The Journey So Far: The Effect of Structural Adjustment Programme (SAP), Sustainable Growth, and Development in the Caribbean Region

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Abstract

The economic performance and growth pattern of most Caribbean countries leaves much to be desired. In an attempt to resuscitate their economies, some of these countries have implemented the Structural Adjustment Programme (SAP). The intent of SAP is to encourage export-led growth through trade liberalization, which is also the basic objective of GATT/WTO. The GATT agreement calls for an elimination of all trade barriers, while the WTO enforces and administers multilateral trade agreement negotiated by member countries. According to some economic literature, trade liberalization continues to be the dominant prescription recommended for most Less developed countries (LDCs') as the engine of growth and development. The traditional neoclassical growth models imply that long term economic growth is exogenously determined; however, the new growth models imply that correct policies can speed up the growth process. Similarly, the wrong policies could lead to economic stagnation. While the Caribbean region and other LDCs like Sub-Sahara Africa have implemented trade liberalization policies as part of GATT/WTO/SAP rule, they have not yet been able to attract much foreign direct investment from industrialized countries. The major criticism of IMF policies is its lack of transparency. The intent of this paper is to review the growth and development of CARICOM countries given their participation with GATT/WTO and since their adoption of SAP. To what extent has trade liberalization promoted sustainable growth and development in the Caribbean region? The viability and success of World Bank and IMF policies with CARICOM countries is vital to other developing countries considering SAP as an option or a means of addressing micro-macro imbalances.

Introduction

The economic stagnation of the Caribbean islands in the eighties could be attributed to the general slow growth of Latin American countries in the eighties. The significant drop in the aggregate rate of growth from 5.9% in the seventies to 1.1 in the eighties was a major concern (Economic and Social Progress in Latin America, 1997). In order to address the economic distortion (in terms of external debt and declining GDP) and macro imbalances, most of the Latin American countries including the Caribbean Community and Caribbean Common Market (CARICOM)[1] decided to seek assistance from the World Bank/IMF. The centerpiece of IMF policy prescription to developing indebted countries in the Baker and Brady plan lies on the structural adjustment programmes (SAP). A SAP may be defined as a complex set of multilevel organizational and inter-organizational interventions with multiple goals and objectives, a wide range of public and private sector organizations and organizational actors, with many intended and unintended consequences (Jamal Khan, 1991). The intent of SAP is to address both exogenous and endogenous shocks confronted by these countries and restore the economy to a steady growth path if recommended policies were adequately and correctly implemented. In the case of an exogenous shock, current account deficits are offset by sustainable private and official capital flows; while the endogenous shocks, are the responsibility of the participating country government through fiscal responsibility. Some of the tenets of SAP include national currency devalua-

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tion, full trade liberalization, contractionary fiscal policy, market-determined exchange rate, and removal of all excise taxes. Using the neoclassical model as a point of reference, the market mechanism is supposed to ensure efficiency in resource allocation and promote growth with no disequilibrium or imbalances in the economy. SAP recommendations fall under this model, and if participating countries loyally implement these policies, then the free market would ensure growth and development for them. This is consistent with the World Trade Organization (WTO) ideology, whose philosophy is based on requiring member countries to use trade policies that are nondiscriminatory and allow trade flows in the host market (World Development Report, 1997).

CARICOM as participating members of the GATT/WTO have been encouraged to seek assistance from the IMF. But the feasibility of SAP for countries adopting it leaves much to be desired. The economic benefits of adjustment in most cases have been modest or lacking[2]. Studies have also indicated that very few reform programs have actually achieved the targeted growth rate, increased per capita income in the export sector, improved current accounts balances and external debt (Ravenhill, 1988; Mosley and Smith, 1989).

The question becomes why are developing countries interested in the adjustment program? Countries seeking assistance from World Bank/IMF had to go through this program if they intend to promote growth and development through export led growth and external aid. Many of the Less Developed Countries (LCD's) as well as CARICOM countries that adapt SAP are usually small and poor, and the implementation of SAP has become a nightmare for them due to the austerity measures imposed by the World Bank/IMF. The economic hardship in terms of declining real income due to devaluation has not only led to social problems but also raises other questions of tradeoff between human suffering and economic growth and development. The objective of SAP is to assist countries by providing loans that would translate from short term to medium term growth, and eventually promote long term sustainable growth and development. Under the program, trade liberalization was suppose to foster export-led growth for these countries by increasing export and discouraging import.

The purpose of this paper is to theoretically analyze (using Stylized fact) the growth path and development of CARICOM countries that adapted SAP given the structure and nature of their economy. Currently, four CARICOM countries (Barbados, Guyana, Jamaica, and Trinidad and Tobago) are readjusting their economies under SAP, and there is increasing pressure for others to do so given the deteriorating economic conditions of their countries[3]. These countries have gone from a stable economy during their colonial era with viable industrial potential, to indebted countries seeking aid and assistance from the World Bank. The belief is that loans from IMF should enhance economic growth and development. The question is how far has the loan been effectively utilized, and if not, why? Section I analyzes the economic state of these countries before SAP and explains why it was essential for them to re adjust their economies. Section II evaluates the theoretical aspect of SAP and the effect of its implementations on these countries. Section III provides an analysis of the SAP and its impact on unemployment, inflation, and international payments imbalances; and Section IV offers some policy suggestions based on their performance under SAP.

Economic Structure of the CARICOM

The CARICOM is composed of thirteen countries with population varying from 12,771 for Monteserrat, to 2,595,275 for Jamaica. A per capita income of $2,060 for Saint Vincent/Grenadines, to $18,700, for Bahamas. An inflation rate of -0.2% Saint Vincent/Grenadines, to 25.5% Jamaica. Unemployment rate of 4.3% at Saint Kitts/Nevis, to 35-40% Saint Vincent/Grenadines (World Development report, 1997). Even though most of these countries were granted their political independence in the sixties from Great Britain, and have continued to be protected by their Colonial base until recently. The economies of the Caribbean, like other developing countries, are basically agricultural in nature with some mining, manufacturing, construction, and tourism. Favorable and unfavorable conditions with commodity prices usually have a direct correlation with export earnings. As such, some developing countries experienced strong economic growths during the sixties and early seventies because of both favorable commodity prices and export earnings reported, which actually encouraged growth and development in third world countries. The late seventies was also a period of moderate economic growth.

However, in the eighties as can be seen from table 1, there was a damp and sluggish economic growth for these countries due to the unfavorable commodity prices in the world market for agricultural products. Between 1980-87, the terms of trade were unfavorable for most of the developing countries, whose major export earnings were derived from agriculture. The percentage change in agricultural commodity prices was

Table 1
Commodity Prices, 1980 – 90
(Average Annual Rate Percentage Change)

Commodity price	1980-86	1987	1988	1989	1990
In current dollar terms					
Food & beverage	-2.4	-15.8	18.3	-6.5	-7.6
Nonfood agriculture	-0.2	24.3	3.0	1.1	-0.2
Metals & minerals	-0.5	14.9	37.	4.6	-6.9
Total nonoil	-0.9	0.3	20.4	-1.8	-6.4
Petroleum	-11.1	27.4	-21.0	19.8	30.2
In real terms[a]					
Total nonoil	-5.1	-8.8	12.3	-1.4	-11.9
Petroleum	-14.9	16.2	-26.4	20.3	22.2
Special drawing rights					
Total nonoil	-4.0	-9.1	15.8	3.0	-11.2
Petroleum	-13.9	15.6	-24.0	25.7	23.6

Source: World Bank Annual Report

Note: Commodity price indices are weighted by commodity exports of all developing countries.

[a] *Deflated by export prices of manufactures of major industrial countries (France, Germany, Japan, United States, and United Kingdom).*

negative at –2.4%. The fluctuations in the prices of agricultural products in the world market remains a major concern for developing countries. Given the agrarian nature of CARICOM, they were not immune from this exogenous shock. Although agricultural prices from 1987-89 showed some positive terms of trade for these countries, the eighties in general was a period of hardship for both the oil and nonoil producing countries (see table 1). The price of oil actually hit its lowest point between 1980-86 during the oil glut. For a country like Trinidad & Tobago whose economy has depended on oil after the first oil boom, things became even more difficult.

A brief economic profile of these countries under SAP would highlight the reason why it was essential for them to readjust their economies and seek assistance from IMF. For example, Barbados is a relatively small flat island with population of 257,030, real GDP growth rate of 2%, a per capita income of $9,800, inflation rate of 1.7%, and unemployment rate of 19.9%. Its primary product is agriculture (cane sugar, rum, and molasses), manufacturing, construction, and tourism. Guyana is slightly bigger than Barbados with a population of 712,091, real GDP growth rate of 5.1%, per capita income of $2,200, inflation rate of 8.1% and unemployment rate of 12%. Its primary product is agriculture (forestry and fishing, sugar, rice, livestock), and industry (mining, manufacturing [bauxite], construction, and power). Jamaica is the largest country in the islands with a population of 2,595,275, real GDP growth rate of 0.8%, per capita income of $3,200, inflation rate of 25.5% and unemployment rate of 15.4%.

Its primary product is agriculture (forestry and fishing, sugar, bananas, citrus fruit, coffee, cocoa, livestock), and industry (mining, manufacturing [mainly bauxite], construction, and power). Trinidad & Tobago is the second largest island with a population of 1,272,385 real GDP growth rate of 3.5%, per capita income of $12,100, an inflation rate of 5.4% and unemployment rate of 17.8%. Its primary product is agriculture (forestry and fishing), mining and quarrying, manufacturing [Oil/Petroleum], and construction. Even though agriculture has always been the central core for these countries economy, the role of agriculture as a percentage share of real GDP has gradually declined over time with more emphasis in industrialization (manufacturing) and tourism in the last ten years. For example, between 1980-88, the average annual growth rate of agriculture as a percentage of GDP for Barbados, Guyana, Jamaica, and Trinidad and Tobago was –2.4, -4.2, 0.9, and 4.5, while manufacturing was 0.6, - 5.9, 1.6 and –9.5 respectively (World Development report, 1990). As indicated in table 2, from 1987–96 the sectoral distribution of GDP indicates the dynamics of the sectoral shift in production. Yet, the agricultural sector remains the main employer, and on the average employs about 20-30 percent of the total labor force for these countries. For example, 23.2% of Barbados labor force is in the agricultural sector, Guyana 27.4%, Jamaica's labor force decreased from 31% to 24% from 1980 to 1990 in the agricultural sector, but increased from 16% to 23% in the industrial sector. Trinidad & Tobago, on the other hand, has maintained an 11% employment in the agricultural sector between 1980-90; while the industrial sector increased from 31% to 39% (World Development Report, 1997). This means that there was a major sectoral shift from agriculture to manufacturing, construction, and tourism. Between 1970-80, and 1980-90 real GDP fell from 2.1 to 1.5 for Barbados; 3.5 to 0.9 for Guyana; and 5.6 to 0.7 for Trinidad and Tobago. Jamaica on the other hand had already started some discretionary cutbacks and voluntary reform, so it did not experience a fall in real GDP during this period. Barbados for example, experienced a drastic growth in tourism between 1980-90, but a significant decline in the agricultural sector. The major decline in the share of agriculture as a percentage of GDP is not only bad for these countries, but also made them more vulnerable to external shocks and dependent on the foreign sector for hard currency.

With the exception of Jamaica, the other three countries joined the SAP when their external debt became too large and unmanageable. The high unemployment for all these countries, declining exports earnings, and decreases in per capita income were a major cause for alarm. Low productivity in the agricultural sector has always been a cause for poverty and reason to borrow from developed countries with most developing countries. To avoid a scenario such as above, as population increases, for self-subsistence, the agricultural sector must also grow to support the population. There exist a direct correlation between the agricultural sector and nonagricultural population. The rural and urban sectors are highly dependent on each other for economic prosperity (Kuznets, 1953; Viner, 1953; Harrison, 1993). For CARICOM, whose intent is to develop the industrial sector, support and growth from the agricultural sector is essential for industrialization to take place.

Theoretical Aspect of Structural Adjustment

The turbulent nature of commodity prices, deteriorating terms of trade, and declining export earnings, forced some CARICOM countries to seek assistance from the IMF. The attractive general policy recommendation for countries seeking assistance from IMF was the adoption of Structural Adjustment Programme (SAP). The beginning of the eighties, right after the second oil boom, could be characterized as a period of global recession, and things began to change for CARICOM as well as other LDC's. The slow growth and debt encountered by these countries made it imperative for them to seek assistance from the IMF/World Bank. The IMF was viewed as the lender of last resort by most developing countries, but because of the economic instability and deteriorating terms of trade of most them, policy makers felt that the best way to deal with the problem was movement towards free trade (Williamson, 1983; Edwards, 1993). The major objective of the SAP program was to promote economic growth, and thus achieve domestic and external financial stability through demand and supply management from medium run to long term growth (Williamson, 1983; Harris, 1986; Mosley, 1987; Gelb, 1988; Bradshaw, 1991). The demand management of the program calls for a reduction in inflation achieved through a reduction in domestic absorption, and reduction in the external deficit through promotion of the agricultural export sector using devaluation as a major tool. Supply management, on the other hand, emphasizes establishing competitive free market mechanisms that will ensure efficient allocation of resources internally and externally. The programs are usually arranged on a country by country basis, but the general framework is usually the same. SAP policy prescription was based on market

Table 2
Sectoral Distribution of GDP for the Four Countries

	Barbados	Guyana	Jamaica	Trinidad-Tobago
Real GDP% Avg.				
Annual Growth				
1970-80	2.1	0.9	-0.9	5.6
1980-90	1.5	-3.5	2.3	0.7
1990-96	0.8	9.3	0.7	1.7
Agriculture Avg.				
Forestry/Fishing				
1987	-11.2	-4.7	5.2	0.2
1988	-5.9	-13.7	-3.4	-2.8
1989	-9.0	-2.9	-9.1	6.0
1990	8.5	-13.8	11.5	17.0
1991	-4.6	12.3	-0.2	3.0
1992	-9.2	24.3	13.2	-1.1
1993	-4.6	6.2	10.1	8.4
1994	-0.7	11.8	7.5	0.8
1995	-0.2	7.1	2.2	-2.8
1996	21.4	6.3	3.3	-3.0
Manufacturing				
1987	-6.6	3.0	6.0	-8.4
1988	6.7	-4.5	-4.5	-2.6
1989	5.4	-26.1	35.6	-1.2
1990	-2.7	18.0	22.8	0.6
1991	-5.6	21.3	5.7	-3.1
1992	-8.4	-11.5	-2.5	-5.0
1993	-2.9	49.0	0.3	-9.0
1994	6.8	6.6	6.9	6.1
1995	7.9	-11.4	-6.4	0.2
1996	-1.8	15.2	7.5	-1.0

Table 2 Continued

	Barbados	Guyana	Jamaica	Trinidad-Tobago
Construction				
1987	6.2	-6.9	5.5	-7.4
1988	9.0	-5.5	5.4	0.7
1989	8.1	-7.4	7.5	5.1
1990	-10.2	-13.1	3.9	2.7
1991	-7.5	10.5	-7.5	8.4
1992	-8.1	19.3	1.3	2.6
1993	5.1	3.5	-1.9	-3.1
1994	0.4	5.9	-0.5	6.6
1995	7.1	12.7	-1.0	3.7
1996	4.5	8.2	-3.1	4.4
Tourism				
1987	15.2	4.9	14.2	-10.9
1988	10.5	-4.7	14.8	-2.5
1989	10.1	-2.0	18.0	-8.2
1990	-6.1	2.1	1.6	2.2
1991	-9.0	2.0	0.6	11.7
1992	-2.0	2.0	0.4	-5.0
1993	3.7	3.5	-0.5	-4.3
1994	9.4	20.0	-6.3	13.5
1995	1.2	9.7	6.7	7.9
1996	3.2	14.0	-5.4	5.5

Source: Statistical Profile 1997

oriented strategy structured to help stimulate growth. The fundamental component of the package calls for reduction in trade barriers/trade liberalization and allowing the market mechanism to function as the key for adjustment. The program places a high emphasis on privatization, and less dependency on state and government for provision of goods and services. The adjustment program included initial steps to reform tariff and export policies. Monetary and Fiscal restraints were designed to regulate pressure on exchange rate and prices. In addition to the general macroeconomic reforms, each government was required to adopt policies specific to agriculture and aimed at boosting domestic food production, prices, and farm incomes. These included abolition of the commodity marketing boards and removal of special interest rates on rural loans (Ibid.). These conditions for financial assistance were essential to ensure external as well as internal competition and efficiency. Given the unrealistic conditions imposed by IMF, why did the four CARICOM countries decide to adopt SAP, and others are considering the same option, one may ask.

During the late seventies and early eighties, easy availability of funds in the world market contributed to the debt crisis. Most of the Caribbean countries like Barbados, Guyana, Jamaica, and Trinidad and Tobago and other developing countries borrowed from the world market with anticipation of repayment from their export earnings. The unexpected fall in oil prices and fluctuations of agricultural commodity prices led to a reduction in their export earnings, especially when their external debts were due. For example between 1970-79 the total public debt for Barbados was $2.1 million, Guyana-$11.3 million, Jamaica-$41 million, and Trinidad and Tobago-$13.1 million (Economic and Social Progress in Latin America, 1980 Report). The eighties were also marked with decreases in real GDP, high public debt, and declining export earnings. For example Jamaica's debt increased to $1,913m and Trinidad & Tobago's debt increased to $829m in the eighties (see table 3). As indicated in table 3, the negative real GDP for Jamaica between 1970-80 actually forced the country to reassess its economic condition. Prime Minister Manley initially rejected the IMF package in 1980 due to the conditions imposed for loan acceptance. However, in 1983 his successor Seaga accepted the loan with all the austerity measures that came with the package (basically a reduction in government spending, devaluation etc.). The hardship after implementation led to political and social unrest, forcing the government to increase spending in 1986 to ease the tension. This only increased the debt situation, and even made things worse. The persistent trade deficit due to unfavorable commodity prices also led to shortage in foreign exchange and higher external debt. Barbados' high deficit and decrease in real GDP made it necessary for them to enter into a standby arrangement with IMF in 1982, and officially accepted the IMF loan in 1992. In the case of Guyana the economy could be described as dormant in the seventies and eighties, with declining real GDP and increasing external debt, and a trade deficit of $4.9 million between 1980-90. In order to restore growth, the Guyanese government decided to adjust in 1990. Trinidad and Tobago is one of the countries that enjoyed the first oil boom, and was exposed to the Dutch Disease syndrome[4]. Their dependency on the oil sector and contraction of the agricultural sector led to drastic decline in real GDP from 5.6% in the eighties to 0.7% between 1980-90 when the price of oil fell. Also the increased external debt due to declining export earnings contributed to Trinidad's economic problems and led to reforms in 1993.

These four countries actually sought assistance from IMF because of their debt problems in the face of declining export. Export, as a percentage of GDP, was negative for Barbados, Guyana, and Trinidad between 1980-90, indicating the call for action for these countries. The total debt for these countries also continued to grow, as did the percentage of debt in terms of GDP, declining export earnings, decreasing GDP, high unemployment, and poor fiscal management. The use of IMF credits gradually increased in the eighties and the nineties. Between 1987-90, IMF credits to these countries ranged from $9.2m for Barbados to $474.4m for Jamaica. From 1990-95, credits from IMF escalated. IMF credit to Barbados was at $32.1m; $159.4m for Guyana; $333.1m for Jamaica; and $215.5m for Trinidad & Tobago. The drastic increase in credit was due to the fact that most of these countries adopted SAP in the nineties. Given the relative size of these countries, their debt ratio to GDP also increased, thus making it more difficult for them to recover from their poor economic situation. For example, debt as a percentage of GDP for Jamaica increased from 17.9% in 1980 to 19.0% in 1995. Trinidad and Tobago on the other hand, had an increase of 6.8% to 14.8% during the same period. Guyana and Barbados also accumulated a lot of debt as well. Even though debt is necessary for capital investment, one would expect a decline in debt as a percentage of GDP in the long run. In other words, as investment increases so also does GDP, and increase in domestic savings is expected. As real GDP was decreasing in the eighties, the govern-

Table 3

	Barbados	Guyana	Jamaica	Trinidad-Tobago
Real GDP% Avg.				
Annual Growth				
1970-80	2.1	0.9	-0.9	5.6
1980-90	1.5	-3.5	2.3	0.7
1990-96	0.8	9.3	0.7	1.7
Total Ext. Debt in $				
1970-79	$2.1m	$11.3m	$41m	$13.1m
1980	N.A	N.A	$1,913m	$829m
1995	$597m	$2,094m	$4,270m	$2,556m
Use of IMF Credit				
1987-90	$9.4m	$111.3m	$475.4m	$162m
1990-95	$32.1m	$159.4m	$333.1m	$215.5m
1996	$11m	$171m	$174m	$29m
Debt Service				
1995	$112m	$75m	$613m	$434m
Exports as % of GDP				
1970-80	6.1	-2.4	-0	1.8
1980-90	-0.8	-4.0	1.2	-4.3
1990-96	N.A	11.9	1.3	4.9
(1996 $)	$240m	$565m	$1,379m	$2,565m
Imports				
1970-80	5.3	-3.2	-0.7	13.3
1980-90	0.6	-4.2	3.1	-12.1
1990-96	N.A	6.8	7.0	8.1
($1996)	$589m	$2,642m	$2,289m	$768m
Trade Balance				
($1996)	-$528m	-$24m	-$1,263m	$276m

Source: World Development Report 1997, and Statistical Profile 1997.

ment for these countries had to borrow to finance their projects. This growth of government expenditure in the public sector meant a clear deviation from policy implementation as prescribed in the program. Even though a reduction in government spending was always a major component for loan qualification for all participating countries, it was difficult given the austerity measures associated with spending reduction.

Impact of SAP on CARICOM

The economic and effective impact of SAP on CARICOM should be measured in terms of its impact on growth and development. The intent of SAP on these countries was to alleviate internal and external imbalances and restore the economy to a steady growth path (equilibrium). The policy prescription if properly implemented should eliminate trade deficits and international payment imbalances, ensure full employment, and maintain a reasonable inflation rate. The whole programme is based on free market mechanism and open trade analysis with emphasis on privatization. Using the orthodox neoclassical trade theory, free trade promotes growth and eventually leads to development. International trade translates into development. The effects of trade on developed and developing countries usually result in static gains from trade, increase in real income, capital accumulation when reinvestment occurs, increase in investment relative to consumption due to the substitution effect, income-distribution effect towards the export sector, and finally an increase in growth (Corden, 1990). However, the growth path for most of the countries under the SAP has not shown this result. Free trade has not actually led to development.

For CARICOM as well as other LDC's under SAP, the journey remains a big challenge for most of them. The central core of SAP is to promote export-led growth through trade liberalization. Economic literature indicates a positive correlation between exports and economic growth in the form of export-led growth and import substitution for LDC's (Baldwin, 1966; Caves, 1978). For export-led growth to be effective the primary product must provide forward linkages in the sense that the output of one sector becomes input for another sector; it is also very important to have backward linkages. When some exports grow, they provide a strong stimulus for expansion for the input-supplying industries elsewhere in the economy. These backward linkages may be in agriculture or in other industries supplying inputs to the expanding export sector (Meier, 1995). The role of the agricultural sector is crucial for CARICOM expansion in the industrial sector. Barbados especially has placed a significant emphasis on tourism, manufacturing, and construction in the last ten years, while Trinidad and Tobago, on the other hand have focused on the oil sector and tourism, allowing the agricultural sector to lag behind.

Tourism as we know is exogenously determined, and these countries have no control over the foreign exchange earnings. Ability to compete in the service industry, especially tourism, requires investment in human capital and advanced skill in technology. Export as a percentage of GDP for Barbados, Guyana, Jamaica, Trinidad and Tobago between 1990-96 (since the implementation of the program) is 11.9, 1.3, and 4.9. Even with the positive numbers, Barbados, Guyana, and Jamaica still have trade deficits (see table 3). A successful implementation should enforce the backward linkages (agriculture) and ensure external and internal balances by increasing employment, income per capita, stablizing prices, and eliminating the deficit for these countries. Unfortunately, the results have been less than desirable.

Development and expansion of the manufacturing (formal) sector as a growth strategy is important and can exist if there is an effective link with the agricultural (informal) sector. Large companies in the formal sector dominate manufacturing as we know, and wages are usually higher than in the small-scale informal agricultural sector. If there are weak links from the formal to the small-scale or informal sector, then liberalization accentuates the disadvantage of the informal agricultural sector (Human Development Report, 1997). Trade liberalization is suppose to attract capital goods, increase productivity and raise the demand for skilled labor, thereby increasing wages and income per capita; however, economies of scale and effective links are essential for success given the competition in the global market. CARICOM has not established these effects due to the weak link between the formal and informal sectors. As of 1996, the average unemployment rates for the countries in question is 19%, with Jamaica having the second largest unemployment rate in the islands. Real income per capita for these countries has taken a downward swing since the eighties. As indicated in table 4, with the exception of Trinidad and Tobago, the deficit continues to grow for the other three countries in question. Even though the rate of consumption has constantly declined due to currency devaluation and some reduction in government spending, the rate of investment as a percentage of GDP has not improved. If we assume the neoclassical traditional

Table 4

	Barbados	Guyana	Jamaica	Trinidad-Tobago
Real GDP Avg.				
Annual Growth				
Per Capita Income				
1970-80	2.1	0.9	-0.9	5.6
1980-90	1.5	-3.5	2.3	0.7
1990-96	0.8	9.3	0.7	1.7
(1996 $)	$6,560	$590	$1,510	$3,770
Govt. Exp. as a % of GDP				
1970	29.9	32.0	22.8	22.5
1980	33.2	61.8	37.5	45.0
1990	*34.2*	*69.8*	*26.8*	*27.4*
1996	30.2	40.0	42.7	27.7
Total Consumption				
1970-80	1.7	-0.8	3.2	6.9
1980-90	3.0	-5.4	2.4	-2.3
1990-96	N.A	8.3	0.0	1.9
Savings as % GDP				
1980	N.A	N.A	16	42
1995	N.A	N.A	10	25
1987-96	2.59	-6.2	4.8	0.7
Gross Domestic Investment				
Average growth as % of GDP				
1970-80	1.3	-0.2	-9.4	16.6
1980-90	-0.2	0.5	6.3	-12.4
1990-96	N.A	0.3	-0.6	-0.9
(1996 $)	50.3m*	$159m	$1,111m	$597

Source: Economic And Social Progress in Latin America, 1997
**Other Investment excluding Direct Investment and Portfolio Investment.*

growth model, investment is directly correlated with savings (Say's Law). For a steady growth path, increase in savings is essential for increase in investment and growth (Ramu Ramanantan, 1982). To maintain a stable macro-policy, increase in savings, which will lead to increase in investment, has always been looked upon as an engine for growth. For the CARICOM as well as other LDC under the SAP program, given the low per capita income, the loan from IMF would substitute for lack of savings and provide the foreign capital needed for investment however, the loan has not provided the cushion as expected.

The effect of the loan on gross domestic investment is important since foreign capital is a substitute for domestic savings and essential for growth. The correlation between gross domestic product and gross domestic investment (GDI) is such that they are interdependent. If the loan is properly utilized (assuming that loans are invested in the export sector), an increase in investment will lead to increase in domestic production, thereby increasing exports. As table 4 indicates, GDI as a percentage of GDP for these countries has constantly declined. For Barbados, GDI decreased from 1.7% to –0.2% between 1970-80 and 1980-90. Guyana, on the other hand, also experienced a slight decrease in the same period. With Jamaica, the huge drop in investment from 6.3% to –0.6% during the same period is a major concern. This is more likely the reason for the deteriorating terms of trade and the high unemployment figures report. Trinidad and Tobago is the only country that experienced an increase in investment from –12.4 to 0.9 during this period. The aid or loan from IMF has not really improved economic conditions for CARICOM countries. The aim of the assistance was to provide medium to long-run export-led growth for these countries. It is also important to recognize the J-effect, which is the lag period it takes for the full adjustment process to take place and restore the economy to full internal and external balances. The initial effect of currency devaluation is to worsen the trade balance, making imports expensive for domestic consumption and thereby encouraging domestic production and consumption. For devaluation to be successful and improve the terms of trade, the Marshall-Lerner condition must be met[5]. The adjustment of consumer lags and producer lags cannot be definite. These countries adopted SAP officially in the early nineties, which is relatively still in the short to medium-run, one would expect they might still be going through the J-effect. However, the lag period and adjustment of the relative import and export elasticities take some time depending on how committed the governing countries are to the prescribed policy during implementation phase. However, countries sometimes are tempted to deviate from the policy because of the austerity measures and political unrest that is associated with reduction in government spending, and declining per capita income due to the devaluation effect. For example, Jamaica was forced to increase government spending in the short-run due to the deteriorating economic condition, riots and social unrest.

Conclusion

The effectiveness of SAP on CARICOM depends very much on the government stabilization policies addressing macro components, in conjunction with micro policies recommended by IMF to deal with domestic production distortions. This study shows that SAP has promoted export-led growth, which is the intent of the program, but has yet to promote development. Development means that the welfare and standard of living for citizens is enhanced, and this ensures stability as well as political harmony. As indicated in table 3, export as a percentage of GDP has increased for all the countries in the study. Guyana's export increased to 11.9% from –4.0%; Trinidad & Tobago 4.9% from-4.3; and Jamaica marginally experienced a 0.1% increase. Government spending has also decreased for these countries. With the exception of Guyana, per capita income has drastically declined for Barbados, and Trinidad & Tobago, and especially for Jamaica, with a negative number (see table 4).

For these countries, stabilization (Macro/Micro) may be regarded as a necessary but insufficient condition for growth and development. Supply side policies imposed by SAP are essential to correct micro distortions by focusing on trade liberalization as a means of ensuring production efficiency, and providing incentives for factors employed in that sector. The policy prescription encourages privatization and market forces to work with limited government intervention. However, the role of the private sector is crucial to investment-led growth given the decline in gross domestic investment for these countries. The profit maximization objective of the private sector would encourage efficient utilization of resources. Privatization can help in attracting necessary managerial skills, investment resources for the public sector, and revenues required for financing the deficit (Dornbusch, 1990). Thus, it will be most profitable for CARICOM countries undergoing SAP to encourage ***privitization***. The private sector can promote growth by channeling resources to the most desired areas, thereby accumulating savings and sustained long-term growth. Thus, not only is privatization important, but also the ability to attract foreign direct investment (FDI). For example, the move towards industrialization and manufacturing remains the major focus for these countries, even though there has been criticism of capital outflow. For example, in Jamaica, even though the bauxite industry is one of the leading sources of foreign-exchange earnings, most of the revenue is not reinvested into the local economy. To ensure reinvestment, joint ventures and partnerships with local businessmen should be encouraged. As indicated in table 4, gross domestic investment has continued to decline, and the role of the private sector is crucial for investment-led growth. For most LDCs as well the CARICOM, the government sector provides public service, which actually restricts private investment. However, these countries do not have the infrastructure essential to sustain full privatization when it comes to the provision of basic goods desired by the masses of the population. Under IMF policy, full privatization and less government is necessary for the success of the program, but given the nature and size of these countries, the role of the state cannot be minimized.

Policy makers for CARICOM should consider investing in the poor and promoting policies that foster investment in human capital. Most LDCs have not created a middle class to enable full privatization to be effective. The high Gini coefficient and steep Lorenz curve (income inequality) between the poor and rich cannot be ignored, and with privatization, higher prices mean a lower standard of living and welfare losses for the poor and society as a whole. It is important to understand that the IMF policy is structured to promote growth and development; however, growth is a necessary but insufficient condition for development. Development is suppose to alleviate poverty and can only take place when both economic and social welfare is enhanced. The benefits of development are to improve the whole society and increase real per capita income; but despite some positive growth in aggregate output with CARICOM, there are still a large number of people below the poverty level. In other words, some privatization to ensure efficiency in resources allocation is necessary, but to dilute state sovereignty and autonomy is incomprehensible. Policy makers for these countries should consider privatization in conjunction with joint ventures and local partnerships to ensure reinvestment of capital as well as attract foreign capital.

Diversification

The drastic move towards industrialization has led to sectoral shifts in production for CARICOM. The traditional production base for these countries use to be agriculture, but the ideology for growth and development has been shifted from agriculture towards industrialization. Agriculture has been looked upon as the primitive way of development and most developing countries are trying to expand their manufacturing and industrial base. Part of the SAP program is to remove trade barriers (tariffs) in the agricultural sector and encourage the production of agricultural products, but all countries in the study have deviated from the agricultural sector.

For example, Barbados in the late eighties concentrated on tourism and construction rather than agriculture. In the early nineties, the country's share of commodity exports was 20.3 % sugar, and 18.6% petroleum products; and its percentage share in the world market was 0.3% sugar, and 0.3% petroleum products (United Nations Statistical Year book, 1992). The bauxite and energy industries in Barbados are currently undergoing construction; however, the export earning capacity of bauxite and energy cannot sustain the country. Between 1994-95, the manufacturing and construction sectors did quite well at the expense of fishery and other agricultural products.

Guyana also concentrated on tourism with expansion in industrialization as a major emphasis. The country's share of commodity exports was 23.8 % bauxite, and 20.1% sugar; and its percentage share in the world market was 9% bauxite, and 0.7% sugar (Ibid.). The agricultural sector has lagged behind; however, with the implementation of SAP, the agricultural sector has experienced some positive contribution as a share of GDP.

Jamaica, on the other hand, also concentrated on tourism and industrialization in the late eighties. The bauxite industry has played a key role in Jamaica's economy in terms of development, even though there has been criticism of imperialism and control from the west. The country's share of commodity exports was 65.7% alumna; and its percentage share in the world market was 4.6% metal ores (Ibid.). The agricultural sector, which was neglected in the late eighties, has seen some improvement.

Trinidad & Tobago concentrated on the oil sector after the first oil boom of the seventies. The country's share of commodity exports was 80% crude petroleum, and its percentage share in the world market was 1.4% crude petroleum (Ibid.). Its inability to diversify its economy remains a major concern. The agricultural sector continues to suffer at the expense of the oil sector.

For all the countries in question, the agricultural sector lagged behind during the late eighties. Even though the intent is to develop and expand industrialization, the role of agriculture can not be minimized. Given the relative size and development pattern of these countries, industrialization can not take place without the agricultural sector and the backward linkages involved.

Diversification of the export base (investment in the agricultural sector) for these countries is crucial for both self-sufficiency and export earnings. It is also essential for forward and backward linkages. Policy makers in these countries should consider large-scale investment in agriculture. The aid from IMF in the form of farm capital equipment should improve productivity and minimize cost in the agricultural sector in the long run.

Regional Integration

The current wave of regional integration around the world economy is one that can not be ignored. CARICOM was created out of desperation in the eighties to deal with deteriorating economic conditions like balance of payment deficits, increased cost of importing food and low productivity. Even though LAFTA, ALADI, and MERCOSUR[6] had not produced a successful result as originally planned due to shortages in foreign exchange, regional integration seems to be the new economic trend. Regional integration tends to increase the flow of trade and provides economics of scale and competitive advantages to participating countries. A union of small countries like these can lead to economic gains because it gives them a larger market share. These countries can benefit from the dynamic aspect of trade integration by promoting efficiency in production, via economics of scale, and increase per capita income. Regional integration and free trade agreements usually result in trade creation or diversion[7]. The CARICOM should explore Inter-regional trade given the dynamic trend of the world economy. Studies have shown that some trade diversion can increase efficiency if economics of scale due to increased production with free trade agreements (Lipsey, 1960; Meade, 1957). Considering the nature and size of the countries in the island, individual countries under trade integration would more likely benefit from trade diversion. However, for integration to be successful, public debt must be manageable (to avoid shortage and instability of foreign exchange).

One would expect that CARICOM adjustment reforms should lead to impressive sustainable growth rates and development; in the long run, however, IMF policies have been criticized for lack of transparency, with no substantive investment strategy for countries adopting it. The economic benefits of adjustment have been relatively modest for CARICOM. It has promoted export-led growth but not development. Internal policies should complement external aid to reflect development and investment strategies appropriate for these countries given global competition and the nature and size of their economies.

Notes

1. CARICOM consists of thirteen Caribbean Island countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago.
2. See Harch, 1998, p. 57. This is the judgement in the mid-term Review of the United Nations Program of Action for Economics Recovery and Development, prepared by the UN secretary-general and leased in September 1998.
3. Bahamas, Belize, and Dominican Republic have implemented financial reforms in 1994, 1995, and 1991 respectively.
4. The Dutch Disease phenomenon is the dependency on a single sector (in this case oil) exposing the economy to structural shifts in production. The expansion of one sector, usually the resource based, tradeable sector, can cause rapid changes in resource allocation involving the contraction of other traded goods (usually agriculture) sectors and the expansion of non-tradeable. There is a tendency for the production of other tradeable (agricultural) goods to decline relatively or absolutely. The subsequent resource movement raises the marginal product of the factor employed in the booming sector. The boom increases spending, raising the prices of non-traded goods (services), and shifts capital and labor to the expanding sector. The real exchange rate appreciates, squeezing the non-boom tradeable sector. For further literature on the Dutch Disease, see Corden and Neary, 1982.

5. Under the Marshall-Lerner condition, the sum of price elasticities of import and export must be greater than on for devaluation to be effective. The intent of devaluation is to discourage import and enhance domestic consumption thereby increasing domestic production.
6. LAFTA = Latin America Free Trade Association. ALADI = Latin American Integration Association (Mercosur + Andean Community + Chile & Mexico). MERCOSUR = South America Common Market (Argentina, Brazil, Paraguay, & Uruguay).
7. Trade creation occurs when a member of regional integration buys from a lower-cost source instead of a high-cost domestic source; and trade diversion is when a country buys from a member of its trading block rather than from a cheaper supplier outside its region.

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