



Dr Wesley Hughes, Director General, PIOJ opened the two-day conference.

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Planning in the New Global Context

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Introduction

This paper examines the question of national economic planning in the context of regional integration and globalization. The discussion is conducted with reference to the economy of Jamaica against the background of economic planning over the last 50 years. The time period selected dates from the establishment of the institutional arrangements for economic planning. Before commencing the exercise in earnest it is necessary to dispel some prevalent misconceptions about economic planning and this is done in section A of Part I. The following section, section B, provides a brief overview of the most prominent features of the Jamaican experience of economic planning. Part II starts with the national context, i.e. the characteristics of the Jamaican economy, then deals with regional integration and globalization in succeeding sections. The implications from the analysis of the national, regional and global ambits are presented in Part III, and Part IV is devoted to outlining the character of national economic planning in Jamaica in the context of regional integration and globalization. The conclusion is that national economic planning in a small vulnerable developing economy such as Jamaica is possible and needed more than ever.

PART I

A. Myths about National Economic Planning

Planning is the technique that converts human effort into results, yet there are many who regard economic planning as an arcane subject and a relic of the economic thinking of a bygone era. Planning is dismissed as part of the “dirigiste dogma” responsible for “the poverty of development economics”.² The argument is that national planning is redundant in a modern private sector led, market driven economy. The relevance of planning, it is suggested, is further called into question by the relentless pace of globalization, especially in a small highly open developing economy. This is a gross misunderstanding that needs to be exposed because, ironically, national planning is needed more than ever in a small developing economy engaged in the challenges and opportunities of globalization. Debate should therefore be about how to make development planning more effective especially if we accept that economic development does not automatically take place.³ Nobel laureate Joseph Stiglitz states categorically that: “To date not one successful developing country has pursued a purely free market approach to development”.⁴

Planning versus the Market

Conventional wisdom poses the dilemma of planning versus the market. In today’s neo-liberal paradigm it is often suggested that the unfettered operation of the market is the optimum policy framework to achieve economic growth and economic and social development. Lal dismisses planning as an attempt to supplant the working of a market economy”.⁵ This is a false dichotomy because planning complements and enhances the operation of markets, it is not intended to replace markets. Unregulated markets can produce perverse results such as drug trafficking and can experience periodic crisis of underproduction or speculative excesses, which necessitate government intervention to restore normalcy. Even in a free market economy, the market can best operate if it is within the context of short-term macroeconomic management and long-term economic planning.

In any economy, government and the market must work in tandem but as Keynes opined: “The important thing for the government is not to do things which individuals are doing already and do them a little better or a little worse; but to do things which at present are not being done at

all”⁶ Even in an economy where competitive markets are well established, there is a role for planning to extend resource allocation to combine with resource creation. This is more so in developing economies as Hirschman explains that “development depends not so much on finding optimal combinations of given resources and factors of production, as on calling forth and enlisting for development purposes, resources and abilities that are hidden, scattered or utilized”.⁷ Planning in a developing economy enhances and complements the market mechanism. W. Arthur Lewis points out that in developing countries: “Governments have to do many things which can in advanced countries be left to entrepreneurs”.⁸

Indicative versus Command Planning

A market-oriented economy can benefit from the guidance of indicative planning which seeks to guide the market in the direction in which it is already going.⁹ Command planning involves a central authority dictating the direction of economic activity to attain goals established without regard to the market. Indeed, command or centralized planning is predicated on obligatory targets and the proposition that the central authority knows what needs to be done and how it must be done.¹⁰ Indicative planning in a mixed economy is not akin to a “Walrasian auctioneer” who reconciles all the failings of the market but supplements the efficient operation of the market. Planning can effectively embed the market in a framework of social and economic priorities, which may increase the chance that the market will address needs not dictated purely by the “economic rationality” of self-interested actors.

Even in indicative planning there is a programme of government executed investments particularly in public goods such as health and education, and in developing countries this is accompanied by government led mobilization of financial resources. Usually, foreign resources on concessionary terms are elicited from multilateral financial institutions and bilateral development assistance agencies in support of the public sector investment programme. An additional benefit of planning is the rationalization of the public sector investments by eliminating or minimizing inconsistencies between different ministries and agencies of the state.

An even more limited role for planning is that of creating the institutional capacity and policy setting to facilitate private investment. This approach was exemplified by Jamaica’s Minister of Finance and Planning in the 1960s, Mr Seaga, who stated: “The first essential is that developing countries should ensure that a favourable climate exists for foreign pri-

vate investment" and "The second essential is for the establishment of the necessary framework to facilitate foreign private investment".¹¹

Globalization and Planning

It is often suggested that in today's globalized world economy there is no point in a small economy attempting to plan because it can exert only very limited control over economic forces operating at the global level. This, of course, is only valid if policy is purely reactive, however, the irony is that small economies caught in the forces of globalization need to plan on how to cope and capitalize on opportunities. Indeed, it is only by planning that developing countries can thrive in a context of the rapid and profound changes emanating from globalization. If corporate entities find it beneficial to plan in a global context then governments could certainly gain from planning. While the government is not currently following an explicit long-term development plan, Grace Kennedy, one of Jamaica's largest corporations, is pursuing a 20 year corporate plan.

Planning in Small Vulnerable Developing Economies

It has been suggested that planning in small developing economies is futile because of (a) small imperfect markets; and (b) a high degree of vulnerability to external events. Even those that espouse the advantages of development planning qualify its utility in small countries. For example, Griffin and Enos worry that the "economic prospects of the numerous micro-states is open to serious doubt: a host of economies . . . (including Jamaica) . . . may prove not to be viable".¹² This acute dependence on external events was not lost on the Jamaican planners who, in the National Plan of 1957-1967, admitted that the "Jamaican economy is dependent to a considerable extent on overseas trade and the island's prosperity is influenced largely by the conditions obtaining in markets for the principal export commodities."¹³

Development planning is more urgently needed in small developing economies because of their vulnerability to external events and because small size is an additional constraint on the development process.¹⁴ Small size compounds the difficulties of developing economies beset by uncompetitive markets, supply-side rigidities and institutional limitations. While this may pose additional constraints for the effectiveness of planning, it is the very reason which makes planning necessary. As early as the 1950s, it was proposed that the most propitious method of enlarging the national market was by a balanced pattern of mutually support-

ing investments in a number of different industries so that they become each other's customers.¹⁵ The smallness and imperfection of the local markets cannot guarantee this type of balanced growth, hence the necessity for development planning.

Comprehensive development planning can assist small developing countries in the mobilization of increased savings, investment and foreign aid. In some cases donor agencies required some form of medium to long-term policy framework, and, in many instances, the best option was a development plan. Governments in developing countries are better placed to persuade donors to provide foreign assistance if there is a "well conceived and internally consistent plan."¹⁶ It has even been suggested that plans were formulated expressly for the purpose of garnering foreign aid.¹⁷ This was aided and abetted by institutions that encouraged planning as a method of identifying projects that they could fund.¹⁸

Planning can be the crucial intervention to transform sectoral growth momentum into the critical mass, which can initiate or strengthen macroeconomic growth. A recent World Bank study of how to "kick-start" sustained growth in Jamaica concluded that what is needed is a "bandwagon" approach of "simultaneous, coherent and mutually reinforcing action on several fronts".¹⁹ While the Report did not call for planning, its recommendation is in essence the "big-push" justification for planning which was in vogue in the 1960s.²⁰

B. Jamaican Planning Experience

World War II provided the impetus for planning of all types, including economic planning. During the 1950s, the industrialization of the Soviet Union popularised centralized economic planning among developing countries. The thinking in the economics profession was dominated by the idea that industrialization was the way forward for developing countries. At the time, there was a "fairly general and largely unchallenged assumption that development should be planned".²¹

Attempts at economic planning, albeit very inadequate, began in Jamaica in the 1940s by the British colonial authorities prompted by the desperate economic conditions of the 1930s and 1940s.²² The economic hardship and political unrest of the period could not be ignored. In 1943, the rate of unemployment was 29.0 per cent and 70.0 per cent of the wage earners held part-time jobs.²³ Planning was pursued with conviction by Norman Manley²⁴ in the 1950s and in 1954, the Central Planning Unit was established within the office of the Chief Minister, no doubt in anticipation of assuming the full responsibility for economic develop-

ment on the attainment of political independence. During the subsequent 50 years, several plans have been produced but economic planning has not been carried out on a continuous basis. The following are the most prominent features of the planning experience in Jamaica:

Incomplete Implementation

Effective plan implementation is a multi-stage process and the completion of the projects and programmes, which are the plan's components must be coordinated to ensure balance and that they reinforce each other. Poor coordination has undermined effective plan implementation in many developing countries.²⁵ Changing circumstances make modifications to the plan inevitable but this should not be the occasion to abandon the plan but to update and recalibrate the plan. Supervision and coordination of plan implementation have not received the warranted attention required to ensure progress towards the realization of overall plan targets.

The planning experience in Jamaica has been disappointing because plans have not been fully implemented and have been subject to the vagaries of fiscal policy and changes in government. During most of the last 50 years, economic policy has been conducted without regard to any long-term plan, regardless of whether a plan was in existence or the period was not covered by a plan. One of the problems, and this is not common to Jamaica, is the fact that plan formulation is coordinated by a single department or agency but implementation is decentralized among several ministries and government agencies. The planning institution in its various incarnations has never had the authority to supervise the execution of the plan and consequently from its inception has been saddled with a plethora of tenuously related operations. The Central Planning Unit "did a variety of jobs. Among other things, it prepared programmes for foreign professional groups visiting the country, provided staff to accompany them on observation trips and prepared the Government's political proposals for the Constitutional Convention which considered the establishment of the West Indies Federation".²⁶

Inconsistent Application

Planning has not been a consistent part of economic management as there have been long periods in which economic policy has been dictated by purely short-term objectives. The overall coherence of national planning has been undermined by frequent sectoral or issue related plans.

The attainment of the objectives of a plan necessitates the execution of certain policy actions in a prescribed sequence and every effort must be made to adhere to the plan and maintain consistency between short-term and long-term targets and policy measures.

There have been more years in the last half-century during which there was no active plan implementation nor was a development plan used as a reference point for economic policy, even where a plan was in existence. During the turbulent 1970s and 80s, the only attempt at planning was the Emergency Production Plan of 1977–78. The last attempt at planning was the "National Industrial Policy: A Strategic Plan for Growth and Development" (April 1996). There was and continues to be uncertainty about the status of the plan. No one can say definitively whether the plan is still a guide to economic policy and no evaluation exercise has been conducted.

The sporadic nature of planning continually erodes the technical and administrative capacity for planning. This is particularly debilitating since the supply of technical expertise with the requisite experience is very limited in the Caribbean countries.²⁷ Planning has devolved from macroeconomic examination into a series of unconnected sectoral projects and the planning institution has come to devote much of its human resources to being the government's "think-tank".

Interruption by External Agencies

Between the mid-1970s and the mid-1990s, there was a denationalisation of economic decision-making because of the recourse of successive governments to IMF stabilisation programmes. These programmes are the antithesis of planning and even economic management beyond a two-year period, since their focus is short-term and government intervention in the economy is anathema. Ironically the World Bank was a vigorous advocate of planning in the 1950s in order to identify projects for funding, only to convert in later years to individual projects.²⁸

The conditionality contained in programmes is in some cases in conflict with the direction of the national authorities, for example, the IMF programmes of the 1970s sought to diminish the role of the state in both economic activity and economic management. The experience with the IMF during the 1970s was a clash of economic paradigms, policy prescriptions derived from different diagnoses of the disequilibrium and diametrically opposed policy prescriptions. The adoption of IMF policy requirements was in effect the foreclosure of certain developmental options.²⁹

The vulnerability of the planning process to involvement of external institutions is in part due to how the functions of formulation, preparation, execution, monitoring and evaluation are carried out. The distribution of the responsibility for various aspects of the planning function throughout the administrative apparatus of government can increase the risk of being influenced by a multilateral financial institution such as the International Monetary Fund and the World Bank and, more recently bond rating agencies.³² The planning process in many developing countries amounts to a list of projects for solicitation before donor agencies and consequently the extent to which there is a plan is almost entirely dependent on the benevolence of foreign governments. Eaton describes the 1947–1957 Ten Year Plan as “essentially a list of projects prepared to attract funding financing from Colonial Development and Welfare funds”.³³ Commenting on the 1963–1968 plan, Girvan states: “it is difficult to escape the conclusion that the whole exercise was carried out by the Government in order to put itself in a position to negotiate more successfully for soft loans and grants from prospective donors”.³⁴

If the circumstances and mindset are focussed on garnering foreign development assistance for public sector projects, the thrust of the plan is shaped by the development perspectives of external agencies and is no longer the embodiment of the government’s development strategy. Ironically, the effectiveness of aid depends less on the amount of aid and more on the capacity for absorption and ability to properly utilize aid.³⁵ That aid works best or only works in countries with “good” economic policy and institutions is the conventional wisdom.³⁶

In the current global circumstances and given the decision of the PNP governments of P.J. Patterson to avoid the stabilization facilities of the IMF, planning must be cognizant of what the international markets regard as sound macroeconomic policy. Global capitalism dictates the policy options available to countries, especially small developing economies. The policies, which facilitate involvement in the dynamic of the global economy, and which are viewed favourably by the global market and by multinational corporations, are prescribed by the logic of global capitalism. This binding matrix of policy measures is described by Thomas Friedman as the “Golden Straitjacket”.³⁷

Planning Horizon Too Short

The planning horizon has always been too short, usually two to five years. This has been a characteristic of planning in Jamaica through its fifty-year history. The 1957–67 Plan was criticized at the time of its enun-

ciation for “its tendency to concentrate heavily on the short-run, while ignoring or giving insufficient weight to the long-run”.³⁸ Policy for sustainable development has been a perennial victim of short-term thinking when the correct approach is one in which “short-term solutions must be incorporated into and not predominate over the long-term objectives”.³⁹

Two to five years is the short-term and is more suitable for economic adjustment than for economic transformation in which the emergence of new industries is a critical aspect. Many projects only pay off in the medium to long-term, for example, some agricultural crops only achieve initial fruition after five years and the contribution of improvements in education and health may not percolate through the economy for 10 or more years. The planning horizon should be 10 to 15 years with revisions and recalibration every three years. This lacuna is evident in the absence of long-term projects such as those aimed at preventing environmental degradation, preservation of watersheds and expansion of the road infrastructure. For example, putting in place measures to handle problems, which can be foreseen years ahead of their manifestation and which require systemic adjustment in the economy and society, such as the global supply of oil.⁴⁰

An important aspect of a long-term perspective is the application of a variety of future focussed planning techniques such as scenario planning, foresighting and technology roadmapping.⁴¹ These analytic tools permit a review of a range of alternative possible future developments by going beyond a mere extrapolation of current trends.⁴² This type of exercise can also be very useful in prompting a “reperceiving”, that is, a re-examination of assumptions about how the world works and the concomitant assumptions about what is appropriate policy.⁴³

Absence of National Consensus

Economic plans have never enjoyed national consensus, a situation directly resulting from intense political rivalry and ideological differences, at times diametrically opposed. Political tribalism has deprived plans of continuity to the detriment of implementation and undermined projects in contested political areas. While both political parties are committed to a mixed economy, their view of what exactly this means was so different in the late 1970s and early 1980s that there was no common ground. The Michael Manley led government of the People’s National Party (PNP) espoused a philosophy in which “the Government within the framework of Democratic Socialism is committed to public ownership or control over the commanding heights of the economy, it is, at the same

time, equally committed to the maintenance of an active and dynamic productive sector with both the public and the private spheres playing their respective roles".⁴⁴ The Jamaica Labour Party (JLP) characterized Democratic Socialism as a thinly disguised form of Communism.⁴⁵

The fierce clash of political philosophies and approaches to economic development, which emerged in the mid to late-1970s, divided the two leading political parties well into the late-1980s. Since the PNP assumed office in 1989, the differences with the JLP have narrowed to the point where there is agreement on a core of macroeconomic policies such as a stable exchange rate through a managed foreign exchange market. The remaining differences between the parties are over emphasis and pacing.

It is important in a private sector led, market driven economy for the national consensus on planning to encompass the business sector. If the leadership of the business community are opposed to the plan or the plan creates uncertainty, its implementation is likely to founder. A vivid example was the apprehension aroused by the proclamation of Democratic Socialism. The business sector stated repeatedly that it was not clear on the respective roles and limits of the public and private sectors. The Chamber of Commerce called on the government to "make a clear statement of its intended incursions into the private sector . . . (and) its intentions concerning the ownership of large and successful businesses".⁴⁶ Other business interests spoke of "a nervous private sector which sees socialism as a treat but doesn't know how serious it is" . . . (and) "distrust that Government really intends to do more than it says".⁴⁷

Divergence between Plan and Budget

Planning has been based on the fundamental assumption that Jamaica was short of capital. The Five Year Independence Plan, 1963–1968 states: "The shortage of capital is probably the most serious problem facing underdeveloped countries. One of the main factors is the deficiency of market demand which tends to keep down private investment because low real purchasing power is related to low levels of income, which in turn is basically a result of low productivity. The contributory causes result in a circle which is difficult to break".⁴⁸ In this mindset, the development plan and the capital budget of the government must be integrated into a consistent programme. A critical component of public policy and plan implementation is the synchronization of the plan and the annual fiscal budget.⁴⁹ It is the budget which operationalizes the government's expenditure in pursuit of the plan targets, therefore, the plan and the budget must operate in tandem, otherwise the plan is relegated

to a statement of optional development goals. The vagaries of financing the budget, the need to put fiscal policy at the service of short stabilization and adjustment and the sharp escalation in the public sector debt since the 1980s has resulted in a disconnect between planning and the budget in Jamaica. From as early as 1951, the Plan for 1947–1957 was clear that the budget could not meet its projected commitments, but instead faced a deficit in its contribution.⁵⁰

This tenuous connection between planning and the budget has ironically occurred when, for the most part, the two functions were supposedly fused in a single ministry, namely the Ministry of Finance and Planning. In periods when there was not institutional unison, planning was an agency in the Chief Minister's office in the late 1950s or in a ministry headed by the Deputy Prime Minister in the early 1990s.

Neglect of the External Dimension

The focus of plans did not sufficiently take account of global developments. The recognition of the importance of the external dimension has been a well established tenet of development planning. W. Arthur Lewis advises that development planning, economic growth and foreign trade are "intimately connected" hence: "One of the important objectives of development planning is therefore to ensure that the rate of growth of output, the propensity to import and the rate of growth of exports are mutually consistent".⁵¹ He recognised that the external and internal were inextricably linked. In discussing exchange rate stability, it is not only a question of internal policy but "what external conditions must be met if the country is to be able to maintain exchange rate stability".⁵²

It is not sufficient to recognize the importance of external economic conditions. These external circumstance and trends must be incorporated into the analysis on which the plan is predicated. The National Plan for Jamaica 1957–1967 admits the "Jamaican economy is dependent to a considerable extent on overseas trade and the island's prosperity is influenced largely by the conditions obtaining in markets of her primary export commodities" and goes on to state the need for efforts "to find new markets for our staple exports and extend the range of export commodities".⁵³ It then proceeds to commit the fatal flaw of the economic profession. It assumed *ceteris paribus* for external developments and extant export marketing arrangements.

There can be no justification for the plans drafted in the 1990s making scant reference to the developments and trends in the world economy. The entirety of the treatment of the external economic dimension in the

Development Plan 1990–1995 is the reference: “Jamaica generates some 60 per cent of its Gross Domestic Product (GDP) in the export and import sectors and is heavily dependent on international financial flows . . . trends in the global economy are important factors in planning the country’s development. The process has to be informed by a perspective on developments in the global economy”.⁵⁴ That paragraph, however, was the extent of incorporating global trends in the plan.

The National Industrial Strategy of 1995 represented a change in the right direction. It is replete with comments which allude to global trends, and states that the export promotion thrust derives from an analysis of “international market trends (for merchandise exports) and Jamaica’s performance in relation to those trends”.⁵⁵

The exception to the practice of underestimating the external dimension in the planning process was the plan of 1978–1982 prepared while the National Planning Agency was under the leadership of Norman Girvan. International relations were an integral component of the strategy of economic transformation. “Jamaica’s strategy in the field of International Economic Relations constitutes a central feature of the Five Year Development plan. Basic to the quest for self-reliance and greater national economic sovereignty are the strategies of (a) external diversification of our foreign trade and relations with individual countries and groups of countries, and (b) the struggle for the New International Economic Order (NEO) for developing countries”.⁵⁶

Incrementalist rather than Transformative

The plans have all been characterized by an incrementalist approach to development and have been very conventional in the underlying thinking with the exception of the Production Plan of the mid-1970s. The orthodoxy of the development philosophy embedded in the various plans is in accord with that of the accepted wisdom in vogue at the time of the plan. Planners consistently opted for balanced growth in preference to unbalanced growth.⁵⁷ A more ambitious and adventurous approach to planning may have allowed Jamaica to seize opportunities instead of being late in capitalizing on new opportunities and emerging trends. The best example being a National Industrial Policy long after that niche in the international division of labour was fully exploited by countries starting earlier, e.g. Korea. This plan was also taking place in the midst of the de-industrialization of Jamaica and the emerging dominance of services both in the local economy and world economy. Part of the problem is a loss of confidence in both the public and private sectors

because of the very extended period of stabilization from the mid-1970s to the present. The policy milieu has been debilitating to the entrepreneurial spirit causing an atmosphere of fatalism.

The detrimental consequences of the attitude of fatalism include loss of confidence in the ability to compete internationally, an ego-focused view of development, and the willingness to accept economic results which are tolerable only because they are not a disaster. Not surprisingly, one of the major impediments to exports is the “mindset”.⁵⁸ For example, the tolerance for unsatisfactory growth rates of GDP between 0 and 2 per cent per annum since 1990 while failing to realize that this is appalling by comparison with even poorer developing countries. Not only is the anaemic performance an indictment of not making the transition from stabilization to growth promoting policies but also the failure to plan and execute planning. One casualty of the lack of medium to long-term planning is the inadequate infrastructure as is evident in the condition of the road system and the regularity of water shortages. Given the importance of infrastructure to the economic performance of small developing economies infrastructure needs to be a priority.⁵⁹ Expansion of infrastructure needs to be completed ahead of or in tandem with investments. It cannot await the situations where capacity is far exceeded by demand, e.g. international airports.

The Production Plan of 1977 was a bold attempt to totally revamp the approach to planning and economic development policy. It was based on the premise that the “underdevelopment” of Jamaica was a reflection of the internal contradictions of dependent capitalism, which have been shaped historically and continue to be determined by its systemic link to global capitalism. The broad goals were disengagement from the international capitalist system and the redistribution of the wealth and income by taking control of the “commanding heights” and changing the pattern of ownership of the means of production to “promote and facilitate the establishment of socialist modes of production at the people’s level”.⁶⁰

PART II

National Context

Jamaica is a small developing economy and exhibits the characteristics of this genre of economy. These characteristics are a high degree of openness, limited diversity in economic activity, export-concentration on one

to three products, dependency on a few export markets, and small size of firms.

Acute Vulnerability

The high degree of openness and the concentration in a few export products, particularly some primary products and agricultural commodities whose prices and demand are subject to fluctuations in world markets, make small developing economies vulnerable to external economic events. Substantial dependence on external sources of economic growth makes small developing countries acutely vulnerable to exogenous shocks. The exposure of small developing economies to real shocks is much greater than in larger economies, which are usually more diversified in structure and exports.

Economic vulnerability can be a feature of an economy of any size and level of development, but it is compounded by small size, a high degree of openness, narrow export concentration, susceptibility to natural disasters, remoteness and insularity.⁶¹ Small developing economies have structural features that make them more vulnerable to external shocks. Indeed, acute vulnerability is a feature that is unique to small developing economies, differentiating it from other types of economies that may share characteristics such as openness, weak adjustment capacity and limited institutional capacity.

External transactions are large in relation to total economic activity, as indicated by the high ratio of trade to GDP. In the case of Jamaica, the trade/GDP ratio is over 130.0 per cent. There is heavy reliance on external trade because of a narrow range of resources and the inability to support certain types of production, given the small scale of the market. Economic openness is measured by imports and exports of goods and services as a percentage of GDP.

The limited range of economic activity in small developing economies is reflected in concentration on one to three exports accompanied, in the majority of cases, by a relatively high reliance on primary commodities. In extreme cases, one export, often a primary product or tourism accounts for nearly all of exports. Empirical analyses have detected a positive and statistically significant relationship between export concentration and export instability; and through its effects on terms of trade volatility has a major effect on income volatility.

In many small developing economies export concentration is accompanied by export market concentration i.e. dependence on one or two export markets. Throughout its entire history, one or two products have

dominated the exports of Jamaica. In the 18th century, the economy was mono-crop plantation economy when sugar was "king". By 1930, the island was the largest exporter of bananas, and, in tandem with sugar, accounted for the vast majority of export earnings.⁶² By the late 1950s, bauxite emerged and eventually superseded both traditional agricultural commodities.⁶³

The effect of export market concentration is particularly detrimental to economic development if a single multinational corporation controls the export marketing. For a long time, the world bauxite trade was conducted on the basis of intra-firm transfers and there was no genuine world market in operation. Even where an export is handled by several multinational corporations, the transactions constitute intra-firm trade and not the arms length international trade of economics textbooks.

Market Imperfections

The small size of markets in small developing economies results in market structures, which are characterized by substantial imperfections. Market imperfections, of one kind or another, are to be found in economies of all types, but in small developing economies these imperfections are particularly perverse. In many instances the market is controlled by monopolies or oligopolies.⁶⁴ Even where there are a large number of producers or traders, one or a few firms effectively dominate the operation of markets in both the financial and the real sector. For example, monopolies in small developing economies are especially inefficient because they are not driven by competition but suffer from the lack of economies of scale.

Small Size of Economic Units

Firms from small developing countries are small by comparison with multinational corporations and firms in large economies. These firms are small even by the conventional definition of "small business" and are further disadvantaged by operating in small developing economies. They are best described as "nano-firms" to distinguish them from what is known in the economics profession as small enterprises.⁶⁵ Sales and employment of some multinational corporations are larger than the GDP and population of many small developing economies. The total sales of General Motors is 328 times larger than that of the largest nationally owned firm in Jamaica.⁶⁶ Given the minute size of even the largest firms in small developing economies, they constitute "nano-firms" by global

standards. A small firm in a developed economy is usually defined to be a firm with less than 500 employees but even if the cut-off point is 200 employees Jamaican firms are micro-enterprises. Approximately 85.0 per cent of Jamaican firms involved in exporting have less than 200 employees and the average small-scale non-farm enterprise has 2.1 employees.

Small firms are at a disadvantage in the global marketplace because they cannot realize economies of scale and scope, are often not attractive business partners, and cannot spend significant funds on marketing, research and development. Governments in small developing economies have very limited institutional capacity and this has a number of implications which increase the cost of goods and services provided by the state which, in turn, increase the cost of production in the private sector. In many instances the government cannot sustain specialized services with the result that they are either not available or have to be imported. Even where the state has the capacity to supply certain goods and services, these tend to be high cost because of the absence of economies of scale and the indivisibility of certain public service functions.

Globalization

Globalization is a multi-dimensional process which is transforming, at a rapid rate and in profound ways, all aspects of national and global activities and interactions. Small, developing countries which are vulnerable to external events and that have limited adjustment capacity are particularly exposed to the effects of globalization. The changes encompassed by globalization have far reaching implications for these countries. Inherent in globalization is a process in which barriers to the international flow of goods, services, capital, money and information are being increasingly eroded and/or eliminated. This process is well advanced and, in many respects, is irreversible.

During the last 50 years, international trade and capital flows have grown at a faster rate than world GDP.⁶⁷ This trend has become more pronounced with the passage of time. Between 1981 and 1991 world output increased by 2.7 per cent while world trade grew by 4.5 per cent⁶⁸ and during the period 1991–2000 world GDP increased by 2.6 per cent per annum while world merchandise trade increased by 7.0 per cent per annum.⁶⁹

Primacy of the Global Market

Essentially, there is only one market and that is the world market. Every business must become globally competitive, even if it produces and sells only within a local or regional market. The competition is no longer local in ambit, as it is not confined to national boundaries. The implication of global competition is that even goods and services that are produced and exchanged within the national domestic sphere have to meet standards of quality and costs of production that are set globally. For example, in the United States over 70.0 per cent of domestic production is exposed to international competition compared with only 4.0 per cent in the 1960s.⁷⁰

The instant global availability of information *via* satellite, computers and telecommunications technology has changed, irrevocably, all aspects of human life. Advances in electronic data interchange, establishment of systems for the computer controlled trans-shipment and clearance of goods, improved voice and data communication networks, automated banking and international telemarketing have redefined the nature of the global economy and society. Technological developments in telecommunications, computerization, and informatics have eliminated the barriers of distance and time, resulting in the reconstitution of the world into a single social space.⁷¹ There is an intensification of economic, financial, cultural and social cross-border interaction, accompanied by a growing awareness of this reality.⁷² This is evident in the emergence of "global consciousness" and a mindset of thinking globally and seeing the world as a single entity.⁷³

An important aspect of the emergence of the global market is the elimination of arrangements that segment the global market, such as preferential trade arrangements. The developed countries no longer feel obliged to provide these arrangements to developing countries with minute markets, no indispensable raw materials and limited strategic importance. Developing countries can no longer plan for the continued existence of preferential trading arrangements. Developing countries must be prepared to adapt to the elimination or erosion of preferential trade regimes such as the changes in the European Union's banana and sugar import regimes.

Accelerating Change

The increasing globalization of economic transactions and activities have been facilitated and, in some instances, impelled by rapid development

of new technologies in communications, informatics and manufacturing. New technologies have reduced transaction time, eliminated geography and distance, thereby creating an environment of 24-hour trading. In this environment, the "mindset must be speed". The new developments in information processing and telecommunications propel globalization by eliminating the costs resulting from distance, the importance of location and the advantages of large size. The increasing globalization of economic transactions and activities has been facilitated and, in some instances, impelled by rapid development of new technologies of communications, informatics and manufacturing. For example, the cost to transmit a 42 page document from New York to Tokyo by airmail would be US\$7.40 over two days, by courier US\$26.25 over 24 hours; by fax US\$28.83 over 31 minutes and by e-mail US\$0.10 over two minutes.⁷⁴ The cost of a commercial bank transaction on the Internet is roughly US\$0.01, dramatically less than US\$1.07 by the bank branch; US\$0.73 by the mail; US\$0.54 by telephone payment and US\$0.27 by ATM.⁷⁵

These technological developments have started to transform organization structures, the nature of work, and the character of products, production techniques and international marketing. Indeed, the so-called "death of distance" will revolutionize the way people live and work as we enter what has been called an "age of globally networked intelligence".⁷⁶ Electronic commerce (e-commerce) is a major development in the global economy. It involves business conducted on the Internet and other networks based data inter-change systems. E-commerce has fundamentally affected the way economic activities are conducted in financial services, telecommunications, entertainment and various other services.

There has been a decline in low-skilled labour costs as a component of total production costs in many global industries. The decline is estimated to be from an average of 25.0 per cent in the 1970s to between 5.0 per cent and 10.0 per cent at present. Technology has also reduced the importance of natural products and increased the efficiency with which primary products are utilized.

Disembedded Finance

Financial flows have become disembedded from the real economy, with much of the global financial flows being unrelated to production, trade and investment. This has been compounded by the emergence of global financial markets as governments have liberalized their national financial systems. There has been a dramatic shift from a financial structure, which was predominantly state-based with some transnational links, to a global

system with some national differences in markets, institutions, and regulations. These differences persist as vestiges of an earlier era. The magnitude of the flows have dwarfed the resources of central banks and have reduced considerably the capacity of even the industrialized countries to control these flows. With the significant increase in short-term financial flows and reduced regulatory capacity of governments, there has been a growing vulnerability to the disruptions which result from instability of short-term funds.

The expansion of global financial intermediation and capital markets has been accompanied by the relative decline of development assistance flows. Consequently, governments in developing countries have had to resort to private sources and the market for financing that they traditionally garnered from official donor agencies and multilateral financial institutions. Private capital flows have grown in absolute value as well as in their significance to the external financing of developing countries. Official sources of financing had declined in real terms and as a proportion of the GDP of industrialized countries. In 1970, the United Nations General Assembly established 0.7 per cent of GNP of the "economically advanced countries" as the target for official development assistance. This was reiterated at the Monterrey Conference in 2002 but aid has declined from 0.51 per cent in 1960, to 0.35 per cent in 1980 and then to 0.23 per cent in 2002.⁷⁷

Enlargement of Economic Entities

As globalization proceeds, economic units are becoming larger, as is evident from the enlargement of multinational corporations and the integration of national economies to form regional economic or trade blocs.⁷⁸ Trade blocs are a prominent feature of the world economy, both in terms of the share of the world trade they encompass and the number of countries that participate in them. It is estimated that they are responsible for one-half to two-thirds of world trade.⁷⁹ Twenty-nine of the world's 100 largest economies are multinational companies, not countries.⁸⁰ Multinational corporations (MNCs) now account for about one-third of world output and a significant share of world trade. They also account for 40.0 per cent to 50.0 per cent of world trade in goods and 80.0 per cent of the world's land cultivated for export crops. Their dominance is also evident in the value of foreign assets they control, the volume of foreign sales and size of foreign employment.⁸¹ Ninety-seven of the top 100 MNCs were headquartered in the Triad, namely the US, Europe and Japan⁸². There are no Latin American or Caribbean firm was in the 1 000

largest companies in the world.⁸³ Corporate concentration is proceeding rapidly through expansion, takeovers and cross-border mergers.⁸⁴ This process is particularly pronounced among MNCs in the Triad countries, giving rise to what Amoroso refers to as “the triadic capitalism of the transnational corporations”.⁸⁵

The size and dominance of multinational corporations allows them to circumvent national tax and regulatory regimes in both developed and developing countries through intra-firm trading and transfer pricing.⁸⁶ They are able to wield tremendous political influence with governments of all types and exercise suzerainty in national and global markets. These companies use the dominance in the market to undercut competitors and squeeze prices from suppliers.⁸⁷

Prominence of Services

Services are the fastest growing component of the world economy, indeed during the 1990s, services exports of developing countries grew more rapidly than the export of manufactured goods.⁸⁸ The average annual growth in the trade of commercial services between 2000 and 2003 remained steady at 7.0 per cent, the same as 1990 to 2000 levels, while growth in merchandise trade fell to 5.0 per cent between 2000 and 2003, compared with 6.0 per cent over the 1990 to 2000 period.⁸⁹ The overall share of services in total global exports amounted to 24.6 per cent in 2003.⁹⁰ Service industries accounted for 67.0 per cent of FDI flows from 2001–2002 and 60.0 per cent of total foreign direct investment stock in 2002, up from less than 50.0 per cent a decade earlier.⁹¹

Services account for roughly 65.0 per cent of GDP in high-income countries and approximately 38.0 per cent of GDP in low-income countries.⁹² The share of services in GDP has grown rapidly in developing countries as they experience a structural shift in their economies with services becoming more important, relative to exports, agriculture and industry.⁹³ In the United States, services generate 70.0 per cent of GDP, 30.0 per cent of US exports and 80 per cent of total employment.⁹⁴ In Great Britain and Switzerland the value of exports of services exceeds that of goods, as is the case in several small developing economies, e.g. the Bahamas (financial services) and Barbados (tourism). The trend is likely to continue because the outsourcing of services is intensifying beyond call-centres, data transcription and airline reservations to sensitive, high value added activities such as tax returns, settlement of insurance claims and interpretation of CAT scans.⁹⁵

Reduced Policy Autonomy

National governments will not willingly relinquish management of national and international phenomena, but in reality, governments will have less control over the design and implementation of national and international economic policy. For example, while from the point of view of the world economy, it may be desirable to allow the free movement of capital in all its forms, it may not be feasible for individual countries to permit the completely unregulated flow of short-term money which has produced such instability in exchange rates. The increased influence of international transactions on countries requires that their policies be much more closely calibrated and flexible.

The constrained autonomy of the nation-state has been accompanied by the increased influence of international institutions, multinational corporations and global civil society. The global span of the MNC through internationally linked production and the magnitude of intra-firm transactions account for approximately one-quarter of world trade.⁹⁶ A substantial portion of world trade and investment is beyond the control of governments and insulated from global and national market forces. An additional dilemma is the size of the flows, which dwarf the resources of central banks and have reduced considerably the capacity of even the industrialized countries to control these flows.⁹⁷ Transactions in foreign exchange markets have now reached the astonishing sum of over \$1.2 trillion a day, over 50 times the level of world trade. The daily volume on the foreign exchange markets of the world exceeds the total foreign currency reserves of the world's central banks.⁹⁸ These aspects of the operation of financial markets require countries to very carefully manage their macroeconomic and exchange rate policy and be willing to recalibrate these policies on a continuous basis. Even so, the intensified interdependence allows financial contagion to spread quickly and the magnitude of the flows can cause serious disequilibria especially in developing countries. The Asian financial crisis was a graphic example of what can happen because of the “globalization of financial volatility”.⁹⁹

The policy options available to the nation state are increasingly restricted and dictated by globalization. Levitt calls attention to the constraints imposed on development planning by globalization. She states that globalization “has devalued sovereign equality and stripped states of economic and administrative policy instruments essential to medium and long-term planning”.¹⁰⁰

The framework of policies, which enable a country to participate in international economic flows and processes and to be viewed favourably

by global corporations, is limited. To compete successfully in global markets, countries have to remove obstacles and barriers to entrepreneurship, capital and technology. The policy imperatives can only be attained where the legal system provides adequate protection to property rights, respect for the sanctity of contracts, are where the political system provides stability and security; and the social system encourages transparency.

Regional Integration and Planning

The CARICOM Heads of Government in 1989, decided to deepen the regional economic integration process and strengthen the Caribbean Community by creating the CARICOM Single Market and Economy (CSME). The overall objective was to go beyond facilitating the liberalization of intra-regional trade to the creation of a single CARICOM economic space to facilitate regional trade, production and investment. This action, while reflecting concern about the limited level of intra-regional trade, was made more urgent because of external developments specifically globalization and the growing trend towards trade liberalization.¹⁰¹ The specific objectives of the CSME are presented below.

Redimensioning for Development

The CSME is a regional economic arrangement, which can contribute significantly to the structural transformation and economic development of the small, developing economies of CARICOM. Adjustment and transformation has been made urgent by profound changes in the international economic environment in the last 10–15 years and the challenges of globalization.

The Revised Treaty in Article 6 (e) states that the objectives of the integration process include “enhanced levels of international competitiveness” and in Article 6 (f) refers to increased productivity. The CSME is the mechanism which can bring these goals to fruition. The CSME can offset some of the disadvantages of small size by consolidating national markets into a larger regional market.

An enlarged market and pool of resources, which would be available in a regional market, mitigate some of the constraints of the small size of national markets and would permit the attainment of economies of scale in an increased number of economic activities. Two processes of attaining economies of scale through production integration are envisioned, first, market driven private sector led schemes and second, government insti-

gated schemes.¹⁰² To date, there has been very little production integration despite several regional plans in food production, mining, transportation and industry.¹⁰³

The regional market, in addition to facilitating the realization of economies of scale, would promote efficiency and international competitiveness by enhancing the intensity of competition. The existence of the regional market makes it possible to reduce the monopoly power of firms in small national markets and this can result in reduced prices to consumers and expanded variety of products.

The more intensified competition in the larger regional arena can prompt firms into achieving improved X-efficiency (efficiencies internal to the firm) and attaining higher levels of productivity.¹⁰⁴ The result will be reduced costs of production, which can be reflected in lower prices improving export prospects and less expensive inputs for domestic production.

The full operation of the CSME would assist exporters in the transition to competing in the global marketplace by providing an arena and an intermediate period of exporting in a regional market with competition from firms of similar size and capability. Exporters trading in the regional market can gain valuable experience, which will enable them to compete more effectively in a hemispheric market and in the global economy.

Mediating the Interface with Globalization

Owen Arthur, Prime Minister of Barbados, who has responsibility within CARICOM for overseeing the implementation of the CSME believes this to be “the most effective means by which the individual economies of the region can be successfully integrated into the proposed new hemispheric economy and the evolving global economic system”. The integration process is also seen as a means of mediating the encounter with globalization. Prime Minister, P.J. Patterson of Jamaica explains that “this is rooted in the pragmatic appreciation that our own self-interest and the imperatives of being able to cope with the developments in the world around us, leave us no other position”.¹⁰⁵

The Revised Treaty in Article 6 (g) and (h) establishes as objectives “the achievement of a greater measure of economic leverage and effectiveness” in external relations and “enhanced coordination of Member States’ foreign and (foreign) economic policies”. Conducting external negotiations as a group increases the leverage which CARICOM can exert. The objectives and the scope of the external trade negotiations should be determined by the state of the regional economic integration process.

The CSME should provide the foundation for a common approach to the external trade negotiations.¹⁰⁶ If the CSME is not completed before the scheduled end of ongoing external trade negotiations, CARICOM will be in the undesirable position of negotiating issues which have not yet been resolved and implemented by all member states.¹⁰⁷ Alternatively, the demands of the external trade negotiations might force the pace of completion of the regional integration process when this should ideally be determined by the volition and readiness of the member states.

Completing the Single Market

It is a frequent misunderstanding to regard the CSME as a development strategy when in fact it is a framework which can contribute to the enhancement of national development strategies. This is especially the case where regional integration involves regional planning such as production integration schemes. The experience of developing countries in regional integration schemes as pointed out by Griffin and Enos is that "most regional schemes have been less concerned with promoting specific large scale capital goods industries than with negotiating general tariff reductions and liberalizing trade".¹⁰⁸ This is an apt description of the CARICOM experience to date.

The process of creating the CSME commenced in 1989 and, after several postponements of the date of completion, the Single Market was launched in January 2006 with six member states. Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago will be the initial participants of the Single Market. The other member states will accede as early as they feel competent to fully assume the obligations. This means that there are two streams of integration involving the Organization of Eastern Caribbean States and the CSME with Haiti yet to commence entry into the CSME and the Bahamas yet to decide whether to participate in the CSME. Apart from the incomplete membership, there is a considerable amount of work that remains to be completed to ensure that all member states are fully compliant with all aspects of the Single Market. All of this makes the achievement of the goals of the Single Economy a long-term prospect at best.

It is unfortunate that the CSME has taken so long to get to its present state and that there are several difficult objectives yet to be accomplished because it has diminished the contribution which the CSME could have made to the region's economic development. This is so because changed external circumstances as well as various national and regional developments have overtaken the opportunity and reduced the beneficial impact

of the CSME. Admittedly some of the measures contemplated are difficult to operationalize, e.g. a single currency, as the EU experience demonstrated. How much longer will the region continue to discuss but not resolve and act on a regional approach to tourism under discussion since the early 1940s, a single regional airline mooted in the late 1950s and a CARICOM-wide capital market and a common currency, both proposed since the early 1970s.

PART III

Lessons and Implications

The section presents the main lessons for economic planning, which can be derived from the analysis of the Jamaican planning experience and the implications for future planning of the national context, the regional integration process and the reality of globalization.

Lessons from the Jamaican Experience

The most important lessons from the planning experience of Jamaica are:

- the prospects for successful economic planning are severely undermined by the lack of national consensus, particularly at the political level;
- the possibility of achieving the goals of the economic plans will be seriously impaired if implementation is not sustained throughout with suitable revisions during the course of the plan;
- economic planning is reduced to the announcement of economic targets if the vicissitudes of short-term economic management are allowed to derail plan execution;
- the time horizon is too short to see the component programmes come to fruition if the time frame is less than 10–15 years. Otherwise, the economy cannot adequately make adjustments to trends in the global economy;
- in a small highly open developing economy like Jamaica, planning is prone to be derailed because of the economy's vulnerability to external events, constrained adjustment capacity and the imperfect nature its markets;
- planning must devote more attention to improving the operations of markets by strengthening property rights, the judicial system, the competence of regulatory agencies and the rule of law;
- the viability of locally owned corporate entities must be facilitated by creating an environment which fosters innovation, facilitates strate-

gic alliances and encourages corporate enlargement by an appropriate mix of taxation policy, monetary policy and corporate law.

Implications of Regional Integration

Jamaica's membership in the CSME will naturally have implications for development planning in the future. There is a complex dialectic between the regional integration process and developments at the national level. Appropriate national policies and institutions must complement the regional integration process if it is to come to fruition. This is especially so because Jamaica is in one of the so-called "more developed countries" and the largest economy after Haiti.

While the CSME is not a development strategy, it is a framework that could assist member states in their respective economic development strategies. Regional integration can enhance national development by providing economies of scale, a learning experience in exporting and transition to competing in the global economy. The potential enhancement of national economies can be increased by deepening the extent of integration and increasing the membership. Regional integration, however, must move quickly enough to facilitate adjustment and proactive engagement in the global economy.

Implications of Globalization

Coping with the powerful challenges of globalization has implications for the future conduct of planning in Jamaica, among which are:

- countries have to constantly change and constantly improve their international competitiveness because they are competing with other countries for financial capital, skilled human resources, technology, and management;
- countries that are proactive in their engagement with globalization perform better than those operating in a reactive adjustment process. These countries move quickly on emerging opportunities and trends on the global economy; and
- the external dimension is so all pervasive in the economic life of all national economies whether developed or developing that the analysis on which the plan is predicated must begin with the global economy.

PART IV

Planning in the New Global Context

Planning in Jamaica in the new global context must respond to the process of globalization, the commitment to regional integration, the structural characteristics of a small, developing economy and the peculiar social, cultural and institutional features of Jamaican society, both at home and in its diaspora. This will involve taking the following action set out below.

Reordering the Goals

The nature of planning should continue to be an indicative framework of medium to long-term public policy in the context of a market driven economy in which the private sector including foreign investors is the engine of growth. The public sector plays a role by ensuring macroeconomic stability and facilitating and complementing the private sector. However, the goals of planning have to be reordered to retain some long-standing goals but elevate the importance of some new or neglected goals. The broad goals of planning remain very much the same, namely, increased economic growth, economic development involving reduced vulnerability and volatility, structural transformation, reduced unemployment and the alleviation and/or elimination of poverty.

Given the anaemic performance of the economy since the mid-1970s, the economic growth must be increased growth achieved on a sustained basis. In the quarter of a century, since 1980, the index of per capita income has increased by 2.0 per cent.¹⁰⁹ Economic growth is a necessary but not sufficient condition for economic development. Some neglected goals must now be priority items, in particular, youth unemployment. Michael Manley highlighted this in 1974 when he said: "we have tended to regard economic growth as the sole purpose of planning . . . we have paid far more attention to the statistics on growth than the figures on unemployment . . . If, however, we accept that economic growth is not an objective in itself but a result to be desired, to the extent that it creates the conditions within which to pursue full employment and a rising standard of living for everyone, then we have introduced an important new criterion against which to measure our planning options".¹¹⁰

Crime of every kind, especially violent crime and narcotics trafficking, are pandemic and adversely affect every aspect of Jamaican life and must receive greater consideration in future public policy. The economic cost is

incalculable for both the cost of security and opportunities forgone. The maintenance of law and order is the first function of any form of government in any type of society as it impinges on the social order and economic conduct. The reduction of crime must receive the resources required because it could free resources and spur investment, including foreign investment, of such a magnitude that it would noticeably boost economic growth.

The informal sector is such a large and important part of the Jamaican economy that much more needs to be done to understand its operations and to measure its contribution to GDP and employment.¹¹¹

Recognizing the Dominance of the Global

The process of globalization has so changed the global economic landscape that the conduct of national economic policy and the ability to achieve sustainable economic development requires a new mode of policy making and implementation. The plan must give attention to the external context and take account of the particular features of the global economy that most directly impinge on the operation of the Jamaican economy. Two of the most important aspects are the creation of an economic environment which encourages and facilitates quick response to new developments in the world economy and promotes the recognition of the primacy of the external dimension in production planning. Firstly, a key aspect of the new economic context is that the rate of change in economic phenomena is very rapid and it is constantly evolving in unprecedented ways. This is a consequence too of the emergence of new and rapidly changing technologies which have accelerated economic decision-making, reduced domestic autonomy and driven economic activity on a perpetual basis. Speed is now an essential component of both private and government economic decision-making. Secondly, planning economic activity must begin with the identification of what the world market demands and then planning how to produce that good or service. What currently pertains is the commencement or continuation of production followed by an attempt to sell it. This is fraught with the danger of producing an item for which there is no demand or which is uncompetitive. This dictum should be heeded even by firms producing for the national market because everything is measured against the imported alternatives.

Planners must take cognizance of the type of policy regime which constitutes a business environment that is synchronized with the most dynamic sectors and trends in the global economy and which promotes

"best practices". Any policy mix that is not and is not continuously recalibrated will increase the risk of the marginalization of the Jamaican economy from the core of the global accumulation process. The economic policies pursued will be subjected to the scrutiny of international institutions such as the International Monetary Fund, World Bank, World Trade Organization, private investors and bond rating agencies.¹¹² As "disintermediation" proceeds, capital markets have overtaken banking lending, giving the bond rating agencies a pre-eminent role in the certification of what are good policies.

The government must be willing to rethink its traditional alliances in an era of new geo-politics, its lack of strategic importance and the termination of the "post-colonial" economy based on preferential export arrangements and development assistance. It will be necessary to revisit so-called natural alliances such as developing countries and identify aggregations of countries that have a greater commonality of interests, for example, small developing economies.¹¹³

Maintaining Law and Order

A country cannot realize its full potential for economic development if it cannot conduct orderly social and economic life. High levels of violent crime are linked to transnational crime, particularly narcotics trafficking.¹¹⁴ Crime has a severe adverse impact on the level of economic activity and the type of economic activity. The cost of security has increased the cost of production and distribution and increased the cost of level of citizens and curtailed the competitiveness of goods and services for both the local and export markets. The level of private investment by foreigners and Jamaicans at home and abroad has been considerably reduced by the prevalence of crime. The fear of crime is a major contributory factor to the haemorrhage of skilled professionals migrating and a deterrent to returning residents, their remittances and home building investment. The cost of security as a percentage of GDP is considerable and if these resources could be redeployed there would be a noticeable boost to growth. Crime has impoverished the quality of life and eroded the social capital so vital to economic development.

Ironically, reducing crime can spur economic development but the long-term solution is economic development, which produces adequate levels of employment across a wide cross-section of activities, geographically dispersed throughout the country. Given this truism, crime reduction must be an integral component of economic planning and to which the necessary resources must be devoted on a consistent basis. A better

understanding of the causes of crime and the interrelationship between crime, violence, the practice of politics and economic development is an important first step.¹¹⁵

Forging a National Vision

Planning in any context must begin with a vision of goals and policies which, as far as possible, enjoys national consensus. The achievement of this foundation for planning involves two aspects, a vision of national economic development and national consensus. The absence of either is detrimental to effective planning.

The starting point of forming a vision of national economic development must be a sober assessment of the global, regional and national context in which the plan has to be executed. This must be accompanied by a frank admission that the parlous growth rates, which have prevailed since the early 1980s, and the current level of persistent poverty and violent crime are unacceptable and must be addressed urgently. Put bluntly, current economic trends have to change for the sake of economic development, peace and democracy. There must be both recognition of the need to change and a willingness to innovate. Every process of adjustment begins with a change of mind, outlook and attitude. This process of adjustment will only commence in earnest when there is a change of mind in both the public and private sectors and entrepreneurs dare to think in a new and adventurous manner.

Outdated or inappropriate mindsets can frustrate and even paralyse economic development.¹¹⁶ The countries which have consistently achieved high rates of economic growth and restructured their economies have been willing to shift economic paradigms in response to changed circumstances. The history of economic policy in Jamaica reveals that governments have been too slow to change policies in response to or in anticipation of changed local and international circumstances. Consequently, Jamaica has been late relative to other competing developing countries to seize new opportunities in the global economy. There are a number of instances when Jamaica has been too slow to change economic policy and has suffered the disadvantages of being a latecomer.

Jamaica came late to import substitution industrialization and clung to this policy long after other developing countries had moved aggressively to transition to export manufacturing. When the "industrialization paradigm", based on import stabilization, industrialization behind protectionist barriers rationalized by "infant industry" arguments had exhausted the possibilities of the national market, regional integration

had come into vogue. Regional integration proffered the solution, as the amalgamation of economies into a regional market, which would permit economies of scale and improve efficiency through competition. It has taken so long to attain meaningful regional economic integration that many of the potential benefits have been negated by altered national, regional and global circumstances. Tourism is another example of a belated thrust into a major global industry. Fortunately, despite the late entry, the achievements have been outstanding. All of this raises the question of whether Jamaica has laid an adequate foundation to pursue new opportunities such as informatics.

Development planning must be designed to consolidate and improve existing production while reorienting the economy by creating new types of economic activities. In most small developing countries, this means structural transformation, not structural adjustment, to achieve economic diversification, in particular, export diversification. The need for strategic global repositioning is derived from trends in the global economy, and the composition of exports of small, developing economies, which is skewed to primary products.

Strategic global repositioning must be accompanied by policies which improve the competitiveness and efficiency of companies by creating a stimulating entrepreneurial environment. Selective trade, fiscal and credit policies supported by medium-term education, and technology policies focused on "strategic sectors", and close cooperation between government and the business sector contribute to the targeted development of internationally competitive industries. Market-orientated and strategic state management, combined with the cooperation of companies, government agencies, research institutions and funding institutions, can create dynamic competitive advantages. These kinds of policies must be directed to long-term strategies to mobilise market forces, build up world-market-standard firms and systematically develop efficient economic locations.

It is essential that stability in macroeconomic policy be sustained in the medium-term, providing an environment conducive to investment and minimizing dislocating expectations. The macroeconomic policy instruments such as fiscal policy, monetary policy and exchange rate policy must be applied in a consistent manner and complemented by an institutional framework which facilitates private sector-led, market-driven growth. Stabilization is not an end in itself but is a means to an end. Therefore stabilization must be transformed into a growth policy at the earliest opportunity. If not, stabilization will be like sleep: a necessity but harmful in excess.

It is important that small, developing countries mobilize capital, technology, and the human skills necessary for effective competition in the world economy. These inputs, which are necessary to development, can be garnered in the global marketplace, provided the national economic environment is attractive. A critical component of the national economic environment is a stable institutional framework which is consistent with current global standards and practices, e.g., intellectual property rights and a predictable macroeconomic policy framework.

A process of plan formulation must be designed and put into operation to facilitate the widest possible public participation. This both enriches the formulation of the plan and gives civil society ownership of the plan, making implementation easier. Naturally, there is no absolute state of national consensus but the involvement of civil society, the media and even the overseas Jamaican community is certainly possible. This participatory approach is the basis for a genuine social partnership. It is worth considering by letting a committee of the leadership from civil society lead the consultative process during plan formulation. It has even been the case that civil society is in charge of the formulation of the plan as was done in the 20–20 Plan in Trinidad and Tobago.

Proactively Enhancing of International Competitiveness

Survival in the global economy requires that countries be continuously and proactively engaged in the enhancement of their international competitiveness. No economic activity, whether for export or the national market, is exempt from rapidly intensifying worldwide competition. The nature of this competition has been termed "hypercompetition" by D'Aveni. He explains that in "hypercompetition the frequency, boldness, and aggressiveness of dynamic movement by the players accelerates to create a constant disequilibrium and change. Market stability is threatened by short product life cycles, short product design cycles, new technologies, frequent entry by unexpected outsiders, repositioning by incumbents, and radical redefinitions of market boundaries as diverse industries merge".¹¹⁷

One of the ways in which governments in small developing economies can assist nano-firms to attain international competitiveness is to create and promote national innovation systems.¹¹⁸ Regardless of the limitations imposed by small size, all economies, especially developing countries, must make every effort to foster innovation and adoption of innovations and encourage the generation, acquisition and dissemination of knowledge. In an economy the size of Jamaica, nano-firms pre-

dominate and they find it difficult to fund specialized research and development programmes. This will limit the extent to which they create process innovations in certain lines of production but should not be a constraint on product innovation.¹¹⁹ Access to new technology and adaptation of innovations can take place through importation of equipment, foreign direct investment, licensing, patents, trademarks and strategic alliances. Opening the economy is a necessary, not sufficient condition; nano-firms have to maintain a capacity to learn and acquire new knowledge, technologies and managerial techniques.

Increasingly, the world economy will be dominated by knowledge-based industries, especially services, making the quality and creativity of human capital a critical factor in growth and economic development. This is particularly pertinent to middle-income developing countries like Jamaica, caught in the pincers of capital-intensive production of developed countries and the highly productive low wage countries, notably China.¹²⁰ Instead, Jamaica must revamp the education system to produce more of what Reich calls "symbolic analysts".¹²¹ It has to create an environment for work and living which is attractive to the globally mobile, skilled knowledge workers who constitute the "creative class".¹²²

Management will have to become more sophisticated, be constantly in touch with developments in international markets, and constantly update itself on new technological innovations. Managerial capacity has improved considerably, and professionalism has increased in recent years. However, there is still room for improvement, particularly in the public sector. In the short-run, the private sector's managerial capacity can be upgraded by importing skilled managers and other professionals. This need not mean that foreigners, unaware of the country's culture and traditions, take over top managerial posts. There are more than enough skilled overseas based Caribbean professionals who, under the right circumstances, would be willing to return home.

Globalization necessitates continual improvements in productivity, in particular, attention will have to be given to increasing labour productivity, improving managerial capacity and upgrading infrastructure. The World Bank estimates that productivity declined throughout the 1990s, therefore, the reversal of this trend must be a priority.¹²³ The productivity of labour (workers and managers) needs to be upgraded, and this means improvement in the quantity and quality of education. The importance of this is illustrated by the experience of the East Asian countries. The expansion and transformation of education and training during the last three decades has been a key factor in the "economic miracle" of East Asian economies. This has to be tackled both within the individual enter-

prises and in the society as a whole. Firms need to put more emphasis on vocational training and on the job education. The new technology of learning can help. For example, multimedia training enables workers to learn faster and in more detail, particularly those workers who are functionally illiterate. In the long-run, this requires a reorientation of post-secondary education away from an emphasis on the arts, and towards management, accounting, computer programming, and all aspects of modern technology.

In a globalized world, there will be massive movements of people, both legally and illegally. Developing countries will lose some skilled persons to the more lucrative employment opportunities of the developed countries. This may not be a "brain drain" for these countries because the return in remittances (equivalent of 17.0 per cent of GDP) and investment often far exceeds the GDP these workers would have generated in their home countries.¹²⁴ Countries must no longer be viewed as physical places but as a "nations without borders" and governments must more creatively mobilize the return of their skilled human resources outside their borders. The recouping of skilled nationals from overseas should be undertaken as assiduously as attracting direct foreign investment. The efforts to repatriate human capital can be enhanced by a better understanding of the motives and patterns of return migration and the complexity of the transnational experience of Jamaicans abroad. Just as incentives and special programmes exist for foreign investment, similar schemes must be established to induce overseas nationals with professional skills to return home. It might even be necessary to run an advertising campaign to attract skilled foreign professionals as is now being done aggressively by the governments of Canada and India. Overseas communities and returning professionals and businessmen have spearheaded several of the new growth sectors in India, e.g. computer hardware and software.

Structural Transformation

There has to be a willingness to look beyond traditional economic activities to financial services and to the new dynamic sectors in the global economy, e.g. microelectronics, biotechnology, telecommunications, robotics, and information. The transition from low-wage, labour-intensive activities to technology, and information intensive activities will depend on the quality of human resources. The workforce will have to be more skilled, knowledge oriented and capable of adopting new technology. Export firms will have to develop the capacity to respond quickly to

changes in demand in existing and new markets, in particular, the world economy. This, more than anything else, is the secret of success of the newly industrialized export economies of Asia.

Service activities are the fastest growing items in world trade and in the US economy, which is our largest trading partner. The jobs created would be relatively high-wage and environmentally safe. The prospects for the export of services, especially to the United States, are very encouraging. The need to focus attention on the expansion of services for the global market should not diminish attention to other sectors and products. While the opportunities for further industrialization are not as propitious for the manufacturing sector, they should not be abandoned at the expense of services. The substitution of one panacea for another would be detrimental. What is required is balanced development, emphasizing diversification of exports. This in effect means consolidating existing industrial production, improving cost efficiency, enhancing and maintaining the quality of existing mineral processing, agro-industrial, and manufacturing exports. It is also important to expand existing services, e.g. tourism and data processing, which have attained international standards in productivity and are competitive in the global marketplace.

Tourism is one of the fastest growing sectors of the world economy and one of the two largest earners of foreign exchange. Jamaica has experienced consistent growth in tourist arrivals and tourist expenditure in recent years. However, if tourism is to continue to grow into the twenty-first century, it must diversify to include new products such as heritage tourism, health tourism and eco-tourism.¹²⁵ The market for retirement facilities will increase sharply in the next 20 years. The small, developing countries, in close proximity to the developed countries, with year-round warm weather and relatively lower wage levels constitute an environment suitable for the development of retirement communities, offshore healthcare and university level education. Many small, developing economies have the right factor mix, lower wages and close proximity to a major industrial country to be sites for financial services and back-office operations such as data processing and accounting.

Traditional sectors, like export agriculture, can be revitalized by improving the quality and price competitiveness of export staples like sugar, bananas and coffee. In addition, new export products should be explored. The export opportunities of the traditional sector have not been exhausted, but require some imagination and innovation. For example, organically grown crops, e.g. bananas,¹²⁶ exotic horticulture, banana chips, and "tropical boutique agriculture" should be considered.¹²⁷ Recent successful non-traditional agro-exports to the USA

include winter vegetables, high value fruit and cut flowers.

Developing countries, like Jamaica, which are not at the lower end of the wage spectrum, must expect the low-wage jobs to bypass them. The solution is a combination of increased productivity, product innovation, and the penetration or creation of niche markets. In addition to innovation, productivity and competitiveness are increasingly determined by the generation of new knowledge or by access to and processing of information. Small, developing economies must seek to create a technologically advanced information based society, and keep up with customization and informationalization proceeding in such key sectors as apparel.

Enlargening Firms

Corporate integration, consolidation, and restructuring through cross-border mergers and acquisitions are a worldwide phenomenon. The driving forces are striving for enlargement and market presence; competition has forced consolidation and pruning, easing of regulations governing mergers, and preparing for more intensive competition from multinational corporations and firms in developed countries in the global marketplace. The impulses are particularly strong in firms which are micro-enterprises by global standards, as are firms in Jamaica. Enlargement is not always an option for a number of reasons not the least of which is the cost. Strategic corporate alliances can be an important vehicle for small firms to enhance their viability, particularly in export markets.

Some firms and financial institutions from small, developing countries have become multinational corporations. A merger movement would make firms more viable and more attractive joint venture partners with foreign investors. This is critical, as many exporters are small compared to the multinational corporations against which they have to compete in the world market and major export markets like the United States and Europe. Small size puts exporting firms at a severe disadvantage, and, therefore, there is need for collaborative corporate alliances or mergers to provide a larger capital base, pool resources and expertise and access the latest technology.

Formulating and Recalibrating the Plan

Strategic planning is a process of continuous dialogue and interaction

between the leadership of the private sector, the public sector, the trade unions and social sectors. This can be augmented by inputs from individuals and organizations abroad. Close and continuous cooperation between the leadership of these sectors is essential in order to effectively formulate strategic planning and targeted implementation. What is needed is a marriage which harnesses the vision and expertise of all sectors. This cooperation has been a critical factor in the economic success of Japan and the newly industrialized countries of Asia particularly private-public sector synergy and the allocation of decisions between the market and public administration.¹²⁸

Plans are often disrupted in developing countries by catastrophic economic events or natural disasters. Small developing economies, which are also islands, are particularly prone to natural disasters and very vulnerable to sudden and detrimental external developments. Hurricanes have caused major economic dislocation in Jamaica, for example, Hurricane Gilbert caused damage equivalent to 33.0 per cent of GDP. Damage can be minimized by early warning systems and disaster preparedness, both of which have functioned well in Jamaica. Economic events like a large increase in the price of oil (between November 1973 and March 1974 the price of oil leapt from \$3.3 to \$13) and a drastic change in preferential trade arrangements such as that made in the EU banana regime can be mitigated by scenario planning.

Recalibration of the plan is made necessary by the speed of change in the global economy. Thurow emphasizes that "in the current context wisdom cannot be extracted from experience. The economic game is changing too fast . . . since this is a new era, no one knows exactly what 'getting an edge' means in practice or how the edge should actually be gotten. But we do know that those who catch this wave will have a tremendous advantage".¹²⁹

Aligning the Budget and Plan

The plan must be aligned to the budget so that they move in tandem both in the financing of the public sector investment programme and the focus of policy. This will be no easy task given the huge public sector debt and the use of over one-half the recurrent expenditure for debt repayment. Fiscal policy has to be revamped to be more development oriented and not start from the position of how to finance the government's desired expenditure. This will entail a radical restructuring of forms of taxation to ensure that fiscal policy is not a disincentive to the private sector nor too burdensome for the poor. The Matalon Report points to a

number of possibilities for a more productive mix of taxes which could provide investment inducing stimulus to the business sector while not reducing the tax take.

A critically important aspect of both the capital budget and the plan is to ensure that development assistance is used effectively. This first involves avoiding the temptation to accept development aid because it is available and to commit to programmes and projects which are the instigation of the aid giving institution and are not necessarily the priority of the government. Second, planners must continuously review successes and failures to ascertain what has worked and employ this in identifying what can work. A fatal mistake of many planners is the repetition of failed projects and methodologies. The efficacy of development aid can be improved considerably if planners in both the donor agencies and the implementing organizations hone a capacity to admit to failures and ruthlessly prune these in favour of those types of projects which have been successful.¹³⁰

Concluding Remarks

Given the profound changes which are taking place in the global economy and the speed of these changes, small developing economies must adapt to this new environment. Successful adaptation can best be achieved by a process of strategic planning. This process involves the formulation and implementation of a strategic plan of repositioning a country in the global economy. Such plans are designed to consolidate and improve existing production lines while reorienting the economy toward new types of economic activities for both the national and global markets. In most developing countries, this involves structural transformation (not merely adjustment) to achieve economic diversification, in particular, export diversification.

As the world market becomes increasingly integrated and is being codified by a framework of multilateral rules, the small developing economies such as Jamaica will face an intensification of international competition involving large corporate entities in an environment of rapid technological change, reduced development aid and the erosion of preferential trade arrangements. The continued economic development of Jamaica, in the context of deepening globalization, will be required to increase the international competitiveness of their exports of goods and services in both existing production and future export activities. Creating and sustaining a process of continuous upgrading and renewal of internationally competitive production for both export and domestic

consumption is the essence of economic development in the new global economy.

The best way to achieve this is through long-term strategic planning centred around human resource development. Improving the quantity and quality of human resources through education and information is the critical ingredient for economic development in the twenty-first century.

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