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OVERCOMING ECONOMIC VULNERABILITY AND BUILDING RESILIENCE IN SAINT LUCIA

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Abstract. This chapter overviews the major economic issues in St Lucia and shows that most of St Lucia's economic problems arise from a number of inherent characteristics, notably its very small size, its very high dependence on foreign trade and its limited diversification possibilities. These characteristics lead to economic vulnerability. The globalisation process has exacerbated these problems due to the dismantling of preferential trade arrangements and the intensification of international competition. The chapter proposes a number of measures which could strengthen the islands coping ability and build up resilience to withstand its inherent economic vulnerabilities. Although the chapter makes frequent reference to government action, the private sector has a major role to play in resilience building. Recognising that the private sector must become the primary engine of growth, the Government has established an Office of Private Sector Relations (OPSR) to stimulate private sector development. Given that resilience building concerns both the private and public sectors, both should seize the opportunity to restructure themselves to take advantage of the democratisation of technology, finance and investment, embedded in globalisation.

1. Introduction

This chapter focuses on economic vulnerability and resilience of St Lucia, a small developing island state in the Caribbean Sea. St Lucia is among a chain of islands distributed over some 1,600 kilometre., on a curve in the waters separating the United States' Florida Peninsula from the northern tip of South America. The island has an area of about 616 square kilometre with a population of about 150,000. Its physical features are dominated by a combination of high mountains, forests, low-lying lands and beaches. A mountain range runs the length of the island, with peaks ranging between 1,000 and 3,145 feet. These geographic features help to explain the wide dispersion of the population, the preponderance of human settlements within the coastal zones, the location of agricultural activities in the valley areas, and the mixed nature of the island's economy. St Lucia's climate is tropical with temperatures ranging between 70 to 80 degrees Fahrenheit. There is a rainy period generally between June and November and a drier period in the other months. Like many other Caribbean islands, St Lucia falls within the seasonal hurricane belt and therefore is highly prone to storms and hurricanes (particularly during the months of June and November) that cause enormous damage to its economy.

In this chapter, economic vulnerability is taken to mean the risks faced by an economy from exogenous shocks to the systems of production, distribution (including and especially markets), and consumption. The theoretical foundation of "vulnerability" has been under construction for more than four decades now. At various times, the frame of analysis has been enlarged or restricted depending on the global phenomena of concern at the time. In the decade of the 1970s, the major concern was over the ability of small states to withstand the effects of energy price shocks in the wake of the energy crisis of that period. In the 1980s, the predominant concern was over the relationship between the security of small states and their vulnerability. A Commonwealth Consultative Group reporting in 1985, argued that "security is a matter not only of the absence of threats but of the absence of vulnerability." This perspective brought the question of military power into focus. However, concerns over the military dimension of vulnerability receded in the 1990s to be replaced by concerns over economic, environmental (including climate change) and social vulnerability.

In this chapter, the concept of "resilience" is associated with a country's ability to recover in the face of external shock or disturbance. Following the work of Briguglio (1995) and others, the notion of resilience has been associated with policies that improve the capacity of a country to cope with or withstand vulnerability.

Against this background, this chapter describes St Lucia's economic characteristics which induce economic vulnerability and puts forward a number of proposals intended to strengthen the island's economic resilience. The rest of the chapter is organised as follows. Section 2 gives an overview of St Lucia's economy. Section 3 explains how the economic characteristics of the island lead to economic vulnerability. Section 4 puts forward a list of policy measures that could be considered as a strategy for building economic resilience in St Lucia. Section 5 concludes the chapter, pointing out that resilience building concerns both the private and public sectors and that both should take advantage of the democratisation of technology, finance and investment embedded in globalisation.

2. Overview of St Lucia's Economy

Since the 1970s, the four major influences on economic growth performance in St Lucia have been agriculture (notably bananas), tourism, manufacturing and construction. Robust growth averaging 7.4 percent per annum was achieved between the 1970s and the first half of the 1980s, mainly as a result of (a) trade preferences and favourable movements in the nominal exchange rate of the pound sterling to the EC dollar leading to the expansion of agricultural production; (b) growth in tourism due to expansion in tourism-related infrastructure (airports and hotels) funded mainly by concessional financing and foreign direct investment (FDI); and (c) sound fiscal performance. Economic expansion slowed in the first half of the 1990s. In the second half of the decade, GDP growth declined to an average of two percent per annum, mostly due to the worldwide recession and changes in the international trade regime.

These conditions combined with prolonged drought and the fallout from the events of September 11, 2001, had a drastic effect on economic performance in 2001, resulting in a decline of 4.6 percent in GDP. Marginal GDP growth of 0.43 percent was achieved in 2002 while modest growth of 3.7 percent was achieved in 2003. However, the effects of the global recession at the start of the century are still being felt. FDI, especially in the tourism and manufacturing sectors has been significantly reduced. Further, fiscal restraint and structural adjustment measures, combined with a reduction in official aid flows and declining revenues resulting from commitments to regional and international market liberalisation, have made less money available to the Government to implement its public sector investment programmes (PSIP), leading to increased reliance on external borrowing.

Like its Caribbean neighbours, St Lucia's economy is being severely challenged by the globalisation process, described as

> "...the inexorable integration of markets, nation-states and technologies ...in a way that enables individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before and in a way that enables the world to reach into individuals, corporations and nation-states farther, faster, deeper and cheaper than ever before" (Friedman, 2002).

The more immediate effects of globalisation are readily evident in (a) the reduction in external aid flows (b) problems in accessing traditional preferential markets and (c) adversely changing debt profiles. These developments are of concern because preferential market access and external aid were important drivers of the social and economic progress of St Lucia and the rest of the Caribbean in the 1970s and 1980s. This is dramatised by the performance of OECS economies. During the decades of the 1980s the combined GDP of all OECS States (with the exception of the British Virgin Islands) increased at an average of 5.8 percent per year, from US$700 million at the start of the decade to US$1.3 billion at its end. Despite two international recessions and natural disasters which occurred during this period, real growth ranged from 4.4 percent to 6.0 percent (OECS, 2001). However, between 1990 and 1999, the average real rate of economic growth in the sub-regional economy slumped to two percent, due to the worldwide recession in the early 1990s, changes in the international trade regime and the economic dislocations of hurricanes.

St Lucia's and the Caribbean region's vulnerability to natural hazards has been increased as a result of population growth, economic development, high dependence on coastal tourism together with policy failures and man-made environmental degradation. Natural disasters have had widespread impacts on the economy, particularly on tourism, infrastructure and agriculture. Between 1980 and 2000, the island was severely affected by Hurricane Allen (1980) and Tropical Storm Debbie (1994). The island was affected indirectly by the damage suffered by other islands in the Eastern Caribbean Currency Area (ECCA) area during the 1995 storm season, notably Antigua and Barbuda and Anguilla, whose economies contracted by 5.0 percent and 4.1 percent respectively (ECLAC, 2003).

St Lucia's Key Economic Sectors

Agriculture. St Lucia's agriculture sector is very highly dependent on the banana industry. This sector has performed unsatisfactorily in recent years. There was a dramatic decline in banana production from 105,547 tonnes in 1996 to 48,160 in 2002. Bananas revenues also declined precipitously from EC$125. 8 million to EC$58.7 million, over the same period. Of interest here is the coincidence between shocks in the external environment and their impact on banana production, induced firstly by the introduction by the EU of a new regime for banana marketing on July 1, 1993 and then by the rise in tensions between the EU and the USA, which culminated in the WTO's challenge of the legality of the EU's banana import regime.

The dispute created a great deal of uncertainty in the minds of banana farmers. This, together with volatility in the green market price for bananas, and the introduction of more stringent production standards and unfavourable weather conditions at home, forced many banana farmers using marginal lands and others who were operating on the margins of profitability to leave the industry in droves.

The ability of banana farmers in St Lucia and the other Windward Islands to compete in a liberalised EU market has been the subject of much debate in the region. At least a decade before the WTO's ruling on the EU's import regime, the World Bank painted the following scenario:

> "A 30% fall in the price of bananas would reduce output by about 40%, since estimated supply elasticities are of the order of 1.3. A fall in the value of bananas will result in a drop in central government tax receipts, since imports will subsequently fall, with a consequent fall in customs revenues. Pressure will mount to increase government expenditures to facilitate employment generation and strucutural adjustment. Deficits on the current account will impact negatively on the PSIP, owing to a lack of counterpart funding and a loss of donor confidence. Expenditure cuts may impact negatively on critical recurrent expenditure in the areas of education, health, social services and environmental protection. Long-term structural adjustment could be delayed owing to inadequate levels of social infrastructure." (World Bank, 1994).

An econometric study of the impact of banana price shocks on the macroeconomy of St Lucia conducted by Williams, Sandiford and Phipps (1999) found that business activity oscillated but tapered and stabilised after approximately ten quarters or 30 months. The authors surmise that the full effect of the price shock on the economy could have been cushioned by increased use of personal savings or an increase in remittances from abroad.

The study concluded that two of the most critical issues which St Lucia would have to face in the event of a decline or destruction of the banana industry, are the redeployment of the released labour force and the maintenance of (or at least minimisation) of the decline in the level of income. The study projected that the partial liberalisation of the European banana import regime would not only add an element of increased competition for St Lucia and the Windward Islands, but given the relatively high cost of production, would force approximately 52 percent of the banana labour force to leave the industry, with an accompanying 10 percent increase in rural poverty and a loss in personal and household income. The latter could impact the level of aggregate demand within the system and, depending on the magnitude of that impact, could further reduce employment.

Notwithstanding these setbacks, the island is registering some progress in the areas of agricultural diversification, particularly in developing new varieties of food crops (e.g., yams); and rural development initiatives to educate farmers in order to enhance their productivity and their capacity to adopt sustainable agricultural practices.

Tourism Services. The transition to a liberalised market for bananas in Europe is accelerating reforms to create a more globally-integrated, diversified and competitive economy, built around tourism and non-tourism services. This transition is being pursued within the context of two reinforcing processes, namely the OECS Economic Union and the Caribbean Single Market and Economy. Both processes aim to transform the individual markets of the OECS and CARICOM respectively, into integrated markets in which goods, services, labour and capital can move freely as they would within any one state, with measures built in to achieve a balance in the distribution of costs and benefits.

Between 2000 and 2002, the number of visitors amounted to an annual average of about 270 thousand, peaking to 285 thousand in the year 2000. The number of international cruise passengers averaged 450 thousand during the same period. Though relatively young, St Lucia's tourism product has exhibited steady growth and is becoming more diversified, with offerings in its accommodation (resorts, self-catering apartments, luxury villas and guest houses), restaurants, cruise, yachting, diving, sites and attractions and recreational facilities (mainly golf courses). Many of the accommodation establishments are small, with less than 50 rooms (Springer, 2003).

Over the past decade, tourism has gradually assumed the burden of economic growth and socio-cultural development. In 2001, the industry accounted for nearly 60 percent of total foreign exchange earnings, and directly generated 10 percent of Government's revenue. It is estimated that the industry now employs approximately 21 percent of the workforce and generates 12.7 percent of the country's Gross Domestic Product (GDP). However, while the rate of growth of the industry exceeded global patterns, visitor expenditure declined by about EC$20 million in 2001, from its peak in 1998 (Springer, 2003).

Tourism activities entail, to a greater or lesser extent, dependence on foreign supplies, foreign labour and foreign capital. These types of external dependence lead to foreign exchange leakages, in the form of imported supplies, wages and profit.

The predominance of foreign ownership and foreign investment in St Lucia and other Caribbean SIDS is due in part to the thinness of the domestic and regional financial markets and economies, as well as the transnational character of many of the actors in the tourism industry. The ability of foreign investors to transfer profit from any country is now an accepted principle of business in this era of globalisation and trade liberalisation. The emergence of structured financial markets coupled with policies to increase domestic savings should, in the medium term, encourage greater equity participation by local firms and individuals in hotel investment, thereby reducing the leakage on profits from tourism.

Concerns also arise on the operational front. According to the latest available data, the average annual net income of the island's hotels is less than four percent of total revenue. External pricing pressures from rapidly expanding mass markets are among the prime factors responsible for this low level of profitability. However, it is believed that the situation is exacerbated by the following factors:
- high utility costs;
- government duties, regulations and controls related to the purchase of hotel inputs;
- inefficiencies in management and marketing, especially in the small hotels sector.

A high failure rate of small hotel properties (SHPs) has been observed over the past decade in St Lucia and other OECS countries. Between 2001 and 2003, five small properties in St Lucia went into forced liquidation. SHP's in the tourism industry are constrained by a number of factors, including (a) the inability to reap the benefits of economies of scale (b) inadequate marketing skills; limited access to the necessary capital (c) human resources, marketing expertise and technology (d) over-reliance on a limited number of distribution partners and (e) inadequate formal education or business training of manager/owners.

Overall, the inability of SHPs to market their products adequately, seriously affects their profitability and their ability to survive in a global economy. National and regional efforts are underway to assist small and medium-sized enterprises (SMEs) in applying information technology to develop new management and business opportunities that in turn can be applied strategically to gain competitive advantage and to improve productivity and performance. This should enhance their market position and increase their profit margins. Although information technology involves risks and costs, its under-utilisation could increase the vulnerability of SHPs and aggravate any competitive disadvantage.

Manufacturing. St Lucia's manufacturing sector, not unlike that of other Caribbean islands, is made up mostly of small firms. For example, in the island's furniture sector, there are 40 firms employing an average of six workers while in agro-processing there are 19 firms employing an average of 18 workers. There are seven firms employing an average of 18 workers, most of which are concentrated in the electronics and garments sector (OECS, 2002).

While its contribution to GDP growth is relatively small compared to tourism and agriculture, the manufacturing sector recorded impressive growth between 2000 and 2003, following a precipitous decline in the latter half of the mid-1990s caused by a spate of NAFTA-induced factory closures. The sector is gradually becoming more diversified with growing activity in the food and beverage sub-sector to complement the traditional activities in paper products and textiles. It is anticipated that this sector will be one of the primary beneficiaries of the enhanced integration of production and marketing promised by the CSME.

Efforts at boosting the competitiveness of St Lucia's manufacturing sector are constrained by several factors, including: (a) lack of working capital financing which hampers bulk imports and purchases of good quality inputs (b) the lack of medium-term capital, hindering technological improvements (c) the high cost of utilities (electricity, water and telecommunications (d) high port and shipping charges; and (e) lack of scale economies for domestic producers selling exclusively to the domestic market.

The OECS, through the efforts of its Export Development Unit, is assisting St Lucia and other OECS Member States to develop their manufacturing sector, through technical management assistance, marketing and promotional assistance and market intelligence.

Non-Tourism Services. Since the late 1990s, a conscious attempt has been made to further diversify St Lucia's economy, through a combination of public sector-led investments in the services sector (particularly in information services and financial services) as well as by deepening economic integration at the sub-regional (OECS) and regional (CARICOM) level. Efforts in the former area are being underpinned by the liberalisation of telecommunications services in a bid at producing a competitive environment that benefits all sectors of the economy and reduces the cost of these services to investors especially in Information Technology (IT).

St Lucia and the other OECS Governments have also established the Eastern Caribbean Telecommunications Authority (ECTEL) to, inter alia, increase the capacity for regulation and enforcement that will be required in the new liberalised environment, both in terms of new national legislation (telecommunications and competition) and new telecommunications sector regulations.

Information services are perhaps the more dynamic element in this sector, marked by the emergence of high quality publishing services. Professional services are also on the rise with a growing cadre of consultants providing advisory services at the national, regional and international level.

The growth of the offshore financial services sector has been stymied somewhat by the machinations of the OECD's Financial Action Task Force. The sector is characterised by booking centres that act as platforms where shell branches of international financial institutions record their financial transactions. St Lucia has been trying to carve a niche within the high end of the market. However, the rate of registrations has slowed down in the face of the heightened scrutiny by the OECD because it is perceived that offshore financial services (a) encourage money laundering (b) distort international markets by operating tax havens and (c) do not encourage compliance by all taxpayers (OECS, 2002).

3. St Lucia's Vulnerability

Like many other small island developing states, St Lucia is very exposed to forces outside its control. This reality renders it vulnerable to harmful shocks. The issue of economic vulnerability has been treated in many studies (e.g., Briguglio, 1995; Crowards, 1999; Atkins et al., 2000) and almost all studies conclude that small island developing states, as a group, are more economically vulnerable than other groups of countries.

Economic Aspects

The economic features of small island states like St Lucia are well documented and include:

- low aggregate GDP;

- small domestic market;
- narrow resource base and low mineral endowment, leading to high dependence on imports;
- limitations in the volume and range of production factors;
- low domestic savings and investment capacity;
- limitations on the ability of local business to benefit from economies of scale;
- lack of an indigenous technological base;
- high per capita cost of installing and maintaining infrastructure;
- lack of ready access to international capital markets and distance from the main commercial centres.

These realities give rise to economic vulnerability, due to:

- extreme economic openness and high dependence on external trade;
- high degree of export concentration;
- high dependence on strategic imports, such as food and fuel;
- high transport costs in international trade;
- high income volatility, associated with high dependence on exports;
- low capacity for risk absorption.

Social and Environmental Vulnerabilities

St Lucia is characterised by social realities which exacerbate its economic vulnerabilities, and create social vulnerabilities of their own. These include, high population density, limited human resource capacity, limited institutional capacity, susceptibility to brain drain, susceptibility to HIV/AIDS and other communicable diseases, high rates of unemployment and under-employment, high dependency ratios and geographically dispersed rural settlements.

St Lucia also faces environmental vulnerability due to a number of inherent features and anthropogenic factors, including, proneness to natural disasters caused by extreme weather events, thin freshwater lenses that are easily contaminated, susceptibility to land degradation, fragility of ecosystems to pests, limited financial capacity, and a high degree of interface between land and sea.

Many of the features just mentioned are not subject to policy measures, as they are inherent and permanent characteristics leading to an array of vulnerabilities. Of course, this does not mean that nothing could be done in this regard—on the contrary, if St Lucia is to thrive and prosper, these vulnerabilities need to be properly identified and policies adopted to withstand or to adequately cope with them. In the next section we propose a number of policy measures that can be adopted towards this end.

4. A Strategy for Building Economic Resilience

Responding to the Challenges of Globalisation

The inherent economic vulnerabilities of St Lucia mentioned in the previous section have grown as a result of the globalisation process. As we have shown above, the dismantling of preferential trade arrangements and the intensification of global competition, have led to serious economic problems. However, given that the globalisation process is not likely to be reversed, an appropriate way to cope with this reality is to recognise and take advantage of the opportunities embedded in globalisation. This can be attained by improving linkages with the global economy, while seeking to build resilience against its more pernicious impacts.

Towards this end, the economic policy adopted by the Government of St Lucia, has as its fulcrum the following objectives:

- making the private sector the primary engine of growth;
- maintaining a low rate of inflation and price stability;
- shrinking the size of state bureaucracies;
- maintaining as close to a balanced budget as possible, if not a surplus;
- eliminating or lowering tariffs on imported goods;
- removing restrictions on foreign investment;
- eliminating quotas and domestic monopolies;
- stimulating exports;
- privatising state-owned industries and utilities; and
- liberalising financial markets and the economy to promote as much domestic competition as possible.

The above-listed objectives are being pursued within the framework of two complementary regional initiatives, namely: (1) the OECS Economic Union (OECSEU) and (2) the Caribbean Single Market and Economy (CSME). Both initiatives are rooted in an acceptance of the fact that the development challenges that microstates face as a result of globalisation and trade liberalisation can only be effectively addressed through the creation of a single economic space which facilitates the free movement of labour, goods and services and capital and macroeconomic coordination and results in economic diversification and growth, greater export competitiveness and more employment and human resource development.

While committed to the establishment of the CSME, the six independent nations within the sub-grouping have agreed—within the context of the Economic Union—to enact legislation to allow their citizens, except prohibited immigrants, to remain in these countries for a period of six months. A common OECS passport is being developed. OECS countries believe that the established functional cooperation arrangements that already exist between them coupled with the centralised monetary control and management arrangements that exist through the Eastern Caribbean Currency Union (ECCU), provide ideal conditions for the successful development of an Economic Union. The recent articulation of an OECS Development Charter and Strategy is intended to facilitate the coordinated macroeconomic planning that is so critical to the success of the Economic Union model.

A National Economic Council has been established to oversee the design and implementation of strategies to support the attainment of economic policy goals and objectives. Many of these objectives will be supported through St Lucia's participation in the CSME.

Requisites for Success

The success of St Lucia's economic policies will depend to a large extent on (1) institutional reforms (2) positive performance in the export markets (3) promotion of domestic investment and attraction of FDI and (4) increasing productivity.

Institutional reforms. The rapid pace of trade liberalisation makes it difficult for the already limited capacity in these areas to deal with emerging issues, such as the resources to attend and effectively participate in international trade negotiations. Thus, institutional strengthening of relevant agencies is vital.

Access to financial resources to acquire new technologies is critical to transform agriculture and manufacturing into more efficient and productive sectors that can compete in the global economy, by reducing costs, enhancing output, and improving productive capacity.

Human resource development, to enhance the skills base of the labour force to make it more competitive and flexible is paramount. This is particularly needed in the informatics sector, where there is a demand for programmers and other skilled personnel. Additional training is also needed in market research, product development and management for micro-enterprises. With respect to international trade, training in external trade negotiations is critical if the region is to be effective in talks within the WTO, FTAA and other such entities.

It is important to establish and strengthen networks for disseminating information to enable effective participation in planning and implementing policies.

Boosting and diversifying exports. The goals of St Lucia's general economic policy should be supported by an integrated export promotion strategy that is based on the promotion of a group of critical exports that are proven to be internationally competitive. Elements of this strategy should include:

- competitiveness studies to identify critical exports that are internationally competitive;
- phasing out/eliminating red tape so as to allow unfettered development of these exports;
- providing incentives for export of new products and /or for placing competitive or near-competitive products, in foreign markets. These incentives should be moderate, they should be for a limited period and should be subject to precise results, in terms of new products or markets;
- providing institutional support for export activities in areas such as financing, export insurance, and management training, to encourage businesses to focus on exporting;
- strengthening the capacity of private sector umbrella organisations to enable them to provide timely, up-to-date information on requirements of export markets, in terms of quality, environmental regulations, standardisation, deadlines, volumes etc.;
- establishing a national quality control system, to promote the standardisation of export products and the creation of certification mechanisms;
- facilitating the formation of strategic export alliances between local and foreign firms (including firms within the CSME) that are leaders in technology management, product quality and access to the most important markets;
- providing incentives to encourage technological innovation and development activity within firms;
- establishing a Challenge Fund that can be accessed on a competitive basis by firms that can identify a new product or products which can be produced efficiently and sold on the international market to stimulate export promotion, with successful firms being assisted by the Fund to access the necessary technology and to meet the high initial cost of market penetration;
- providing tax and monetary incentives to firms that train their staff;
- establishing a National Training Board to oversee the design and implementation of a comprehensive Human Resource Development Strategy;

- devising promotional/publicity measures to speed up the use of training incentives and the introduction of more efficient human resource management practices and more cooperative industrial relations, by firms.

In addition there should be a drive to promote export diversification, particularly within the traditional sectors of agriculture, manufacturing and tourism, in diversifying into new areas of economic production, and in establishing niche markets for products and services. With respect to traditional sectors, examples of success stories exist in the areas of heritage and ecotourism. With respect to non-traditional areas, some countries have already shown success in international business and financial services.

Boosting domestic and foreign investment. The formation of the Eastern Caribbean Securities Exchange (ECSE) is a positive development in this regard. However, it should be recognised that at this time, what is really needed is not short-term capital flows of a speculative nature, but medium to long-term flows that are associated with productive investment. Policies will be needed at the national and sub-regional level to discourage speculative segments and concentrate instead on long-term international capital that (a) is accompanied by access to technology to export markets and opens marketing channels and (b) promotes access to financing for small and medium-sized firms.

For the above reasons, an emphasis on foreign direct investment is justified, because it is normally accompanied by new technologies, management techniques and market access. To attract high FDI flows, St Lucia will have to develop a policy framework that makes it clear that FDI is welcome. This should involve managing public concerns over excessive foreign influence and loss of national wealth and making it clear that in an era of accelerated globalisation, distinctions over things local and foreign, are of little or no consequence.

Boosting FDI inflows will require:

- the removal of restrictions on FDI inflows by streamlining approval mechanisms, and simplifying the incentives regime;
- the removal of restrictions on foreign investor ownership, foreign exchange transfers, land ownership and on the use and expatriate labour;
- introducing a system of automatic approvals for certain types of investments, using streamlined approvals according to set criteria;

- active investment promotion involving image building, investment generation and investor servicing to influence investment decisions and to market the country to specific investors. This will require clarity on which sectors, countries and firms to contact;
- making bilateral investment treaties a more integral part of St Lucia's foreign policy and strategy.

Increasing productivity. In addition to the policies and strategies outlined earlier, boosting productivity will require careful examination of the relationship between employment and human resource development, and economic growth and economic and social development, more especially within the context of the CSME. It will require:
- incorporating work ethic and productivity issues into the formal education system;
- establishing formal and informal education systems to facilitate adaptation to technological change;
- strengthening the links between employers and the education system;
- developing an environment within which trade unions and employers can contribute to the process;
- facilitating free movement of labour.

An effective way of boosting productivity at the level of the firm is by giving workers a stake in the ownership of the enterprise. This helps to build commitment and provides an incentive for workers to increase output. Government should encourage such employee share ownership schemes by providing incentives and free technical advice to companies wishing to go that route.

Sector Specific Resilience Policies

Building resilience in the agriculture sector. St Lucia's food security is under serious threat, due in part to:
(a) the aging of the agricultural workforce;
(b) the apparent unwillingness of young people to take up farming as a profession;
(c) the rapid rate of conversion of farmland to other land uses; and
(d) poor farm management practices leading to low yields, inconsistent quality, and poor marketing.

To address these problems and render this sector more resilient, the Government should take the following measures:
- develop a comprehensive computerised profile of each farm, (acreage, soil capability, hydrology, biodiversity, production

potential, management capability etc.) and outlining its strengths and weaknesses. The results of this audit should be used as the basis for designing a customised technical and financial assistance package, aimed at bringing each farm to full productivity/ profitability within a specified period;

- embark on a land tenure rationalisation programme with a view to increasing the proportion of agricultural land to be held in farms in the 30-50 acre range. Where the size of farms cannot be increased, owners should be assisted in acquiring the technological aids in order to enlarge their incomes;
- encourage CARICOM to design and enforce unified phytosanitary standards, in the same way as was done with the Caribbean Unified Building Code (Cubic).

In addition, attempts should be made to develop a new breed of farmer (Farmer to Farm Manager) through a number of initiatives including:

(a) introducing a young farmers programme in all schools, starting with schools in the rural area;
(b) allocating land within the vicinity of each school (within the rural area) to operate school farms on a commercial basis;
(c) converting the agricultural extension service into a farm business advisory service and require staff of the service to provide technical support to schools and farms within their jurisdiction; and
(d) including in the budget of the Ministry of Agriculture adequate funding to equip school farms.

Recent confirmation of interest by supermarket chains in the UK, in purchasing organic bananas from St Lucia and the Windward Islands, suggests that there is considerable potential in this area. Organic products are also growing in popularity in North America. However, significant challenges are associated with "organic farming". Foremost among these, is dismantling a culture of agro-chemical use that has been entrenched for some time.

Further, over the years, a significant amount of topsoil has been lost, through improper farming methods. Then there is also the problem of lack of irrigation. It should also be noted that organically-farmed products are likely to be subjected to some very strict protocols.

The National Agriculture Advisory Council (NAAC) should be mandated to devise a Sustainable Agriculture Policy and Strategy. A Special Unit should be established within the Ministry of Agriculture, to inter alia, provide technical input into the work of the NAAC, and to undertake the necessary research, especially into the manufacture of natural soil-enrichment products, such as compost. The strategy would have as its point of departure, the product specifications set by the markets. Sustained investments in the training of farmers will also be required. The strategy should be underpinned by a special regime of incentives that reward farmers for positive environmental stewardship. The formation of an Organic Farmers Cooperative should be actively encouraged.

The future of the St Lucia's agriculture will depend greatly on the strength of its linkages with other productive sectors of the economy. Integrated policies and strategies are needed to stimulate the development of appropriate marketing and managerial skills that will ensure the supply of local produce of a consistently high quality and meets the specifications of the supplier.

In addition such an arrangement will lead to prices that are predictable and competitive with imported substitutes. While marketing should normally be the responsibility of the private sector, Government has an obligation to assist wherever possible, in the establishment of adequate marketing arrangements.

Most importantly, the Government of St Lucia should quickly devise a system to encourage greater collaboration and cooperation between farmers, processors, manufacturers, distributors and retailers within St Lucia and the rest of the OECS and CARICOM. A series of initiatives should be undertaken, led by the results of pilot studies to establish "value chains" between the various sub-sectors of agriculture, (for example in the production of high-grade feed for livestock and poultry, from bananas) between agriculture and industry, (for example in the production of juices, processed meat products, frozen foods, herbal teas, and handicraft products) and between agriculture and tourism (for example as inputs for hotel restaurants).

Building resilience in the manufacturing sector. The manufacturing sector should benefit from the implementation of recommendations contained in the section on boosting and diversifying exports. In addition, consideration should be given to the following:

- improving administrative processes for export development;
- encouraging product development and innovation by, inter alia, guiding manufacturers towards the attainment of ISO product standards and by supporting the production of authentic goods by targeting incentives to those segments of the sector with the greatest potential;

- re-orienting national skills training programmes towards the utilisation of modern technology;
- encouraging the financial sector to provide a mix of equity and loan funds to reduce the overall burden of infant industries.

Building resilience in the tourism industry. To render the tourist industry more resilient, the following policy measures are proposed:
- comprehensive studies on the economic impact and competitiveness of the tourism industry and use the results as the basis for revamping the incentives legislations to provide more targeted assistance in the appropriate areas;
- the establishment of a business support framework targeted at small hotel properties;
- support for national and regional efforts to establish quality standards in tourism-related education and training;
- the establishment of a Hotel Training School in collaboration with the private sector;
- the establishment of a Tourism Investment Corporation to mobilise and manage funds for tourism development, especially in the creation of heritage sites, ecotourism resorts, theme parks, museums and conference facilities;
- the establishment of market intelligence systems, including the conduct of regular market studies;
- the promotion of joint public/private sector marketing strategies and campaigns in thriving markets.

Information services. The full potential of the information services sector in St Lucia has not been tapped. To date, the focus has largely been on data and transaction processing, to the detriment of other areas such as software development and associated services, computer-aided designs (CAD), Geographic Information Systems (GIS), and electronic publishing.

The OECS Telecommunications Reform Project represents a solid starting point in the process towards establishing an efficient and competitive information processing industry.

To accelerate this process the following is recommended:
- the establishment of a Ministry of Information Services to manage the development of the information services sub-sector;
- enhanced collaboration with the private sector towards the establishment of a state-of-the-art Institute of Information Technology;
- the provision of training at school level to create early orientation to the computer and to provide a cadre of persons, who because of

their appreciation of the computer would choose a career path in this field;
- the establishment of customised plant and other infrastructure to accommodate investment by information-processing firms;
- the promotion of state-of-the-art telecommunications technology, to ensure services that are comparable to those offered in developed countries;
- encouragement for continued investment by offering a reasonable rate of return to investors;
- the provision of a reasonable and equitable basis for new telecommunications service providers, to be able to enter the market in the long-term thus allowing competitive market forces to assist in price setting and regulation;
- the promotion of a more efficient and responsive regulatory environment for communications services.

5. Conclusion

This chapter has overviewed the major economic issues in St Lucia. It has been shown that most of St Lucia's economic problems arise from a number of inherent characteristics, notably its very small size, its very high dependence on foreign trade and its limited diversification possibilities.

These characteristics lead to economic vulnerability, which, as has been shown, is exacerbated by the social and economic realities on the island. The chapter proposed a number of measures which could strengthen the island's coping ability and build up resilience to withstand its inherent economic vulnerabilities.

Although this chapter often refers to government action, the private sector has a major role to play in resilience building. St Lucia's private sector is made up of a wide variety of individuals and enterprises from street vendors to multinational corporations, the latter including hotels, banks and light manufacturing entities and retailers. Recognising that the private sector must become the primary engine of growth, the Government has established an Office of Private Sector Relations (OPSR) to stimulate private sector development.

Resilience building concerns both the private and public sectors and both should seize the opportunity to restructure themselves to take advantage of the democratisation of technology, finance and investment embedded in globalisation.

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