in place and reserves were restored to workable levels.

5.2 Policies for economic liberalisation

Liberalisation policies have been universally adopted in PICs and CARICOM, but there are signs they may not have been thought out as carefully as necessary. The Government of Fiji found that trade liberalisation policies are causing industrial contraction and is revisiting them. In Vanuatu, privatisation (for example, water supply services) was expected to see a lowering of public utility charges, but charges remain extremely high. Kiribati has reconsidered its program for economic liberalisation, evidently because of weakness of private entrepreneurship. Progress in economic liberalisation in Western Samoa, including privatisation measures, has been somewhat delayed by recent economic reversals, particularly those associated with cyclone devastation and the collapse of the taro export industry (due to a viral infection), and by the scarcity of local entrepreneurs.

OECS countries and Barbados are following a program of trade and exchange control liberalisation, involving removal of import licences, reduction of external tariffs and a simplification of exchange control administration. The simplification of exchange controls is welcome, and it will improve administrative efficiency, but its effects will otherwise be minimal because trade and most current account transactions are already free of exchange controls, and the majority of capital account transactions are routinely approved. Sensibly, no action has been taken (yet) to remove oversight of all capital transactions, which might open the way for destabilising flows of hot and/or dirty money.

There is much confusion and misunderstanding about the effects of trade and tariff reform in small island economies. One should expect that domestic firms whose costs are way above comparable international production costs (those with very high domestic resource costs) will fold. Some may be large, especially in the area of food processing, and the loss of jobs noticeable. Domestic consumers will benefit from lower prices. However, technically efficient domestic firms will come under pressure from multinational companies whose size enables them to segment the domestic market with aggressive tactics such as massive advertisement, loss-leading price strategies, hostile takeovers and closure of domestic competing competition. The argument, often seriously advanced, that trade liberalisation will transform inefficient firms producing for the domestic market into more efficient firms capable of competing in the international market is not to be taken seriously.

Import substitution strategies are not, and have never been, an option for stimulating economic development in small economies. There is not sufficient demand for any item to allow for efficient scale of production, nor the resources to allow for substitution of imports. Import substitution policies have always failed, but their failure and abandonment contributes nothing to development.

5.3 Tourism

All countries in the South Pacific have tourism potential, even the atolls. Distance is not an insuperable problem: Seychelles and the Maldives, which have become tourism success stories in recent years, are equally distant from their main markets, and the Caribbean is just as distant from Europe as are PICs from Asian markets. However, start-up costs in tourism are very large and increase with small size and remoteness. The cost of constructing and equipping hotels with modern facilities is especially high in remote locations because of the need to transport the inputs over long distances in relatively small amounts. Airports, seaports (for cruise ships), access roads and transportation must be raised to minimum standards of acceptability. Costly public utility services must be upgraded or established. In addition to normal marketing costs which are a substantial portion of tourism budgets, new destinations face additional marketing costs to make their names known in travel and tourism circles.

To cap it all, each new tourism location needs to achieve minimum size of plant for economies of scale in air transportation if it is to interest airline companies in providing a regular and reliable service. There is a danger that entrepreneurs who have the financial resources and market presence to solve these problems may well destroy the essential character of the islands and the culture and lifestyles of the islanders in the process.

The main attractions for potential hotel investors are political stability, harmonious industrial relations, stable prices and exchange rates. Once these are in place, vigorous promotion by PICs should attract investment offers.

PICs should develop and strictly apply conditions and codes of conduct to protect the environment and enhance domestic culture, drawing on experience — including unattractive and undistinguished tourism development — in the Caribbean and elsewhere.

Tourism is the main engine of growth in Barbados, and this sector recently overtook agriculture in gross foreign earnings in St Lucia, though it still trails agriculture by a long way in net foreign earnings in that country. Tourism is an important secondary activity in St Vincent and the Grenadines, and a minor but growing sector in Dominica. All four countries are in the process of developing new strategies for tourism. Barbados is a mature Caribbean destination, and it lacks the novelty which is part of the appeal of the newer resorts. To compensate there is a drive to invest in improvement in quality and in widening of the diversity of the tourism product, together with more skilful marketing. St Lucia is at the end of a major phase of infrastructure development, and in the midst of a private investment boom in the construction of hotels and tourism facilities. Increases in arrivals and capacity are expected, and officials are turning attention to environmental concerns and sustainability. The St Vincent and the Grenadines government has made major investments in infrastructure and, alongside the

private sector, in tourism facilities such as yacht repair and docking. There is private investment in hotels and marinas. Dominica's special appeal is to nature-loving tourists, and it is investing in the development of trails and sites for such visitors, as well as encouraging relatively small-scale hotels.

5.4 Fisheries

The disparity between the fisheries potential of PICs, with their immense Exclusive Economic Zones (EEZs), and the Caribbean means that there is little to be gained from comparing the regions on this subject. If their marine resources are to contribute significantly to economic growth, PICs must acquire knowledge and skills for distant water fisheries. That is where their true wealth lies. Even if PICs choose to maximise rents from fishery capability, they will need a considerable fund of expertise — about fishing techniques, fish population and migration, the ocean environment, the marketing of fish internationally and the nature of the competition.

The cost of acquiring and maintaining that capability is very high, but without it the returns from PIC exclusive economic zones will be only a small fraction of their economic yield. While no individual country can afford to put the required expertise in place, the Forum Fisheries Agency may be developed to the required level.

Fisheries make only a tiny contribution to the output of Caribbean countries. Growth has been intermittent, mainly because of marketing difficulties. There have been a few attempts to develop large-scale fisheries for the export market, but none has fulfilled its promise. The Caribbean lacks the large EEZs of PICs, since most countries are single islands, and quite close to each other. Though in every country a number of small-scale fisheries persist, the sector is not expected to satisfy local needs fully or to make a large contribution to exports.

5.5 Export-oriented agriculture

This section is primarily concerned with export-oriented agriculture, while the important topic of subsistence agriculture is dealt with in Chapter 8.

Sugar, bananas and copra

The sugar industry in Fiji is plagued by the problem of unsettled land tenure arrangements, particularly affecting the rights of Indian farmers in the long run. Investment is lagging and the result may well be declining productivity at a time when a rising productivity trend is needed to meet the challenge of the end of Lomé arrangements, in the medium term. If the tenure issue is resolved, there is

hope that Fiji can achieve productivity gains that would make the industry competitive in the post-Lomé world. The main agricultural potential in Vanuatu is in the production of beef, copra and a range of smaller products. For Western Samoa, the recent destruction of taro, a leading export crop, by a viral disease highlights the critical need for greater diversification of its agricultural base. Kiribati has virtually no potential in export agriculture due to highly unfavourable agronomic conditions.

Sugar production in Barbados and in the rest of the Caribbean declined in the 1980s because of poor management of the transition from intensive use of unskilled labour to the adoption of modern skills and organisation. New management installed three years ago in Barbados — earlier elsewhere in the Caribbean — has raised labour productivity and cost effectiveness, and there remain considerable gains to be made. However, during earlier periods of prevarication and neglect, large areas of prime agricultural land were alienated for housing and commercial development, despite the fact that there was an excess of non-agricultural land available for such purposes. Agriculture will never be able to regain its full potential as a result. Although production is on the increase and productivity is improving, the future of the sugar industry beyond 2002, the end of the current protocol under the Lomé arrangements, remains in doubt.

Opinions vary on the future of the copra industry, which is in difficulty everywhere and has collapsed in some countries. Officials in many countries believe that copra will revive if farmers can be shielded from erratic price fluctuations. Other commentators represented to us that copra was 'only barely viable'. Price stability may be achieved by efficiently run corporate marketing boards. The fact that many have failed is an argument for their abolition only if better substitutes are on offer. Leaving farmers to their own devices may be worse. A government subsidy will sometimes be required because of the great volatility of world market prices, and government budgets should include a contingency for this.

There are grave doubts about the successful banana industry in the Windward Islands. The islands have more than doubled their supply of the fruit in the past decade, with the assured demand from the UK, technical assistance and extension services to farmers, efficient marketing arrangements through a UK wholesaler and shipper, and well-run marketing boards that offered remunerative prices for first quality fruit.

However, the quota system under which the Caribbean exports to the United Kingdom is under challenge from Germany and the United States. US firms already account for most of the European market — as well as the US market — with fruit grown cheaply in Central America, where wages are much lower than in the Caribbean, and the livelihoods of workers are more circumscribed and impoverished. In response, Caribbean producers are being urged to cut production and turn to other (unspecified) crops, rather than carve niches in the market for their distinctive brand of fruit.

Issues of diversification

All the islands visited in both regions have embarked on programs of agricultural diversification, backed by innovative programs for gaining farmers' interest and boosting production. MFIs and the donor community have provided significant financial support for this effort. Unfortunately, the results so far have been disappointing, with a high percentage of outright failures. In no country is the output of non-traditional agricultural exports rising steadily, except for the production of squash in Tonga and Vanuatu, and vanilla in Tonga. In our view it is naive to expect to discover products with good export potential where there is not intense competition from low-cost producers — market conditions that are essentially similar to the challenges facing sugar, bananas and copra.

In order to succeed in the export of non-traditional agricultural products, the Caribbean and the South Pacific must adopt precisely those strategies that might restore competitiveness to traditional exports: high labour productivity, building market loyalty and producing goods of superior quality.

This irony is fully appreciated by thoughtful policy makers in the OECS, who pointed out that 'marginal' banana farmers, targeted for switching to other crops, are invariably those with poor organisation, who are unlikely to do well with alternative crops.

5.6 Forestry

Forestry is important for PICs, but not for CARICOM (except Guyana), so there is little to be gleaned from comparison between the regions. The problems seem to be political. In countries where excessive exploitation is taking place, there is not a sufficient consensus in favour of sustainable logging and environmentally responsible management. In the short run, such environmentally responsible management implies a slowdown in the rate of exploitation and the income generated. The workers affected, and those who benefit from their incomes, may have to be compensated, if a sustainable rate of utilisation of the forestry resource is to be achieved. Similar considerations may apply in Guyana, the only CARICOM country where forestry has the potential to become an industry of note.

5.7 Manufacturing and agro-processing

There is scope for producing for local consumption (including tourists) and for increasing the value added from exports of sugar, bananas and copra (including coconut timber). Foreign investors are unlikely to have an interest in initiating these activities. The private sector in PICs must be encouraged to take up this challenge, in partnership with foreign investors who can provide know-how,

technology, marketing expertise, etc. Governments should carefully target technical assistance in selecting promising areas, and guide donors accordingly.

In the Caribbean agro-processing has been the most successful example of transformation of domestic production to export production. Several firms which began on local markets now do business throughout CARICOM and beyond. However, there are too many firms that are below an economical size, and some consolidation is under way in the region. In some instances foreign multinationals have bought local firms, raising apprehensions about the possible diversion of production from the Caribbean, if the parent company should decide to relocate for reasons of its global strategy.

5.8 Transportation

Pacific island country governments must continue to invest in upgrade of ports, airports, roads and telecommunications to overcome the constraint of inadequate infrastructure. In addition, they should budget for support to overcome the barriers to entry due to low volumes in the initial stages of development of new exports and tourism. For example, once targeted resort areas achieve a sufficient volume of hotel rooms, charters become cost effective. Until this volume is achieved government should, as part of a comprehensive tourism strategy which targets the build-up to the required capacity, offer a subsidy to make it worthwhile for charters to operate on the lower volumes. Similar arrangements may be necessary for agricultural commodities during the years when new markets are being established. Subsidies should be for a strictly limited duration and should be conditional on meeting specific performance targets.

Caribbean governments have invested heavily in transport infrastructure. Everywhere except in the tiniest countries, the East Caribbean boasts modern deep-water ports capable of accommodating containers, roll-on/roll-off cargo, and cruise ships. Most countries have modern airports capable of handling any aircraft and modern terminal facilities, and even in those countries such as St Vincent and Dominica where the airports cannot handle large jets the facilities are considered adequate for many years to come. There has also been considerable investment in roads, much of which continues. The main roads everywhere are surfaced to international standards.

5.9 Mining

Mining is of central importance in the economies of the largest countries of the South Pacific Forum and CARICOM especially Fiji, Papua New Guinea, Jamaica and Trinidad and Tobago.

In Fiji, gold is currently being mined, while the development of a large copper mine has reached an advanced stage of preparation. Also in Fiji, exploration for oil is being carried out while significant deposits of manganese nodules are thought to be present in ocean waters. At least two gold–copper mines operating in Papua New Guinea are ranked among the largest mines in the world. Other minerals are being mined there as well as in Solomon Islands. On the small Pacific island of Nauru, phosphate mining remains the dominant industry. Vanuatu is considered to have a significant potential in gold, gases and oil, which is under investigation. Substantial deposits of seabed manganese nodules and cobalt (encrusted on sea mounts) are present in Kiribati as well as in a number of other locations in the South Pacific.

In the Caribbean, Barbados and Trinidad and Tobago produce modest quantities of oil; bauxite is mined in Jamaica, and gold is mined in Guyana. All countries, both in the Caribbean and the South Pacific, mine beach sands, gravel aggregates and, in some cases, limestone, for domestic use.

In the South Pacific, prospects for the mining sector are highly uncertain. The present gold mine in Fiji has only ten years of operation left, while the financial viability of the large copper mine currently being developed is, at best, marginal. In relation to other mining possibilities, including seabed minerals, development prospects depend critically on the state of world demand and technological factors. Under present conditions and given the very high costs, the development of any major new mine may well be a long way off.

Exploitation of minerals offers the possibility of markedly speeding up the growth of economies which enjoy these resources, but countries should proceed with caution. Because these resources are not renewable, mineral-based growth is sustainable only if the proceeds are invested in the creation of other forms of wealth that can generate a stream of output and income in the future. Also, the extraction of minerals carries grave environmental risks; the Caribbean was recently reminded of this by a disaster at the Omai gold mine in Guyana, when traces of cyanide were accidentally released into the country's largest river system. Papua New Guinea's Ok Tedi mine has also come under recent criticism for pollution of river systems.

6 Human resource development

Compared with the Caribbean countries, the Pacific islands continue to face many difficulties in the area of human resource development (HRD). For many, such weaknesses have probably significantly inhibited growth. The Caribbean countries are in a more fortunate situation in that they have been able to build up a strong human resource base by virtue of significant advances in education, health and related areas, achieved over a longer period of time. In the Caribbean, too, much has been achieved in encouraging women to become involved in the social and economic life of the nation. These advantages have undoubtedly contributed in a major way to the robust growth that many Caribbean countries have enjoyed over the last decade.

6.1 Population

While the populations of the Caribbean and PICs are comparatively small, there are significant differences between the two regions in both the rate of population growth and its density. Population growth in the Caribbean has been low, and this has had a decidedly favourable effect on the recorded growth rate of real GDP per capita.

Growth and mortality rates

The rate of population growth among the Caribbean countries over the recent period (1983–93) has averaged only 0.9 per cent per annum, as against 1.7 per cent for the Pacific islands (World Bank, 1995b, p. 1). Only St Lucia recorded an annual growth rate above 1.0 per cent, while Dominica and St Kitts and Nevis experienced negative population growth, the result of steady emigration combined with low fertility rates. Low population growth in the Caribbean reflects fertility and mortality rates comparable with those prevailing in industrialised countries. In turn, such growth reflects significant progress achieved in the provision of public health services, family planning programs (pursued fairly vigorously during the 1960s and 1970s), and the impact of wider social and economic changes, including those connected with urbanisation and education.

In the South Pacific, overall mortality rates are similar to those in the Caribbean but fertility rates remain high. Fertility rates in the Caribbean vary from 1.9 to 3.0 live births per woman, and average 2.6 births. For the Pacific islands, the range is between 3.0 and 5.5, and the average is 4.4 births per woman. The result has been rapid population growth, as high as 3.0 per cent per annum in Solomon Islands,

2.5 per cent for Vanuatu, and 2.7 per cent for Fiji. In the case of Western Samoa, the annual rate of natural increase is 2.9 per cent, but because of heavy emigration this has been reduced to an unusually low 0.4 per cent per annum rate of population growth. Emigration has had a similar impact on the actual population growth in Tonga, the Cook Islands and Niue.

Emigration

Emigration has been a significant factor in just about all Caribbean countries and a major feature in the demographic situation of many Pacific island countries. Emigration from the Caribbean accelerated during the 1950s and 1960s but this process has slowed over the recent period. The main destinations have been the United States, the United Kingdom and Canada. Regarding the Pacific islands, heavy emigration has been a significant and longstanding process in a number of Polynesian countries including Western Samoa and the Cook Islands, the main destinations being New Zealand and the United States. Such a process has been vital in containing population growth in these countries, and easing the pressure on land resources. Emigration has also brought benefits in the form of migrant remittances, which have been substantial in some cases. But the continual loss of skills as a result of such emigration has been a negative factor.

Population densities

Population densities (persons per square kilometre) among the Caribbean countries are high relative to the Pacific islands. Population density is just over 100 for Dominica and St Kitts and Nevis, 250 for St Lucia, and 340 for St Vincent and the Grenadines. The highest density is found in Barbados with levels of close to 600. The corresponding figures for the Pacific islands are much lower at 92 for Kiribati, 54 for Western Samoa, 40 for Fiji and 12 for Vanuatu. However, among several other Pacific countries, population densities are close to those in some of the Caribbean countries, for example, 138 for Tonga, 150 for the Federated States of Micronesia and 260 for the Marshall Islands. (Particularly high densities are found on South Tarawa, the main island in Kiribati, where there are around 1,400 persons per square kilometre.)

Longer term implications for the Pacific

The economic effects of rapid population growth, as they are manifesting themselves in the South Pacific region, are not clear-cut. From a long-term perspective, rapid population growth may bring significant benefits as, for example, by enlarging the domestic market for local industry. But for very small, resource-poor island countries, such a scenario seems unrealistic.

In the immediate term, however, rapid population growth can impose a heavy burden on the local economy, especially in circumstances where economic growth has been persistently low, as has been true of many Pacific islands. High rates of population growth can exert a heavy pressure on education, health and related services, and can result in unusually high dependency ratios, with consequently unfavourable effects on a country's productive capacity, and savings potential. These can exacerbate unemployment and cause serious problems in the areas of housing, sanitation and environmental degradation.

If the status quo is maintained, significant reductions in fertility rates in the Pacific islands are likely to be a slow process. Such changes tend to be related to broader social and economic changes that take place over time, especially in relation to education, urbanisation and economic development in general. In the meantime, Pacific island countries will need to do all they can to foster economic growth as a basis for attempting to meet some of the pressures, including the need for employment generation, that are normally associated with a growing population. At the same time, they need to ensure that effective family planning and education services are in place to meet the needs of those who wish to use them.

6.2 Skills shortage

Regional differences

It is generally recognised that the availability of skilled human resources is a critical determinant of economic growth. In this respect, the experience of the Caribbean and Pacific island countries appears to differ materially. Caribbean countries are generally well off in their capacity to meet their own skills requirements. By contrast, almost all Pacific island countries face severe shortages of indigenous skills and have, of necessity, continued to rely heavily on expatriate skills. The comparative advantage of Caribbean countries in this area is probably a major factor underlying the generally better growth performance that many of them recorded over the past decade or so.

The more favourable position of the Caribbean in relation to the supply of skills reflects the advances made in the educational and training fields (see below). In this respect, the contribution made by the UWI and its continuing education network has to be recognised. The education system at all levels appears to have responded fairly effectively to the human resource needs of individual countries despite the fact that, in some cases, the brain drain has meant a significant loss of skills.

The result has been the virtual absence of the skills gap, and a minimum dependence on expatriates. (The fact that one of the present authors did not come across a single expatriate adviser during his visit to the Caribbean is a telling commentary on how far the Caribbean countries have succeeded in building up the

level of indigenous skills.) Where skills shortages are found it is in highly specialised skill areas, such as in the medical profession, engineering, economic planning and architecture.

The skills gap is pervasive among Pacific island countries, and doubtless has been an inhibiting factor in private sector development, public sector efficiency and ultimately in overall economic growth. The shortage of skills typically extends over a wide spectrum — high-level technical and managerial skills and, more specifically, administrators, supervisors, teachers, doctors, entrepreneurs, economists, accountants, engineers and the like. The skills gap is particularly grave in Vanuatu and Kiribati as well as in Solomon Islands and Papua New Guinea.

The paucity of key skills in the Pacific islands can be ascribed to weaknesses in the educational and training system, although strenuous efforts are being made — notably with substantial support from donors and international organisations — to remedy these weaknesses. In some cases, too, it reflects the effects of the brain drain as, for example, Western Samoa, via persistent heavy emigration, and Fiji via political uncertainty caused by military coups in 1987. (On the latter, it is estimated that 42 per cent of those in administrative and managerial positions prior to 1987 have migrated overseas, a migration process applying almost exclusively to Fijian Indians.)

Key issues

Particularly for the Pacific islands, but a challenge also for the Caribbean countries, a strong and continuing effort is needed to strengthen the educational base and make it responsive to each country's human resource needs. In this, the provision of greater opportunities for women, especially in tertiary level education, should be a matter of priority.

Where the brain drain is significant, imaginative efforts are needed to combat its corrosive effects on the indigenous skills base, and here the possibility of reversing the loss of skills through the recruitment of qualified nationals residing overseas should be pursued actively. The possibility of regional cooperation in establishing a pool of high-level skills in specific areas also merits attention.

6.3 Education

Overview

In both the Caribbean and the South Pacific, the importance of education and training for improving the quality of life and supporting sustainable development appears to be firmly appreciated. Major common challenges are to further improve

the quality of education, particularly at the basic primary level, and to ensure that the educational system is geared to and continues to respond to meeting human resource needs. For many countries in both the Caribbean and the South Pacific, additional challenges include the need to address high levels of unemployment and the continuing loss of scarce technical and professional skills.

Achievements in both regions

As indicated in earlier sections, education in the Caribbean is at international levels (with Guyana a possible exception), a factor that has contributed to a high HDI ranking by many countries. Among Caribbean countries, the coverage in both primary and secondary schools is extensive, resulting in high enrolment and literacy rates. Nonetheless, secondary school enrolment in some cases, notably St Lucia and St Vincent and the Grenadines remains low, apparently a reflection of limited school facilities.

Much has also been achieved in the provision of vocational and technical training facilities. At the regional level, the UWI has played a longstanding and vital role in meeting the region's tertiary-level educational needs, while its distance education program has also developed as an effective mechanism for meeting country needs. A major regional initiative relates to the setting of a common examination at secondary school levels.

A large part of the success enjoyed by the Caribbean countries in education can be attributed to major initiatives taken soon after World War II. By the 1950s and 1960s, almost all Caribbean countries had established free education up to the tertiary level, while many countries also introduced universal education, usually up to age 16–17. Universal education was therefore an effective reality at a fairly early stage of development.

Other major initiatives included the establishment of the UWI in the 1940s (by contrast, USP was set up in 1969), introduction of modern secondary schools, and the establishment of teacher training colleges, technical institutes and, among the larger countries, community colleges. By the early 1960s, compulsory education up to age 16 was common while national governments offered bursaries to qualifying students for tertiary education. The region's educational foundation during the immediate postwar period was also strengthened by a tradition of sitting for external degrees from London and Durham (along with UWI) and the introduction of programs of university training for many Caribbean ex-service personnel as part of their demobilisation compensation.

Educational development among South Pacific countries displays greater diversity in both accessibility and quality but, by and large, much progress has been made in recent years. As in the Caribbean, considerable advances have been made in improving access to basic education and in providing vocational training. The USP is firmly established, and is playing a valuable part in addressing the region's needs

in the tertiary and distance education fields. Major bilateral donors, notably Australia and New Zealand, have given strong support at tertiary level by providing large numbers of scholarships for overseas study.

Particular challenges for the Pacific

In the South Pacific, Vanuatu as well as the other larger Melanesian countries (Solomon Islands and Papua New Guinea) confronts major problems in the educational field. As Table 2.4 shows, its adult literacy and school enrolment rates are very low, relative both to other Pacific islands and Caribbean countries. In these countries, too, strong efforts need to be made to provide greater opportunity for women at all levels of education. The literacy rate of 20–30 per cent for Solomon Islands is particularly alarming (and the corresponding rate for Papua New Guinea is not much higher). Among the main factors responsible for such weaknesses are the difficulty of servicing a large number of scattered and remote island communities, and the great diversity of languages and cultures.

The educational difficulties facing Vanuatu at both primary and secondary levels include the predominance of untrained teachers, poorly equipped classrooms, and unacceptably low school enrolments. The drop-out rate at secondary schools (especially after Form IV) is very high, and makes for a secondary school enrolment of only 20 per cent. Of the other countries visited, Kiribati faces major difficulties over the shortage of teachers (it is experiencing a 35 per cent teacher shortage at primary school level), as well as a lack of qualifications among teachers already on the job.

It is also handicapped by the drop-out rate at secondary schools and the difficulty of mobilising adequate resources for schools on outer islands. For Fiji and Western Samoa, the overall situation is relatively good, but there is still a need to raise the quality of education, especially to overcome present difficulties in the teaching of English, science and mathematics.

Technical and community education

The coverage and standard of education, including technical and community education, among Caribbean countries is highly developed and the main concern is to improve quality and relevance further. In several cases, however, the need to improve teacher qualifications, particularly at primary school remains a weakness (in St Lucia, around 35 per cent of primary and secondary school teachers apparently lack teaching qualifications). Other key challenges relate to the need to assess the overly academic approaches critically and to become more responsive to the social and economic needs of the community.

The availability of technical and trade training facilities varies widely among Pacific island countries but, with the exception of Fiji and possibly Western Samoa, is

generally inadequate. More attention needs to be given to strengthening such training in order to combat the chronic and severe shortage of tradespeople and technicians (in some cases, exacerbated by emigration) throughout the region. This problem is particularly acute for Vanuatu, as it is for Solomon Islands and Papua New Guinea.

Regional examination standards

The experience of the Caribbean in setting up common examinations at secondary school level is of particular interest for Pacific islands. These examinations are the Caribbean Examinations Council (CXC) examinations, which students can sit as far as lower sixth form level, and the A-level examinations which apply at upper sixth form. The CXC, which replaced the British O-level (Cambridge) examinations, is a regional examination set by the Council, based in Barbados. The A-level is an international examination which is set in London. On the latter, there are plans to drop the overseas link within two years and to offer an A-level examination set by the CXC.

The harmonisation of examinations at the secondary level in the South Pacific has only been partially achieved. The regional vehicle for this is the South Pacific Board for Educational Assessment (SPBEA), based in Suva, Fiji. The Board is responsible, among other things, for setting the Pacific School Certificate. However, only six Pacific island countries have elected to use this examination. The remaining countries either set their own examinations or continue to rely on overseas examinations.

We urge Pacific island countries to adopt a broader system of regional examinations at secondary school level than presently exists, drawing upon the Caribbean experience with the CXC as a possible model.

The merits of harmonisation are clear-cut especially in promoting a degree of uniformity in secondary school outcomes, and providing a firmer basis for assessing qualifications for entrance to tertiary-level education. It also makes it possible to design examinations that have greater relevance for the Pacific islands. From the viewpoint of the regional university, the benefit of not having to deal with students who have passed different secondary school leaving examinations can be high. The value of common examinations from the viewpoint of furthering regionalism is also relevant.

6.4 Health

Achievements in both regions

Compared with many developing countries in other regions, the level of health services in the Caribbean and Pacific island countries is quite advanced. Countries in both these regions have succeeded in establishing basic health infrastructures in the form of central hospitals, clinics and a network of health centres, sub-centres and other front-line services throughout the community. With a few exceptions (for example, very remote island villages in Vanuatu), access to some form of medical services is relatively good. Family planning services are also available in all these countries while OECS members have established a bulk ordering system for pharmaceuticals and medical supplies with considerable cost savings for the participating members.

In relation to the Caribbean countries, heavy investment in health during the 1950s and 1960s has led to major improvements in public health and sanitation, better water supplies and improving public hygiene. The health status of the population has been further enhanced by the fairly early introduction of free public health services (and in some cases, free medicine for the young and elderly). These measures underlie the favourable health indicators which the Caribbean countries have been able to attain. These include life expectancy of over 70 years and, apart from Grenada, infant mortality rates of around 10–20 per 1,000 live births (Table 2.4).

Similar efforts to boost health services generally came later in the South Pacific; nonetheless, much progress has been made in the provision of basic health care services. The main exceptions are Kiribati and Vanuatu — and other Melanesian countries such as Solomon Islands and Papua New Guinea — which lag considerably behind other Pacific island countries. For Vanuatu, life expectancy is just above 60 years, while the infant mortality rate is a high 45 per 1,000 live births. Comparable indicators for Kiribati are somewhat worse.

Present challenges

In many areas of health, the Caribbean and Pacific islands appear to face similar problems. Many countries in both regions are facing a growing incidence of lifestyle-related diseases (diabetes, obesity, heart disease), malnutrition — especially among children — poor sanitation among sections of the population, poor responses to family planning services and pressure on health services imposed by declining budgetary allocations. Among Caribbean countries, other problems relating to sanitation, housing, waste disposal, AIDS and drug addiction are viewed as serious health hazards.

Major improvements in the health service of a number of Pacific islands depend on the capacity to overcome fundamental weaknesses in certain areas. In Vanuatu, for example, it is apparent that the health service suffers from a lack of official guidelines, and inadequate administrative support, and is characterised by relatively poor access to basic health facilities in remote rural villages. In Vanuatu, Kiribati and Western Samoa, the serious shortage of doctors has been a chronic problem. On South Tarawa (Kiribati's main island), sanitation, lagoon pollution and overcrowding pose potentially serious health threats.

Particularly for the Pacific islands, but relevant also for the Caribbean countries, major challenges are present in the health field — to correct present weaknesses and to improve quality, responsiveness and accessibility. Among the key areas that must be addressed are the need to:

- strengthen basic health care services, especially on the preventive side
- promote health education
- improve access in remote communities (including those on outer islands)
- recognise and attend to the special needs for women, especially in relation to maternity care and family planning requirements
- protect present health services against the eroding effects of dwindling health budgets
- develop revenue-raising alternatives.

Eastern Caribbean Drug Service

In the Caribbean, a notable initiative in the health field has been the establishment of the Eastern Caribbean Drug Service (ECDS). ECDS was established by the OECS members in the 1980s, as a mechanism for facilitating the pooled procurement of pharmaceuticals and medical supplies on behalf of participating states. The scheme has resulted in considerable cost savings to national health budgets and has improved quality standards in the provision of the medical products supplied (see Box 2 for more detail on the ECDS and how it operates).

Such a scheme could be beneficially applied by Pacific island countries, or groups thereof, but success would depend on adequate planning and training and the capacity to run a sophisticated monitoring system to keep the necessary logistical system operating smoothly. It is urged that the Pacific island countries closely consider the ECDS scheme with a view to establishing a similar arrangement for the bulk ordering of drugs and medical supplies.

6.5 Women in development

Achievements to date

Considerable progress has been made by governments in both the Caribbean and the Pacific islands to promote greater participation by women in the development process. A feature common to both regions has been the establishment of separate departments or departmental units within a ministry specifically responsible for the promotion and coordination of women's affairs. This reflects an apparent commitment by governments to the principle of fostering a greater involvement of women in development, and this is often backed up by significant funding support. External donors are also playing an important role in this process.

We came across several specific examples of affirmative action for raising the level of participation by women in the development process. In Fiji, we learned that government was aiming to appoint women to at least 50 per cent of the membership of official committees and boards of state-owned enterprises. In Australia, one scholarship scheme (the Sir John Crawford Scholarship Scheme) for which Pacific islanders are eligible for tertiary-level study provides awards on the basis of gender equity. In Western Samoa, some priority is given to women in the selection of candidates to participate in the training activities of the Small Business Enterprise Centre, established under New Zealand government funding.

NGOs at community, national and regional levels

In both the Caribbean and the South Pacific, there is a rich diversity of women's organisations at the NGO level involved in a wide range of activities. Community-based groups are normally part of a national umbrella organisation which, in turn, have usually developed extensive linkages with regional and international groups and networks of women's organisations. At the regional level, much valuable work on women in development is being done through the South Pacific Commission in the Pacific islands and CARICOM in the Caribbean.

In the Caribbean, several regional NGOs are playing a notable role in promoting the interests of women in development. Examples are the Caribbean Women's Association and the Caribbean Association for Feminist Action, the first representing a more traditional mouthpiece for women at the regional level, and the second concerned with identifying and developing new alternatives for expressing women's interest in the development process. Another major regional initiative is the Women and Development Programme under the auspices of UWI's continuing education system. This program is concerned with promoting a greater awareness of issues and problems confronting women in modern society and is also active in non-formal education.

Ongoing challenges

Creating greater opportunities for women to allow them to contribute more to development remains an ongoing challenge. Particular efforts are needed in the fields of education and employment and in improving access to vital inputs needed to facilitate income-generation activities. Attention also needs to be given to ensuring there is adequate consultation between women's organisations and government, and that official agencies responsible for women's affairs are adequately resourced. A range of other matters also needs to be addressed, not least of which is the issue of violence against women, and the disproportionate burden that falls on women as a result of economic structural adjustment programs that many countries, both in the Caribbean and the Pacific islands, have recently had to undergo.

Box 2 Eastern Caribbean Drug Service (ECDS)

As an agency of OECS, ECDS was established in 1986 (initially with significant USAID funding) as a mechanism for realising reductions in the unit cost of pharmaceuticals and medical supplies to participating states through bulk purchasing and tendering. The scheme appears to have been highly successful in realising cost savings, and thereby more effective use of public sector health resources in the participating states.

Participating countries are the OECS members and Anguilla (as an associate member). The scheme is managed by ECDS which is situated alongside the OECS headquarters in Barbados. ECDS has a staff of 12, and most administrative costs are met by a fee of 15 per cent levied on the value of purchases made by participating states.

The main operational features of the scheme involve the:

- (1) bulk purchase, via international tendering, contracting and procurement, of approved pharmaceutical products and medical supplies on behalf of member governments. The listed drugs and related supply items are generally high-use and high-cost products which are established and effective in meeting regional health needs
- (2) direct delivery of drugs and medical supplies from approved suppliers to individual member governments in accordance with the purchase orders
- (3) placement of bulk orders three times a year (but allowance is made for interim orders on a request basis)
- (4) provision (by ECDS) of a list of purchasable drugs and medical supplies. A list (with descriptions) of 240 such drugs is published in a Regional Formulary and Therapeutics Manual (there are also specific country editions), a selection based on the WHO Essential Drug List. The Regional Formulary is reviewed regularly. A list of around 60 medical supply items is also provided (includes gloves, contraceptives and the like)

Box 2 (cont'd)

- (5) selection of approved suppliers, currently drawn from over 20 countries, including the United States, United Kingdom, Denmark and Barbados
- (6) paying of bulk orders by the ECCB (within 42 days of receipt of goods) as the payments agency for ECDS. Such payments come out of Special Reserve Drug Accounts which each participating government maintains with the ECCB. Contributions to these accounts are roughly equal to one-third of the annual drug budget of each participating state.

ECDS is assisted by three committees. An ECDS Policy Board, consisting of Ministers of Health from participating states, is responsible for setting policy directions. A Tenders Sub-Committee, which comprises purchasing officers from each country, selects the products and awards contracts to approved suppliers, while the Formulary and Therapeutics Sub-Committee which comprises senior physicians is responsible for both regional and country formulary matters, including developing regional standards for implementation and maintenance of a formulary system. The benefits that member countries have been able to realise from ECDS operations have been significant and include:

- (1) cost savings from bulk ordering: these amount to an estimated 50 per cent savings on drug costs annually. Such savings stem from the advantages that come from ordering as a single unit, which strengthens negotiating capacity, and from greater certainty of payment for supplies
- (2) more stable supply of drugs and medical supplies for individual countries
- (3) quality assurance as ECDS can check on whether suppliers are meeting quality standards (for example, relating to shelf life, proper labelling, etc.), can test drugs and obtain feedback from regional medical authorities
- (4) the facilitation of professional interaction regionally and the exchange of ideas among ministries of health
- (5) a more rational use of drugs
- (6) the provision of auxiliary services, including training workshops on relevant drug and related medical issues, and technical assistance on computerised inventory control systems and the like.

Such a scheme may be of particular interest for the small Pacific islands where relatively few importers operate and few drug stores are in place.

7 Private sector development

Overview

The importance of the private sector for promoting dynamic and sustainable growth is generally recognised by governments in both the Caribbean and Pacific island regions. Many countries, and particularly those in the Caribbean, have made considerable progress in providing a favourable policy and institutional environment for fostering private sector investment and initiatives. Nonetheless, with a few exceptions, much more needs to be done to realise the full potential of the private sector as the main driving force for economic growth. In this, Pacific island countries can derive considerable benefits from the experience of the Caribbean countries, especially efforts made at the regional (and sub-regional) levels to improve access to development capital and to promote export orientation.

When compared with the Pacific islands, the level of private sector development among Caribbean countries appears to be well developed. This reflects, in part, a fairly strong entrepreneurial base combined with some success by governments in providing a favourable investment climate for private sector development. It is apparent that the private sector has played a key role in spearheading development in such leading sectors as tourism, agriculture, agro-processing, manufacturing and financial services. Government's role has essentially been to support the private sector through the provision of basic infrastructure, a sound macroeconomic environment and institutional forms of assistance. Direct government involvement in areas normally left to the private sector has been limited.

With the possible exception of Fiji, private sector development in the Pacific islands is much less advanced. Entrepreneurship remains a scarce resource, while private sector initiative and investment, including foreign investment, has often been inhibited by an extensive involvement of the public sector in the economy. In the case of Western Samoa, for example, government is directly involved in such areas as banking, brewing, insurance, home ownership and even aspects of retail trading. Kiribati represents the extreme where the private sector barely exists.

A major aspect of private sector development in the Caribbean is the presence of indigenous (that is, Caribbean owned) companies operating intra-regionally. At least a dozen such companies, mainly multi-product firms, have succeeded in forming regional alliances, usually via the establishment of branches and affiliates, throughout the region and, in some cases, beyond. Among the leading players are companies operating in tourism and insurance sectors. Others (for example, Goddard Enterprises Ltd) are involved in the field of building materials, insurance, shipping, cargo handling and wholesale and retail trading. Agro-processing

activities, including rice and flour milling and animal feed, are also involved (for example, by the East Caribbean Group of Companies). Many of these companies operate in as many as eight countries within the CARICOM region.

Private sector cooperation at the regional level also takes place among Chambers of Commerce and industry groups, via the Caribbean Association of Industry and Commerce (CAIC), headquartered in Barbados. (A similar group in the Pacific islands, the Pacific Islands Association of Chambers of Commerce (PIACC) had been established but ceased to operate in 1991.)

Such regional networking by the private sector has been an important factor in promoting regional trade and investment as well as economic integration. This process has barely begun in the South Pacific region but should be strongly encouraged as an integral element of private sector capacity and as a potentially significant source of economic growth.

Opportunities for expansion

Among both Caribbean and Pacific island countries, the opportunities for further private sector expansion are closely tied to the major growth sectors. For the Caribbean countries, key growth sectors include tourism and associated activities and a range of service industries, including information processing. Most countries, including St Lucia and St Vincent and the Grenadines, have the potential for major expansion in agriculture, as well as agro-processing, particularly tropical fruits and vegetables. In the case of the Pacific islands, tourism also offers major opportunities for private sector development along with agriculture, fisheries, and light industry. In Fiji, there is the potential for significant expansion in the mining sector, while in the case of Vanuatu, petroleum offers future possibilities.

Role of government

Governments can play a crucial role in ensuring that the private sector grasps the available opportunities and in facilitating private sector expansion. Donors, too, can provide valuable complementary support. Foremost is the need to provide a sound and enabling investment climate, including appropriate measures to encourage foreign investment and joint venture arrangements. Government intervention can also be vital in improving access to overseas markets, establishing more diversified sources of development capital, and in creating space for the private sector by withdrawing from lines of activity suited to private sector development. Regarding the latter, government privatisation programs offer major possibilities for further private sector involvement. Governments can also play a valuable part in fostering entrepreneurship among women.

Problems to be addressed

As noted, the private sector has reached a fairly advanced stage of development in the Caribbean. Nonetheless, there are problems that need to be addressed. One significant problem that came to our notice during our field visits was the need to improve market access in respect of both regional and extra-regional markets. This is an issue of increasing importance given the urgent need to diversify the export base through a greater emphasis on non-traditional export products.

A related problem faced by some Caribbean countries concerns the need to improve shipping and air transportation, particularly to facilitate the shipment of fresh produce. Another common problem was the lack of adequate consultation between the public and private sectors. Respondents repeatedly pointed to the need to establish a mechanism to allow regular dialogue between government and the private sector as an essential basis for achieving closer collaboration and harmony. (A problem cited in St Lucia related to the dominance of family companies in the corporate sector and their dislike of competition, particularly foreign investment.)

The range and severity of problems besetting private sector development in the Pacific islands appears to be far more formidable than is the case with the Caribbean countries. Among the leading common problems are:

- the absence of an entrepreneurial culture
- the paucity of management skills
- the lack of clear government policies relating to the private sector
- inadequate access to venture capital.

In almost all cases, excessive bureaucracy in the servicing of investment proposals was also highlighted as a serious problem, as well as the need for assistance to develop new export markets. Except for Fiji, the absence of regular consultation between government and the private sector was a common problem which needed to be rectified. In some cases, too, notably in Kiribati and Western Samoa, the intrusive role of the public sector in the economy appeared to be a further important impediment.

For both Caribbean and Pacific island countries, there are major challenges that have to be faced in efforts to promote private sector development as a dynamic source of growth.

In relation to the Pacific islands, the experience of the Caribbean countries offers much that is potentially beneficial from the viewpoint of the private sector — in particular, what the Caribbean region has achieved in the areas of finance for small business development and export promotion.

7.1 Finance

Overview

A healthy and growing private sector needs to have adequate access to development capital, both loan and equity. In the case of the Caribbean countries, the private sector appears to be reasonably well served as capital markets are generally well developed. Commercial banking is adequate (with at least five banks in each country) and there is a wide range of other financial services, including development banks, credit unions, hire purchase, and insurance companies. At the regional level, development funds may be accessed directly or indirectly from IDB and CDB as well as from venture capital agencies operating regionally. Various schemes to provide loans or grants to small business have also been established, although further efforts in this area are needed.

National development banks in the Caribbean have not been very successful, except for Dominica, where the Agricultural and Industrial Development (AID) Bank is highly regarded. Elsewhere national development banks have been restructured, partly privatised and recapitalised after years of repeated losses had exhausted capital and reserves. A recent evaluation (Bourne 1995) identified challenges facing these revitalised institutions. In the Pacific, development bank performance has been disappointing, primarily because of weak management, paucity of skilled personnel, and a failure to control arrears.

Capital markets among Pacific island countries are very much at the elementary stage of development. For most, the financial sector goes little beyond one or two commercial banks, a development bank, a provident fund, and a few insurance agencies. The larger countries have also established central banks. The main exception is Fiji which is endowed with six commercial banks and a range of other financial institutions, including insurance companies, hire purchase facilities and a small stock exchange. At the regional level, development funds have been provided by the Asian Development Bank (ADB) to its member countries for on-lending to the private sector through national development banks. However, ADB lines of credit to development banks in the Pacific islands have been few, relatively small in amount, and somewhat demanding in terms of administrative procedures.

The capacity of existing financial institutions in the Pacific islands to meet private sector demand for development capital would appear to differ widely from one country to the next. However, in recent years, particular attention has focused on two apparent gaps in the finance sectors of Pacific island countries. These relate to the chronic problem of providing for the credit needs of the small business sector (deriving in part from the lack of entrepreneurship and management skills rather than from a lack of capital as such) on one hand, and to the need to improve access to equity capital on the other. Regarding credit for small business, including those run by women, it is worthwhile to examine a scheme operating in the Caribbean,

the national development foundations, which appears to have achieved a fair degree of success in this field. Similarly, in relation to equity capital, the experience of the Caribbean Financial Services Corporation (CFSC) may be of value for the Pacific islands.

7.1.1 National development foundations

Origins

National development foundations (NDFs) are operating among member countries of the OECS as well as in Barbados. As NGOs (but companies limited by guarantee), NDFs operate as non-profit organisations formed for the purpose of promoting the development of the micro and small business sectors through the provision of loans, technical assistance and training. They are governed by Boards whose members are almost entirely drawn from the private sector, and operate under the umbrella of a regional body, the East Caribbean Organization of Development Foundations (ECODEF). Staff complement varies from seven to 12.

Sources of support

NDFs have drawn upon a range of sources both within and outside the community for financial and other forms of support. Typically, an NDF would be assisted by such agencies as the commercial banks, CDB and USAID. However, a large proportion of administrative costs has usually been met from revenues generated from interest earnings and related sources.

Areas of activity

The principal areas of concern are the provision of loans to the small business sector through the operation of a revolving fund scheme. Loan applications are subject to careful appraisal and, when approved, loans are made at above commercial bank prime rate. Individual loans can vary from \$200–300 to \$4,000, although on good projects there is usually some flexibility to go beyond these levels. All sectors are considered but projects in the area of agriculture, construction, fishing, trade and food have been prominent. In any given year, an individual NDF might grant as many as 300 loans, and have loans outstanding of up to \$2 million. In most cases, loans to women account for a significant proportion (at least 35 per cent) of total loans made.

Other major activities include training in the field of entrepreneurial development and business skills, and assistance in project development and related technical assistance. Some NDFs have also provided small 'incubator' facilities, and acted as guarantors for bank loans to local entrepreneurs.

NDFs have recently received a credit line of \$2.4 million, equal to \$300,000 per NDF, for on-lending by NDFs. This amount has been made under CDB's Small Microenterprises Project which CDB recently initiated as part of a poverty alleviation effort. CDB also operates a Caribbean Technological Consultancy Services Network for providing, on request, technical assistance to indigenous enterprises.

Relevance to the Pacific

A key feature of NDFs is that they are operated by the private sector with board members chosen mostly from prominent members of the local business community. It is also based on the revolving fund principle so that, in theory at least, they can operate on a self-sustainable basis. In the South Pacific, various revolving fund schemes have been tried as a means of fostering small-scale enterprises but only a few appear to have been successful (for example, the Nukuroa Revolving Fund Scheme operated in the island of Mitiaro, in the Cook Islands, with SPC assistance). The Caribbean experience to date with NDFs suggests that a key condition for success is good management.

Pacific islands might find it worthwhile to examine the Caribbean experience with NDFs closely as a possible model for promoting the micro-enterprise sector.

7.1.2 Caribbean Financial Services Corporation

Origins

The Caribbean Financial Services Corporation (CFSC) is a venture capital company based in Barbados and operating throughout the CARICOM countries. It commenced operations in 1984 as a vehicle for fostering private sector development by assisting in meeting medium and long-term capital requirements, and providing a range of other financial services. CFSC operates strictly on a commercial profit-oriented basis, and aims to be involved in projects that promise to have a strong development impact, especially in terms of employment creation and foreign exchange earnings.

Sources of support

CFSC's funding base is close to \$30 million, most of which comprises a soft-term loan from USAID. It also comprises equity (around \$43 million) raised from local business houses, banks and international financial agencies. It has access to two lines of credit with the European Investment Bank (EIB) to fund equity investment

in small and medium enterprises in the OECS. Loans have also been obtained from regional agencies, including CDB.

Areas of activity

The services offered by CFSC cover such areas as:

- medium and long-term loans
- co-financing
- equity participation
- securities brokerage
- access to a wide range of project specialists.

CFSC has been heavily involved in tourism and, as at end of March 1995, this sector accounted for \$15 million or 58 per cent of total outstanding loan and equity investments of \$26 million. Investments in manufacturing and other industries were also provided, but there was only a small involvement in agro-industry.

Since its inception, CFSC has been involved in over 130 projects and disbursed a total of \$40 million. The investment capital value of these projects is estimated at \$160 million, and their overall contributions to export earnings and direct employment were \$70 million annually and 1,200 persons. CFSC claims that at least 70 per cent of those businesses would not have survived without its involvement.

CFSC does not discriminate between the size of projects. The extent and form of its involvement depends on individual circumstances, including the degree of risk. In general, it can provide loan capital up to \$1 million per project. With respect to equity, CFSC does not seek to establish a controlling interest in a project, and is prepared to contribute up to 49 per cent of equity (but can influence management by its membership of the Board of Directors). CFSC will divest itself from a project at a time it considers opportune.

Financial results have been good, and are improving. For the financial year ending March 1995, net income totalled \$637,000 which represented a respectable return of 12 per cent on shareholders' equity. CFSC has a small staff of five professionals and three supporting personnel. It is housed on rented premises and has operating expenses of \$409,000 — equal to 22 per cent of total income (net of interest expenses).

Relevance to the Pacific

In the South Pacific, there is considerable interest in the concept of a venture/equity capital facility. The smaller countries in particular see the value of a regional venture capital facility as a means of improving access to risk capital and, in general, for boosting private sector development. This interest has prompted the

SPFS to investigate the feasibility of establishing a regional venture capital fund. It has also led to a recent initiative by the International Finance Corporation (IFC) to establish a Quasi-Equity Investment Fund as a pilot project to test whether a fully fledged fund would be justified. This pilot project provides for a modest \$2 million to be invested in the Pacific over an 18-month period, a sum which the management of IFC may at its discretion use to finance projects identified and recommended by the South Pacific Projects Facility (SPPF). This is an IFC-associated technical assistance agency based in Sydney.

In developing a suitable model for the Pacific islands, the experience of venture capital funds in the Caribbean, such as CFSC, needs to be closely examined.

7.2 Trade promotion

Overview

For both the Caribbean and Pacific island countries, an expanding export sector can provide an important source of economic growth. Yet, in both regions, over the recent period, export performances have generally been lacklustre, reflecting weak international markets, a stiffening in international competition, and in some cases the destructive effects of hurricanes/cyclones. This has been reflected, as we would expect, in weakening growth or contraction in the economies affected. In the Caribbean, the main exception has been St Lucia which has benefited from an expanding banana industry (with tourism) and, in the South Pacific, Fiji, where the garment industry recorded dramatic expansion as an export industry. Particularly in the Pacific islands, for example, Western Samoa and Kiribati, export earnings have declined markedly.

Generally speaking in both regions, there is wide recognition of the role of trade as a dynamic factor in achieving durable growth and employment expansion. This has taken on an added note of urgency in recent years as a result of developments in the global marketplace. A notable feature is the present commitment to the creation of a more liberal international trade framework and the potential threat this poses for some of the traditional trading arrangements affecting both Caribbean and Pacific island countries. Such a trend presents many challenges to these countries on how to respond constructively to avert a collapse of their export base. For the CARICOM members, too, trade expansion is also viewed as a vital element in promoting economic integration.

Activities in both regions

In both the Caribbean and Pacific island regions, much progress has been made in establishing organisational structures for facilitating trade expansion. In both

regions, all countries appear to have established trade agencies (usually linked up with investment and industry units) as vehicles for trade promotion. Many of these agencies, for example Fiji's Trade and Investment Board, are pursuing their missions with a great deal of vigour and success. Similarly, at the regional level, much has been achieved in promoting collaborative approaches to trade promotion and facilitation.

In the South Pacific, regional trade issues are handled by the SPFS and its subordinate bodies, including the Committee on Regional Economic Issues and Trade (CREIT), and trade offices based in Sydney, Auckland, and (soon) Tokyo. A Trade and Industry Division of the Secretariat is responsible for providing, on request, technical assistance; and for assisting in the staging of trade exhibitions, fairs and training workshops. In relation to the Caribbean, the leading regional trade promotion agency is the CARICOM Export Development Project (CEDP), which operates under the CARICOM umbrella. This project carries out a wide range of market promotional and export facilitation work designed to expand both intra-regional and extra-regional trade. For the OECS members, trade collaboration and facilitation are also carried out by the Eastern Caribbean States Export Development Agency (ECSEDA).

We are not in a position to assess in any depth the merits or demerits of the trade promotion effort being carried out in the two regions. It would appear, however, that trade promotion activity carried out at the regional level in the Caribbean is far more substantial than in the Pacific islands. It also seems more focused, less fragmented and pursued with greater sense of urgency than in the South Pacific. As trade issues, particularly those relating to the development of new markets and the promotion of local products overseas and market research and intelligence, are just as vital to the economic life of Pacific islands as for the Caribbean countries such a disparity is somewhat puzzling and calls in particular for a considerable upgrading in the trade promotions work of the SPFS.

Pacific island countries should give serious consideration to strengthening export orientation and expansion efforts at the regional level. In this, the experience of CEDP and the ECSEDA is highly relevant.

7.2.1 CARICOM Export Development Project

Origins

The CARICOM Export Development Project (CEDP) has its genesis in the trade facilitation work which CARICOM had been conducting in the 1970s. In 1989, CEDP was set up in Barbados as a CARICOM field project. This move reflected a growing recognition among CARICOM members of the importance of trade issues in the economic life of the region, and of the need to upgrade the trade promotion

effort considerably. A major objective (particularly since 1992) has been to strengthen CEDP as a regional mechanism for fostering intra-regional trade and advancing the region's single market and economy.

CEDP serves the so-called CARIFORUM group of countries, comprising CARICOM states as well as Haiti and the Dominican Republic (there are also bilateral arrangements with Mexico, Venezuela and Colombia). It has a staff of ten professionals, and the bulk of the funds comes from the European Union under Lomé (\$12 million for six years), with the CARICOM Secretariat, CIDA and several other donors also contributing.

Areas of activity

A major thrust of CEDP activities is directed at expanding intra-regional trade particularly through measures to reduce or eliminate existing non-tariff trade barriers. Emphasis is given to trade in products originating from the region. With regard to extra-regional trade, the emphasis is to improve market access, enhance international competitiveness and encourage trade in non-traditional export products. In support of the private sector, CEDP assists regional manufacturers, primary producers, and trade promotion agencies. Specifically, CEDP provides a range of services falling under the following categories:

- trade, market and product information
- regional and extra-regional markets, promotion and trade development
- organisation of regional participation in exhibitions, trade fairs, and sales missions
- promotion of the use of regional raw materials in regional production
- training and assistance in institutional development
- development of trade policies.

These services are available to member countries, their trade promotion officers, other public and private organisations, and producing and exporting groups in the private sector.

A major service incorporated within CEDP is the Caribbean Trade Information System (CARTIS). This provides trade information, marketing intelligence and information on local producers and buyers, and on goods produced within the region. The CARTIS computer network links the trade information among states and accesses overseas databases. It also provides information on market potential and entry conditions. In the provision of technical assistance and consultancies, CEDP focuses on eight key product areas. These are apparel/garments, wood furniture, foods, handicrafts, floriculture, leather goods, entertainment/culture, and information.

CEDP launched a Buy Caribbean Campaign in 1992 which has been highly successful in creating greater awareness of the range and quality of products available in the region. A Buy Caribbean Logo has also been designed as a

marketing tool and can be awarded to regional products which meet minimum acceptable quality and rules of origin requirements.

CEDP, which is planning a name change to the Caribbean Export Development Agency (CEDA), appears to have had considerable success in carrying out its mandate. For example, CEDP assistance to the processed food sector helped to boost regional sales by \$10 million in 1994 (Caribbean News Agency, 5 April, 1995). Plans to improve its performance include measures to provide greater self-financing, achieve a greater measure of autonomy in its operations, and strengthen private sector participation at board level.

7.2.2 The Eastern Caribbean States Export Development Agency

Origins

The Eastern Caribbean States Export Development Agency (ECSEDA) was established in 1989 by the OECS members as a specialised agency for promoting export growth among member states. It is based in Dominica and operates under the Economic Affairs Secretariat of the OECS. It was viewed as a key mechanism for facilitating the achievement of the East Caribbean Common Market.

ECSEDA's objectives are to:

- facilitate export expansion of member states
- promote export diversification
- provide trade information
- provide support services for exporters.

Areas of activity

As with CEDP, ECSEDA's activities include providing direct assistance to exporters in the form of market research, trade missions and exhibitions and financial advice. They also include activities relating to market development, trade promotions, private sector training, and trade information. The two agencies develop programs in close collaboration to ensure they complement each another.

8 Constraints to growth?

Land, subsistence production, culture and the environment

As in many other developing regions, prospects for attaining sustainable growth among Caribbean and Pacific island countries are closely interrelated with a range of institutional, social and structural variables. Issues that are particularly significant for the two regions include those relating to land tenure, subsistence activities, culture, and the natural environment. Issues concerning land tenure and subsistence production are particularly relevant for the Pacific islands.

8.1 Land tenure

Regional overviews

Among Caribbean countries, access to land for development does not appear to be a major constraint, although the relative paucity of land for commercial development is a common concern. Land operates under modern systems of tenure which, in most cases, are modelled on British law. Private ownership is predominant with a number of exceptions, notably in St Kitts, Antigua and St Lucia where government (Crown) land accounts for 90 per cent, 80 per cent and 55 per cent of total land areas respectively (a major share of such land consisting of old plantations purchased from private owners during the 1970s). Customary forms of tenure are now virtually unknown. Access to government land via long-term leases is generally fairly easy, while legislative provisions for the purchase of land by foreigners are quite transparent. Access to land for industrial investment has also been facilitated by the availability of industrial estates and parks.

A possible weakness in the land situation of the Caribbean countries is a general failure throughout the region to initiate and implement sound land-use and zoning arrangements. Barbados has been one of the few countries to formulate a land-use plan (Dominica is on the verge of preparing a land-use zoning plan) but even here, implementation has been disappointing.

Land issues in the South Pacific are far more complex and present a major challenge for development. Throughout the region, and in sharp contrast to the Caribbean, customary forms of land tenure predominate, accounting for around 84 per cent of the total land area in Western Samoa, 82 per cent in Fiji and almost the entire land area in Vanuatu. There is great diversity in the nature of customary

land tenure. For example, in Fiji customary land belongs to extended kinship groups (*Matagali*) and in Vanuatu to traditional owners (but is sometimes used by whole villages). In Western Samoa it belongs to villages and is controlled by village councils (*Fono*). There can also be considerable variation in the form of customary land tenure practised within a country. For example, in Kiribati's main island of South Tarawa, some areas of customary land can be alienated, but only by sale to local people.

Customary tenure and economic development

The way in which customary tenure can affect economic development remained an open issue, and one deserving of fuller investigation. To the extent that land held under customary tenure cannot be collateralised for purposes of securing loan finance, it can act as a barrier to accessing development capital. In some cases, for example, Vanuatu (but also in Solomon Islands and Papua New Guinea) land has not been fully surveyed with boundaries agreed to by the different customary land-owning units. This has given rise to a large number of land disputes between contending tribal claimants, resulting in large tracts of potentially cultivable land lying idle or poorly used. On the other hand, from the viewpoint of indigenous groups, customary tenure means they can still exercise ownership of a valued asset and resource, one which brings with it a large measure of security. It also provides a useful brake upon the excesses of over-development and thereby promotes a more balanced and, possibly, more meaningful path to development.

Much can be done to overcome some of the negative features of customary land tenure and to achieve more productive land use. As in the case of Vanuatu, more vigorous efforts are needed to survey and to establish land ownership rights. An overriding requirement is to provide a sound leasing system coupled with an effective dispute resolution mechanism. Such leases should be available for the long term, mortgageable and, depending on specific circumstances, freely transferable. Mechanisms for administering customary lands on behalf of traditional owners are also worthy of serious consideration. On the latter, a possible model for other Pacific islands is the Native Land Trust Board (NLTB) of Fiji which has had long experience and success in this area.

Handled the right way, customary tenure can be adapted to respond positively to the development imperatives of Pacific islands. A recent meeting of the South Pacific Conference, organised by the South Pacific Commission in 1994, discussed the subject of customary land rights and usage and sustainable development and concluded that they did not conflict but rather complemented each other.

8.2 Subsistence production

Overview

Subsistence production remains a major feature of the economic life of most Pacific islands but in the Caribbean, except for a few isolated areas, it has virtually disappeared under the onslaught of the modern commercial economy. This form of production is directed at consumption by the producer and family (and for gifting and exchange) and now takes place almost entirely within a mixed subsistence–cash production mode where both cash and non-cash production are normally undertaken. As noted in Chapter 2, in many Pacific islands the subsistence sector remains as a major component of the national economy. In Kiribati, Vanuatu and Western Samoa, as much as 60–80 per cent of the total population is involved in a major way in subsistence activities. The sector's contribution to GDP is, in these countries, typically around 15–20 per cent (and probably more if satisfactory procedures for compiling subsistence production were available).

Undervaluing of subsistence sector

The real role of the subsistence sectors in the Pacific tends to be significantly undervalued. Subsistence production has been particularly important in sustaining living standards when (as happens periodically) the monetary sector has contracted, as evidenced in Western Samoa for example, in the late 1980s. In many Pacific island countries, the majority of the population still gets most of its basic needs from non-monetary production, a factor not adequately reflected in measured monetary aggregates. In these conditions, there is a tendency for subsistence production to increase when monetary production contracts, and vice versa.

It is difficult to assess the trends in subsistence production and its contribution to GDP over time on the basis of available data. Where time series are available, they are usually based on arbitrary procedures and assumptions and not on detailed empirical analysis. In most cases, year-to-year estimates of value-added in the subsistence sector are derived by simply 'blowing up' the value for some basic year (usually an agricultural census year) by the rate of population growth. The underlying assumption is questionable, and the results misleading.

Resilience of the sector

Recent studies of the subsistence sector in a number of Pacific islands, undertaken under the auspices of the SPFS, point to several reasons why subsistence sectors in the South Pacific have remained relatively resilient. A major factor highlighted is simply the lack of alternative employment opportunities in the non-agricultural sector, and a continuing strong preference for traditional foods and related products. Such preferences have been most apparent among isolated communities

where consumption patterns have not been radically affected by modern consumer preferences. In some cases, too (for example, Western Samoa and Tonga) the low cost (relative to effort, implying a relatively high reserve price for rural labour) of securing basic food requirements under conditions of 'subsistence affluence' has also been an important factor.

The sustainability of the subsistence mode of production is coming under increasing pressure as the development process gathers momentum and populations increase. Changing consumer tastes in favour of imported foods are part of this process. Another relates to the impact of official development policies which have tended to focus on export-oriented agriculture, tourism and the like, while neglecting the subsistence sector.

Long-term value

Nonetheless, under present circumstances and for the foreseeable future, the subsistence mode of production in Pacific islands will continue to play a significant part in the economic life of these countries. Its contribution includes the maintenance of traditional skills as a basis for adapting to new forms of agricultural technology and practices, and the importance of this sector as a source of productive employment where (as in Kiribati) development options are severely limited. A thriving subsistence sector can provide an element of security against the inherent risk of too heavy a dependence on one or two export products. The consumption of subsistence foodstuffs can also be encouraged as a means of avoiding deeper import dependence (with potentially favourable balance of payments effects) and achieving greater national self-reliance.

The fact that the subsistence sector is making a significant contribution to the economic life of many Pacific island countries should be clearly recognised. A greater effort is needed to understand the workings of the subsistence sector better, and to provide appropriate support measures to allow it to realise its development potential.

8.3 Culture

Overview

Both the Caribbean and Pacific island countries possess rich cultural traditions that are among the most vibrant in the world. As noted previously (Chapter 1), Caribbean cultures draw their inspiration from African and European roots and, over time, have evolved with much creativity and originality. In recent years, the Caribbean has begun to capitalise on the economic value of its cultural inventiveness, particularly in music and festival arts. This marriage of art and economics has revitalised traditional art forms and enabled them to develop in

ways that appeal to modern audiences (see Appendix 1). Pacific island cultures are rooted in traditions going back several thousand years, and exhibit considerable resilience. In both regions, culture permeates all facets of life and is a source of great national pride.

Among Caribbean and Pacific island countries, separate departments or departmental units have invariably been established to take responsibility for the promotion and coordination of cultural matters. The work of these agencies is normally complemented by the efforts of statutory or NGO bodies. For example, in Barbados, there is a National Cultural Foundation, a statutory unit with a capacity to tap private sector resources for supplementary funding. These agencies generally do excellent work, but many are severely strapped for funds and in some cases have had to curtail their activities.

In the South Pacific, a major regional event is the South Pacific Arts Festival which is held every four years and in which all member countries of the SPC can participate. No such mechanism exists in the Caribbean but major national festivals, such as Reggae Sunsplash in Jamaica, CARIFESTA held in different countries in the Caribbean on a rotation basis, and the Crop Over Festival in Barbados attract wide regional and international interest.

Relationship to economic development

Efforts to preserve and vitalise culture — in all its manifestations — reflect recognition of the vital role that culture plays in the lives of people. However, in both the Caribbean and Pacific islands region, culture is also viewed as a valuable resource that can be harnessed to promote national economic goals. This is perhaps most apparent among many of the Caribbean countries where efforts to strengthen the cultural base are strongly motivated by the wish to provide an attractive cultural setting for tourists. In Barbados, for example, the official objectives of cultural development are stated as not only to create a more confident, creative and responsible citizenry, but also to create jobs. In the South Pacific, the economic rationale is less obvious.

The relationship between the traditional culture (in the broadest sense) and economic development is a highly complex one in the South Pacific. Aspects of traditional culture are attractive to tourists, and certain cultural features appear to confer benefits that are highly valued by Pacific islanders. For example, respondents in Fiji pointed to the advantages associated with traditional sharing arrangements in the distribution of wealth. Traditional land tenure ensures that all family and clan members have access to land and related subsistence resources. Strong kinship bonds ensure that family members look after each other, and that a steady stream of external remittances continues to come from family members residing overseas. It is largely for these and related reasons that in the South Pacific generally, alien influences have tended to be treated with caution, and even resisted.

In at least two of the Pacific islands visited, we also heard views on the less attractive aspects of the traditional culture from the viewpoint of economic development. In Kiribati, a senior public servant complained about the demands of a family-oriented culture and how such demands made it impossible to save for purposes of starting a business. The common practice of decision making by consensus practised in many Pacific island communities, and even at national and regional levels, tends to undermine effective planning and mobilisation of effort. Customary forms of land tenure, while providing a measure of security, can blunt individual initiative and enterprise. Thus, while culture and tradition in the Pacific islands can provide a measure of security for the extended family or large landowning units, they can also blunt the incentive for risk taking, enterprise and hard work.

As in the past, the culture of both regions will continue to change in response to new challenges and pressures. Particularly for the Pacific islands, this process of evolution will, we must hope, provide solutions for some of the more negative aspects of culture such as those noted above. Nonetheless, there is scope for constructive public sector intervention in this process to ensure, first, that valued elements of traditional culture do not die from public lethargy and secondly, that cultural treasures in the form of song, dance, poetry and other creative and aesthetic expression of art forms are continually revitalised and enriched.

8.4 The environment

Overview

As small island entities with fragile ecosystems, the countries of both the Caribbean and the South Pacific have a vital interest in protecting and enhancing their natural environment and resources. This is essential not only from the viewpoint of protecting the health and wellbeing of the local population, but also for maintaining the natural resource base essential for sustainable growth. Over-exploitation of valuable or quasi-renewable resources can result in short-term gains but it can destroy the capacity to achieve longer-term sustainable growth. The need for an effective environmental protection policy has become all the more critical because of the growing pressure associated with population (and urbanisation) growth, and the insatiable demands of the modern economy.

There are many ways by which environmental degradation can undermine a country's potential to attain durable and sustainable growth. Poor sewage disposal and sanitation can adversely affect the productive capacity of the workforce. The degradation of marine and beach zones can undermine the potential for tourism. An indiscriminate exploitation of forestry, fisheries and other renewable and quasi-renewable resources can quickly exhaust what would otherwise be a valuable basis

for sustainable long-term growth. Persistent pollution of the water supply can be a major factor in discouraging tourists.

Existing environmental problems

Caribbean and Pacific island countries share many common environmental problems. These include those connected with the exploitation of marine and coastal resources, the disposal of liquid, toxic and solid wastes, lack of land-use planning, sanitation, and problems over the availability and quality of fresh water. They also face similar challenges over the need to develop appropriate environmental policies, to strengthen institutional structures at national and regional levels, as well as to develop adequate linkages with international agencies for purposes of accessing financial and technical support. The threat of rising sea levels due to global warming is also a common factor.

Although, in general, environmental degradation in the South Pacific has not reached critical proportions, major areas of concern do exist. These relate to overfishing in some cases (for example, Western Samoa) on near-shore reef and lagoon zones, a degree of over-exploitation of pelagic fisheries (by distant water fishing interests), serious lagoonal pollution in Vanuatu and Kiribati, and pollution of groundwater and waste disposal problems in Kiribati. Indiscriminate logging practices in Solomon Islands threaten to deplete the hardwood forestry resources of that country within eight to ten years.

Among Caribbean countries, including Barbados, Antigua and St Lucia, the most serious environmental issues relate to the degradation of marine and coastal resources. Pollution of coastal waters in commercial, port and resort areas is often very serious. Such pollution is caused in part by inland activities (for example, deforestation, use of chemicals) and in part by the dumping of untreated wastes and spillages from cruise ships, yachts, etc. Other common problems relate to poor sanitation and inadequate solid waste disposal systems. The absence of a modern sewerage system (for example, in Antigua, St Kitts and St Vincent) is also a difficulty, while sand mining activity is in some cases (for example, Antigua) threatening beach zones.

Establishing environmental national capacity

Considerable progress has been made in both regions to establish national environment agencies and to formulate national environmental strategies, usually with assistance from international and regional agencies. At the regional level, the Pacific islands have established a central coordinating body, the South Pacific Regional Environment Programme (SPREP), to assist member countries in this field.

Similarly, in the Caribbean, assistance at the regional level is provided by an environmental unit attached to CARICOM and by several other sources, including the UWI Centre of Environment and Development (UWICED), based in Jamaica, and the Caribbean Conservation Association (CCA) headquartered in Barbados. In both regions, valuable complementary assistance has been provided by international agencies such as the United Nations Environment Programme, the United Nations Development Programme and bilateral donors.

In both the Caribbean and Pacific island countries, the development of effective measures to deal with the environmental and resource problems, such as those noted above, is essential if the natural resource base is to be preserved and enhanced. An overriding requirement is a clear recognition of the close relationship between the environment and economic growth.

Particularly in the case of the Caribbean there would appear to be a strong case for strengthening regional mechanisms to provide technical assistance and to assist in the coordination of environmental work of member states. The experience of SPREP may be useful to the Caribbean in this regard.

For both regions, other key issues that must be addressed include stronger efforts to:

- promote a closer integration of environmental issues with development planning
- ensure environmental impact assessment (EIA) requirements are enforced in relation to major development projects
- strengthen national institutions dealing with the environment
- strengthen the legislative framework
- promote public education on environmental issues.

9 Savings, investment and foreign aid

The fairly strong growth recorded by many Caribbean countries over the last decade has been associated with relatively high levels of domestic investment and modest to high savings rates. Similarly high investment rates have taken place among Pacific island countries, but this has occurred against a backdrop of low savings and low to modest economic growth. With a few exceptions, foreign aid flows have been relatively high in both regions, while foreign direct investment flows have been significant in only a few Caribbean countries.

9.1 Savings and investment

Savings

In their ability to generate domestic savings, the Caribbean countries have performed much better than the Pacific island countries. The pattern of gross domestic savings among Caribbean countries is highly uneven but, as Table 9.1 shows, the savings rate (average for 1991–93) is relatively high in a number of cases, notably Antigua and Barbuda, and St Kitts and Nevis. The savings rate varies from a level of 10 per cent for Dominica and St Vincent and the Grenadines to 33 per cent for Antigua and Barbuda. The OECS average is a respectable 18 per cent.

The corresponding figures for the Pacific islands present a somewhat mixed picture, with only Fiji and Vanuatu recording moderately high savings rates. In the case of Kiribati and Western Samoa, the gross domestic savings rate is negative which implies that aggregate consumption (in GDP) exceeds GDP. The savings record for other Pacific islands is hardly better; for example, the gross domestic savings rate for Tonga and Solomon Islands (average over the 1987–91 period) came to –11 per cent and 6 per cent respectively.

The reasons for such low rates of savings are not easily explained but probably reflect such factors as low incomes and limited involvement in the formal economy for a large component of Pacific island populations. It also reflects high levels of personal consumption induced by high levels of foreign aid and, in some cases, personal transfers from overseas.

Most governments in the Pacific do not save but absorb the bulk of private domestic savings and external savings (which finance the deficit in the current account). Policies for enhancing domestic savings must recognise public sector savings as the critical component of domestic savings.

Investment activity

Investment activity in both Caribbean and Pacific island countries has been high, typically equal to between 30 per cent and 40 per cent of GDP (Table 9.1). The average for the OECS members is close to 32 per cent. Overall, this is an impressive achievement by any standard. In almost all cases, public sector investment has been dominant and especially so among Pacific island countries. In the case of Kiribati, Western Samoa and Vanuatu the public sector usually contributes around 80–90 per cent of total investment expenditure. The bulk of this investment is usually funded by external aid and is largely channelled into infrastructure and human resource development.

Resource gap

As Table 9.1 shows, in both the Caribbean countries and PICs, investment rates greatly exceed the rate of gross domestic savings. There are only three exceptions, namely Barbados and Antigua and Barbuda in the Caribbean and Fiji in the South Pacific, where there appears to be a rough equality between savings and investment. For the rest, this disparity, the so-called resource gap, is substantial. Among Caribbean countries, the resource gap varies from a level of 10 per cent of GDP to a high of 21 per cent. In the case of the PICs, the resource gap is more substantial, for example, it comes to 77 per cent of GDP in Kiribati and 57 per cent in Western Samoa. The consequence has been an unusually heavy dependence on external savings, in the form of foreign aid, net foreign invested income, and remittances and other personal transfers.

In one or two cases (for example, Kiribati), a heavy dependence on external savings coexists with a persistent outflow of capital funds via the banking system. The reason for this is the apparent paucity of viable investment projects in the domestic economy, which largely reflects a chronic shortage of entrepreneurial skill and experience.

Investment and economic growth

A key issue for Pacific island countries is how to translate high rates of investment into more satisfactory rates of economic growth. The relationship between investment and growth in these countries needs closer examination, but a major relevant factor is the fact that a large proportion of total investment has gone into infrastructure (roads, ports, buildings) whose impact on productive capacity and growth tends to occur over the long run. So long as public sector investments dominate in total investment, this effect is likely to continue, at least to some extent.

Table 9.1 GDP: gross domestic savings and gross domestic investment, 1991–93

Countries	GDP at current market prices 1993 (\$m)	Gross domestic savings as % of GDP (1991–93)	Gross domestic investment as % of GDP (1991–93)
Caribbean countries			
Barbados	3,061.1	15.9	13.5
Antigua and Barbuda	456.9	33.2	34.8
Dominica	196.3	10.2	31.3
St Kitts and Nevis	192.1	24.8	40.7
St Lucia	497.2	14.1	24.5
St Vincent and the Grenadines	242.2	10.7	27.2
OECS (total/average)	1,905.9	18.8	31.6
Pacific countries			
Fiji	1,647.0	13.2 ^a	13.2
Kiribati	38.0	-55.8	21.7
Vanuatu	187.0	13.6	43.6
Western Samoa	122.0	-14.0	42.0

Sources: Caribbean Development Bank 1994, pp. 13–14; World Bank 1995b, pp. 101–26

^a Gross national savings

Another issue relates to the efficiency of investments. Here, a relevant factor may relate to the absorptive capacity and the ability of Pacific island countries (Fiji excepted) to implement large public sector investment programs. Whatever the reasons, the challenge for these countries is to strive to make more effective use of their investment resources. (It may be noted that, in Vanuatu, the incremental capital output ratio for the period 1981–90 has been estimated at 12:1. This is equal to 3–4 times the average for developing countries. Such a high ratio probably applies to other PICs, with the possible exception of Fiji.)¹

1 The incremental capital-output ratio, or ICOR, is often used by economists as a measure of the productivity of capital (leaving out the effects of technological change and its productivity effects). Specifically, ICOR represents the increase in a country's capital stock, over a period of years, divided by the increase in the country's production capacity, expressed as output per year, during the same period.

Challenge for domestic savings

A greater effort to achieve higher rates of domestic savings (both public and private) also seems desirable. For many countries in both the Caribbean and South Pacific, the dependence on external savings appears to be excessive, a factor that, in some cases, contradicts declared aims of achieving greater self-reliance in the financial arena.

The need for greater domestic savings has also to be looked at in the light of an increasingly difficult international aid situation, a factor that is already a reality in both regions. Given such prospects, a greater effort to strengthen the domestic savings base is essential to maintain current levels of investment and productive capacity building.

9.2 Foreign direct investment

Foreign direct investment (FDI) can be a vital source of capital, technical know-how and managerial expertise. As such, it can contribute significantly to private sector development and, ultimately, to economic growth. The Caribbean countries, with a few exceptions, and in contrast to the Pacific island countries, have done reasonably well in this area. This has, undoubtedly, been a major factor underlying their relatively robust performance over the past decade. The role of FDI in the tourism sector has been particularly significant.

Caribbean capacity to attract FDI

While data on international private equity flows into Caribbean countries are fragmentary, the indications are that these countries have been able to attract relatively large amounts of FDI. This is certainly true of the smaller OECS members, notably Antigua and Barbuda, St Kitts and Nevis, St Lucia and Grenada. The available evidence (mainly from balance of payments sources) shows that the FDI (net) flows over the recent period have been in excess of 10 per cent of the GDP of each of these countries. Barbados has been the recipient of more modest FDI flows, but for several other countries, for example, Jamaica and Trinidad and Tobago, these flows have been substantial (around \$400 million for Jamaica in 1994, and \$450 million for Trinidad and Tobago in 1993).

For the smaller OECS members at least, virtually the whole of FDI has gone into tourism development. Indications are that, in several cases, notably St Vincent and the Grenadines, FDI in the tourism sector is likely to be substantial during the next few years. The World Bank observes that for high-performing OECS countries, which together with Belize achieved a growth of 3.0 per cent in per capita income, direct foreign investment per capita for 1990–1992 was \$351, compared with only \$35 in South Pacific countries (World Bank 1994, p. 8).

Lack of FDI in the Pacific

The flow of FDI (net) to the Pacific island countries has been no more than a trickle. The main exceptions are Fiji and, to a lesser extent, Vanuatu. In the case of Fiji, the net flow of FDI (as shown in the balance of payments) in 1993 was equal to 5 per cent of GDP. In both Fiji and Vanuatu much of these flows has gone into the development of tourist resorts and, for Fiji, into the garment industry. This overall situation is in marked contrast with the Caribbean and reflects perception of limited availability of bankable projects for the private sector, and possible imperfection in present investment policies and facilities for effectively servicing foreign investments.

Given the shortage of indigenous capital, we urge the Pacific countries to make a stronger effort to attract more FDI, especially of the kind that can help contribute to the development of priority productive sectors.

Key areas that need attention are efforts to:

- clarify foreign investment policies
- strengthen infrastructure
- promote more efficient systems for servicing foreign investment (for example, the establishment of 'one-stop shop' facilities)
- ensure social and political stability.

At the regional level, Pacific island countries need to consider steps to achieve a degree of harmonisation of investment incentive benefits so as to avoid a tendency to use these incentives as a tool for competing for FDI.

Such harmonisation could help avoid the granting of excessively liberal investment concessions, with potentially significant beneficial effects on national budgets not to mention private sector development overall. In this respect, we urge Pacific island countries to examine closely the experience of the Caribbean countries which, under the auspices of CARICOM, have succeeded in establishing a workable harmonisation scheme which provides some concessions to the smaller LDCs in recognition of their special needs.

9.3 Foreign aid

Overview

Foreign aid, or Official Development Assistance (ODA), has been a major element in the economic life of almost all Caribbean and Pacific island countries.

Particularly among the small countries, there has been a heavy dependence on foreign aid as a source of development funding. In the South Pacific, foreign aid typically amounts to as much as 20–30 per cent of GDP and, in some cases (such

as Kiribati, Vanuatu and Western Samoa), foreign aid over recent years has funded around 80–90 per cent of public sector capital investment programs. A major challenge for all these countries is to make effective use of such resources.

The total amount of aid received by Pacific islands varies greatly from country to country and, except for Fiji, is considerable on a per capita basis (Table 9.2). Per capita levels in several cases are close to \$1,000. Among Caribbean countries, aid per capita also varies widely, with aid dependence among several countries comparable to that in the Pacific region. Particularly high aid levels are experienced by the smaller countries, and this would appear to reflect the diseconomies of the aid process in situations of small populations. It also reflects the special development needs of small countries, in particular, multi-island countries, where many basic items of social and physical infrastructure (such as airports) have to be duplicated on outer islands.

Aid prospects are no longer as bright as they were a few years ago, for a variety of familiar reasons. In both regions, access to aid, particularly grant aid, has become more difficult, and once major donors such as the United Kingdom and the United States have already largely withdrawn from both the Caribbean and the South Pacific. Some Caribbean countries have graduated from access to some categories of aid because of relatively high-income levels. In the South Pacific, traditional donors such as Australia and New Zealand are not likely to raise their levels of assistance and, in fact, the reverse scenario is a real possibility. (To some extent, new donors such as Japan and Taiwan are bringing in additional resources to compensate to some degree.) The increasingly tight aid picture highlights the need to attend to how aid is being deployed and (as noted previously) to foster domestic savings.

Evaluating aid effectiveness

In the use of aid, it appears that the Caribbean countries have a good record, and it is apparent that such aid has played a valuable role in development, especially in the area of infrastructure and HRD. In this, the Caribbean countries have been fortunate in having at their disposal an adequate supply of skilled manpower to ensure a fair degree of efficiency in the implementation of aid projects. Also relevant is the fact that multilateral aid has tended to dominate in recent years and, inasmuch as such aid tends to involve a greater element of conditionality and monitoring by donor institutions, it tends to make for sound aid implementation and execution.

In evaluating the effectiveness of aid among Pacific island countries, several relevant factors have to be taken into account. For one thing, aid in the form of technical assistance figures far more prominently in aid programs to these countries than is the case with the Caribbean countries. Among a number of Pacific islands, technical assistance (including provision of overseas scholarships) takes up as much as 45 per cent of total aid. (In Fiji, Western Samoa and Vanuatu, technical

assistance programs account for around 50–55 per cent of total grant aid.) While recipients stand to gain considerably from the transfer of resources associated with technical assistance, the fact that the bulk of such assistance tends to be spent overseas (usually in the donor country), or paid to expatriates providing this assistance, may tend to diminish the value of such aid to the recipient country.

Other possible factors affecting the effectiveness with which aid has been used include limited absorptive capacity (with Fiji an exception) due essentially to paucity of skills, and the fact that a large proportion of aid has tended to be channelled into certain infrastructural areas (including public buildings and causeways) whose impact on growth is uncertain, at least over the short and medium terms. In the case of HRD, the effects might take a generation or so to appear.

Also relevant is the dominance of bilateral aid among Pacific island countries (that is, up to 80 per cent of total aid to Kiribati and Western Samoa) which, by comparison with multilateral aid, tends to involve a lesser element of conditionality and less strict monitoring by donors. For these and other reasons, any attempt to give a clear picture of how effectively aid has been deployed in the Pacific islands is far from easy. The issue has generated interest among South Pacific Forum members (both donors and recipients). The Forum Secretariat has proposed to undertake a project which will involve documenting cases of (in)effective uses of aid.

Challenges for the Pacific

Nonetheless, Pacific island countries can do much more to improve the development impact of external aid. The recent World Bank report (World Bank 1995b, p. v) on the economic situation of its Pacific member countries emphasises the need to change the content of aid and to link it more directly to overall development impact and greater improvement of public service delivery and growth. In this, aid programs would need to be better focused on getting coherent results, while the development impact of the very high technical assistance component of aid programs needs to be examined.

There is also some evidence to suggest that aid resources could be used more effectively by such measures as:

- improving aid administration and coordination by recipients
- giving greater weight to natural resource development in the allocation of aid funds
- ensuring that adequate support is given to worthwhile private sector projects in the aid process.

Table 9.2 Aid flows to Caribbean (1991) and Pacific island countries (1992)

Countries	Total (\$m)	Aid per capita (\$)
Caribbean countries, 1991		
Antigua and Barbuda	5.3	84
Barbados	14.9	57
Dominica	10.4	146
St Kitts and Nevis	5.1	124
St Lucia	21.1	155
St Vincent and the Grenadines	13.2	124
Grenada	10.2	108
Guyana	29.9	114
Jamaica	37.7	15
Trinidad and Tobago	3.0	2
(Total LDCs) ^a	(72.2)	(141)
Pacific countries, 1992		
Fiji	63.4	85.7
Kiribati	26.8	362.2
Vanuatu	40.6	260.3
Western Samoa	49.9	297.0
Cook Islands	17.2	955.6
Solomon Islands	45.0	134.0
Tonga	24.1	238.6
Tuvalu	8.4	933.3

Sources: CDB Statistical Unit; National Centre for Development Studies (ANU); *Pacific Economic Bulletin*, vol. 9, no. 2, 1994, p. 62; World Bank 1995b, p. 3; Fairbairn Pacific Consultants & Kolone Vaai & Associates 1994, various appendix tables

^a The LDCs (less developed countries) of CARICOM comprise the six smaller countries of the OECS plus Belize (see p. 9, par. 2).

10 Comparative advantage

Overview

The small island nations of the Caribbean and the South Pacific have always been export oriented. The problem they face is to redefine their sources of competitive advantage in a changing world. They must cope with changes in old established trade relationships and agreements, changes in the technologies and organisation of production and trade (most recently because of innovations in transport and telecommunications), and the emergence of competition from emerging areas. In addition new products and services are being developed, there is less regulation of trade by governments and more regulation by multinational firms using intra-company transfers, there is greater volatility of prices and interest rates, and greater capital mobility.

Even though efforts continue to identify comparative advantage for PICs and the Caribbean, using domestic resource costs, the experiences of East Asia (including Japan) suggest this is a limiting methodology. It assumes current technologies are unchanged, and that there are no new products, no product differentiation, no changes in market preferences, and no gains in labour productivity. In short, it ignores many of the most effective and necessary avenues and policies for achieving and improving competitiveness. Despite the heading of this section, therefore, the analysis is of competitiveness rather than of comparative advantage.

For the South Pacific and the Caribbean it is not, as for Latin America, India and some African countries, a matter of reversing an import substituting strategy in favour of trade liberalisation and other policies of export orientation. Unlike large LDCs, small islands never achieved import substituting industrialisation of any significance, even in those countries which were sufficiently misguided to have attempted it. With a limited resource base and tiny domestic markets the range of production techniques was so limited, and the imported inputs required so large that it was impossible to substitute for imports, as may be seen from an examination of the import ratios. Countries may abandon the rhetoric of import substitution for the rhetoric of export orientation and enthusiastically lower their tariffs, but they should not expect any growth of output and exports as a result.

Threats to market share

Although the Caribbean and the South Pacific have always been export oriented they are losing market share, or are threatened by loss of market share because of one or more of the factors mentioned in the first paragraph. The end of the EU's

sugar protocol is expected when Lomé IV ends in 2002; copra prices are below remunerative levels, and farmers in both regions are going out of production; in light manufacturing and agro-processing there is intense competition from low-cost producers such as Bangladesh and China. In the Caribbean tourism market there have been new entrants with vast capacity for mass tourism such as Cancun in Mexico, the Dominican Republic and the cruise ship industry. Australia, New Zealand and North America are in the process of widening access to their markets, reducing and eliminating the advantages enjoyed by the South Pacific and the Caribbean.

New opportunities

The changes in the world trading environment do create new opportunities for small islands. Business services, information services and other services are newly tradeable because of the revolution in telecommunications. Tourism has become a worldwide industry because of the development of long haul jets, and remoteness is not an insuperable barrier if the volume of traffic justifies the use of these aircraft. New technologies such as computers may be incorporated into products and services to improve productivity, create new market niches and build product loyalty. New techniques have widened the possibilities for sharing production among widely dispersed countries.

Issues in improving productivity

It seems to be appreciated in both the South Pacific and the Caribbean that every opportunity should be taken to improve productivity in exports of goods and services which have proved to be reliable sources of foreign exchange. In some cases — sugar and bananas, for example — this is seen as a way station to diversification into other activities. However, more perceptive analysts recognise that the competitive challenges are very similar in alternative lines of activity: larger countries with cheap labour are vying for market share, established companies are using market power and non-price competition to defend their market share, and these non-traditional exports are also changing because of the impact of new technologies.

Small islands are at a greater disadvantage in new products than in traditional lines: the competitive challenges are similar, the islands already have a wealth of technical and other expertise in traditional exports, the learning process in new markets is expensive and new entrants can expect to meet aggressive efforts to keep them out by those who are already established. We should therefore not expect those who have failed in traditional exports to succeed in non-traditional. Rather, the successful companies whose adaptability has enabled them to cope profitably with the challenges to traditional exports are the best candidates for success in non-traditional lines.

With respect to wages and labour productivity, there are two central questions. Have increases in labour productivity improved international competitiveness in the Caribbean and the South Pacific? And have wage increases eroded actual or potential competitive gains? We found no empirical evidence on this subject for the South Pacific. It is not possible to draw conclusions from the empirical literature for the Caribbean because the available studies have not focused on these questions. In two papers on Barbados (Downes & Leon 1994; Downes, Holder & Leon 1990) the authors explored the relationship between labour productivity, inflation and wages, but they make no reference to foreign inflation. Further work to establish the relationship of local to international inflation is needed to draw conclusions about competitiveness. In a paper on Jamaica, Hamilton (1994) focuses on factors affecting productivity, but does not deal with the effects of productivity changes on prices. The World Bank (1994, p. 16) records total factor productivity increases for 15 Caribbean countries at 2.1 per cent per annum for the period of 1979–90.

Nevertheless, it is generally accepted in the Caribbean and the South Pacific that increasing labour productivity is the key to improved competitiveness. This is reflected in the strategy documents of several countries, in budget speeches and in other official statements. Barbados has set up a National Productivity Board specifically to accelerate increases in productivity. It is also recognised that changes in wages may erode gains from labour productivity, and there are frequent cautions about the need for wage restraint. Productivity improvements do not necessarily result in lower selling prices. More often the target is improved quality and greater product diversity.

Efforts to improve competitiveness

The South Pacific has had mixed results in rising to the competitive challenge. There has been some modernisation in the Fiji sugar industry, but further developments are stalled because of unresolved land issues. Copra production has collapsed in Western Samoa and dwindled in Kiribati. Western Samoa switched from copra exporting to the production of coconut cream and coconut oil, while Kiribati has embarked on a rehabilitation program, which is yet to produce a sustained recovery. Significant expansion in export manufacturing in Fiji in the late 1980s and early 1990s now seems to have come to an end. There is promising growth of tourism in Fiji, Vanuatu and Western Samoa. There have been only a handful of successful non-traditional export ventures, Tonga's squash exports being by far the most significant example. There has been a poor record of attempts to develop fisheries in PICs, despite the potential and the extent of exploitation of these countries' fisheries by distant water nations.

The Caribbean has also had successes and failures. Like Fiji, Barbados has begun the modernisation of sugar, but is only in the early stages of a multi-year rehabilitation plan. There has been significant improvement in banana quality in recent years, and programs are being launched to raise farmers' productivity.

Associated with this are programs for diversification into other agriculture. However, if the results are to be better than the mediocre showing of earlier programs, sophisticated, reliable marketing systems must be put in place. There has been imaginative niche marketing in tourism — festivals such as the Antigua Sailing Week, the St Lucia Jazz Festival and Barbados's Crop Over Festival, and new investment in up-market properties in Barbados, St Lucia and St Vincent and the Grenadines.

But there are several underfunded projects of long standing which are yet to get off the drawing board. Some major investments seem to have been poorly conceived, and there are doubts that some projects will ever yield an adequate return. A few well-financed, well-run manufacturing and agro-processing firms have risen to the challenge of exporting, but many more have folded. Extra-regional exports of processed food are still very low. Only one country visited (Barbados) and five others in the Caribbean (Bahamas, Bermuda, Cayman Islands, Jamaica and the Turks Islands) have developed much of an export of business, financial, information or other traded services.

Key areas for increasing growth

We saw signs that the Caribbean and South Pacific countries may be successful with export-led growth strategies if they draw carefully on experience to date.

They need to rebuild their competitive position in traditional exports by technical innovation, new organisation, new marketing strategies and new alliances in target markets. They should continue to insist on finance and technical assistance for the transition to 'open' markets (in reality, markets largely controlled by dominant international trading and finance companies). They should insist on adequate periods for transition, effective safeguard measures against predatory and defensive market strategies for products and services they wish to produce, adequate monitoring of trade agreements and provisions for compensation for injury.

The two regions must select among the large number of diversification options a few for strategic intensive attention by the export promotion agencies, the investment promotion agencies, and the development finance institutions. This should be done jointly by government and the private sector. Studies are available to inform the selection. There should be effective oversight of the export strategy by a high level private-public sector body.

11 Regionalism and economic growth

Need for regionalism

Individually, small island economies of the South Pacific and the Caribbean do not command the range of information and skills needed for success in production for the international market. Even the best endowed have strengths in some areas and weaknesses in others. The requisite skills must reside with government as well as the private sector. Regional institutions, companies and organisations are needed to pool human resources so as to make available a wider range of skills, achieve synergies from the interaction of individuals within each profession, and attract and retain highly skilled personnel for whom a single country might not afford sufficient challenge or scope. It is not a coincidence that the most successful Caribbean exporters operate from several countries and draw their staff from around the region. The contrast in performance, influence and reputation of the Caribbean Development Bank and the national development banks of CARICOM countries could not be more instructive.

Regional cooperation helps to secure a more favourable international climate for the external economic and political relationships of the Caribbean and the South Pacific. The evolution of world trade, finance and other economic relationships, and of regional and sub-regional arrangements, is largely dictated by the interests of the most powerful and largest nations. However, there is scope for skilful and knowledgeable negotiators to shape many details in ways that will most benefit the Caribbean and the South Pacific.

That requires these regions, through their regional organisations, to be proactive in negotiations, borrowing and adapting precedent from elsewhere, seeking support from sympathisers in powerful nations, proffering clauses and amendments to treaty proposals, and, above all, backing up the regions' stance with a wealth of data and analysis. Seldom has either region done this well in international negotiations, but the best outcomes have been as a result of cooperative effort, drawing on talent from several member countries (for example, the original Lomé Accord, the Windward Islands Banana Co and its successor).

Advantages of regional approach

Economies of scale

By operating regionally firms gain economies of scale and broaden the scope of their knowledge. The national commercial banks of the OECS have recently

demonstrated the practical benefit of such cooperation with the introduction of their joint Visa Card, serviced out of a company set up for the purpose in St Kitts. Regional companies benefit from having a single location for strategic functions such as planning, marketing, financial control, and possibly purchasing, shipping and inventory control. There are considerable economies to be had. Also, regionalism gives a better appreciation of the overall market, and the nature of competitive challenges, leading to a better informed strategy, and more alert responses to market shifts. Regional operation offers valuable experience in multi-currency cash management and teaches about practical, unexpected hurdles in trade, transport and capital movement.

Technology and knowledge diffusion

Regional companies, institutions and organisations are vital for the diffusion of knowledge and technology. The regional universities are the most obvious vehicles for this diffusion, and they have had a decided impact, even though underfunding of research and research institutes inhibits the process. It is well known that technological diffusion takes place most often within firms; it is not surprising that firms with a presence in several countries are often, but not invariably, leaders in the use of new products, organisation and technology. The variety and persistence of regional voluntary and professional associations such as church organisations, associations of lawyers, bankers, insurance executives, secretaries, medical personnel, and many others, attests to the need for group efforts to stay abreast of knowledge in each field, and to pool human and financial resources in pursuit of common goals.

Joint marketing

In the Caribbean it is recognised that joint export marketing is a vital complement to the efforts of countries and firms. The regions need to build a high profile in international markets. Countries and firms may then build on that foundation to emphasise their unique features, and appeal to segments of the market.

CTO and CEDP are the principal organisations set up for this purpose. Both are extremely underfunded and understaffed for the task ahead. The South Pacific has begun moves in the direction of export promotion, but mainly as a service to national governments, rather than as an initiative for the region as a whole.

Currency advantages

The OECS region demonstrates the advantage of a common currency for small countries. It saves on the cost of foreign exchange transactions: a transaction between Barbados and St Vincent, which are 100 miles away from each other, involves commissions and charges on foreign exchange, making it much more costly than a transaction between St Kitts and St Vincent, about 300 miles apart, which are both members of the ECCB currency area. The common currency offers greater insurance against foreign exchange crises, since the larger area has a more diversified production base. A jointly owned central bank facilitates prudent fiscal

management, since it is very much more difficult for any government to force the central bank to provide excessive deficit finance.

Administrative savings

Regional arrangements may represent a saving of administrative costs, most obviously in overseas representation, an option more frequently taken up by PICs than by the Caribbean. In the case of the East Caribbean Drug Service, much quoted as a notable success of regional cooperation, the other spin-offs are even more important than the cost saving, significant though that may be. The joint arrangement has provided quality assurance, improved the creditworthiness of the purchasers and provided faster delivery, developed the professional association of purchasing officers, and provided a vehicle for ongoing education of health professionals in pharmaceutical use.

Commitment to economic stability

The determination to form a single market is evidence of commitment to policies for economic stability. CARICOM has set down a number of criteria for countries to qualify for membership in its proposed monetary union. They require commitment to policies that will achieve growth with low inflation, a stable market-driven exchange rate, and modest external borrowing. The CCCBG has established a monitoring system for indicators of economic policy and performance, with reports twice per year on progress towards the common goal of growth with stability.

12 Conclusions and recommendations

Comparative overview

The CARICOM countries are more economically developed than the South Pacific Forum countries, by any measure, even after allowing for the poor performers in CARICOM, as well as the fact that there is a range from good to poor performance in both regions, and the possibility that subsistence production is underestimated. The conclusion is unaffected when one takes account of the purchasing power of income, income distribution, the environment, cultural preferences and gender issues.

Many of the reasons for the Caribbean's development are historical. The Caribbean had an earlier start than did the South Pacific in human resource development, the building of modern infrastructure, and industrial organisation. (The sugar industry based on plantations was one of the earliest forms of industrial organisation.) The Caribbean has a longer history of self government with universal adult suffrage, from the 1950s in most cases. There is a long history of external contact through migration, remittances, correspondence and return migration. (The Caribbean has been characterised as a nation of migrants, since the indigenous population is less than 1 per cent of the total.)

The South Pacific is more remote and the islands more dispersed. This increases the cost of delivery of public utilities and public services and transport. It combines with the region's late development to present a formidable problem of accessing international markets for goods, tourism and other services. To do this from a remote location with little previous connection to the international market is very costly.

Part of the reason the South Pacific's per capita income is rising more slowly than that of the Caribbean is the former's higher rate of population increase. However, while in no sense wishing to encourage complacency, we believe it is also the case that the groundwork has been laid for more rapid growth in the future, and the next generation may see the hoped-for spurt in the growth rate. While no grounds for complacency exist, there has been considerable investment in human resources and infrastructure in the past decade. This establishes the foundation for future growth, and we expect to see the results flower in the generation following that in which the investment is made.

The South Pacific cannot replicate the Caribbean's development experience. That is precluded by differences in history, geography, culture and political experience. The world trade and financial environments have changed dramatically in recent

years and the attitudes of the South Pacific's big neighbours are different from those of the United States with respect to the Caribbean.

We suggest that both the Caribbean and the South Pacific can learn from the successful institutions and policies we have highlighted in both regions. Importantly, contacts should be established between the two regions, following the example of this study, for the development of mutual interests, building on the fragile contacts already established.

Recommendations for Pacific island governments

(1) ***Maintain macroeconomic policies to ensure economic stability***

At the national level, experiences in both regions and elsewhere reinforce the importance of fiscal, monetary and exchange rate policies that provide for economic stability. Low fiscal deficits, stable market-driven exchange rates, low inflation and moderate external indebtedness provide a healthy attractive climate for forward looking investment. Social and political tranquillity are highly valued, along with efficient public administration. We also wish to stress the importance of measures directed at enhancing competitiveness, encouraging greater private sector initiatives and investment, and fostering domestic savings particularly by the public sector.

(2) ***Take measures to stimulate the growth of the indigenous private sector — in particular, by means of venture capital funds and national development foundations***

Measures to encourage the growth of the indigenous private sector should be given high priority in both regions, and particularly in the South Pacific, where there is a dearth of indigenous firms at the regional level and, in some countries, at the national level. In the Caribbean regional firms are taking the lead in tourism and financial services, whereas in the South Pacific liberalisation measures sometimes fail to have an effect because of the weakness of the private sector.

National development foundations may play a large role in the emergence of enterprise, inspired by boards of directors drawn from successful banks and businesses. A venture capital company might be a useful vehicle for encouraging the growth of private enterprise in the South Pacific, especially for firms wishing to establish investment links across the region.

(3) ***Establish working mechanisms for private–public sector collaboration on economic strategy***

Interviews in both regions emphasised the importance of effective collaboration between government and the private sector in the development of economic strategy and monitoring of economic performance. Government and the private sector must agree jointly on the economic strategy because

difficult choices have to be made about export competitiveness and target markets, involving firms as investors and government as facilitator. The strategy should be reviewed at the highest level, so that flexible responses can be agreed and implemented if there is any change in economic circumstances.

(4) ***Establish high-powered regional investment promotion and export marketing facilities***

Joint regional investment promotion and export marketing are to be recommended as a necessary complement to national export strategies. The joint approach spreads the overheads of establishing a strong presence in target markets, and acquiring the market knowledge and strategic alliances that are necessary for success. With that background national and firm level marketing strategies are more effective. It is desirable to have private sector involvement in the directorship of the regional promotion agencies.

The regional export and investment agency — it may be desirable to maintain separate agencies for tourism and other exports, as in the Caribbean — brings with it a number of externalities: quality control, training, a data and information centre, technology transfer and synergies from the interaction of major exporters. The Caribbean needs to boost funding for its export agencies by an order of magnitude; the South Pacific should develop its fledgling efforts into powerful, full-blown institutions.

(5) ***Revisit the idea of a regional finance institution, especially to support the growth of private firms that are regional in scope***

Pacific island countries may wish to take another look at a regional finance institution. Among the benefits it might provide is an element of self-help in Pacific regional development. PICs would need to contribute some part of the institution's capital and they should have a majority of the equity to ensure regional proprietorship.

The institution would order development financing according to regionally determined priorities. Its joint ownership would provide some insurance against non-commercial pressures and practices, which have undermined the performance of national development banks everywhere. This would be an exercise in collective self-discipline, and would carry more conviction than discipline imposed from a distance, by outsiders.

The regional finance institution would be a source of guidance, technical assistance and advice for national development institutions, and could supply expertise and troubleshooting services on request. It would be a training resource for all the institutions involved in investment financing. Apart from its training programs it could recruit top executives from the pool of talent at the regional centre. It would be a collective voice for the region in interactions with the multinational financial institutions.

Such an institution would not be a copy of the Caribbean Development Bank, to re-emphasise the point made earlier about the different circumstances of today's world. A regional investment finance institution for the PICs should focus on private sector investment, though it might be necessary to support this with specific projects for skills enhancement and targeted infrastructure.

(6) *Take steps to set up an examinations council that has comprehensive regional coverage*

There are strong cases for the establishment of a South Pacific regional examinations council with wide coverage for secondary school certification. This would provide a firmer basis for assessing qualifications for entrance to tertiary-level education, and make it possible to design examinations that have greater relevance for the Pacific islands. Such a council would expedite the development of curricula and teaching materials. As well, the regional textbook market will be sufficiently remunerative to stimulate the production of texts, which often have wide appeal, thus encouraging the growth of regional publishing in general.

(7) *Investigate the possibility of a regional drug service*

This could result in considerable cost savings to national health budgets and improve quality standards in the provision of medical products and related services. The benefits also include achieving a critical mass to encourage support services, faster dissemination of new ideas, and the development of a community of professionals.

(8) *Establish a powerful regional information centre at the South Pacific Forum Secretariat*

Both regions need to strengthen the facilities at their central secretariats for collecting, storing and disseminating a wide range of data, reports, studies, official records and other basic materials and information on the regions and their member countries. This information needs to be readily available to the public through publications that appear regularly on a timely schedule, regular press releases, and facilities for queries by phone, fax, computer or mail. Information should be accurate and up to date, and catalogued so that it may be searched for relevant items.

Both regions should also consider less parsimonious funding for research institutes of the UWI and USP, which provide much of the insight into Caribbean and South Pacific conditions, and help to diffuse knowledge.

(9) *Establish links between corresponding organisations in the Caribbean and the South Pacific*

Every effort should be made to strengthen links between corresponding regional organisations in the Caribbean and the South Pacific. This study has only begun to explore the possibilities of cross-fertilisation to the benefit of

both regions. Our discussions indicated that the two regions might usefully explore further collaboration in the following areas, among others.

Distance education

Both UWI and USP have an interest in distance education, an area in which USP has hitherto been bolder than UWI. The universities together may be able to develop systems and software that both may use.

Agricultural research

A small beginning has been made in collaboration in agricultural research, another promising area.

Environmental collaboration

The SIDSNET, formed in the wake of the Barbados conference, provides for further contact on environmental matters.

Common economic interests

There is room for the university-based research institutions of the two regions, in collaboration with research institutions on the respective mainlands, to further the investigation of appropriate policies and systems for island economies and to conduct comparative studies on issues of mutual interest, such as women in development.

(10) *Re-examine the feasibility and benefits of an economic union*

The South Pacific countries may wish to reopen the issue of economic union, a question this study was not asked to explore. There is a worldwide trend towards regional economic integration, and PICs will inevitably be lumped together by the rest of the world.

These countries do share a common goal, as do CARICOM countries: steady, sustainable growth with economic stability. They are pursuing it by similar paths. Why not take advantage of the savings and synergies from joint action? Wouldn't it be a major convenience to have the national currencies accepted anywhere in the region? (That would avoid currency unification, creation of new currencies or other monetary innovation, which we do not recommend.) These issues have been extensively discussed in the Caribbean, and dialogue with a region having rather different perspectives but similar challenges could be instructive.

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Appendix 1

The modernisation of Caribbean culture

While Caribbean countries do suffer tensions between modernisation and traditional cultural values, development in the Caribbean has been characterised by remarkable creativity and resurgence of indigenous culture, especially in literature, music, festival arts and food preparation. Caribbean talent has built on traditional cultural forms, blending with imports from a variety of neighbouring countries, to create new, exciting works and spectacle that appeal to modern lifestyles. The conflict between indigenous culture and development is alleviated by injecting Caribbean content into modern lifestyles.

The received Caribbean culture, shared by blacks, whites, mulattos and some but not all East Indians, is a blend of African and European, with, in Guyana and Trinidad–Tobago, an element of the East Indian, and in Guyana, of the Amerindian as well. It is reflected in story telling (the *anansi* stories, whose main protagonist is the wily spider), religious observance (the spiritualist/charismatic/evangelical tendency, to be found in every Christian denomination in the Caribbean), preferred habits of cooking (using corn, cassava, sweet potato), folklore, music, speech patterns and vocabulary.

In the postwar period Caribbean inventiveness has transformed this heritage into a vibrant modern guise that sits well with contemporary lifestyles. While some manifestations of tradition are dying, new derivatives are evolving out of the same roots. They have a life of their own because of their immense popularity with the Caribbean public, particularly the upcoming generation. Their appeal is strong enough to reach beyond the Caribbean, to North America, Europe and further afield.

The best known example of Caribbean cultural dynamism is the popular music known as reggae, developed in Jamaica. The music takes its character from the Jamaican religious tradition, from the spiritualists of the *kumina* persuasion, but it borrows heavily from American popular music of the 1960s. That music has its roots in the black American South, which has a close affinity with the Caribbean because of a shared African background. Reggae and its newer derivatives are enormously successful in the Caribbean, and are influential in North America and Europe; they have a strong following in Japan, and are known worldwide. In Port Vila the authors heard the local string band play the melodies of the legendary reggae superstar, the late Honourable Robert Nesta ‘Bob’ Marley, OJ (Order of Jamaica).

Much earlier than reggae the social commentaries (in song) known as *calypso* gained a wide audience. The calypso originated in Trinidad, as an integral part of the pre-Lenten carnival. It overlaid the rhythms of Africa with melodies in a Latin tradition, borrowed from neighbouring Venezuela. (In Trinidad, Spanish language melodies called *parang* are still a Christmas tradition.) Calypso was popularised in the inter-war years, when American recording companies such as Decca signed Trinidadian artists to record for the North American audience. Calypso has remained popular in the Caribbean and with aficionados worldwide, though it has not had the same acceptance as reggae. (The Montserrat calypsonian known as 'Arrow' is the only one to have had over one million sales of a record.) The music of calypso has evolved from the early form known as *kalinda* to the more danceable songs of Slinger Francisco, 'The Mighty Sparrow', with a beautiful blend of message and melody, to the frenetic new sound of *soca*, the soul-calypso.

The most visually spectacular form of Caribbean cultural expression, and the one that is growing most rapidly, is the tradition of festival arts. Workers on plantations throughout the Caribbean developed forms of celebration that were remarkably similar, for the end of the sugar harvest, at Christmas time, and for other major celebrations. Deeply rooted in the African sensibility — especially in dance — they borrowed many European forms, some with elaborate parody. There was always fancy dressing, but costumes had to be made on the cheap, of cast-offs (Aunt Sallies, men dressed as big bosomed, big bottomed women, wearing discarded dresses), rags (the *pitchy patchy*) or natural materials (Jack-in-the-Green, dressed in coconut fronds, and *moko jumbies* the stiltmen of Trinidad and Tobago). In little groups, accompanied by flute and drums, maybe a guitar (or the smaller version known as a *quatro*) they took to the streets at festival time. The wealthy and privileged sometimes looked on in envy of the obvious enjoyment, sometimes imitating their vassals.

Out of this tradition has grown, in the postwar period, an explosion of creativity in festival arts. The tradition of the street festival is quite common, but the Caribbean version, which has spread outwards from Trinidad, has special appeal, attested by its growing popularity. The street 'parade' (actually a moving dance party) of hundreds of costumed masqueraders following behind huge sound systems pouring out rhythms for dancing, is the culmination of weeks of celebration, with dancing parties (known as 'fetes'), contests for music and calypso, and a variety of associated events. Carnival celebrations of this kind have been exported most notably to London, Brooklyn and Toronto, with smaller versions in scores of cities in North America and Europe. There is a complete calendar of Caribbean festivals, beginning with the Trinidad carnival, a truly national event, and ending with the Bahamas' *Junkanoo* early on Boxing Day. The spread of these festivals, their historical roots and their linkages to related festivals such as New Orleans's famed Mardi Gras are explored, with beautiful illustrations, in *Caribbean Festival Arts*.

The Caribbean is very proud of the steel band, an orchestra playing instruments made from discarded oil drums. It was invented in Trinidad, where the oil drum was at first used as a rhythm instrument, giving only a single tone. It was discovered that by heating the drum and sectioning the bottom surface, different notes could be created. Steel bands have now become extremely popular. They are an integral part of the Trinidad–Tobago carnival and of most other Caribbean festivals, and they are to be found in progressive jazz bands in North America. Steel orchestras more than a hundred strong have toured major industrial capitals, steel bands are a favourite of the tourist industry, and the instrument is now being used in musical instruction in schools in the Caribbean and elsewhere.

The Caribbean's early development of high educational standards is reflected in a flowering of literature in the postwar period. There were important literary works in the interwar years: the classics of Trinidadian C.L.R. James, and notable contributions to the Harlem Renaissance in New York City. But the great flowering of Caribbean literature occurred in the 1950s and 1960s, largely but not exclusively from the pens of émigrés to London. The names of foremost Caribbean writers such as V. S. Naipaul and Edgar Mittleholzer became household in English literary circles, and others such as the poet Kamau Brathwaite gained a formidable reputation among cognoscenti. The Caribbean's literary achievement was capped by the award of the Nobel prize for literature to the St Lucian poet and playwright Derek Walcott.

Caribbean painters have made a name for themselves. The most famed are the naive painters of Haiti, who number in the hundreds, many of great talent and all of unique mystical vision. Their works are known worldwide. Artistic talent has flowered in the English-speaking Caribbean, albeit in less extravagant fashion. As with the Haitians, the most striking images are those of the naive artists, but painters, sculptors and craftsmen work in many different idioms, all with a vision born of the Caribbean landscape and with a Caribbean sensibility.

Caribbean prowess in sports has contributed to the region's sense of identity, though the games themselves are imported. The English Caribbean's long dominance of international cricket, now unhappily and emphatically ended, was a source of great pride and national self-worth. The towering Caribbean intellectual C. L. R. James long ago recognised that cricket was much more than a game: one of his classics is entitled *Beyond a Boundary*. Very recently the history of cricket was introduced as a course offering at the University of the West Indies. The Caribbean has also shown exceptional prowess in athletics. The Cubans are far and away the most outstanding, an Olympic force on their own, but Jamaica and Trinidad–Tobago have produced world champion sprinters.

In many other aspects of life the Caribbean searches for a place in the modern firmament, so that as lifestyles evolve they incorporate elements with which the Caribbean is familiar and practices with which Caribbean peoples are comfortable. Caribbean people are fiercely attached to their spicy cuisine, with its ingenious use

of once-scarce protein, creative preparation of starches and delightful condiments, liqueurs and sweets. All are now available throughout the region and in major urban centres in North America and Europe, and they have attracted a small but enthusiastic following. Caribbean storytelling traditions have been given new vitality by talented folk poets. Indigenous dance, drama and TV productions have demonstrated creativity and popular appeal, but in these areas the offerings are predominantly non-Caribbean.

An active media has contributed to the success of the Caribbean cultural upsurge, covering major events, popularising music and spectacle, critiquing creative offerings with some sophistication. In Jamaica there is a School of Arts of long standing, and the University of the West Indies has established a tradition in the creative arts. Periodic festivals of Caribbean creative arts enable artists to share inspiration. Five have been held since the inaugural in Guyana in 1972.

Caribbean creative arts and culture have been an economic success in the most vibrant areas. Leading musicians and artists can make a living for themselves and serve as role models. This has muted the conflict between culture and modernisation. The new culture is not entirely imported: it is reggae as well as American pop, steel band as well as synthesiser, *jerk* chicken as well as Kentucky Fried, cricket as well as basketball, Naipaul as well as Michener. To a greater or lesser degree most Caribbean people have found a comfortable space in the brave new world of the 1990s.

Appendix 2

List of persons consulted

Pacific region

Fiji (Suva)

South Pacific Forum Secretariat:

Hon. Ieremia Tabai GCMG	Secretary-General
Dr William Sutherland	Deputy Secretary-General, Policy and Services
Nikenike Vurobaravu	Deputy Secretary-General, Programs
Dick Goldberg	Director, Energy Division
Andrew Needs	Director, Economic Development Division
Edgar Cocker	Project Officer (Marketing), Trade and Investment Division
Dr Julie Delforce	Economic Adviser, Economic Development Division
Iulai Lavea Loia	Economic Planning Officer, Economic Development Division

Others:

Peter Hooton	Charge d'Affairs, a.i. Australian Embassy
Parmesh Chand	Deputy Director, Fiji Trade and Investment Board
Robert Delforce	Chief Economist, Ministry of Agriculture and Fisheries
Daniel Elisha	Managing Director, Elisha Engineering Co. Ltd (Ba)
Parvis C. Fartash	Assistant Resident Representative, UNDP
Prof David Forsyth	Department of Economics, USP
P. J. (Paul) Friend	Chief Manager, Westpac, Pacific Islands Region
Filimone Jitoko	Secretary to the Cabinet, Prime Minister's Department
Amsat V. Jogia	Deputy Governor, Reserve Bank of Fiji

Peni Kunatuba	Deputy Secretary (Operations), Ministry of Agriculture and Fisheries
Nilima Lal	Statistician (National Income), Department of Statistics
Umarji Musa	General Manager (Operations), Fiji Development Bank
Amraiya Naidu	Permanent Secretary, Ministry of Education, Women, Culture, Science and Technology
Anita Nair	Deputy Director, Central Planning Office
Dr Waden L. Narsi	Director, Division of Planning and Development, USP
Savenaca Narube	General Manager (Policy), Reserve Bank of Fiji
Hari Ram	Director, Institute of Social and Administrative Studies, USP
Sadia S. Reddy	General Manager (Financial Institutions), Reserve Bank of Fiji
Roberto Rensi	Economic Adviser, Delegation of the European Commission for the Pacific
John Rofeta	Regional Economist, UNDP
Samisoni T. Sawailau	Senior Administrative Officer (Tourism Research), Ministry of Tourism
Mose Satala	Program Officer, UNDP
Felipo Tokalau	Economic Planning Officer, Ministry of Agriculture and Fisheries
Lata Yaqona	Marketing Officer, Tourism Council of the South Pacific

Kiribati

Hon. Teburoro Tito	President, Republic of Kiribati
H. E. Mr Stewart Brooks	Australian High Commissioner
Makurita Baaro	Secretary of Foreign Affairs, Ministry of Foreign Affairs
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Caribbean region

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Appendix 3

Principal regional organisations

South Pacific region

Government

Forum Fisheries Agency (FFA)

Established to assist member countries with the conservation and optimum use of the living marine resources of their exclusive economic zones. Headquartered in Honiara.

Pacific Islands Development Program (PIDP)

Established to meet the special development needs of the South Pacific through research, education and training. Located at the East–West Center in Honolulu.

South Pacific Applied Geoscience Commission (SOPAC)

Responsible for the management of non-living resources of coastal and offshore areas. Headquartered in Suva.

South Pacific Commission (SPC)

Provides technical advice, training, assistance and dissemination of information in social, economic and cultural fields. Membership consists of independent and non-independent countries of the region as well as a number of metropolitan powers. Headquartered in Noumea.

South Pacific Forum Secretariat SPFS/FORSEC

The permanent secretariat of the South Pacific Forum, headquartered in Suva. The Forum is a political body comprising the Heads of Government of independent and self-governing countries of the South Pacific. It meets annually.

South Pacific Regional Environment Programme (SPREP)

The regional environmental program for its 22 member countries. Located in Apia.

Tourism Council of the South Pacific (TCSP)

A joint government/private tourism promotion organisation. Located in Suva.

University of the South Pacific (USP)

The South Pacific regional university, established for the independent and self-governing countries of the region. Campuses in Suva and Apia, centres in other countries.

All the above organisations are members of the South Pacific Organisations Coordinating Committee (SPOCC), a grouping of regional organisations established to avoid duplication.

Other organisations mentioned in the text

Pacific Forum Line (PFL)

A shipping line whose shareholders are the governments of a number of Pacific island countries.

Pacific Islands Association of Chambers of Commerce (PIACC)

The major organ of the private sector in the South Pacific. It ceased to operate in 1991.

Pacific Islands Association of Non-government Organisations (PIANGO)

The umbrella organisation linking South Pacific NGOs.

South Pacific Board for Educational Assessment (SPBEA)

The common examinations council for the South Pacific.

South Pacific Oceanic Council of Trade Unions (SPOCTU)

The regional trade union organisation for the South Pacific.

Caribbean region

Government

Association of Caribbean States (ACS)

A recently established economic association of CARICOM states and other nations of the Caribbean Sea and the Caribbean littoral.

Agricultural Development Cooperation Unit (ADCU)

A specialist agency to promote agriculture among members of the OECS.

Caribbean Agricultural Research and Development Institute (CARDI)

A specialist agency to promote agriculture among CARICOM countries.

Caribbean Community (CARICOM)

Established to develop a single economic community among the countries of the English-speaking Caribbean.

Cariforum

An association of CARICOM and other regional signatories to the Lomé Agreement.

CARICOM Secretariat (CARSEC)

The permanent secretariat for CARICOM. Headquartered in Georgetown, Guyana.

Caribbean Trade Information System (CARTIS)

Established to provide trade information, marketing intelligence and information on local producers, buyers and goods produced within the Caribbean.

Caribbean Council of Central Bank Governors (CCCBG)

An affiliate association of CARICOM, reporting to the Heads of Government concerned with monetary union.

Caribbean Development Bank (CDB)

A regional development bank, majority owned by Caribbean countries, established to promote economic development in the Caribbean by acting as the conduit for mainly external development finance.

Caribbean Export Development Agency (CEDA)

Established to provide general services for export development for the members of CARICOM.

Caribbean Group for Cooperation in Economic Development (CGCED)

A consultative group of regional governments and donors which conducts biennial reviews of regional macroeconomic policies, sectoral performance and development strategy, coordinated by the World Bank.

CARICOM Multilateral Clearing Facility (CMCF)

CARICOM members' central banks settled international payments due within the region via their accounts held with this agency. It is now defunct.

Caribbean Meteorological Institution (CMI)

The regional meteorological organisation. Located in Barbados.

Caribbean Examinations Council (CXC)

Standardises curricula and sets educational performance standards for CARICOM countries.

Eastern Caribbean Central Bank (ECCB)

Established to administer the common currency for the OECS states.

Eastern Caribbean Drug Service (ECDS)

Established as an agency of the OECS to reduce unit costs of pharmaceuticals and medical supplies to member states through bulk purchasing and tendering.

Eastern Caribbean States Export Development Agency (ECSEDA)

Established to provide general services for export development for the members of the OECS.

Leeward Islands Air Transport (LIAT)

A sub-regional airline of the eastern Caribbean owned by member governments of CARICOM.

Organization of Eastern Caribbean States (OECS)

An economic community of the less populous Eastern Caribbean countries, which includes a common currency. Aims to achieve economic integration more rapidly than CARICOM as a whole.

Regional Security System (RRS)

Established to provide joint training and a joint command structure for national defence forces for most countries of CARICOM.

University of the West Indies Centre for the Environment and Development (UWICED)

The regional environmental research organisation. Located in Jamaica.

Other organisations mentioned in the text

Caribbean Association of Industry and Commerce (CAIC)

The major organ of the private sector in the Caribbean. It encompasses CARICOM member countries as well as the French Antilles, Haiti and the Dominican Republic.

Caribbean Conservation Association (CCA)

The coordinating body for environmental NGOs in the Caribbean.

Caribbean Congress of Labor (CCL)

The regional trade union organisation for the Caribbean.

Caribbean Tourism Organization (CTO)

A joint government and private organisation which is the principal information source on Caribbean tourism and the focus of technical assistance to the sector.

East Caribbean Organization of Development Foundations (ECODEF)

The umbrella organisation governing the operations of national development foundations in the OECS member states and Barbados.

Women and Development Unit (WAND)

The coordinating body for Women in Development NGOs in the Caribbean.

Appendix 4

The Foundation for Development Cooperation

The Foundation for Development Cooperation (FDC) is an independent, non-profit and non-partisan organisation whose aim is to strengthen international cooperation and development. It does this by undertaking, promoting and supporting activities to improve the quality and increase the quantity of aid to developing countries, and to promote development cooperation with these countries. It is the only such organisation in Australia. The late Bill Taylor, AO founded FDC in 1990 and served as Vice-Chairman until 1995.

The mandate of FDC calls for it to conduct policy-oriented research, foster public awareness, mobilise broader Australian and overseas interest and participation, and support non-governmental efforts to promote development, especially at the grassroots level. This mandate has been endorsed by legislation of the Australian Parliament, amending the Income Tax Assessment Act, to allow tax-deductible status for the Foundation.

The Foundation has developed close working relationships with Australian and international organisations (official, private and voluntary) and with its overseas counterparts (the Overseas Development Institute in the UK, the Overseas Development Council in the United States and the North-South Institute in Canada).

FDC's core budget is derived entirely from private sources. Support is now being received from other private foundations, corporations and individuals which will ensure the Foundation's viability as an independent policy research organisation contributing to international development and cooperation. Among these is a recent substantial grant from the Ford Foundation. Funding for specific project-related activities has also been received from private, government and international sources — the Australian Bankers' Association, the Australian Agency for International Development (AusAID), the World Bank, the Asian Development Bank and the United Nations Development Programme).

The policies and programs of FDC are determined by a Board of Governors comprising Dr Brian Scott (Chair), General Eva Burrows, Sir Llew Edwards, Sir Laurence Muir, Mr Stephen Taylor, Professor Roy Webb and the Hon. John Wheeldon. The late Sir Gordon Jackson, who chaired the committee whose 1984 report (the Jackson Report) revitalised Australia's official development cooperation

program, was a founding governor. The Executive Director is Dr John Conroy. He is responsible for the implementation of policies and programs agreed by the board, with the advice and assistance of a Program Advisory Panel.

The Foundation's major activity to date has been a project, Banking with the Poor, which has demonstrated the scope for increased access to credit for the poor in developing countries on a sound commercial basis. It has shown that the creative and productive capacities of the poor can be realised by their increased access to credit. The uniqueness of this project lies in the establishment of linkages between commercial banks, indigenous non-government organisations (NGOs) and self-help groups of the poor to provide a sustainable flow of credit, thus helping the poor to help themselves.

Apart from projects of an applied and action-research nature, such as Banking with the Poor, the Foundation is an innovator in its studies of international and regional development issues, and in particular the aid, trade and investment relationships of Australia with its neighbours in the Asia-Pacific region.

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Is it true that the small island economies of the Caribbean have performed significantly better than comparable small island economies in the South Pacific? How accurate is talk of a 'Pacific paradox', with indifferent economic performance despite high levels of external assistance and favourable natural resources? And if there is truth in these generalisations, what can the South Pacific learn from the experience of the Caribbean? And what might the Caribbean learn from the Pacific?

These questions are addressed in this report, prepared for the South Pacific Forum Secretariat by The Foundation for Development Cooperation, after extensive consultations with governments, regional organisations, private sector interests and researchers in the South Pacific and the Caribbean. The authors, Te'o Fairbairn and DeLisle Worrell, examine economic policies and performance in both regions, identifying important differences in their circumstances as well as obvious similarities. The report concludes with a series of strong recommendations for new initiatives for regional cooperation, strategies for private sector development, and other measures to improve economic growth and welfare in the South Pacific.



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