The economic climate for investment in Caribbean community: constraint-behavior model

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THE ECONOMIC CLIMATE FOR INVESTMENT IN CARIBBEAN COMMUNITY: CONSTRAINT-BEHAVIOR MODEL

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CHAPTER I

INTRODUCTION

The treaty establishing the Caribbean Free Trade Association (CARIFTA) and its recent transformation into the Caribbean Community (CARICOM) which embraces a Common Market, stimulates a general interest in the Region. One of the areas of interest is its potential for investment. The present study seeks to respond to this inquiry—to present an objective analysis of the investment potential in the CARICOM area. It discusses and evaluates the current economic situation likely to affect investment, and the prospects for future economic growth. It also encompasses the institutional framework for doing business which includes the marketing channels, transportation, communication, and banking facilities.

However, the study is limited in scope. It does not explore the entire investment climate which is a combination of the economic, legal, political, educational, and socio-cultural aspects likely to affect investment, but is
concentrated mainly on the external economic factors. It seeks to analyze and evaluate key economic constraints in terms of how they interact with the management process and managerial effectiveness. Thus, it aims at determining how conducive is the economic atmosphere to investment in the Region, how the effectiveness of an enterprise may be hampered or promoted by these economic variables, or what problems are likely to face potential industries.

**Preview of the Region**

In general, the Caribbean refers to an arc of hundreds of little islands bounded to the east by the Atlantic Ocean and to the west by the Caribbean Sea. Traditionally, this entire region is associated with a diversity of language, culture, outlook, and political status. Various classifications are indeed possible. This study, however, is limited to a specific region, integrated to form the Caribbean Community, (CARICOM). It consists of the ten islands that once formed the West Indies Federation, Belize in Central America, and Guyana in South America. Combined they have a land area of 100,000 square miles, population of 4.6 million, and gross domestic product of US $2,250 million. It is a small area relative to the entire Caribbean.

CARICOM supersedes CARIFTA, the Caribbean Free Trade
Association, established earlier in 1968. The Community itself emerged quite recently, July 1973, with all the members of CARIFTA and Guyana.

The Region is subdivided into the relatively more developed members (MDCs) and the lesser developed territories (LDCs). The MDCs are Barbados, Guyana, Trinidad and Tobago, and Jamaica. The LDCs are Antigua, Belize, Dominica, Grenada, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, and Montserrat. All the MDCs are independent countries. The LDCs, with the exception of Grenada which has recently attained independence, are associated States of Britain.

The disparity in development between the MDCs and the LDCs is very significant. On the whole the MDCs account for 93 percent of the regional gross domestic product, 87 percent of the total population, and 95 percent of total manufactured goods. However, the treaty grants special measures to the LDCs to cater for such disparity and to promote their economic development.

**Brief History of CARIFTA and CARICOM**

The CARIFTA Agreement was based on an agreement originally concluded and signed at Dickenson Bay, Antigua on December 15, 1965. The signatories included heads of
government of Antigua, Barbados, and Guyana. The agreement "called for the establishment of a Free Trade Area, and the ultimate creation of a Customs Union and a viable economic Community of Caribbean territories who so desire."\(^1\) However, before the agreement was implemented it was overtaken by related developments throughout the Commonwealth Caribbean that headed towards the creation of a broader association.

This culminated in a revised and extended CARIFTA Agreement on May 1, 1968, to include all the present members. The revised agreement called for free trade among all members to be effective immediately, but with special qualifications for the gradual phasing out of duties in a list of reserved commodities over a five-year period for the more developed members and within ten years for the less developed members.

Article 2 of the CARIFTA Agreement lists the goals of the Association as follows:

(a) to promote the expansion and diversification of trade in the area of association.

---

(b) to secure that trade between member countries
takes place in conditions of fair competition.
(c) to encourage the balanced and progressive develop-
ment of the economies of the area.
(d) to further the harmonious development of
Caribbean trade and its liberalization by the
removal of barriers to it.
(e) to ensure that benefits of free trade are equi-
tably distributed among the member territories.

Trade barriers have now been removed exclusively except for
special benefits which the less developed countries received
in the beginning. They were granted special concessions in
phasing out the duties on products in the Reserved List
until 1978.

Intra-regional trade has shown marked improvements
since the inception of CARIFTA. Exports by CARIFTA members
to CARIFTA area markets increased by 74 percent, from US
$48.0 million in 1967 to US $83.6 million in 1970. But,
this expansion has been largely dominated by the more devel-
oped countries: Jamaica, Trinidad and Tobago, and Barbados,
and to a lesser extent by Guyana. Their manufacturing
sectors were better able to exploit the benefits of free
trade. The less developed countries, however, have experi-
enced a much smaller growth in exports to other CARIFTA
member countries as indicated by Table 1.

TABLE 1
CARIFTA TRADE AS A PERCENTAGE OF TOTAL TRADE
OF MEMBER COUNTRIES
(In Millions of U. S. Dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Imports</th>
<th></th>
<th></th>
<th>Exports</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CARIFTA</td>
<td>Total</td>
<td>Per-</td>
<td>CARIFTA</td>
<td>Total</td>
<td>Per-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>cent</td>
<td></td>
<td></td>
<td>cent</td>
</tr>
<tr>
<td>Barbados</td>
<td>1967</td>
<td>6.5</td>
<td>79.9</td>
<td>8.1</td>
<td>5.1</td>
<td>42.4</td>
<td>12.0</td>
</tr>
<tr>
<td></td>
<td>1968</td>
<td>8.4</td>
<td>83.3</td>
<td>10.1</td>
<td>5.7</td>
<td>36.6</td>
<td>15.6</td>
</tr>
<tr>
<td></td>
<td>1969</td>
<td>10.5</td>
<td>76.5</td>
<td>13.7</td>
<td>6.9</td>
<td>26.1</td>
<td>26.4</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>13.4</td>
<td>93.4</td>
<td>14.2</td>
<td>8.5</td>
<td>27.6</td>
<td>30.8</td>
</tr>
<tr>
<td>Guyana</td>
<td>1967</td>
<td>12.8</td>
<td>132.5</td>
<td>9.7</td>
<td>10.2</td>
<td>112.3</td>
<td>9.1</td>
</tr>
<tr>
<td></td>
<td>1968</td>
<td>14.7</td>
<td>106.1</td>
<td>13.9</td>
<td>9.5</td>
<td>108.8</td>
<td>8.7</td>
</tr>
<tr>
<td></td>
<td>1969</td>
<td>16.2</td>
<td>118.2</td>
<td>13.7</td>
<td>11.1</td>
<td>120.1</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>18.5</td>
<td>126.7</td>
<td>14.6</td>
<td>13.2</td>
<td>141.5</td>
<td>9.3</td>
</tr>
<tr>
<td>Jamaica</td>
<td>1967</td>
<td>3.8</td>
<td>348.4</td>
<td>1.1</td>
<td>3.6</td>
<td>222.1</td>
<td>1.6</td>
</tr>
<tr>
<td></td>
<td>1968</td>
<td>3.7</td>
<td>383.0</td>
<td>1.0</td>
<td>5.1</td>
<td>219.2</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>1969</td>
<td>5.9</td>
<td>442.1</td>
<td>1.3</td>
<td>8.3</td>
<td>280.7</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>8.8</td>
<td>537.3</td>
<td>1.6</td>
<td>10.3</td>
<td>405.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Trinidad</td>
<td>1967</td>
<td>7.8</td>
<td>411.2</td>
<td>1.9</td>
<td>25.7</td>
<td>441.5</td>
<td>5.8</td>
</tr>
<tr>
<td></td>
<td>1968</td>
<td>7.8</td>
<td>420.0</td>
<td>1.9</td>
<td>31.0</td>
<td>459.9</td>
<td>6.7</td>
</tr>
<tr>
<td></td>
<td>1969</td>
<td>10.9</td>
<td>484.4</td>
<td>2.3</td>
<td>38.0</td>
<td>464.9</td>
<td>8.2</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>13.4</td>
<td>560.5</td>
<td>2.4</td>
<td>47.1</td>
<td>456.4</td>
<td>10.3</td>
</tr>
<tr>
<td>LDCs</td>
<td>1967</td>
<td>17.0</td>
<td>68.8</td>
<td>24.7</td>
<td>3.4</td>
<td>36.9</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>1968</td>
<td>19.7</td>
<td>59.0</td>
<td>33.4</td>
<td>3.0</td>
<td>34.0</td>
<td>8.8</td>
</tr>
<tr>
<td></td>
<td>1969</td>
<td>24.3</td>
<td>78.4</td>
<td>30.1</td>
<td>3.6</td>
<td>40.9</td>
<td>8.8</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>29.6</td>
<td>101.4</td>
<td>29.2</td>
<td>4.5</td>
<td>31.8</td>
<td>14.2</td>
</tr>
<tr>
<td>Total</td>
<td>1967</td>
<td>48.0</td>
<td>1040.8</td>
<td>4.6</td>
<td>48.0</td>
<td>855.2</td>
<td>5.6</td>
</tr>
<tr>
<td></td>
<td>1968</td>
<td>54.4</td>
<td>1051.4</td>
<td>5.2</td>
<td>54.4</td>
<td>858.5</td>
<td>6.3</td>
</tr>
<tr>
<td></td>
<td>1969</td>
<td>67.9</td>
<td>1191.6</td>
<td>5.7</td>
<td>67.9</td>
<td>932.7</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>83.6</td>
<td>1419.3</td>
<td>5.9</td>
<td>83.6</td>
<td>1062.6</td>
<td>7.9</td>
</tr>
</tbody>
</table>

In addition to internal expansion, CARIFTA's world trade has also increased. Total imports of its members increased from US $1,040.8 million in 1967 to $1,419.3 million in 1970. Total exports to all countries rose from $855.2 million in 1967 to US $1,062.6 million in 1970. This represents a gain of 26 percent in imports and 24 percent in exports during the period.

CARIFTA has paved the way towards a stronger bond of economic integration through the Caribbean Community. Established in 1973, the Community functions around three areas of activity:

1. Economic integration, as represented by the Caribbean Common Market, which replaces CARIFTA;
2. Common services and functional cooperations;
3. The coordination of foreign policies among the independent countries.

The major objectives of the Community are first, to achieve the economic development of each single member country and of the Region as a whole, and secondly, to enhance the effective sovereignty of the member states of the Region and the self-determination of its people. 

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2 William Demas, "Some Thoughts on the Caribbean Community" (Report of the Secretary-General of the Caribbean Community on 31 August 1974), p. 3.
The Community is really an expansion and strengthening of the CARIFTA Agreement existing earlier. CARICOM has succeeded and adopted the provisions of CARIFTA. The main new features have been the creation of a common external tariff and a common protective tariff, the co-ordination of foreign policies, and the harmonization of fiscal incentives for industry, agriculture, and tourism.

Table 2 depicts the basic characteristics of CARIFTA/CARICOM member countries in relationship to their physical size and economic development.

**TABLE 2**

AREA, POPULATION, AND GROSS DOMESTIC PRODUCT OF CARIFTA/CARICOM* COUNTRIES IN 1970
(The GDP at Factor Cost)

<table>
<thead>
<tr>
<th>Country</th>
<th>Area (Sq. Mi.)</th>
<th>Population (000)</th>
<th>Population Density</th>
<th>GDP (000)</th>
<th>GDP Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua</td>
<td>170</td>
<td>70</td>
<td>412</td>
<td>40,673</td>
<td>581</td>
</tr>
<tr>
<td>Barbados</td>
<td>166</td>
<td>238</td>
<td>1,435</td>
<td>273,500</td>
<td>1,149</td>
</tr>
<tr>
<td>Belize</td>
<td>8,866</td>
<td>120</td>
<td>13</td>
<td>100,286</td>
<td>836</td>
</tr>
<tr>
<td>Dominica</td>
<td>305</td>
<td>70</td>
<td>230</td>
<td>33,856</td>
<td>484</td>
</tr>
<tr>
<td>Grenada</td>
<td>133</td>
<td>95</td>
<td>711</td>
<td>42,118</td>
<td>443</td>
</tr>
<tr>
<td>Guyana</td>
<td>83,000</td>
<td>714</td>
<td>9</td>
<td>460,640</td>
<td>645</td>
</tr>
<tr>
<td>Jamaica</td>
<td>4,411</td>
<td>1,866</td>
<td>423</td>
<td>2,339,520</td>
<td>1,254</td>
</tr>
<tr>
<td>Montserrat</td>
<td>32</td>
<td>12</td>
<td>384</td>
<td>11,847</td>
<td>987</td>
</tr>
</tbody>
</table>
### TABLE 2—Continued

<table>
<thead>
<tr>
<th>Country</th>
<th>Area (Sq. Mi.)</th>
<th>Population (000)</th>
<th>Population Density</th>
<th>GDP (000)</th>
<th>GDP Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. Kitts-Nevis-Anguilla</td>
<td>101</td>
<td>46</td>
<td>453</td>
<td>28,417</td>
<td>618</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>233</td>
<td>101</td>
<td>434</td>
<td>62,858</td>
<td>622</td>
</tr>
<tr>
<td>St. Vincent</td>
<td>150</td>
<td>89</td>
<td>594</td>
<td>37,022</td>
<td>416</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>1,980</td>
<td>945</td>
<td>477</td>
<td>1,717,000</td>
<td>1,817</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>99,547</strong></td>
<td><strong>4,366</strong></td>
<td><strong>44</strong></td>
<td><strong>5,147,737</strong></td>
<td><strong>1,179</strong></td>
</tr>
</tbody>
</table>


*These data represent 1970 figures. CARICOM was not yet established. CARIFTA was transferred into CARICOM in 1973.*

The table demonstrates the striking disparities in land area, population and production among the countries of the Region. In physical size, it varies from 32 square miles for Montserrat to 83,000 square miles for Guyana. Jamaica's population of almost 2 million greatly outshadows Montserrat's population of only 12 thousand. Also, the gross domestic product of the more developed countries contrasts sharply with that of the less developed countries. On a per capita basis the GDP ranges from $416 in St. Vincent to $1,817 in Trinidad and Tobago.
The composition and value of the major exports of the Commonwealth Caribbean countries that comprise CARICOM are illustrated by Table 3. The table demonstrates the base of each particular country. However, it is limited only to specific products where exports are very significant. The tourist industry is another very important industry in the Region contributing significantly to Barbados, Jamaica, Antigua, and the Windward and Leeward islands.

The Region is endowed also with other valuable natural resources which at present are used mainly for local consumption and which are not yet fully exploited. These include an abundant supply of fresh fish and shrimp off the coast of Trinidad and, to a greater extent, Guyana; forestry and potential for forest-based industries in Belize, Dominica and Guyana; earth and sands for building materials such as cement in Dominica, Guyana, Jamaica, and Trinidad and Tobago; clays in Guyana; iron ore and other mineral resources in Guyana; good potential for dairy livestock in all countries and beef potential in Belize and Guyana.¹

In general, however, most of the resources are dominated by the "Big Four"—Sugar and its by-products in

Barbados, Guyana, Jamaica, and Trinidad and Tobago; petroleum products in Jamaica and Trinidad; bauxite and alumina in Guyana and Jamaica.

Foreign Investment

Traditionally, foreign private investment in the Region has been concentrated in such activities like export agriculture, mining, oil production and refining, tourism, manufacturing, banking, and insurance. The United Kingdom, Canada and the United States are dominant investors in the area.

The United States investment in the Region is heaviest in the countries that produce bauxite and process oil, i.e., Jamaica, Trinidad, and Guyana. The United States invests heavily in manufacturing, tourism, banking and insurance. Absolute figures for United States investment in the Region is not available. However, the United States Department of Commerce estimates that the book value of United States investment in the Bahamas, Jamaica, Trinidad and Tobago, Aruba, Surinam, Guyana, and Barbados, in order of estimated importance, exceeds US $3,000 million. This figure does not include the United States Caribbean territories.

Historically, British direct investment has been
mainly concentrated in export agriculture particularly sugar and bananas. But, more recently British interest has spread over to include also the tourist industry and banking and insurance industries. The estimated total of British investment in the area is put at US $750 million. This is highly concentrated in the Commonwealth Caribbean.

Canada also has invested heavily in the Commonwealth Caribbean. Like the British, Canadian investment is concentrated mainly in tourism, banking and insurance. There seems to be special Canadian interests in Jamaica, Barbados, Antigua, and the other smaller English-speaking territories. Canadian investment is estimated at US $500 million.

Recently, the Region has been of interest to other foreign investors. Venezuela has invested in a box-making plant in St. Lucia; Germany has invested in bagasse manufacturing in Trinidad; and there are indications that Japan will follow similarly in the Region's investment.

The recent movement towards regional integration in the area should provide additional incentives for private investment. This presents an opportunity for industrial and agricultural development to be achieved through the most efficient and economical way. Planning on a regional scale provides cost savings from the duplication of efforts often
associated with smaller units. As the Community cuts across local and national boundaries, it creates an opportunity for private enterprise to operate at fuller capacity through larger markets. Private enterprise also contributes significantly to the solution of the development problem. This therefore, is a situation of mutual benefits for both private investors and the countries concerned.

Choice of Subject

Recently, efforts have been made to arouse greater interests in investment in the Caribbean area both at home and abroad. The Economist Intelligence Unit has completed a survey for the Caribbean Development Bank in identifying industrial projects suitable for financial assistance in the less developed members of the bank. The study concludes that the LDCs present an excellent opportunity for new or expanded industries for export to North America and Europe or to serve the local and regional markets. Industries for North America and Europe as identified by the report, are listed below:⁴

- costume jewelery; sports goods; leather goods;
- canned fruits; plush toys; men's underwear;

intimate apparel; outer garments; knitted piece goods; electronics; electrical accessories.

The report also identifies other industries for the regional and local markets--bicycles, footwear, builders hardware, hand tools and cutlery, domestic dinnerware.

Other organizations have motivated interests in the Region both directly and indirectly. The Overseas Private Investment Corporation (OPIC) which grants financial insurance to United States investors overseas now covers nearly all the countries of CARICOM. The only exception is Montserrat. OPIC programs are available in these countries: Trinidad and Tobago, Barbados, Grenada, Jamaica, St. Kitts-Nevis-Anguilla, St. Vincent, St. Lucia, Dominica, Antigua, Belize, and Guyana. The program in the Region comprises some forty-four Contracts of Insurance for varying coverages which produce a maximum OPIC contingent liability of US $555,355,930, as of January 1975.

There are other groups in the United States seeking to promote investment in the Region. Towards the end of last year (1974) both conferences sponsored by the National Business League, and the Atlanta Chamber of Commerce in association with the Pan African Business Center featured workshops on Caribbean trade and investment opportunity.
The present study furnishes an investigation into the investment climate as it relates to the managerial process and management efficiency.

**Significance**

This study is significant as both a micromanagement and macromanagement instrument in planning.

I. It may be used as a tool in an individual firm's planning.

(a) If a productive enterprise becomes aware of the external constraints which directly affect its internal performance it is in a better position to choose successfully among alternatives.

(b) It is particularly useful to foreign investors. Once problems are identified, an international firm may be able to overcome local environmental constraints, perhaps through importing needed factors from abroad, for example, capital or skilled labor.

(c) It enables the firm, whether national or foreign, to adjust favorably to its environment.
II. As a macromanagerial planning tool it is useful to national governments. The general constraint matrix which appears in this study indicates the importance of these various environmental factors in attracting investment for economic development.

Research Design

A model developed by Farmer and Richman showing the correlation between the degree of effectiveness of internal firm management and local environmental factors, the C-I-B matrix, is adapted for use in this study and applied to the CARICOM region. The C's represent the local external constraints, the I's the international constraints, and the B's the critical elements of the management process. Here, the economic factors indicating the independent variables are arranged horizontally, and the managerial and firm functions are listed vertically. The degree of managerial efficiency is the dependent variable. The matrix denotes the local factors that bear a significant relationship with the managerial efficiency of industrial firms, and these are evaluated with respect to each specific and individual enterprise to explore management performance and firm results.
The study makes one basic assumption: A productive enterprise is significantly influenced by local factors in the country of operation. In order to manage effectively in its new environment the international firm needs to understand "intimately" its new environment since it will necessitate different types of decisions from those made at home.\(^5\)

In the initial study, Farmer and Richman considered all the factors affecting the investment climate as independent variables: educational, sociological, political-legal, and economic.

The application of this constraint-behavior model, as developed by the above writers, is fitting to this particular study. Farmer and Richman's study concludes that a productive enterprise forms a part of a complex sociological, cultural, political, legal, and economic environment, and that the overall managerial performance of an industrial enterprise is significantly influenced by all these constraints. Their study deals extensively, but in a general tone, with all factors affecting investment in any country.

This study, however, is an application of the model adapted for the CARICOM region. It is limited to the economic factors in the host countries.
CHAPTER II

FIRM AND MANAGERIAL FUNCTIONS

An industrial enterprise operating in a particular country or region both influences and is influenced by the economic climate at its location. There is thus, an inter-relationship between a firm and its external environment. While the firm affects the economy in which it operates, its overall managerial efficiency also depends to a large extent on factors external to the firm. These environmental factors affect industries in different ways. Some serve as a complete barrier to the entrance of an industrial enterprise as is the case where a country prohibits foreign investment or where all industries are publicly owned. Others, while creating additional problems to industries, may be partially overcome reducing profits to some extent. If, for example, there is a lack of social overhead capital as transportation facilities the firm may be forced to provide its own. Still others have a direct influence on internal management process and affect the efficiency in which the firm performs its functions. The degree of skill attained by the local
population has a direct bearing on labor input, the staffing function, and production. The lack of these may result in losses and inefficiency within various departments of the firm and overall firm deficiency.

Others, however, work in a positive direction. Income tax holidays, for instance, offered by some countries exempt an industrial enterprise from paying tax on profits for a number of years. Likewise, the factor endowment of a country resulting in easy accessibility of raw material, capital, and labor simplifies management task to a great extent and benefits the enterprise.

The external environment in which firms function vary from country to country. A productive enterprise must therefore adjust to suit each environmental constraint. This influences the managerial process, the efficiency in which management performs its functions, and the overall efficiency of the firm. This is depicted in Figure 1. The central idea is that other factors intermingle with the factors of production—land, labor, capital, and entrepreneurship—to determine the quantity or quality of goods and services produced. These are the external environmental constraints. The study, however, concerns only the economic variables.
Fig. 1. Constraint - Management Process - Managerial - Effectiveness - Efficiency Relationships

SOURCE: Adapted from Farmer and Richman, Comparative Management and Economic Progress.
The Productive Job

In seeking to achieve its specific objectivity, whether profit maximization for its stockholders or social welfare of the community, certain basic internal activities must be performed by the industrial enterprise. The location in which a firm operates as well as the manner in which it operates may vary, but its basic functions remain the same. These must be performed in every economy whether the enterprise performs these itself or commissions specialists to do so, and whether it operates in a capitalistic or socialistic society. The major purpose of this chapter is to identify the basic managerial functions and the critical elements of the managerial process which interrelates with the overall objective of the productive enterprise.

The first is production. Land, labor, capital, and entrepreneurship are combined to produce the desired goods and services. Certain decisions must be reached: the type of products to be produced, the quantity of such products, and the process through which these are to be produced. When all these are decided upon resources are directed to producing the needed goods and services. This also involves procurement. Raw materials and other components must be
purchased to be utilized in the production function. It is true that modern technology allows for a highly scientific, mechanized, and automated process. Nonetheless, on account of the numerous other factors involved and the many other functions in which the firm is engaged production planning must be geared to suit the environment in which it is to take place.

Another function is distribution or marketing. When products are produced they must be distributed and sold. This involves the organization of distribution channels including the interrelationships between buyer and seller and the physical distribution involving transportation or inventory planning. All these involve interaction with environmental factors.

Likewise, the financing of activities within an enterprise is another basic function. Liquid funds have unlimited demands. Managers must, therefore, decide how the activities of a firm are to be financed or which ones are to be given priority.

Research and development is also an important function which every firm performs in an effort to induce new and improved products. This ranges from a simple search (perhaps for obtaining prices of raw materials from
different sources in a small village to take advantage of the most profitable) to an elaborate multimillion-dollar chemical research project. Thus, every firm performs the function, whether consciously or unconsciously, in different degrees.

In the same way, all firms deal with outside forces, governments, unions, bankers, suppliers, or customers, and, as such, are involved in public and external relations. The relationship a firm nurtures with outside groups may affect its level of performance. A firm noted for its high quality products will retain its customers, gain more, and so increase sales. On the other hand failure to repay loans on time may result in the denial of future requests.

The above functions are performed by every firm in every locality. The location in which firms operate has bearings on the efficiency in which each of these functions are performed. Environmental factors differ in each community, and the skill in which managers perform their critical functions depend on these factors.

**The Managerial Functions**

Co-ordination and execution of the basic productive function require a concerted effort on the part of management. Managers themselves must perform certain critical
managerial functions geared towards the overall objectives of the enterprise. These are planning, organizing, staffing, directing, controlling and innovating--the managerial tasks in every productive enterprise as summarized below:

If a productive enterprise is to continue operation, certain common functions of management must generally be performed regardless of whether the enterprise is state or privately own and regardless of whether resources are allocated through state planning or a competitive market price system....At least some objectives or plans must be formulated, operations must be controlled, and organization structures must be established; at least some authority must be delegated and responsibility exacted; and personnel must be recruited, selected, trained, appraised, motivated, led and supervised. Moreover, firm managers are generally expected to improve operations and results through innovations where feasible....In addition, at least some administrators of each enterprise engage in negotiations of various sorts with external parties and organizations.¹

To perform all these functions effectively, managers must be well equipped with the right tools. Proper training is an asset, but environmental factors also interrelate with the good intentions of managers to foster or disrupt these functions.

Planning and Innovation

Planning is a process of decision-making. A manager chooses among a series of alternatives. It is through

planning that management determines the organizational objectives, programs, schedules, procedures, and methods of achieving them. From these major plans stem a variety of subplans to be carried out so as to achieve the initial goal.

Plans must be changeable. They must be able to adapt to changing and unforeseen circumstances. They must be able to overcome difficulties from outside forces, pressures external to the firm or beyond the control of managers. Flexibility tests the efficiency of planning.

A time horizon is another important consideration in planning. The length of time necessarily depends on the problem at hand requiring a time span of fifteen years or fifteen minutes accordingly.

The type of plans also varies depending on the enterprise, the objectivity, managers' views and the subject to be planned. They may be highly scientific or just briefly outlined. They may be centrally oriented or decentralized throughout the enterprise. They may involve only a key individual or a number of employees.

The ultimate losses arising from poor planning and failure to meet external demands are great. It may lead to inappropriate marketing channels, inefficient production
techniques, and inadequate financing, contributing to an overall poor and unsuccessful industrial venture.

Organizing

The organization structure of a firm depends to some extent on the size of the enterprise. However, irrespective of size all have some form of organization, formal or informal, centralized or decentralized. It may range from a simple informal proprietor-manager-employee structure to a vast formal and complicated hierarchy of officials and workers. In the latter case the classification may be based on a territorial or functional plan. It may be centralized or decentralized depending on who participates in the decision making process, the type of enterprise, and other factors affecting the managerial process.

The function involves the identification and grouping of activities necessary to carry out the plans as well as the delegation of authority to individual and groups to perform the functions specified by the plans.

Staffing

A ship must be manned by an adequate and efficient crew to keep it sailing towards its destination and to protect it from sinking. So too, does every productive
enterprise if it is to survive successfully. Staffing involves much more than placing an individual in a vacant position to perform a particular activity. It encompasses the activities of defining the human requirements of the jobs to be done and includes, among other things, the activities of inventorying, recruiting, appraising, and selecting candidates and incumbents to accomplish their tasks as effectively and efficiently as possible. It also involves the provision of adequate basic inducements to attract and maintain needed personnel.2

An effective staffing function seeks to avoid poor employee performance, heavy turnover, excessive personal conflicts among workers. On the other hand it strives towards efficient performance with correspondingly efficient productive results from the enterprise on the whole. In short, it is a "systematic search for qualified and able candidates."3 It depends on the talent and skill achieved in the local population and other external factors. Consequently, managers must vary their techniques also, for

2Ibid., p. 17.

example, methods used in recruiting personnel, criteria used in selecting, appraising, and promoting personnel.

**Directing**

Leading, guiding, advising, instructing, supervising, motivating—these are the goals of the directing function. It aims at getting subordinates to perform their tasks effectively and efficiently. Like the overall function of management itself it is getting things done through other people.

**Controlling**

As the word implies, the controlling function seeks to getting situations to conform to plans or objectives. It correlates activities within an enterprise to ensure the accomplishment of plans. This is the rod which managers use to correct discrepancies which may appear. "Only when actual performance is measured against planned performance" is the control mechanism at work.\(^4\) To name but a few of the control measures used in business, these are the profit margin control, the budget control, statistical quality control and operations research control.

\(^4\)Ibid., p. 58
Whether the industrial enterprise operates in a country where resources are allocated through state planning or the market forces, it engages in production and procurement, distribution, finance, research and development, and external relations. The basic managerial functions corresponding to the overall objective of the firm must also take place—planning, organizing, staffing, directing, controlling, and innovating. The efficiency with which these are performed depends on managers' views, attitudes and skills. To some extent it depends on the environmental factors beyond the control of management. Thus, techniques used in performing them vary accordingly. The degree of centralization or decentralization of authority in the organizational function of managers depends, among other things, on special management development programs, view of industrial managers and management, the general economic framework, factor endowment, and social overhead capital. Likewise, the channels of distribution and the types and location of customers depend on many factors including the market size, factor endowment and social overhead capital.

The success or failure of a firm depends on managers' performance of the critical managerial functions as well as their ability to interpreting and adapting to external
factors.

The management process includes certain critical elements involved in the decision making policy. Certain variables bear a significant relationship to the efficiency of managers as identified in the listing below. Each variable corresponds to a specific type or pattern of managerial or firm behavior which is influenced by certain external constraints. This appears in detail in the next chapter. Each management function may be further subclassified. Thus, the broad function of control embodies the control standards used in different departments, the type of control techniques used, the nature and structure of information feedback systems used for control purposes, the timing and procedures for corrective action, and the degree of loseness or tightness of control over personnel. Each one of these, according to Farmer and Richman, interrelates with environmental factors. The list characterizes these firm and managerial functions which may be considered critical elements since every productive enterprise must perform these functions, consciously or unconsciously, in order to survive.  

Critical Elements of the Management Process

B₁: Planning and Innovation

B₁.1 Basic organizational objectives pursued and the form of their operational expression

B₁.2 Types of plans utilized

B₁.3 Time horizon of plans and planning

B₁.5 Flexibility of plans

B₁.11 Nature, extent, and risk-taking in enterprise operations over a period of time

B₁.12 Ease or difficulty of introducing changes and innovations in enterprise operations

B₂: Control

B₂.1 Types of strategic performance and control standards used in different areas (e.g., production, marketing, finance, personnel)

B₂.2 Types of control techniques used

B₂.3 Nature and structure of information feedback systems used for control purposes

B₂.4 Timing and procedures for corrective action

B₂.5 Degree of looseness or tightness of control over personnel

B₃: Organization

B₃.1 Size of representative enterprise and its subunits

B₃.2 Degree of centralization or decentralization of authority

B₃.3 Degree of work specialization
B3.4 Spans of control
B3.5 Basic departmentation and grouping of activities

B4: Staffing

B4.1 Methods used in recruiting personnel
B4.2 Criteria used in selecting and promoting personnel
B4.3 Techniques and criteria used in appraising personnel
B4.4 Nature and uses of job description
B4.10 Ease or difficulty of obtaining and maintaining personnel of all types with desired skills and abilities

B5: Direction, Leadership and Motivation

B5.10 Degree and extent of turnover among personnel

B6: Marketing

B6.1 Product line (degree of diversification vs. specialization, rate of change, product quality)
B6.2 Channels of distribution and types and location of customers
B6.3 Pricing (for key items in relation to costs profit margins, quality and trade discounts structure)
B6.4 Sales promotion and key sales appeals (types used and degree of aggressiveness in sales promotion)

B7: Production and Procurement

B7.1 Make or buy (components, supplies, facilities, services, extent to which subcontracting is used
B7.2 Number, types, and location of major supplies
B7.3 Timing of procurement of major supplies
B7.4 Average inventory level
B7.5 Minimum, maximum, and average size of production
B7.6 Degree of which production operations are stabilized
B7.7 Combination of factor inputs used in major products produced
B7.8 Basic production processes used
B7.9 Extent of automation and mechanization in enterprise operations

B8: Research and Development
B8.1 Nature and extent of product development and improvement

B9: Finance
B9.1 Types of costs of financing (equity, debt, short term, long term)
B9.2 Sources of capital
B9.3 Major uses of capital
B9.4 Protection of capital
B9.5 Distribution of earnings

B10: Public and External Relations
B10.1 Customer and consumer relations
B10.2 Supplier relations
B10.3 Investor and creditor relations
B10.4 Union relations

B10.5 Government relations
CHAPTER III

THE ECONOMIC ENVIRONMENTAL CONSTRAINTS

An industry cannot function independently of its environment. Firms locating in a particular country are directly influenced by local and international factors pertaining to the country in which they operate. The managerial process is thus partially environmentally determined. This chapter focuses on the manner in which different environmental elements react on the efficiency of firms. As the subject of this study, it is limited to economic variables.

Fig. 2. Effects of External Constraints on Internal Firm Functions

The previous chapter discusses the internal firm functions and elements of management. The following table
identifies certain external characteristics which act through the internal firm management on the efficiency of the enterprise.

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<tr>
<th>Code</th>
<th>Economic Characteristics</th>
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<td>4.1</td>
<td>General Economic Framework</td>
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<td>Central Banking System and Monetary Policy</td>
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<td>4.3</td>
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<td>Social Overhead Capital</td>
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4.1 General Economic Framework

The economic framework of a country ranges from one extreme where the market has full control of resource allocation (Capitalistic) to another extreme where resource allocation is entirely determined by public officials (Marxist). Between these two ends is a mixed economy where there are characteristics of both systems. The scheme claims that industrial management is in a better position to be more effective the more capitalistic the environment. Here, managers are pressured to become more efficient since the market weeds out vigorously the incompetents. Errors are
penalized by loss of profits and, in extreme cases, business failures. This arises from the basic nature of resource allocation and efficiency. To maximize efficiency it is important to place resources in the most valuable places. This is effectively done by the price system.

On the other hand governments' restrictions have a direct effect on management and the efficiency of firms. Input controls, output controls, rules on factor mobility, and the like affect the efficiency level of an enterprise.

4.2 Central Banking and Monetary System

The banking and monetary structure of a country is important to productive enterprises for two main reasons: the first, as a means of obtaining credit for industrial activities; the second, as a control for the supply of money so as to stabilize the economy. Poor planning of the money supply leading to inflation or depression may destroy firms or cause them to operate below potential plant capacity. In the same way, the availability of liquid capital through banks credit is crucial to many firms' existence.

It follows then, that in terms of business firms efficiency low price level fluctuations, relatively mild business recession and boom, steady economic growth and availability of capital are ideal situations for efficient
industries.

4.3 Fiscal Policy as it Relates to Private Investment

Government expenditures have some impact on the efficiency of industries. The greater the defense budget, for instance, the greater the demand for war goods and services. Firms producing private goods and services may well experience a loss in total demand as tax revenues are channeled from the private sector to finance those government expenditures. Tax policy will likewise affect business enterprise. Tax exemption to industries tends to encourage private investment while heavy taxation on industries has the reverse effect. In the same way, a surplus budget, where the surpluses are held by the government tends towards a reduction in aggregate demand affecting businessmen adversely. Deficits, on the other hand, tends to increase spending in favor of businessmen.

4.4 Economic Stability

Business managers generally prefer stable prices to fluctuating ones. In cases where prices do fluctuate widely business risks are greater and the firm must adjust accordingly. Managers face a more difficult task in forecasting and planning. Besides, a general rise in the price
level has the effect of increasing the prices of raw materials, labor, and capital.

4.5 Organization of Capital Markets

The availability of liquid capital to industries is a major determinant of the success or failure of business. Farmer and Richman consider this "the lifeblood of any business enterprise."\(^1\) A lack of access to money capital discourages new firms and even drives out existing firms. The prevailing rate of interest determines the ease in which loans are granted to firms. Excessive rates make loans expensive, and therefore, have adverse effects on the industrial enterprise. So important is liquid capital to firms that the organization of capital markets is a prime factor in the investment climate of any country or region. The more developed and variegated the supplies of capital in an economy the easier is the financial planning for the productive enterprise.

4.6 Factor Endowment

The factors of production, land (including natural resources) labor, capital, and management or entrepreneurship

\(^1\) Farmer and Richman, *Comparative Management and Economic Progress*, p. 305.
are the chief tools of creating useful goods and services. The relative supply of these factors are important for every business activity. Shortages of the key factors may lead to higher production costs and greater management problems. Factor endowment is directly related to the efficiency of business. A country with a large supply of low cost raw material would benefit potential industries utilizing such inputs. Production costs are lower than those of another country not so favorably endowed. Production planning becomes increasingly more flexible. In general, the more accessible and cheaper the natural resources, the easier and simpler the operations of the enterprise.

The relationship of labor to sound managerial performances is denoted from both a quantitative and qualitative aspect. From a quantitative point of view the more available is labor in the locality the larger the potential maximum production (of labor intensive goods). This refers to unskilled and highly interchangeable labor. However, for skilled labor the situation is quite different. The level of managerial competence depends on the education and skill of the labor force.

However, modern technology is capital oriented with improved efficiency in the production process. In general,
the more effectively is capital applied in production the lower the cost per unit and the more efficient the process. The recent trend towards the utilization of capital over labor in agriculture is a case in point. Other types of production are by nature capital oriented and unsuitable for substitution by labor. Electric power, for instance, needs considerable capital investment in generators, power, transformers, electric lines and other equipments. In such areas the shortage of capital presents problems. However, in many cases the right combination of labor and capital gives optimum result. It is the task of management to select the particular combination that minimizes the cost of producing a given level of output, or maximizes profits. Technically, this is where the firm earns the same increment in revenue per dollar of outlay from each of the factors that it hires. \(^2\) \(\frac{\text{MRP}_l}{P_l} = \frac{\text{MRP}_c}{P_c}\) where

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\begin{align*}
\text{MRP}_l &= \text{marginal revenue product of labor} \\
\text{MRP}_c &= \text{marginal revenue product of capital} \\
P_l &= \text{price of labor} \\
P_c &= \text{price of capital}
\end{align*}
\]

4.7 Market Size

The size of the market is interrelated with industrial efficiency. A large market enables firms to benefit from economies of scale. As the scale of operation expands to meet rising demand unit cost will decline. Two broad forces, specialization or division of labor and technological factors, enable producers to reduce unit cost by the increased production. The advantages of specialization have long been recognized since the days of Adam Smith in the classical example of a pin factory.³ A large plant with a corresponding large work force permits workers to gain efficiency by reducing time-consuming interchanges that are so dominant in smaller settings. Technical gain increases also with market size by utilizing the full capacity of plant and equipment; through a proportionate reduction in purchase and installation cost of larger machines than smaller ones; through the introduction of more efficient devices with large scale operations. Likewise, financial gain through technology includes discounts by large scale purchasing of raw and processed materials, and a comparative gain in the financial operation of a larger business overall.

4.8 **Social Overhead Capital**

Social overhead capital is defined generally as the supply and quality of public utility type services available to firms and consumers. These include the communication and transportation facilities. A manufacturing firm in a country with poorly developed social overhead capital facilities is relatively more difficult to manage. The quality and quantity of overhead capital will have an impact on the marketing and distribution strategy which the firm utilizes. In cases where the firm must supplement government's spending in providing its own facility, this will adversely affect its cost and finance.

The efficiency of management of any productive enterprise on the whole is interrelated with the external economic factors of the country in which it operates. Thus, each managerial function—planning, organizing, staffing, directing, controlling, and innovating—is interrelated with certain external constraints in the process of production and procurement, marketing, finance, and innovation. These external economic factors are identified as the general economic framework, the strength of the banking system, fiscal policies concerning budget and taxation, price stability, capital markets and factor endowment of the
particular country or region where the industry operates. This interrelationship is depicted by the following behavior-constraint matrix (Figure 3).

The hypothesized relationship may be presented also in the form of equations:

(1) \( B_{1.5} = f(C_{4.1}, C_{4.2}, C_{4.3}, C_{4.4}, C_{4.5}) \) where \( C_{4.1} \) might be the most significant variables.

(2) \( B_{6.2} = f(C_{4.1}, C_{4.2}, C_{4.3}, C_{4.4}, C_{4.5}, C_{4.6}, C_{4.7}, C_{4.8}) \) where \( C_{4.6}, C_{4.7} \) might be the most significant variables.

(3) \( B_{3.2} = f(C_{4.1}, C_{4.6}, C_{4.8}) \) where \( C_{4.8} \) might be the most significant variable.

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**B7**

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</tbody>
</table>

*Fig. 3. Critical Managerial Elements and External Constraints*
Equation (1) states that the flexibility of plans depends on the general economic framework, the strength of the banking system, fiscal policy in relation to private investment, and economic stability, where the economic framework and economic stability might be the most important factors.

Equation (2) states that the channels of distribution and the types and location of customers depend on all eight factors where factor endowment, market size, and social overhead capital might be the most important variables.

Equation (3) states that the degree of centralization of an authority depends on the economic framework, factor endowment, and social overhead capital where the last factor is the most significant.
CHAPTER IV

APPLICATION OF THE CONSTRAINT-BEHAVIOR MODEL TO CARICOM REGION

The previous chapter analyzes the ideal environment for an economic productive enterprise in accordance with the constraint-behavior model developed. Needless to say this perfect climate is found only in Utopia. In no country are all the environmental factors fully realized nor all are entirely fruitless. But, it is possible to test negative and positive economic characteristics in a particular country or region and thus determine its conduciveness to investment through this model. This is the task of the present chapter in relation to the CARICOM region.

4.1 General Economic Framework

The general economic framework of the region is one that seeks to foster the growth of private investments throughout all the countries by the introduction of generous incentive programs for new or expanding industries. These include:
(1) Tax-free holidays of up to fifteen years.

(2) Duty-free importation of capital equipment and machinery.

(3) Exemption of export duty on finished products.

(4) Provision for the repatriation of capital and transfer of profits.

(5) Liberal double taxation agreements.

(6) Provision for work permits for managerial and technical staff not available locally.

(7) Industrial estates complete with factory building and industrial infrastructure at reasonable rental rates.

The Region welcomes foreign investment as a tool to supplement national efforts. Some countries, however, have begun to review and check the traditional trend towards foreign dominance of key economic sectors—the export sector, the banking and financial sector, and the modern manufacturing sector. The relatively more developed member countries have introduced programs for joint national and foreign industrial ventures with the stipulation in many cases of 51 percent minimum shares for nationals so as to exercise more national control of key economic sectors. In Jamaica, for instance, the government grants concessions to foreign investors in manufacturing and tourism on the
condition that part of the shares be owned by local private investors. A similar program is implemented with respect to commercial banks and insurance companies operating in the country. In Guyana too, the government has laid down a policy for national ownership of at least 51 percent of the equity of resource-based industries. In Trinidad and Tobago CARICOM nationals are given preferential treatment in land ownership over nationals from other countries, according to its Alien Land-Holding legislation. Also, there has been some move towards the localization of key sectors fully or through joint ownerships. In Barbados the sugar industry, the chief product in the economy, is under local control.

Despite these national efforts, other industries still remain exclusively under foreign ownership and control. The telephone and bus transport systems and alumina installations in Jamaica are all 100 percent foreign owned. The telephone system in Guyana is totally foreign owned. Nearly all the hotels and commercial banks in all the countries are foreign owned.

The Region has traditionally encouraged private investment. It is now offering more generous incentives towards the promotion of industrial development. On the
whole, the general economic framework of the entire region leans towards private investment. This is a positive factor in the model.

4.2 Central Banking and Monetary System

The countries have well established banking structures. Central banks have been established in all the MDCs (Guyana, Barbados, Trinidad and Tobago, and Jamaica) with the combined objectives of monetary control and stability of the economy. This is attempted by regulating the issue and supply of money; by fostering credit and exchange conditions conducive to the orderly and sustained economic development of the countries; and by promoting capital markets; all, towards providing a sound financial structure. The LDCs do not maintain a central banking system. Nonetheless, these functions are attempted by each country through the respective government agency.

All have well established commercial banks and other financial institutions distributed throughout the countries so as to facilitate credit. Some of the largest commercial banks in the United States and Canada maintain full service branches in these territories:

Bank of America

Chase Manhattan Bank, N.A.
Banking services are provided by an average of six main commercial banks and numerous branches in each country. There has been a rapid expansion in the number of branches. For instance, Trinidad and Tobago reported a 96 percent increase in the period 1961 to 1968.

Deposits, likewise, have been increasing steadily. Figures for three countries, Trinidad, Jamaica and Guyana, show that deposits have more than doubled in the period 1968 to 1974. In each case, total deposits, a combination of demand, time and savings, increased annually, and these deposits have increased significantly within the period.

Government savings banks function throughout the countries so as to encourage and promote savings. Each country has its own agricultural bank geared towards making funds available for development in agriculture and industries connected with agriculture or the processing of agricultural products, and in the fields of fisheries and forestry. Likewise, a development bank in each country has the explicit
TABLE 4

DEPOSITS OF COMMERCIAL BANKS IN TRINIDAD, GUYANA AND JAMAICA, 1968-1974
(In Millions of Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Guyana</th>
<th>Jamaica</th>
<th>Trinidad &amp; Tobago</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Demand</td>
<td>Time &amp; Savings</td>
<td>Demand</td>
</tr>
<tr>
<td>1968</td>
<td>22.6</td>
<td>81.8</td>
<td>63.3</td>
</tr>
<tr>
<td>1969</td>
<td>23.6</td>
<td>92.0</td>
<td>74.3</td>
</tr>
<tr>
<td>1970</td>
<td>21.3</td>
<td>103.0</td>
<td>80.2</td>
</tr>
<tr>
<td>1971</td>
<td>25.8</td>
<td>121.9</td>
<td>101.6</td>
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<td>1972</td>
<td>33.6</td>
<td>146.2</td>
<td>101.1</td>
</tr>
<tr>
<td>1973</td>
<td>38.0</td>
<td>176.8</td>
<td>131.8</td>
</tr>
<tr>
<td>1974</td>
<td>59.4</td>
<td>184.0</td>
<td>150.9</td>
</tr>
</tbody>
</table>

objective of granting loans and other forms of financial assistance to interested persons in establishing, carrying on or expanding any type of development enterprise. The Caribbean Development Bank serves the same purpose for all the countries but with special interest in development projects in the LDCs.

It provides for soft funds to help finance agricultural, industrial and tourist development. Membership is open to any state in the Caribbean and non-regional states belonging to the United Nations. It is an important source of funds for investment in the entire integrated region as it functions to achieve the following objectives set out in its establishment:

(1) To mobilize within and outside the Region additional financial resources for the development of the Region.

(2) To finance projects and programs contributing to the development of the region or any of the regional members.

(3) To provide appropriate technical assistance to its regional members particularly by undertaking or commissioning pre-investment surveys, and by assisting in the identification and preparation of project proposals.

(4) To promote public and private investment in the development projects and, among other means, aiding financial institutions in the Region and supporting the establishment of consortia.
(5) To stimulate and encourage the development of capital markets within the Region.¹

The bank is an important source of supplementary capital for private investment.

Likewise, the Caribbean Investment Corporation serves to promote industrial development in the LDCs by supplementing equity capital to productive enterprise. It also provides technical assistance to small industries located in the Region. Both institutions were formally established with the expressed purpose of granting financial and other forms of assistance to industries, and as such are important sources of initial capital for investment.

4.3 Fiscal Policy as it Relates to Private Investment

A remarkable favorable attitude towards private investment is expressed in the harmonized fiscal incentive program which includes generous income tax holidays, duty-free imports of machineries and raw materials, and export allowance rebate.

In some cases the profit of an enterprise is exempted from income tax for up to ten years in the MDCs and fifteen years in the LDCs depending on the contribution it

¹David Powell, Problems of Economic Development In The Caribbean (Gt. Britain: Cooper and Sons Ltd., 1973), pp. 47-48.
makes to the local or regional economy. Tax incentives are based on a value added concept having a direct relationship between an industry's contribution to the economy and the concessions granted the industry. It depends, for example, on its use of local raw materials and capital, its promotion of exports or its contributions to employment within the Region. According to the scheme, an industry providing 50 percent of local value added is granted income tax holidays of nine years in the MDCs, ten years in Barbados, and fifteen years in the LDCs.

**TABLE 5**

**BENEFITS AS RELATED TO LOCAL VALUE ADDED**

<table>
<thead>
<tr>
<th>Percent of Local Value Added</th>
<th>Maximum Number of Years Income Tax Holidays for an Enterprise Located In:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MDCs</td>
</tr>
<tr>
<td>Group I (50% &amp; Over)</td>
<td>9</td>
</tr>
<tr>
<td>Group II (25% to 49%)</td>
<td>7</td>
</tr>
<tr>
<td>Group III (10% to 24%)</td>
<td>5</td>
</tr>
<tr>
<td>Enclave^a</td>
<td>10</td>
</tr>
</tbody>
</table>


^aIndustries exporting all their products to extra-regional markets.
Table 5 shows the benefits as related to local value added. For an industry to receive these special concessions certain percentage of the value of its products must have originated from the common market. Thus, in order to receive the benefits classified as Group I a minimum of 50 percent of the value of inputs of raw materials, labor and capital utilized in production must be of local contributions. The other portion, a maximum of 50 percent, may be imported from external sources. For example, if the input content of a given output is worth one dollar at least fifty cents must come from regional sources for the enterprise to receive the respective tax benefits.

Greater benefits in the form of longer tax holidays accrue to members of the LDCs. This is part of a crusade for the promotion of industries in the lesser developed members provided by the CARICOM treaty. The scheme also discriminates in favor of Barbados whose level of industrial achievement is behind those of the other MDCs. A direct correlation exists between the amount of value added and benefits from income tax holidays, and there is an inverse relationship between these benefits and the level of development at the location of the industries.

Industrial promotion takes high priority in the
Region. As indicated by Table 5 an enterprise operating in the LDCs may obtain as much as ten years exemption from income tax although 90 percent of its raw materials may come from abroad. Moreover, industries located in any part of the Region obtain inputs of raw materials and capital equipment duty free from abroad as part of the fiscal incentives offered. The scheme goes further to promote exports by additional tax incentives, after the income tax holidays are over, through special export allowance to industries. Local industries may obtain a rebate from income tax on profits made on exports.

TABLE 6

EXPORT ALLOWANCE BENEFITS

<table>
<thead>
<tr>
<th>Export Profits as Percent of Total Profits</th>
<th>Rebate of Income Tax as Percent of Tax on Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% - 20%</td>
<td>25%</td>
</tr>
<tr>
<td>21% - 41%</td>
<td>35%</td>
</tr>
<tr>
<td>41% - 60%</td>
<td>45%</td>
</tr>
<tr>
<td>61% &amp; Over</td>
<td>50%</td>
</tr>
</tbody>
</table>


Industries may thus obtain benefits from tax
exemption or tax cut indefinitely if their products are directed towards the export market.

Intra-regional arrangements provide for the avoidance of double taxation as between member countries where an investment taxed in the host country is abstained from taxation in the country of origin. Similar measures for the avoidance of double taxation have been negotiated successfully with metropolitan countries to encourage foreign investments in the area.

There are numerous other arrangements for tax incentives. Industries located in the LDCs receive additional benefits in order to attract investments in these parts. Likewise, income in the MDCs arising from investments in the LDCs, and receiving tax exemption at source are also exempted from income tax in the MDCs.

The fiscal incentive programs instituted in the Region make a positive contribution to private investments and tend toward fostering a favorable investment climate.

4.4 Economic Stability

Like many countries all over the world, the cost of living in the Region saw an upsurge that has been quite marked recently. Absolute figures for the countries are unavailable, but, a comparison with the price index of New
York may be noted on an examination of Tables 7, 8 and 9.

Table 7 illustrates some significant comparisons. According to the table, the cost of living in all the cities in the MDCs is clearly lower than that of New York. Guyana demonstrates the lowest while Jamaica the highest in all cases. The cost of living in New York is 1.5 times higher than that of Guyana. This indicates that whereas a Guyanese needed, for example, $6,500 in 1974 for his upkeep, a New Yorker needed $10,000 in the same year. Even among the MDCs there are striking differences from country to country, e.g., Jamaica vs Guyana.

**TABLE 7**

**COMPARISON OF COST OF LIVING IN THE MDCs**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Barbados (Bridgetown)</td>
<td>75</td>
<td>83</td>
<td>80</td>
<td>84</td>
</tr>
<tr>
<td>Guyana (Georgetown)</td>
<td>65</td>
<td>65</td>
<td>66</td>
<td>65</td>
</tr>
<tr>
<td>Jamaica (Kingston)</td>
<td>76</td>
<td>87</td>
<td>86</td>
<td>87</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago (Port-of-Spain)</td>
<td>75</td>
<td>80</td>
<td>74</td>
<td>78</td>
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<tr>
<td>New York</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

SOURCE: *World Almanac*, *drawn up by the United Nations Statistical Office, based on prices for goods, services, and housing for international officials stationed in these cities.*
But, in each country, using New York as a base, there is an insignificant change from year to year in the price index for these countries. For instance in Guyana, with the exception of 1973, the cost of living index stood constant. However, according to the consumer price index for New York, Table 8, prices rose steadily—5.5 points in 1972, 8.3 points in 1973, and 14.9 points in 1974. This exhibits the fact that prices in the MDCs were rising almost proportionately to those in New York.

**TABLE 8**

**CONSUMER PRICE INDEX FOR NEW YORK,**
**ALL ITEMS, 1971-1974**
**1967 = Base Year**

<table>
<thead>
<tr>
<th>Year</th>
<th>Price Index</th>
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<tr>
<td>1971</td>
<td>125.9</td>
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<tr>
<td>1972</td>
<td>131.4</td>
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<tr>
<td>1973</td>
<td>139.7</td>
</tr>
<tr>
<td>1974</td>
<td>154.6</td>
</tr>
</tbody>
</table>

*SOURCE: World Almanac.*

Table 9 denotes a trend of sharp increase in prices in the Region during the period 1971 to 1974. This signifies instability and, according to the constraint-behavior model, is a negative constraint on investment. In general,
business managers prefer an atmosphere of stable prices to a fluctuating or rising one. Risks are greater in an unstable economy. Also forecasting and planning in the decision making process become more difficult tasks.

TABLE 9

CHANGES IN CONSUMER PRICE INDEX 1971-1974
Base Year = 1967

<table>
<thead>
<tr>
<th>Countries</th>
<th>1972</th>
<th>1973</th>
<th>1974</th>
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<tr>
<td>Barbados</td>
<td>6.1</td>
<td>8.0</td>
<td>15.6</td>
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<tr>
<td>Guyana</td>
<td>5.5</td>
<td>8.4</td>
<td>14.7</td>
</tr>
<tr>
<td>Jamaica</td>
<td>6.3</td>
<td>8.2</td>
<td>15.1</td>
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<tr>
<td>Trinidad &amp; Tobago</td>
<td>5.9</td>
<td>7.7</td>
<td>15.7</td>
</tr>
<tr>
<td>New York</td>
<td>5.5</td>
<td>8.3</td>
<td>14.9</td>
</tr>
</tbody>
</table>

SOURCE: Computed from Tables 7 and 8.

4.5 Organization of Capital Markets

Each of the countries have well established American, Canadian, and British commercial banks throughout the entire area. In addition, public developmental funds to industries act as a source of capital for the initial establishment or expansion of productive enterprises. Moreover, the countries welcome foreign capital as a source of investment.

Organized trading has recently been established in
the late 1960s through the Jamaican Stock Exchange and the Caribbean Stock and Bond Ltd. They trade actively in shares of local companies and government securities. However, like many other sectors of the economy the sparsity of up-to-date statistical material does not allow for a clear picture of the level of operation. But, there are some indications of a need for improvement in this area. The Commonwealth Caribbean Regional Secretariat recommends a strengthening of national capital markets (including Stock Exchanges where they exist) and further development of financial institutions in the Region.²

Commercial banks have become very important suppliers of credit for the public and private sectors. The amount of commercial loans, both long term and short term, have been steadily increasing over the years.

Other financial institutions have demonstrated the same pattern. There has been an expansion of trust companies and insurance companies with an accompanying increase in total credit from these institutions. Table 10 shows the composition (public and private) and total amount of loans transacted during the period 1968 to 1974 in some financial institutions.

²Commonwealth Caribbean Regional Secretariat, From CARIFTA to Caribbean Community, p. 96.
## TABLE 10

CLAIMS ON THE PUBLIC AND PRIVATE SECTORS OF SOME FINANCIAL INSTITUTIONS  
(In Millions of Dollars)

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<thead>
<tr>
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<td>2.8</td>
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<td>7.7</td>
<td>9.5</td>
<td>9.9</td>
<td>10.5</td>
<td>14.5</td>
<td>27.0</td>
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<td>Government</td>
<td>15.0</td>
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<td>Private</td>
<td>41.6</td>
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<td>73.7</td>
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<td>N/A</td>
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<td><strong>Commercial Banks:</strong></td>
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<td></td>
</tr>
<tr>
<td>Government</td>
<td>62.0</td>
<td>44.9</td>
<td>58.3</td>
<td>113.2</td>
<td>101.2</td>
<td>72.9</td>
<td>N/A</td>
</tr>
<tr>
<td>Private</td>
<td>194.8</td>
<td>266.2</td>
<td>326.6</td>
<td>358.9</td>
<td>500.4</td>
<td>584.7</td>
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<td><strong>Finance Houses:</strong></td>
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<tr>
<td>Private</td>
<td>N/A</td>
<td>N/A</td>
<td>7.7</td>
<td>7.4</td>
<td>11.3</td>
<td>13.3</td>
<td>21.1</td>
</tr>
</tbody>
</table>

**Source:** International Financial Statistics.

Institutions in Jamaica, Trinidad and Tobago, and Guyana. Although the ratio of public and private loans varied at times the actual amount of total loans shows an upward trend in all cases.
The availability of liquid capital is of crucial importance to business enterprises. These funds enable the producer to purchase the required plant and equipment for his output. Table 10 reveals a steady expansion of the liquid assets of commercial banks and other financial institutions. This is a positive factor in the investment climate. Moreover, the Caribbean Development Bank and the Caribbean Investment Corporation are vigorously seeking lucrative and astute businessmen for production in the Region. The Bank provides long term loans at interest rates below the prevailing market rates and the Corporation supplements capital by purchasing stocks in the industrial projects.

There are other external sources of capital. The Overseas Private Investment Corporation (OPIC) is a good prospect for financial assistance for United States citizens interested in productive investment in the Region. The program covers all the countries participating in the Common Market with the exception of Montserrat, the smallest and most recent addition to CARICOM. OPIC also carries an all-risk insurance plan for the Region, for which the contingent liability amounted to US $555. million in 1974.
4.6 Factor Endowment

Although the natural resource base of many individual countries exhibit a somewhat parsimonious outlook, that of the Region as a whole creates quite an attractive portrayal. This is aptly summarized in one of the Secretariat's reports as follows:

Certainly in relation to its size the Region can be said to have a better natural resource endowment than either Japan or Hong Kong or Denmark or Switzerland. Consider some items in the list of regional natural resources: bauxite (Guyana and Jamaica); asphalt, oil and natural gas (Trinidad and Tobago); good rainfall and agricultural land of fairly good quality in all the countries, even allowing for the heavy population density in many of the islands and for large stretches of mountainous terrain in Jamaica and the Windward islands; good potential for dairy livestock in virtually all the countries and very good beef potential in Belize and Guyana; abundant supplies of fish and shrimp off the coast of Trinidad and to an even greater extent, Guyana; forestry and potential for forest-based industries (Belize, Dominica and Guyana); earth and sands for building materials such as cement (Dominica, Guyana, Jamaica and Trinidad and Tobago); clays (in Guyana); iron ore and other yet not fully ascertained mineral resources (particularly in Guyana); excellent beaches and much sunshine suitable for tourism (particularly in Barbados, Jamaica and the Windward and Leeward islands); and good geographic location in terms of hemispheric and world trade and tourism.3

Jamaica and Guyana are two important producers of bauxite. The commercial grade for this ore is defined as containing not less than 47 percent Al₂O₃ (alumina) and

3Ibid., p. 15.
not more than 4 percent \( \text{SiO}_2 \) (silica).

In 1956 Jamaica's reserves were estimated between 500-600 million tons. But, recent production has been expanded several times making the island the world's largest producer of bauxite and alumina. Production in the first quarter of 1972 was 12,000,000 tons.

Guyana, however, produces at a smaller scale, 3,668,385 tons in 1972. The country produces a number of other minerals at a still smaller scale. These include diamond which production amounted to 4865 metric carats, and gold of 4,027 ounces in 1972.

Other minerals found in commercial quantities but not yet developed are kaolin, kyanite, soapstone, jaspers, agates and silica sand. But, other metals like iron, copper, nickel, lead, although recorded, remains to be demonstrated in commercial quantity.

Trinidad is another important source of minerals. Asphalt is extracted from its La Brea pitch lake which covers an area of 110 acres and indicates a depth in excess of 285 feet. Petroleum oil is also an important contribution of Trinidad. The recent discovery in 1972 of three new oil fields off the East Coast brings the production level at approximately 2,000,000 barrels per day. The production of
anhydrous ammonia has expanded also with a jump from 280 tons daily in 1959 to 1,530 tons per day in 1972.

Other important resources include the forest reserves of Guyana, Belize and Dominica. Four-fifths of Guyana and Belize are covered with tropical forests. These comprise 70,000 square miles in Guyana and 6,700 square miles in Belize. There are another 140 square miles of forests in Dominica. They consist of valuable timber yielding specie, the majority of which are excellent for heavy durable construction work. The most important specie in Guyana, greenheart, is not found in commercial quantity in any other part of the world. Logwood, mahogany and cedar are the most important specie in Belize while gommier and mahogany are most important contributors to Dominica's economy.

Full use of these natural resources has not been exploited. There is still significant scope for investments in agriculture, manufacturing, mining, and tourism as the CDB investment surveys reveal.\(^4\)

Intra-regional co-ordinated actions and common policies within the institutional framework of CARICOM

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\(^4\) The Economist Intelligence Unit Limited, *Eastern Caribbean and British Honduras Industrial Survey.*
encourage joint investments in natural resources among different states in the Region. Article 47 of the Common Market Annex of the treaty makes provisions for the joint development of natural resources for regional industrial programming and for coordination of overall national development planning. These provisions seek to promote industrial complexes or regionally integrated industries drawing their inputs from many countries in the region and serving the entire regional markets. This integral approach to production in the Region was recommended by Thomas and Brewster even before the establishment of CARIFTA and CARICOM. It is now more relevant today.⁵

On the premise that advanced industrial sectors are based on some ten "basic materials"—iron and steel, aluminum, paper, chemicals (mainly alkalis, chlorine and sulphuric acid) fuels (including petroleum, coal and natural gas) cement, wood, natural and synthetic textiles, glass and rubber and plastics—they argue that the resource base of the Region as a whole contains many of these basic materials, and conclude that the following industrial complexes could be fruitfully established.

(1) an integrated fishing industry
(2) a motor vehicle industry
(3) a complex for industrial chemicals - sodium hydroxide and chlorine
(4) a meat complex, involving the production of meat products, meat preparations, milk, milk products, butter and cheese, feedstuffs
(5) glass
(6) leather and footwear
(7) textiles—cotton, synthetic fiber, synthetic rubber, plastics
(8) iron and steel
(9) pulp and paper

Unskilled or interchangeable labor for industries is readily accessible. The unemployment rate in the Region stands at 15 - 20 percent. The literacy rate of the English-speaking population is high by international standards, with an average of 96 percent. Wage levels are low in the industrial sector especially in the LDCs where the average wage for unskilled and semi-skilled labor ranges from EC $4. to EC $5. per eight hour day. This is estimated at US 25 cents to US 50 cents per hour. The rates are a little higher in the MDCs but relatively very low throughout the Region.
Skilled labor is also available. With the recent trend towards industrialization each country has established technical colleges which produce highly trained technicians. The wage rate here is low too, approximately EC $8 to EC $10 per day (US $1 = EC $1.8).

More and more the countries are recognizing the dire need for technical training and special skills required to promote the industrial sectors. With this awareness sprang an outburst of technical institutions throughout the Region. The classes offer such applicable and practical courses in crafts such as motor vehicle mechanics, electrical fitting and installations, joinery, wood machining, masonry, and hotel skills.

During the period 1963 to 1972 the Barbados Handicraft Development Center graduated an average of 700 students annually. Their specialty included smocking, woodwork, pottery, novelty, and salvage crafts. In addition, the roll at the Trades Training Center showed a total of 1,200 students specializing in construction and electrical and mechanical trades in 1971.

The technical and vocational institutes in the area are both publicly and privately operated. In Guyana, for instance, the three institutes recorded in 1971 included the
government technical and several regional centers, and two others privately run by the Demerara Bauxite Company and the Broker Group of Companies. Here, a total of 2,258 students were trained during the same year.

Each of the other countries maintain at least one government technical institute. There are three in Trinidad and Tobago. In addition, a large number of graduates enter the job market each year from the University of the West Indies Technical Institutes whose main campuses are located at Trinidad, Jamaica, and Barbados. There are still others trained at the University of Guyana.

There is an abundance of cheap labor in every country, and in addition, where skilled labor for managerial or technical positions are lacking, the Region makes provisions for the transfer from external sources.

The accessibility of such relevant and practical skills improves the selection and recruitment of talent needed by productive enterprises. It encourages a more efficient use of human resources in sharp contrast to the traditional educational policies which tended to produce generalists or administrators with no special skills.

These investments in human capital provide special spill-over benefits for the handicraft and hotel industries
which are complementary to the rapidly expanding Caribbean tourist industry. In fact, they represent an asset to the entire manufacturing sector and the economy on the whole.

The easy availability of labor should provide a good base for labor-intensive goods. The work force also leans to easy training. Thus, the E.I.U. Survey team observes that with good management there is no reason why productivity levels should fall short of those in the United States or Europe.\(^6\)

4.7 Market Size

Through CARICOM twelve Commonwealth Caribbean countries joined together to establish a single regional market. Chapter III of the Common Market Annex called for the removal of duties, quotas, and other trade barriers. Individual national markets as portrayed by the small Caribbean countries are much too narrow for any significant improvement in agricultural and industrial production to be achieved through economies of scale. The demographic distribution of markets as indicated by Table 11 with a range of twelve thousand in Montserrat, and two million in Jamaica is insufficient to maintain large scale production. Even the larger territories

\(^6\) The Economist Intelligence Unit Limited, *Eastern Caribbean and British Honduras Industrial Survey*, p. 2.
in the MDCs cannot provide large enough markets for most industrial goods. Needless to say those of the smaller LDCs are grossly insufficient.

### Table 11

**POPULATION, GROSS DOMESTIC PRODUCT, AND GROSS DOMESTIC PRODUCT PER CAPITA OF COUNTRIES IN CARICOM, 1970**

<table>
<thead>
<tr>
<th>Countries</th>
<th>Pop(000)</th>
<th>GDP(000)</th>
<th>EC $ GDP</th>
<th>US $ Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua</td>
<td>70</td>
<td>40,673</td>
<td>581</td>
<td>323</td>
</tr>
<tr>
<td>Barbados</td>
<td>238</td>
<td>273,500</td>
<td>638</td>
<td>638</td>
</tr>
<tr>
<td>Belize</td>
<td>120</td>
<td>100,268</td>
<td>836</td>
<td>464</td>
</tr>
<tr>
<td>Dominica</td>
<td>70</td>
<td>33,856</td>
<td>484</td>
<td>269</td>
</tr>
<tr>
<td>Grenada</td>
<td>95</td>
<td>42,118</td>
<td>443</td>
<td>246</td>
</tr>
<tr>
<td>Guyana</td>
<td>714</td>
<td>460,640</td>
<td>645</td>
<td>358</td>
</tr>
<tr>
<td>Jamaica</td>
<td>1,866</td>
<td>2,339,520</td>
<td>1254</td>
<td>697</td>
</tr>
<tr>
<td>Montserrat</td>
<td>12</td>
<td>11,847</td>
<td>987</td>
<td>548</td>
</tr>
<tr>
<td>St. Kitts-Nevis-Anguilla</td>
<td>46</td>
<td>28,417</td>
<td>618</td>
<td>343</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>101</td>
<td>62,858</td>
<td>622</td>
<td>346</td>
</tr>
<tr>
<td>St. Vincent</td>
<td>89</td>
<td>37,022</td>
<td>416</td>
<td>231</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>945</td>
<td>1,717,000</td>
<td>1817</td>
<td>1009</td>
</tr>
</tbody>
</table>

The combined market, however, creates a better image. Population increases several times that of each individual country. The gross national product and the per capita national product compare favorably with other Third World countries. But, the market as a whole is far from substantial. Local industries must also direct their marketing channels to the export markets.

The Community has already begun to expand its economic relations throughout the world so as to open new trading links to the Region. These include negotiations with the European Economic Community in an effort to protect the market for the West Indian products traditionally marketed in the U.K. under tariff preference or special arrangements. CARICOM has secured economic relations with Cuba, China and other Socialist countries; with Mexico through the establishment of a joint Mexico/CARICOM commission; with CACM and the Andean Common Market through the principle of cooperation between CARICOM and the two Latin American economic groups. The General System of Preferences (GSP) negotiated with a number of advanced countries, provide preferential access for exports of developing countries on a non-reciprocal basis. This scheme already implemented by Australia, the European Economic Community (including the
United Kingdom, Ireland, and Denmark) Japan, New Zealand, Finland, Norway, Sweden and Switzerland provides additional trade links for exports of CARICOM products.

A comparison of the population, and national product of the Region with other countries in Asia, Africa, and South America shows the Region very weak in population although with improved national product per capita in many cases.

**TABLE 12**

**POPULATION AND NATIONAL PRODUCT PER CAPITA OF SELECTED COUNTRIES IN AFRICA, ASIA, AND SOUTH AMERICA, 1970**

<table>
<thead>
<tr>
<th>Nations</th>
<th>Population</th>
<th>GNP Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>15,270,000</td>
<td>469</td>
</tr>
<tr>
<td>Brazil</td>
<td>98,850,000</td>
<td>495</td>
</tr>
<tr>
<td>Ecuador</td>
<td>6,598,300</td>
<td>309</td>
</tr>
<tr>
<td>Egypt</td>
<td>34,840,000</td>
<td>243</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>25,564,000</td>
<td>230</td>
</tr>
<tr>
<td>Greece</td>
<td>8,960,000</td>
<td>1,400</td>
</tr>
<tr>
<td>India</td>
<td>547,949,809</td>
<td>98</td>
</tr>
<tr>
<td>Nigeria</td>
<td>69,252,709</td>
<td>150</td>
</tr>
<tr>
<td>Peru</td>
<td>14,460,000</td>
<td>525</td>
</tr>
<tr>
<td>Phillipines</td>
<td>39,040,000</td>
<td>202</td>
</tr>
</tbody>
</table>

The figures show that the prospects of the Region as a market is limited on an international level from both angles, the population and gross national product. Marketing strategies of regional industries must be channeled towards export markets.

However, the prospect for the future in regards to the market is more appealing. As indicated by Table 13, most of the countries experienced very high rates of growth of GNP during the period 1960 to 1970. This implies that with continued rapid expanding economies the market will be greatly improved. Astute businessmen are always interested in high-growth economies since selling in a rapidly expanding market is easier than competing in a stagnating situation.

The geographic expansion of the Region offers yet greater improvement of the market. The Treaty of Chaguaramus makes provisions for the Region to include the other English-speaking and non-English-speaking Caribbean countries. Under Article 2 of the Treaty membership is open to the Bahamas along with the twelve CARIFTA members. The Bahamas continues to be an active participant in many areas of regional corporation, but so far has not yet joined the Community. Other states have responded very favorably to the provisions and there are some indications that the Community
will be enlarged in the future. Haiti has applied formally for membership and its application is presently being considered. The government of Surinam has publicly expressed its desire to become a member. These are indications that other countries are willing to join the Community.

**TABLE 13**

GROWTH RATES OF GNP OF CARICOM COUNTRIES, 1960 - 1970

<table>
<thead>
<tr>
<th>Countries</th>
<th>Rate of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>LDCs:</td>
<td></td>
</tr>
<tr>
<td>Antigua</td>
<td>4.8</td>
</tr>
<tr>
<td>Dominica</td>
<td>2.8</td>
</tr>
<tr>
<td>Grenada</td>
<td>4.8</td>
</tr>
<tr>
<td>Montserrat</td>
<td>14.3</td>
</tr>
<tr>
<td>St. Kitts-Nevis-Anguilla</td>
<td>3.8</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>7.9</td>
</tr>
<tr>
<td>St. Vincent</td>
<td>6.5</td>
</tr>
<tr>
<td>Belize</td>
<td>13.5</td>
</tr>
<tr>
<td>MDCs:</td>
<td></td>
</tr>
<tr>
<td>Barbados</td>
<td>8.1</td>
</tr>
<tr>
<td>Guyana</td>
<td>7.0</td>
</tr>
<tr>
<td>Jamaica</td>
<td>9.2</td>
</tr>
<tr>
<td>Trinidad</td>
<td>8.3</td>
</tr>
</tbody>
</table>

**SOURCE:** Arithmetic rate of growth computed from GDP of countries, CARIFTA and the New Caribbean, Commonwealth Caribbean Regional Secretariat, 1971.
There is a bright market prospect for the future. More and more Caribbean countries are beginning to recognize that their chances for industrial development are better as a group since advanced technology requires larger and more closely integrated economic units. Hopefully, many more Caribbean countries will join CARICOM. This approach at industrial development has already been demonstrated all over the world. Countries are following the recent trend towards regional integration. The EEC is the most successful. Developing countries in Africa and Latin America are seeking similar devices. The countries of Central America have formed the Central American Common Market (CACM). The East African countries of Kenya, Uganda and Tanzania have got together in the East African Community. In South America also the six countries of Chile, Peru, Ecuador, Bolivia, Columbia, and Venezuela have formed the Andean Common Market, and more lately the French-speaking countries of West Africa are in the process of forming the West African Economic Community. One dominant force prevails in all cases - the realization that chances for development are better as a group.

4.8 Social Overhead Capital

The supply and quality of public utility type
services available in the Region have been improving steadily over the last few years—roads, ports, airports, electricity, water supplies and telecommunications—all are well structured and distributed throughout the countries.

These include modern automatic telephone, telex and telegraph communication services with North America and Europe; regular international shipping services to North America and Europe; daily international air services through all the MDCs and Antigua, St. Kitts-Nevis-Anguilla, and St. Lucia to European and North American airports; and power and water supply that are both adequate and dependable.

With the hope of facilitating industrial development, governments recently embarked on extensive water improvement programs. In 1970 Antigua installed a desalination water plant which greatly improved the quality and supply of its distribution. Trinidad and Tobago, Dominica, Montserrat, St. Vincent, and St. Lucia have likewise launched massive long term water expansion and improvement programs scheduled to be completed around 1975.

Most of these countries have been the recipients of some type of foreign aid towards their programs. St. Vincent received a grant of $1,175,000 from the Canadian International Development Agency and $160,000 from the British
Development Division. Montserrat, St. Lucia and Dominica were also aided by the Canadian program. Dominica received additional grants from UNICEF and Trinidad's project was partly financed by the Inter-American Development Bank.

The intra-land and inter-land traffic accommodation has been improving too. In St. Vincent extensive expansion and improvements began in 1972 under the Windward and Leeward Highway Reinstatement Plan. Guyana's 1972-1976 development road program is well on its way to include the rehabilitation of its coastal road system and the reconstruction of new roads with emphasis on a four-lane approach to the capital city, Georgetown. The Plan also envisages roads between the two rivers, the Demerara and the Essequibo which will ultimately link the country with Brazil. The countries have now successfully completed coast-to-coast road mileage.

Air transport facilities have also kept pace with other improvements. Dominica made massive reconstruction and extension of its runway and apron with aid from the Canadian government in 1970. Around the same period, St. Lucia's International Airport was extended and re-equipped to handle long range jet traffic.

These capital investments in transportation accommodations provide social and private benefits. It lowers the
cost of movement for the consumer and widens the market for the businessman. The benefits of commercial activities ooz smoothly throughout the economy and social returns are further enlarged.

For this reason governments have emphasized adequate supply and quality of internal and external traffic facilities so as to capture such benefits. The authors of the American Economic Growth have established the view that the indivisibility of transportation facilities makes for "quantum jumps" in traffic and large benefits flow to the economy. Forward linkages are reflected in these traffic jumps through perhaps expansions in the tourist and hotel industries as well as in other productive activities including regional and external trade. Consequently, there are increases in revenues, and because of the durable nature of these transport commodities the anticipated flow of revenue continues well into the future.

A Case Study of Leather Industry

The study demonstrates that with the exception of a limited domestic market, a trend towards rising prices, and reliance on foreign capital goods, all other regional

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economic characteristics make positive contributions to the industrial and managerial functions identified in the constraint-behavior matrix in Chapter III.

The constraint analysis verifies that the countries offer an overall favorable investment climate. This initial external constraint analysis and evaluation focus in a general way on the environmental conditions facing all industries and managers in the Region. It identifies weakness and strength in the area.

It is necessary, however, to determine relevant constraints for each specific and individual industry. As an illustration, a leather goods industry has been chosen. The C-B matrix for this industry (on the following page) shows the significant economic environmental constraints having positive or negative effects on the managerial and industrial functions.

This type of industry is particular suitable for the Region so as to take advantage of the many positive factors. These include easy accessibility to low cost labor; numerous fiscal incentives offered by governments to industries, especially tax relief from profits; raw materials obtained in many parts of the Region; growing demand in the Region for leather goods for which there is no local supply; great
prospects for exports to other areas in the Caribbean, Europe, and North America. In addition, the products are labor-intensive. The industry flourishes in relatively low cost labor countries, and in this aspect the Region has particular advantage.

The growing demand for leather goods is of striking importance to this industry. Shoes, jackets, coats, belts,
handbags and luggage are a few examples. Rapid changes towards fashion in leather and new uses for leather contribute to an ever increasing demand for leather in Europe, North America and the developing countries of the world.  

The new industry faces two main problems: obtaining skilled labor for managerial purposes at the initial stage and directing marketing strategies to external sources to supplement the limited domestic market. To succumb these problems a subsidiary of a well established company in another country offers the best scope.

In general, the Region provides numerous local environmental factors conducive to managerial and firm functions. The treaty establishing the Community also embraces within its bounds stimulating forces for promoting investments in the countries involved. An extension of domestic markets through the Common Market Agreement, fiscal incentives to industries, common external tariffs and other protective measures for infant industries, a scheme for the development of national resources through regional integrated industries and many other agreeable factors implanted within the CARICOM agreement—all tends towards fostering a favorable investment
climate. The time seems to be ripe for investing in the Region.

Domestic investments are encouraged and promoted by such institutions like the Caribbean Investment Corporation and the Caribbean Development Bank. It is necessary to inject a driving motivation among nationals for their contributions to the industrialization of the Region. They are perhaps unaware of the opportunities available to them in agricultural and manufacturing industries or simply shy away from the risks necessary for the profit compensations. The same view has been expressed by the Secretariat in a recent publication:

What is striking is not so much the objective paucity of the resource-base of the Region as the lack of awareness of the people of the Region of their own potentiality for creativity and innovation.9

A transformation of the education system towards developing appropriate skills and values in the citizens of the countries could rectify this apparent lack of concern.

Much scope exists also for foreign investments. The Region should seek to obtain the maximum utilization of regional resources by attracting foreign capital (both financial and technological). A clear set of policies

9Commonwealth Caribbean Regional Secretariat, From CARIFTA to Caribbean Community, p. 15.
concerning foreign investment, as attempted by the Scheme for the Co-ordination of Foreign Policies, should provide mutual benefits to both foreign investors and host countries. Private investors welcome a clear set of policies from governments to obtain the security they need for investment. At the same time governments have an obligation to ensure that private enterprises operate in a framework of national economic and social interest. Clear and precise policies on foreign investment are vital to a healthy investment climate.

The Region needs foreign capital, know how, and markets while foreign investors need security and a return on their investments. This necessitates a compromise on both sides so that each would contribute to...the ultimate creation of a viable economic community of Caribbean territories.
CHAPTER V
SUMMARY AND CONCLUSIONS

Like land, labor and capital, management or entrepreneurship is a key factor of production. However, traditional economic theory tended to divert more weight on the other factors while assuming managerial effectiveness.

This study suggests that the traditional economic approach be reversed; that there is an interrelationship between the firm and its environment; and that managerial efficiency is significantly influenced by economic environmental constraints. It further suggests a direct correlation between economic conditions and managerial effectiveness. As the economic constraints become more favorable the internal efficiency of the firm will be greater and business enterprise operates more profitably.

These economic variables are identified as the general economic framework, the banking system, fiscal policy relating to private investment, economic stability, capital market structure, factor endowment, market size,
and social overhead capital. A favorable economic condition is of assistance to business enterprises. Such constraints react positively on the managerial efficiency and productive capacity of the firm. A stable price level, growing per capita income, freedom from recessions and adequate supplies of capital directed to firms needing it are desirable for the effective internal management process.

There is also a relationship between the other factors of production and management. The management process or entrepreneurship interrelates with land, labor and capital. This creates an endless interaction between the economic constraints and the efficiency of the internal business management. The circular flow suggests that favorable economic conditions affect positively the effective managerial functions of planning, organizing, staffing, directing, and controlling as well as the production, financing and distribution process. These in turn affect the productivity level of the firm and ultimately of the economy as a whole. The stream then continues into an endless cycle of benefits to the productive enterprise and to the economy in which it operates.

Many of the regional economic variables which exhibit a direct relationship with managerial efficiency show positive
signs. This should encourage private investment. Yet, manufacturing in many of the islands is at the bottom scale. In the LDCs, for instance, production is restricted to a few soft-drink factories, sugar, soap, rum, beer, copra, and other such small scale industries. As expected in such a situation the unemployment rate is very high.

Consumers rely heavily on imports for lack of local production. But, with the establishment of the Community there have been numerous and generous incentives offered to industries. These include income tax exemptions to fifteen years, duty free import of capital goods and export of the final product. In addition to these, certain considerations and benefits are built in the Community Agreement for the LDCs. There is a guaranteed market for some of their agricultural products in the markets of the MDCs. Also, the percentage of local value requirement for inputs has been reduced to 40 percent for the LDCs and remains at 50 percent for the MDCs. This increases the percentage of foreign input or foreign participation qualified for benefits from the government incentive programs. It was further agreed that the LDCs may temporarily shut off their markets from the MDCs through tariffs or quotas if one of their members needs the entire LDCs market for its promotion. The MDCs
have also agreed to a very low ceiling of tax on income derived from investments in the LDCs.

Certain institutions concentrate their efforts mainly on the LDCs. The Caribbean Development Bank and the Caribbean Investment Corporation aim chiefly to foster and promote industrial development in the less developed members of the Region. As much as 85 percent of the 1971-1972 loans from the Bank was directed to investment projects in the LDCs.

Despite these incentive programs and the opportunity for the benefits due to the free trade agreement, both intraregional and extraregional exports from the LDCs showed little or no progress for lack of commodities to trade. As expected the heavy reliance on imports gives rise to a usual pattern of unfavorable trade balances.

There have been some improvements in the MDCs. The export growth per annum in Trinidad, Jamaica and Barbados proceeded at 25 percent, 38 percent, and 16 percent, respectively, from 1967-1970.

But, in all countries there is strong demand for foreign goods. Consumers tastes tend towards foreign goods. Besides, the lack of equipment and machinery in the Region necessitates reliance on the import market for these
commodities. Consequently, the marginal propensity to import remains quite high.

The rising price level in all countries may be due partly to this reliance on imports. The importation of foreign goods brings with them an "imported" inflation to the countries, and with mark-up costs the cost of living rises even faster than in the countries from which the goods originate.

Another problem observed is the relatively small market size. The population of approximately 4.6 million and combined gross domestic product of EC $5,100 million compare unfavorably with many other countries of the world.

These economic constraints have some effect on management. Planning for inputs must be geared toward price increases at the projected rate of inflation. The rate of growth of population and the gross domestic product per capita influence marketing strategies. Then, as the market grows and economies of scale is realized in production, there must be appropriate changes in planning, staffing and organizing functions.

The problem of a continued trade deficit in the LDCs may be attacked directly from the manufacturing sector. The Economist Intelligence Unit Survey revealed definite
scope for profitable industrial projects in the LDCs. These are special industries for the export market to include jewelry, leather goods, canned goods, and electrical accessories; industries for the entire regional market to include bicycles, footwear, builders hardware, domestic dinnerware; and industries for the Eastern Caribbean Common Market (of the LDCs) to include boats, home furniture and garments.

The feasibility study was published in 1972, but so far there has been no significant response from the public or private sectors in the area. Governments should activate further programs for industrial development.

We have seen that there are numerous scope for profitable investments in the Region. We shall now examine the benefits that may be applied to the economy through investment effectively allocated.

Myriads of literature have discussed the values of an efficient industrial sector to the home country. There are some disagreements as to the type of investments necessary, public or private. Proponents of private investments maintain that the efficiency and skills needed to make a reasonable profit in a risk undertaking are powerful forces to ensure that scarce resources are not wasted. On the other hand, opponents claim that private industries contribute
to the inequitable distribution of wealth in a country and leave society burdened by social costs. The heated debate concerning foreign investments also continues. However, there is one basic agreement, namely, that investments in the industrial sector when effectively channeled could provide increased employment opportunities at home, improve international trade positions, and stimulate backward and forward linkages to aid economic development.

These are urgently needed in the Region. Here, all the countries are in the general category of underdeveloped economies. One key problem is the underutilization of resources in the agricultural and industrial sectors. The resources could be exploited in agriculture, mining, tourist and manufacturing fields, and thus made to play a major role in the economic development of the Region.

The findings in this study suggest that many of the economic factors make positive contributions to the critical elements of the management process and managerial efficiency. They provide the nucleus for growth in the industrial sector. Steps should now be taken to utilize resources to the optimum capacity.

While foreign dominance of key economic resources is undesirable in every society it must be remembered, as the
study demonstrates, that the Region needs additional capital, additional markets and more effective managerial performances. We cannot have our cake and eat it too. A 20 percent unemployment rate is repulsive and ought not be tolerated.

One workable solution is the joint venture approach to investment. The Scheme for the Coordination of Foreign Policies in the Community recommends at least 50 percent home ownership in the MDCs and 40 percent in the LDCs. This approach may well attack the twin problem of foreign dominance and industrial deficiency.

Besides, there is an additional advantage. If local environmental factors influence managerial efficiency and productivity, it follows then, that the contributions of nationals on the "know how" of their investment climate, coupled by the managerial effectiveness of foreigners in mature industrial countries should improve the productivity level of the enterprise. This would provide optimum profits to both investors.
BIBLIOGRAPHY

Books


**Reports**


### TABLE 3

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**SOURCE:** Commonwealth Caribbean Regional Secretariat, CARIFTA and the New Caribbean (Georgetown, 1971), Table 14.

1) 1968 figures

2) Estimates and Projections for Leeward and Windward Islands, O.D.M.