



The Caribbean Development Bank (CDB)

in collaboration with

**The Caribbean Association of Industry and Commerce
(CAIC)**

PRIVATE SECTOR SUMMIT - 2002

***COMPETITIVE PRIVATE SECTOR DEVELOPMENT:
AN IMPERATIVE FOR THE FUTURE***

**REPORT ON
PROCEEDINGS**

**Monday, March 4, 2002
Grand Barbados Beach Resort
Barbados, W.I.**

Acronyms and Abbreviations

ACP	-	African, Caribbean and Pacific
ADP	-	Antidumping
ATC	-	Agreement on Textile and Clothing
BMCs	-	Borrowing Member Countries
CAIC	-	Caribbean Association of Industry and Commerce
CARICAD	-	Caribbean Centre for Development Administration
CARICOM	-	Caribbean Community
CBI	-	Caribbean Basin Initiative
CHTPA	-	Caribbean Basin Trade Partnership Act
CCJ	-	Caribbean Court of Justice
CDB	-	Caribbean Development Bank
CRNM	-	Caribbean Regional Negotiating Machinery
CROSQ	-	CARICOM Regional Organisation for Standards and Quality
CSME	-	CARICOM Single Market and Economy
CTCS	-	Caribbean Technological Consultancy Service Network
DSU	-	Dispute Settlement Understanding
€	-	Euros
EBAS	-	European ACP Business Assistance Scheme
ECCB	-	Eastern Caribbean Central Bank
EIB	-	European Investment Bank
EU	-	European Union
TAA	-	Free Trade Area of the Americas
GATS	-	General Agreement on Trade Services
GATT	-	General Agreement on Tariffs and Trade
GDI	-	Gross Domestic Investment
GDP	-	Gross Domestic Product
ICB	-	Indigenous Caribbean Banks
ICT	-	Information and Communication Technology
IFI	-	International Financial Institutions
IMF	-	International Monetary Fund
IT	-	Information Technology
LDCs	-	Less Developed Countries
MDCs	-	More Developed Countries
mn	-	million
MNEs	-	Multinational Enterprises
NGOs	-	Non-Governmental Organisations
NPO	-	National Productivity Organisation
OAS	-	Organisation of American States
OCR	-	Ordinary Capital Resources
OECD	-	Organisation for Economic Cooperation and Development
OECS	-	Organisation of Eastern Caribbean States

PPIAF	-	Public-Private Infrastructure Advisory Facility
PSD	-	Private Sector Development
PSI	-	Pre-Shipment Inspection
R&D	-	Research and Development
RNM	-	Regional Negotiating Machinery
RTP	-	Regional Transformation Programme for Agriculture
RSE	-	Regional Stock Exchange
SFR	-	Special Funds Resources
SMBs	-	Small to Medium-size Businesses
SMEs	-	Small and Medium-scale Enterprises
SPS	-	Sanitary and Phytosanitary Measures
TA	-	Technical Assistance
TBT		Technical Barriers to Trade
TNC	-	Trade Negotiating Council
TRIMS	-	Trade Related Investment Measures
TRIPS	-	Trade Related Aspects of Intellectual Property Rights
US/USA	-	United States of America
UWI	-	University of the West Indies
WTO	-	World Trade Organization

CONTENTS

SUMMARY

OPENING SESSION

Introductory Remarks

Dr. Jeffrey Dellimore; Director Project Department (Ag.) – Caribbean Development Bank (CDB)

Welcome Remarks

Mr. Sean Ifill: Chief Executive Officer (Ag.) - The Caribbean Association of Industry and Commerce (CAIC)

Opening Address

Raising The Odds of Success

Dr. Compton Bourne, O.E., President, CDB

Keynote Presentation

The Future is not what is was for the Caribbean

Ambassador Dr. Richard Bernal, Director General
Caribbean Regional Negotiating Machinery (CRNM)

SESSION I: PRIVATE/PUBLIC SECTOR: ENHANCING THE DIALOGUE PROCESS

Sustainable Private/Public Sector Partnerships

Mr. Gary Voss, President, CAIC

Panellists

- Dr. Lucretia Gabriel, Executive Director, Scientific Information Services Ltd
- Mr. Christopher De Riggs, Executive Director, Grenada Chamber of Commerce
- Ambassador J. Caloghirou, Head of Delegation, Delegation of the European Commission in Barbados and the Eastern Caribbean

Floor Discussion

Recommendations

SESSION II: GLOBALISATION: A REALITY?

- *Positive and Negative Impacts on the Caribbean*
Dr. Juliet Melville, Research Economist, CDB

Panellists

- Mrs. Pauline Gray, General Manager, Shipping Association of Jamaica
- Mr. Brian Jahra, Managing Director, Caribbean Interactive Multi-Media/eFreenet
- Mr. Robert Best, General Manager, Caribbean Poultry Association

Recommendations for CDB

Floor Discussion

SESSION III: STRATEGIES AND SUPPORT MECHANISMS FOR CARIBBEAN PRIVATE SECTOR DEVELOPMENT

Mechanisms to Enhance Private Sector Competitiveness

Mr. Vaughn Renwick, Executive Director, Caribbean Export Development Agency

CDB's Proposed Strategy

Ms. Anne Bramble, Project Review Officer, CDB

Panellists

- Mr. Ronald Bulkan, Manager/Owner, Precision Woodworking, Guyana
- Mr. Ronald Harford, Chairman, Caribbean Association of Indigenous Banks
- Mrs. Patricia Francis, President, Jamaica Promotions Corporation

RECOMMENDATIONS

- Deepening the Dialogue Process
- Institutional Support Mechanisms and Competitiveness
- Responsiveness of the Financial and Capital Market Sectors
- Technology and Services: A Source of Competitive Advantage

BACKGROUND PAPERS

Trade Negotiations: The Impact on the Development of the Private Sector in the Caribbean

Caribbean Export Development Agency

CARICOM Single Market and Economy: The Implications for the Private Sector of the CARICOM Region

Desiree Field-Ridley, CARICOM Secretariat

APPENDIX

Programme

SUMMARY

Background

The single most important challenge facing the Caribbean private sector in this millennium is to become internationally competitive in the shortest possible time. With globalisation, the liberalisation of world trade and the new imperative to survive on the basis of international competitiveness rather than preferential treatment, that is on trade rather than aid, it is the private sector which must lead the Caribbean towards the production of quality goods and services that can compete on international markets.

Developing a strong and dynamic private sector necessitates a partnership between the private and public sectors. The Caribbean private sector must therefore collaborate closely with the public sector and other non-governmental organisations in shaping the economic landscape of the future. The mission of the Caribbean Development Bank (CDB) is to reduce poverty through social and economic development. CDB recognizes that a necessary condition for the reduction of poverty is the growth of Caribbean economies. Private investment is required for economic growth. The role of the private sector in employment creation, and by extension, the reduction of poverty on a sustained basis is widely acknowledged.

CDB, in association with the Caribbean Association of Industry and Commerce (CAIC), invited regional private sector interests, regional financiers, multilateral institutions, donor agencies and regional and international organisations to participate in a Summit to determine the needs and priorities of the regional private sector and to explore ways of addressing these needs. More broadly, the Summit had the following objectives that were largely met:

1. to enhance dialogue and information exchange amongst and between the Private and Public Sectors of the Caribbean;
2. to deepen the understanding of the impact of Globalisation on Caribbean Private and Public Sectors;
3. to develop and make accessible pro-active support mechanisms and strategies which would improve the Caribbean Private Sector's international competitiveness; and
4. to increase the role of the CDB and other multilateral and donor agencies in facilitating the Caribbean Private Sector transformation.

The Summit programme is provided at Appendix 1.

The Summit is considered an important element in the development of a Private Sector Development (PSD) Strategy for CDB. Of equal importance, is the development of a system for forging close collaboration between the public and private sectors.

Conclusions

The delegates focused on the following major areas, which were highlighted in the Closing Remarks made by President of CDB, Dr. the Honourable Compton Bourne, OE:

- a Regional Development Strategy/Vision;
- promotion of Private/Public Consensus-Building;
- improved CDB emphasis on macro-economic policy;
- development of capital markets;
- institutional strengthening at the macro and micro level, that is, public sector institutions as well as private sector organisations and enterprises;
- an enabling environment; and
- CDB to continue doing the things it has always done, that is:
 - developing social and economic infrastructure;
 - financing education and training; and
 - financial intermediation

In closing, Dr. Bourne stressed that the dialogue between CAIC and CDB did not end here. There is the need for a smaller grouping of the Bank and private sector interests to regroup and define an action plan for CDB and CAIC to assist in the transition of the private sector of the Borrowing Member Countries (BMCs) to global competitiveness.

Highlights

The Need for a Competitive Private Sector

The welcoming remarks by the Chief Executive Officer (Ag) of CAIC, Mr. Sean Ifill, and opening address by the President of CDB, Dr Compton Bourne, both focused on the need for the private sector to become globally competitive and the role of CDB and private sector institutions in facilitating this transition.

Forge new relationships with the private sector as both client and partner in the development process was seen as critical to furthering the growth and development of the Caribbean Region. The following interventions were recommended in making the Caribbean private sector a hemispheric winner and then a global leader;

- aggressively making overseas markets accessible and penetrable;
- making our products and services meet and exceed global standards;
- actively reaping the benefits of the new technologies; harnessing and pooling the institutional successes which have shaped our societies; and
- working together to achieve the highest standards of living for our people.

Dr. Bourne, in his opening address, noted that the Bank has historically been associated with investments in economic and social infrastructure undertaken by the public sector in our BMCs. The Bank has expended a considerable amount of effort and resources building modern infrastructure in its BMCs by funding projects to construct roads, power plants, seaports, airports, water and sewerage systems, industrial parks, schools and health facilities, very necessary conditions for economic development of the Region. Dr. Bourne also noted that it would be untrue to say that CDB has not made resources available to the private sector. CDB's relationship with the private sector has been predominantly an indirect one, mainly through financial intermediaries. Over the period 1970-2000, financial intermediary lending amounted to US\$412 million in net approvals, representing 23% of total approvals. Dr. Bourne went on to reflect on the fact that times have changed and CDB must change along with them as the Region's private sector is currently threatened by globalisation and trade liberalisation. The President concluded by stating that CDB will continue to support the BMCs' efforts in attaining global competitiveness and will continue to work closely with CARICOM and our development partners. He called on the delegates to "call it as they see it" and to be frank in their deliberations.

Ambassador Dr. Richard Bernal, in his keynote presentation, stated that the world is not changing, it has already changed and the Caribbean still is and will continue to be vulnerable. However, there may be advantages in being small where the Caribbean can capture niche markets. Regional integration is within our control and there is need to develop the ideas for transformation without relying on external sources. The way forward for the Caribbean will be by:

- developing a vision and strategy that will reposition the Region;
- creating or generating a mind-set of change or proactive development. The Caribbean cannot afford to come late on the stage, as in the case of industrialisation and tourism;
- creating a predictable economic environment which is vital, since the private sector and investors must know the economic climate;
- re-examining what we produce and export to ensure that we are producing globally competitive exports. We must become competitive and remain competitive;
- examining opportunities for new products and services in areas where we have a competitive advantage;
- improving our productivity through the education of workers and management by attracting returning nationals with skills, and upgrading our infrastructure and technology;
- becoming creative with alliances, since we will always be small;

- devising and implementing long-term plans through cooperation between the public and private sectors. The close relationship must extend beyond national to regional levels;
- completing the regional integration process which should lead to further corporate integration; and
- developing trade policies that are proactive and tailored to complement an investment/developmental strategy. Global alliances needed to be in line with our trading policies.

Strong leadership within the Region was called for with CDB having an important role to play in this regard. It was noted that the challenge was daunting but achievable. The Region has the capacity as shown by its past achievements and strength in overcoming adversities and as a people, we are audacious and continue to attempt the previously unthinkable. The Region can make it.

Private/Public Sector: Enhancing the Dialogue Process

Globalisation and liberalization have intensified over the last ten years and the new Cotonou Agreement signed in 2000 marked a major shift in the rules and nature of the trading arrangements between the European Union (EU) and the African, Caribbean and Pacific (ACP) Group of Countries. Whereas in the past, ACP trade with the EU was characterized by preferential access for ACP goods to EU markets, the principle of reciprocity now underpins trade relations. The imminent formation of the Free Trade Area of the Americas (FTAA) will further expose the Caribbean Community (CARICOM) to wider competition. Within CARICOM, the agreement to create a Single Market and Economy (CSME) will also increase competition in the Region.

The new imperative is to succeed on the basis of sustained international competitiveness rather than preferential treatment, on trade rather than aid. The role of the private sector is recognised as the engine of growth and therefore a comprehensive and integrated programme of action to support the business sector is needed at the macro, meso and micro levels. Private and public actors need to be mobilized in a joint effort to tackle the pervasive development challenges now facing the Region. The Region has enormous potential but there is need to be organised to move forward. This is posing a major challenge.

Issues on the Agenda

- Inclusion of the private sector in policy making.
- Institutional strengthening and capacity building of private and public sector organisations to be able to engage in constructive dialogue.
- Institutionalisation of the formal dialogue process between private/public sectors at the national level which would then feed directly into a regional forum to plan,

monitor and implement strategies to assist the private sector in the Region during the transition to global competitiveness.

- Governance.
- Lessons to learn from Barbados experience with the social partnerships.
- Creation of new mechanisms or revising existing mechanisms to facilitate a more decentralized dialogue that embraces all the actors in civil society.
- Balance between the complementary functions of the private and public sectors. There is need to recognise that both the public and private sectors have a distinctive role.

Mr. Voss, President of CAIC, in his address noted that for the Region to move forward, there was need to reinvent ourselves by rethinking our position in the world and by so doing, get rid of our historical comfort zone and focus on a whole new vision. The main points highlighted by the panellists were the:

- importance for communication to embrace a perspective that takes the Region forward by seeking to convert dialogue into reality;
- importance of regional institutions providing information on what is likely to take place in the future on issues including globalisation;
- possible implications of trade liberalisation;
- widespread disillusionment among civil society and the degeneration of the dialogue into a ritual;
- need for government to secure a “buy-in” from civil society;
- tendency for governments not to take on-board the views of non-elected officials;
- need for the private sector to develop a strong and collaborative voice on matters relevant to the sector; and
- need to build strong private-sector bodies and seek to avoid dominance in such organisations by certain interest groups.

Why Dialogue? Dialogue is always taking place but it needs to be developed and enhanced. Within the private sector, there is a vacuum in representation at the policy level and in the past there has been mistrust and lack of confidence in the process on either side. The language of the dialogue needs to be complimentary and not adversarial.

There is need for social dialogue to involve all social partners, including labour and other members of civil society, not just the public and private sectors. The partnership should be

genuine and should avoid tokenism. In addition, there is need for greater transparency and inclusiveness on the part of governments.

Delegates noted that there was an emerging consensus on the issues. A timetable should be set for the achievement of goals.

The Caribbean Regional Negotiating Machinery (CRNM) was called upon to develop a Trade and Investment Policy for the Region. The initiative should take the form of a regular forum, both nationally and regionally, in order to inform the RNM. Parties to these fora would include trade unions, governments, the private sector, with CDB or a similar organisation acting as the coordinator. One member called for an honest broker to perform the role of facilitator. The need for such regular fora was seen to be urgent and the possibility of late implementation beyond 2005 was to be avoided. The following three cautions were expressed to prevent the initiative from petering out:

- (i) a serious on-going structure;
- (ii) genuine partnership among all parties; and
- (iii) the need to build in a re-tooling mechanism in order to bring in new partners.

How can we ensure that serious issues are placed on the agenda? It was clearly stated that there must be mutual trust and confidence to govern all partnerships and this theme was repeated throughout the discussions. In contrast to the historical adversarial approach to dialogue in the past, the Region must approach things differently in the new globalised economy. It was suggested that the Region should take small steps to build trust and confidence rather than have grand objectives.

It was continually stressed that there must be institutional capacity within the organisations, in order to deepen the dialogue process. This would include the need for executives of organisations to keep their members informed of issues and developments. It was noted that membership in Chambers of Commerce is voluntary and this may be a hindrance. The French model, whereby it is mandatory for all firms to join the Chamber of Commerce was recommended. The importance of dialogue was emphasised as it is a requirement in negotiations for the 9th European Development Funds.

There are mechanisms for national dialogue already in place by governments, but there is the need for such mechanisms in turn to feed the position at a regional level. The enabling environment would not be enough, since there would be the need for financing of activities. Some hand-holding is still necessary.

Globalisation: A Reality

Dr. Juliet Melville's presentation dealt with the experiences of the Caribbean with respect to globalisation. Historically, the economies of the Region have been highly open, with trade (exports and imports) accounting for more than 100% of Gross Domestic Product (GDP) for

most countries. Foreign capital has always played a significant role, although mainly associated with Foreign Direct Investment in natural resource based industries including tourism. What is new is the dramatic change in the trading environment and the fall out from this. Managed trade is giving way to free trade. The protection of domestic markets from imports is in the process of being dismantled; non-reciprocal preferential trading agreements and special trading arrangements are giving way to non-reciprocal arrangements. The Region's trading relationships have become more complex as these relations are no longer confined to the traditional trading partners - such as the United States of America, Canada, EU and CARICOM partners. The region has been diversifying its trading relationships through bilateral and regional arrangements, particularly with Latin America. There has also been a simultaneous deepening and widening of the regional movement, i.e., the creation of the CSME.

Cross border investment within CARICOM has increased significantly with Trinidad and Tobago taking the lead. Some domestic and foreign owned businesses have been reorganising and restructuring their operations to raise productivity and improve efficiency, while attempting to consolidate their position in domestic and regional markets. Consolidation is taking place through alliances, takeovers and regional expansion, and in a few cases extra-regional expansion. These developments have been occurring most notably in the financial services sector, the distributive trade, but also in other sectors and involve some of the Region's largest firms. Some of these developments are giving rise to concerns about anti-competitive business practices. Regional businesses have also been entering relationships with extra-regional firms.

At the level of the public sector, there has also been some amount of restructuring and reorganisation by governments. The scope of government activities has been trimmed; greater focus is being given to macroeconomic stability and creating an investment friendly climate; and there has been some amount of institutional building to support economic activity in the new environment. It appears as if less attention is being given to long-term development issues even though the critical nature of these is increasingly apparent. The downside of globalisation is already being felt as businesses and workers in some sectors have been affected negatively.

The elimination of trade restrictions means theoretically that firms have access to and can export to a wider array of countries. The capability to take advantage of these opportunities will be a determining factor.

In the current climate, countries are expected to attain economic growth and accumulate wealth by exporting to global markets without special considerations. These markets, for the most part, are characterised by competition based on quality and efficiency (low price). The bar is continuously shifting upward as more and more countries upskill their people and acquire the capacity to produce goods and services competitively for global markets. More and more goods and services are taking on the characteristics of commodities (The China Effect). In this scenario, low cost and volume is the key to success. Competition based on low unit price is likely to place the Caribbean at a disadvantage due to high production cost and relatively small production capacity, particularly with respect to primary produce. For small Caribbean countries, accumulation of wealth through exports to global markets will always be challenging.

As small high-cost producers, success in the international arena will have to be centred on positioning one's operation at the high end of the market for most goods and services, product differentiation and/or niche marketing in which one is not confronted with head to head competition from high-volume low-cost producers.

The panellist highlighted the following areas of concern:

- the need to implement programmes and policies which will make a difference in the long term;
- there are pockets of excellence and success at the micro level which spark a resurgence of hope and faith in the future of the Region and its people;
- in the shipping industry in Jamaica, an Industry Competition Scorecard was developed which allowed the industry to assess in a "quick and dirty" fashion, the performance of the drivers which influence their competitiveness; and
- shipping industry management is being asked to embrace international paradigms of efficiency, innovation and customer satisfaction.

Strategies and Support Mechanisms for Caribbean Private Sector Development

Mr. Renwick's presentation focused on the fact that competitiveness does not just stop at the enterprise but includes a broad range of actors. Two elements are required, an enabling environment and enterprise level support, at the level of the public sector institutions, the private sector institutions as well as the enterprise itself.

CDB presented for discussion the framework of its Private Sector Strategy for development of the private sector. This proposed strategy encompassed a three-pronged approach:

- (i) creating an enabling environment;
- (ii) catalyzing larger investment flows; and
- (iii) promoting business as product development.

The key success factors for the implementation of the Strategy would be:

- (a) resource availability;
- (b) responsiveness to the private sector;
- (c) adaptable policies, procedures and processes; and
- (d) partnerships with the private sector, private sector organisations, donors and International Financial Institutions to ensure the most effective use of resources.

Positioning the Bank to effectively respond to the challenges facing the private sectors in the BMCs demands bold and innovative changes in CDB's operational environment and orientation.

The issues highlighted the fact that institutional strengthening would be required at two levels, the macro level represented by the umbrella organisations and the micro-level represented by the enterprises. It was also noted that technology does not have to be high or low and that the Caribbean needs to use low-level technology to add value. It was seen that there was a trade-off between affordability of technology and the high cost.

Discussions focused on the following areas:

- the need for support in the areas of research and technological innovation;
- development of a supportive financial architecture which allows for expansion and innovation;
- investment in human resource development;
- the need for market research and access to this information;

- the relatively high cost of capital;
- highly-leveraged companies, which have led to excessive borrowing;
- the need to establish a risk capital pool;
- the need for greater disclosure of financial information among businesses;
- the ability of technology to drive the economic adjustment process;
- the use of technology to improve processes to meet global benchmarks; and
- changing the regional focus of the private sector to one which recognises that technology provides an opportunity for export services.

RECOMMENDATIONS

Private/Public Sector Development

- A high degree of urgency has to be placed on building capacity with respect to representation of the private sector.
- Membership in chambers of commerce should be mandatory as in the French Model.
- The dialogue mechanism must have very clear and agreed objectives.
- The power or authority of the mechanism must be clearly defined. It must be an advisory trade body since it will not have the power to implement.
- There must be the means to measure successes and failures.
- Representative organisations must demonstrate that they are truly representative and must involve their membership. It must be clear who are the legitimate voices.
- There must be a review mechanism for relevance and such a review should take place on a regular basis, for example every five years.
- There is a need for the private sector to assist governments in trade negotiations;
- A strong voice for the sectors needs to be developed that will allow small firms to interact at the international level.
- Private sector institutions must be strengthened.

- Integrating private sector interests in decision-making processes of government will encourage wide participation among stakeholders.
- There is need to keep abreast of developments, including globalisation and trade liberalisation, with a hope of influencing these changes.
- Public education about the CSME at a broad level is required.
- Greater public education and dialogue on trade and public policy is needed since the private sector has been reluctant to invest in ideas on trade policy;
- Private sector entities need to work with institutions already accessing funding, and master the procedures for accessing the European Union's programmes.
- There is a need to become more pro-active with trade strategy and, by so doing, develop a vision of where the Caribbean should see itself in ten years, in the process building the required implementation capacity.

Globalisation

There is need:

- to understand global alliances and plans of partners and suppliers;
- to capitalise on the great communicative/enabling power of the internet;
- to pursue vertical integration? aggressive establishment of a global presence to increase margins;
- to cultivate an attitude of global success;
- for CDB to be more audacious and move beyond funding industry-related studies;
- to strengthen institutions and associations including dialogue among the stakeholders to understand the issues;
- to provide funds for research and development (R&D);
- to examine interest rate and lending terms of an industry in comparison to those available to competitors; and
- to adopt a regional strategy within the framework of the World Trade Organisation (WTO) and FTAA negotiations.

Strategies and Support Mechanisms for Caribbean Private Sector Development

- membership in private sector institutions should be mandatory;
- market and other relevant information should be available in a user friendly form to all constituents;
- private sector institutions should inform government and CRNM of their requirements;
- governments should adopt a prudent monetary and fiscal policy;
- a common currency should be adopted;
- preference should be given to the implementation of the European brand of venture capital;
- financial controls should be developed and suitable exit mechanisms found so that equity investors can dispose of their investments within a predefined period;
- greater public relations and education regarding the availability of various equity resources should be provided;
- CDB should play a key role in the development of capital markets;
- training and education in Information Technology (IT) for persons in the Caribbean should be a priority;
- accelerate the telecommunications liberalisation process;
- telecommunication policy and infrastructure needs to be developed to international standards;
- the Region should look beyond telecommunication to other knowledge-based value-added innovations such as bio-technology; and
- there is need to change the perspective of the private sector from being users to producers of technology.

Introductory Remarks

Dr. Jeffrey Dellimore, Director, Projects Department (Ag), CDB

Dr. Dellimore welcomed delegates to the CDB/CAIC Private Sector Summit - 2002, and apologised for the absence of Mr. Brunton, Vice-President (Operations), CDB. Dr. Dellimore felt that the time was right for this Summit and stressed the importance of CDB's role in private sector development and collaboration.

The four objectives of the Summit were highlighted:

- (1) dialogue and information exchanges between public and private sectors in the Caribbean should be taken to new heights;
- (2) the exchanges of the Summit should deepen the understanding of the impact of globalisation;
- (3) the Summit will begin to develop the conceptualisation of new strategies and greater competitiveness of the Caribbean Private Sector; and
- (4) CDB hopes that coming out of this consultation there would be greater clarity on the role that CDB and other multilaterals and donor agencies would play to accelerate and facilitate the transformation of the private sector.

Mr. Sean Ifill, Chief Executive Officer, CAIC, and Dr. Compton Bourne, President, CDB, were introduced to present the Welcome Remarks and Opening Address, respectively.

Welcome Remarks

By Mr. Sean Ifill, Chief Executive Officer (Ag), CAIC

Ladies and Gentlemen, Chair of this Summit, Dr. Compton Bourne, President, Caribbean Development Bank; Ambassador Dr. Richard Bernal, Director-General, Caribbean Regional Negotiating Machinery; Dr. Dellimore, Director (Ag.), Projects Department, Caribbean Development Bank; Senior Private Sector and Public Sector officials from Barbados, overseas attendees, and specially invited guests. On behalf of the President of the Caribbean Association of Industry and Commerce, Mr. Gary Voss, and CAIC's Vice-Presidents, I would like to welcome all to this important summit. BIEN VIENIEDO!

The Caribbean Association of Industry and Commerce, CAIC, is pleased to have been part of the organisation of this Summit.

The CAIC's legacy began in 1955 and through the spirited efforts of such Caribbean private sector stalwarts as Sir Garnet Gordon, Mon. Clovis Beauregard, Sydney Knox, Angus McKay, to mention but a few, was born CARIFTA and CARICOM.

Some of these visionaries recognised the need for public-private sector dialogue. They in their collective wisdom realized their future, their children's future, grandchildren, and so forth, and relied upon the simplicity of talking to one another to achieve success.

It was because of CDB's Board of Governors' Meeting in St. Lucia, May 23, 2001, and our then President Mrs. Charmaine Gardner, that we, CAIC and CDB, were able to ultimately forge this Private Sector Summit - 2002 entitled: "*Competitive Private Sector Development: An Imperative for the Future*". It was indeed a collaborative effort between institutions of the Caribbean, which share a common sea.

President Bourne, if I may briefly reflect upon your presentation, which resonated the complementarities that could be developed through a deepening of the dialogue process and collaboration between the private and public sectors. It is crucial that this meeting deepens this dialogue process which began in 1955 but seems to have fallen through the cracks. There can be no doubt that creating and strengthening the international competitiveness of business enterprises is the primary imperative of our institutional activities. "We must compete, and we will win" should be our collective mantra.

We must recognize the central role? engine of growth? ascribed to the private sector in both short-term economic adjustment; and longer-term economic development is being sought to forge a new set of relationships which envisages the private sector as both client and partner in the development process. This is critical to furthering the growth and development of the Caribbean Region.

The client-partner relationship means responsibilities that must be vigorously monitored and maintained. Such responsibilities are:

- (a) increased inclusion in the policy planning and implementation process;
- (b) increased institutional support and strengthening;
- (c) increased transparency and accountability; and
- (d) good corporate governance.

The summit intends to achieve clearly defined areas in which the Caribbean private sector can pursue market-making activities or more precisely: **MARKET-WINNING ACTIVITIES!**

Our vision, at the CAIC, is to make the Caribbean private sector a hemispheric winner and then a global leader. The keys to our success will be:

- (i) aggressively making overseas markets accessible and penetrable;
- (ii) making our products and services meet and exceed global standards;
- (iii) actively reaping the benefits of the new technologies; harnessing and pooling the institutional successes which have shaped our societies; and finally
- (iv) working together to achieve the highest standards of living for our people.

My President is on record as stating that the Caribbean is currently at a crossroad. The business and trading environment is extremely dynamic as daily new agreements are being negotiated with even broader parameters than ever before. Such elements were never in trade agreements: good governance and democracy, environment, labour standards, and rule of law. If the Caribbean business sector does not actively participate in the meetings and discussions leading to these vital regional agreements, then it is likely to lose by default. We must be part of the process, as the results of any negotiations will affect each and every one of us in our communities.

In closing, I expect that the day's deliberations should result in concrete activities which can be achieved over a reasonable time-frame and which can provide the maximum benefits to the widest number of stakeholders.

I will take this opportunity to congratulate Ms. Anne Bramble and her team for the sterling work that they undertook to pull together a programme as diverse as this. I thank you and encourage you to actively participate in the discussions.

Opening Address

DEVELOPING A COMPETITIVE PRIVATE SECTOR IN THE CARIBBEAN: RAISING THE ODDS OF SUCCESS

Dr. Compton Bourne, O.E., President, CDB

I wish first of all to join with the President of CAIC in welcoming you to this Private Sector Summit, which is a joint undertaking of CAIC and CDB. We thank you for accepting our invitation and making the effort to attend and participate in this meeting. From the standpoint of our two institutions, this is a very important event and we are gratified to see that the response from the business community, and indeed elsewhere, has been so overwhelming. Given the purpose and objectives of the Summit, its success is wholly dependent on your full, active and frank participation.

It would be remiss of me not to acknowledge from the very outset that the idea of convening a Summit of this kind was first mooted by Mrs. Charmaine Gardner, Immediate Past President of CAIC, at our Annual Board of Governors' Meeting held in St. Lucia last May. Mrs. Gardner, along with others, challenged the Bank to change the perception that it is a Bank for Governments only and to throw open its doors to the Region's business sector.

It was a challenge to which we at CDB felt we had to respond positively. It was extremely timely as it came at a time when we were ourselves grappling with the issue of the Bank's role in relation to the private sector. Already, at that time, we had in place within the Bank a team responsible for the development of a Strategy on Private Sector Development. Times have changed and CDB must, of course, change along with them by adjusting to the new realities of our operating environment.

Our proposed Strategy was presented to our Board of Directors for discussion at its December Meeting. Both the Management and Board felt strongly, however, that we could not conclude on a Strategy for Private Sector Development without consulting the private sector themselves. There is no way we could presume to know or anticipate all that you require. And so, an important aspect of this Summit, from our standpoint, is a consultative process that will assist us in determining how best CDB, as the Region's premier development finance institution, could better organize and position itself to support the Region's private sector in achieving sustainable growth and global competitiveness.

CDB has historically been associated with investments in economic and social infrastructure undertaken by the public sector in our BMCs. The Bank has expended a considerable amount of effort and resources building modern infrastructure in its BMCs by funding projects to construct roads, power plants, seaports, airports, water and sewerage systems, industrial parks, schools and health facilities? all, I'm sure you'll agree, very necessary conditions for economic development of the Region.

Poor, unreliable or unavailable infrastructure adds to the costs of doing business; this is also true of poor governance and institutional infrastructure, which is why CDB has given so much attention to assisting Governments in building their capacities for project planning and

implementation, reforming their public services and improving the efficiency of their revenue and expenditure management systems, including things such as Customs Departments. These are things the Bank has done well in the past and will continue to do in the future? all with a view, ultimately, to creating an environment in which business could thrive and flourish.

But the Bank's very first loan when it opened its doors for business in 1970 was a direct private sector loan for a hotel development in St. Lucia. This involved co-financing with a German bank whose loan was also guaranteed by CDB. Since then, CDB's relationship with the private sector has been predominantly an indirect one. First, because of our location, and secondly, because of our legitimate concern that we should not intervene in the financial market in a manner that causes distortions, we have found it more effective to deal with the market makers and those who are closer to the client. Our private sector lending has thus been mainly through financial intermediaries located in our BMCs. These intermediaries, that include development finance institutions, national development banks and, more recently, commercial banks, then on-lend CDB resources to small and medium-sized companies across a variety of sectors. In the process, what we've done is to build up capacity within the intermediaries for screening, appraising and supervising private sector projects.

It may surprise you to know that over the period 1970-2000, financial intermediary lending amounted to US\$412 million in net approvals, representing 23% of the Bank's total approvals. Of this amount, 37% was loaned to the agricultural sector and 32% to manufacturing and tourism. When combined with our direct private sector loan portfolio of approximately US\$62 million to some 38 projects, representing 3.2% of our overall loan portfolio, the Bank's overall contribution to private sector development is perhaps seen in its proper perspective.

Outside of our direct and indirect lending operations, the Bank has also sought to play a pivotal, catalytic role in stimulating interest among other international financial institutions and the regional and international private sector in investing in equity funds in a Region that has no track record in this field. We take very seriously that part of our Charter that enjoins us to increase the flow of development finance into the Region and to work towards the development of the capital markets.

And, of course, I shouldn't neglect to mention that we provide direct technical assistance to the small/micro-enterprise sector by way of our very successful Caribbean Technological Consultancy Service Network or CTCS. In my view, CTCS has been a phenomenal, though largely unheralded success in building the regional private sector - the small guy, yes, but they are private sector too and a very dynamic part of it.

However, as I said a moment ago, times have changed and CDB must change along with them. We are all familiar with the view that it is the private sector that must propel the Region forward into this new millennium through investments that create employment, generate wealth and, ultimately, enable us to improve the living standards of the majority of our citizens. The private sector has been and must continue be the proverbial "engine of growth".

But the Region's private sector is currently threatened by a combination of forces. It faces enormous challenges in the light of World Trade Organization (WTO) rules that aim at

removing barriers to global trade in goods and services. As you are aware, the Region is preparing to negotiate an Economic Partnership Agreement with the EU which will put an end to the preferential trading arrangements we have historically enjoyed on that continent. We are simultaneously about to embark on hemispheric negotiations for the proposed FTAA, as well as wider multilateral negotiations under the auspices of the WTO. And, as if that were not enough, we are pressing ahead with the implementation of the CSME.

I don't wish to dwell on these issues as I'm sure Ambassador Bernal will shortly provide us with a very comprehensive overview of the implications and likely impact of these negotiations on the Region in general and businesses in particular. Suffice it to say at this time that we, as a Region and a civilization, are at an historic juncture in our affairs. Our success at the negotiating table will depend, in part, on how effectively the regional business community organizes itself to engage in on-going dialogue with the Region's policy-makers and negotiators. Success, thereafter, will depend in large measure on the ability of the private sector to transform itself into an outward-looking, dynamic and internationally competitive sector that could continue to contribute in a meaningful way to the sustainable development of our Region. If the private sector fails to do so, the entire Region will pay the price in terms of rising poverty levels, social instability and marginalisation of our economies.

In this regard, CDB has been and will continue to support the Region's efforts in the establishment of the CRNM and, in October 2000, approved further funding for the setting up of a dedicated unit within RNM to deal with trade negotiations on agriculture. We are pleased to note that this unit is now fully staffed and operational in time for the upcoming vital agricultural negotiations mandated under the WTO's built-in agenda.

CDB is also working closely with CARICOM and our development partners to ensure the smooth and timely implementation of CSME. And we are eager to support the private sector in making the transition to global competitiveness in a world of fully liberalized trade. We have sought, for instance, to assist the Caribbean Poultry Association in undertaking a competitiveness study which will feed into the negotiating positions of the CRNM and our BMCs.

In order to do this effectively, however, we require your input. As I mentioned earlier, we at the Bank are in the process of finalizing our Strategy on Private Sector Development and want to hear from you what the obstacles and hurdles are, what challenges you confront and how you think institutions like ours can become more relevant to your needs. We view the Region's private sector as partner, client and resource, and invite you to be as frank in these discussions as possible. Call it as you see it!! Should we be:

- (a) focusing on improving the policy environment and investment climate in our BMCs;
- (b) concentrating on financing equity investments or development of capital markets;
- (c) acting as "honest brokers" in bridging any gaps in the public/private sector partnership; or

- (d) investing in education, training and re-training as technology threatens to marginalise unskilled labour in the Region?

Should we do any or all of these or more?

Later today, during the afternoon session, we'll share with you some of our thoughts on these matters.

The sessions have been designed to allow for maximum participation and we are all keenly interested in learning from you, benefiting from your experience and perspectives, and forging closer associations and collaboration in the future than we have had in the past. Together, we believe, working along with governments, social and development partners, we can reposition this Region we call home within the global economy and overcome the odds that seem so decisively stacked against us.

Permit me to end by saying, on behalf of CDB, how pleased we are to be co-hosting this Summit with CAIC. We hope that this marks the beginning of a long and mutually rewarding relationship between the Bank and the regional private sector, and look forward to other opportunities for collaboration in the future.

Thank you for your attention and I look forward to interacting with you as the day goes on.

Keynote Presentation

THE FUTURE IS NOT WHAT IT WAS FOR THE CARIBBEAN

Ambassador Dr. Richard Bernal, Director General, CRNM

The world is not changing, it has changed, and this means that the future is not what it was! The only certainty for the future is change and this will occur at an increasingly rapid rate. This is particularly true for the small developing economies of the Caribbean region because while like all economies they must respond to changes in the organization of the world economy they are economies, which are characterized by vulnerability, volatility, limited adjustment capacity and the constraints posed by their small size. The situation in which the Caribbean states find themselves requires a process of strategic global repositioning.

I. THE CHANGED FUTURE

The fact that the future is not what it was, is clearly revealed by comparing the circumstances in which the Caribbean found itself in 1990 and the situation, which now confronts these countries.

A. 1990

1. Interdependent National Economies

The world economy consisted of interdependent national economies with a certain amount of autonomy in economic policy.

2. Preferential Trade

The justice and utility of provisions of special and differential treatment enshrined in the GATT was a tenet of trade policy of developed countries towards the least developed and the developing countries. It was a principle whose procreative stimulus to economic development was questioned by only a few and whose morality was unchallenged even by the most uncharitable. There were secure preferential trade arrangements for the majority of products exported by the CARICOM countries. Bananas and sugar were marketed under special protocols associated with the Lomé Convention between the European Union and the African, Caribbean and Pacific group of countries. The Caribbean Basin Initiative (CBI) passed by the Reagan administration in 1983 covered 90% of the products involved in US-Caribbean trade, although it omitted some of the goods in which the CBI countries had comparative advantage such as textiles, apparel, leather goods, gloves and tuna. Trade with Canada was conducted under the Carib-Can arrangement, a preferential trade framework broadly similar to the CBI. Sugar entered the US market through a special system of bilateral quotas.

3. Development Assistance

The 1980s was period in which the CARICOM countries received increased development assistance in the form of (a) a substantial increase in bilateral development assistance from the United States associated with the early years of the CBI. Jamaica, in particular, was a significant beneficiary in the first half of the 1980s. (b) Towards the end of the 1980s and into the early 1990s Guyana and Jamaica received assistance in the form of debt relief through rescheduling,

cancellation and debt swaps. (c) Levels of lending from multilateral financial institutions increased compared to the 1970s as Jamaica and Guyana received loans from the IMF for stabilization and from the World Bank for structural adjustments. Countries with relatively higher per capita income were not targeted for graduation from soft money facilities as Barbados and the Bahamas were in the 1990s.

4. Low Wage Manufacturing

At the end of the 1980s foreign investment from developed countries was still seeking to establish production in countries where wages were substantially lower. This is evident in the massive relocation of certain lines of production to Mexico and to the newly industrialized countries of Asia. It was also pronounced in the relocation of apparel production from the US to lower wage countries, which qualified for the CBI.

5. Social and Political Stability

In 1990 all the countries of CARICOM had democratically elected governments and the issues of transnational crime and money laundering associated with drug trafficking was just being recognized as a potential threat to the security of the region.

B. PRESENT

Since 1990 there have been two types of change, first, new developments and second, changes of degree in trends which existed in 1990.

1

Globalization

Globalization is a multi-dimensional process, which is transforming at a rapid rate and in profound ways all aspects of national and global activities and interactions. Inherent in globalization a process in which barriers to the international flow of goods, services, capital, money and information are being increasingly eroded and/or eliminated. International trade and capital flows have grown at a faster rate than world GDP. During the period 1950 to 1994 the volume of world trade grew at a rate of 1.6 times faster than that of world production. World output grew by 2.7 percent during period 1981 and 1990 compared to a growth rate 4.5 percent for world trade. During 1991-1999 world output increased by 2.3 percent while world trade increased by 6.1 percent.² This process is well advanced and has far reaching implications for these countries. Small, developing countries which are vulnerable to external events and that have limited adjustment capacity are particularly exposed to the effects of globalization.

1. Reciprocity

Developing countries can no longer plan on the continued existence of preferential trading arrangements. The developed countries no longer feel obliged to provide these arrangements to developing countries with minute markets, no indispensable raw materials and limited strategic importance. Developing countries must be prepared to adapt to the elimination or erosion of preferential trade regimes, such as the Lomé Convention and the CBI. The dismantling of the European Union's banana regime illustrates the pressure being exerted to eliminate preferential arrangements and replace them with agreements based on reciprocity.

2. Dominance of the Global Market

The psychology of globalism has come to dominate as a state of mind over national and local notions of space and time. Technological developments in telecommunications, computerization, and informatics have eliminated the barriers of distance and time, resulting in the reconstitution of the world into a single economic and social space.

Essentially, there is only one market and that is the world market. Every business must become globally competitive, even if it produces and sells only within a local or regional market. The competition is no longer local in ambit, as it is not confined to national boundaries. The implication of global competition is that even goods and services that are produced and exchanged within the national domestic sphere have to meet standards of quality and costs of production that are set globally. The advent of e-commerce has accelerated this trend.

3. Growth of Services

Services constitute one of the fastest growing sectors of the world economy. The average annual growth in trade in services has exceeded that of merchandise trade since 1980. The overall share of services in total trade is over 25 per cent, and it is estimated that service industries accounted for 50 to 60 per cent of total foreign direct investment flows. Furthermore, services account for 61 per cent of GDP in industrialized countries and between 35 and 51 per cent of GDP in developing countries.

4. Rapid Changes in Technology

The increasing globalization of economic transactions and activities have been facilitated and in some instances impelled by rapid development of new technologies in communications, informatics and manufacturing. New technologies have reduced transaction time, eliminated geography and distance, thereby creating an environment of 24-hour trading. In this environment, the "mindset must be speed."³ The new developments in information processing, and telecommunications propel globalization by eliminating the costs resulting from distance, the importance of location and the advantages of large size.

Information technology has not merely added a new dimension to the way business is conducted, but has altered fundamentally the nature, management and organization of business and started to transform the nature of work, and the character of products, production techniques and international marketing. Indeed, the so called "death of distance" will revolutionize the way people live and work⁴ as we enter what has been called an "age of globally networked intelligence."⁵

Changes in technology have considerably reduced the importance of low wages. There has been a decline in low-skilled labour costs as a component of total production costs in many global industries. The decline is estimated to be from an average of 25 per cent in the 1970s to between 5 and 10 per cent at present.⁶

5. Economic Concentration

Globalization is creating larger units, both corporate entities, e.g. multinational corporations, and the coalescing of national economies through regional integration to form regional trade blocks.⁷ Trade blocks are a fundamental aspect of the world economy, both in

terms of share of the world trade they encompass and the number of countries that participate in them. The emergence of regional trade blocs, whether market induced or politically engineered, represents a transition from an atomistic world economy of national economies to a global market.

Multinational corporations (MNCs) now account for about a third of world output and two-thirds of world trade. A quarter of world trade consists of intra-firm transactions taking place within multinational corporations.⁸ They also account for half of world trade in manufactured goods and eighty per cent of the world's land cultivated for export crops.⁹ Indeed, the sales and labor force of some multilateral firms are larger than the GDP and population of many countries.

The most prominent feature of corporate concentration in recent years has been mergers and acquisitions. Cross-border mergers and acquisitions accounted for 60 per cent of direct foreign investment flows. Mergers could widen disparities in size among corporate entities.

6. Policy Autonomy

A global convergence of the economic, technological and ideological forces, which drive the process of globalization, is shifting power away from governments toward multilateral institutions and multi-national corporations and transnational financial institutions.¹⁰ Some have gone as far as proclaiming the demise of the nation-state¹¹ in an economic sense but also increasingly as a viable political actor. While the nation-state has not been superseded by any political formation, sovereignty in all its dimensions has been considerably constrained by economic interdependence.¹² Governments have less control over the design and implementation of national and international economic policy.

International financial flows have become disembedded from the real economy, with much of the global financial flows being unrelated to production, trade and investment. This has been facilitated by the emergence of global financial markets as governments have liberalized their national financial systems. The financial structure, which was predominantly state-based with some transnational links, has shifted to a global system with some national differences in markets, institutions, and regulations persist as vestiges of an earlier era. The magnitude of the flows have dwarfed the resources of central banks and have reduced considerably the capacity of even the industrialized countries to control these flows.¹³

C. HOW THE FUTURE HAS CHANGED

The future looks very different now that it did in 1990. In 1990 the future for the Caribbean was one of coexistence in a world economy of interdependent economies, which in varying degrees exercised some amount of autonomy in national economic policy. Export prospects seem assured because the principal exports of the region were assured of preferential market access under the CBI, the Carib-Can and the Lomé Convention. Staple agricultural exports were sold under special arrangements e.g. sugar and bananas under specific protocols linked to the Lomé Convention and sugar under bilateral quota arrangements with the United States. Development assistance appeared to be on a settled footing accompanied by the prospects of some action on some of the new initiatives in debt relief then being advocated. New industries

like tourism growing, established sectors such as financial services were flourishing and low wage labour intensive manufacturing such as apparel continued to show vitality. Mineral industries in particular bauxite/alumina and oil /natural gas were expanding production and attracting new foreign investment. The threat of drug trafficking and the associated money laundering and violence had not yet assumed the gargantuan proportions, which could undermine democracy and political stability.

By 2002 the future was not what it was in 1990, it had changed dramatically and into a less certain and more challenging future. Since 1990 the extent and pace of globalization had intensified considerably consequent on rapid changes in technology and the emergence of new technologies along with enlargement of corporate entities and the amalgamation of national economies into trade blocs with the erosion of sovereignty and the loss of the capacity for autonomous economic policy. The developed countries are vigorously pushing the dismantling of preferential trade arrangements and reciprocity has become the mantra of the advocates of the “new economy”. Caribbean countries must now confront the growing exposure to competition in the global marketplace without the benefit of an assured future for special commodity arrangements and while experiencing declining development assistance flows. Prospects for low wage, labour intensive manufacturing are not encouraging in view of labour saving technological change and the relatively high wages in CARICOM countries. The small firms of the Caribbean are up against formidable competitors in the multinational corporations whose size and mergers and corporate alliances are increasing their market dominance. In these circumstances, adjustment is inevitable but governments must realize that they cannot rely on foreign aid flows to fund the development of infrastructure, which will be central to the adjustment. Development assistance from the OECD countries declined from 0.33 percent of GNP in 1990 to 0.22 percent in 2000.¹⁴

II. CARICOM SITUATION

The small developing economies of CARICOM have certain characteristics such as a high degree of vulnerability due to the significant openness of the economy and extreme export concentration, small size of economic units, limited adjustment capacity, income volatility and considerable dependence on trade taxes. In particular the small size of economic units and indeed the small size of the national market has limited the international competitiveness of production of goods and services for both export and the domestic market.¹⁵

Firms from small countries are small by comparison with multinational corporations and firms in large economies. Small firms are at a disadvantage in the global marketplace because they cannot realize economies of scale, are not attractive business partners, and cannot spend significant funds on marketing, research and development. Comparing 1996 total sales of the largest national firms, General Motors (US - \$164 billion) is 9 times larger than Petrobras (Brazil - \$17 billion), which in turn is 35 times larger than Neal & Massy (Trinidad & Tobago - \$0.5 billion). Sales and employment of some multinational corporations are larger than the GDP and population of many countries. The average farm size in the US is 435 acres whereas 95 percent of the farmers in Guyana have less than 50 acres and 98 percent of the farms in Jamaica are less than 25 acres.

Small economies have severe constraints on their material and labor inputs both in amount and variety, because of their limited land area and small populations. These constraints prevent the attainment of economies of scale for a wide range of products and lead to high unit costs of production. Small economies tend to have a narrower range of domestic and export production because of the small size of the market and the limited range of resources. Small market size also tends to cause high costs because there is often a lack of competition. In fact, in many instances the market can only support a single product - i.e. a monopoly.

Small firms in small economies, especially small developing economies, are at a major disadvantage compared to large firms. Small firms can attain neither internal economies of scale (where unit cost is influenced by the size of firm) nor external economies of scale (where unit cost depends on the size of the industry, but not necessarily on the size of any one firm). Small economies, and thereby small industries (including export sectors), are unlikely to foster the competitive dynamic necessary for firms in small economies to achieve competitive advantage.¹⁶ Competitive advantage is more likely to occur when the economy is large enough to sustain "clusters" of industries connected through vertical and horizontal relationships. Small firms in small, developing countries have severe difficulties in attaining "economies of scope, i.e., economies obtained by a firm using its existing resources, skills and technologies to create new products and/or services for export. Exposure to global competition requires small firms to invest heavily just to survive in their national market, and more so in order to export. Larger firms are better able to generate new products and sources from existing organizations and networks.

III. IMPERATIVE FOR CHANGE

The world economy is not changing; it has already changed. The only thing that is certain is change itself, and change at an exponential rate. The ability to discern changes, to adopt/adapt new technology and rapidly reorganize will ultimately determine the capacity to respond. Firms, governments and individuals must get accustomed to the lack of permanence and not resist change but recognize that it is unavoidable and represents challenge and opportunity. The countries, which succeed in the new globalization are the countries, which pursue "pro-active adjustment", that is, they adjust quickly, in anticipation of, and in response to global changes in demand and technology. Those countries which pursue "reactive adjustment", that is, react to events, late and defensively, by focusing on protectionism are not going to survive, and will not achieve growth. It is not possible in this new globalization to insulate production or demand from global competition and changes. Therefore, it is not possible for small developing economies to achieve growth if they opt for the route of protectionism. There must be pro-active adjustment, which improves competitiveness in the global market place.

Small, developing economies are a particular genre of economy and therefore have particular characteristics, which affect their capacity to achieve sustained economic development.¹⁷ Given the profound changes, which are taking place in the global economy and the speed of these changes, small developing economies must adapt to this new environment. Successful adaptation can best be achieved by a process of strategic global repositioning. This process involves the formulation and implementation of a strategic plan of repositioning a country in the global economy. Such plans are designed to consolidate and improve existing production lines while reorienting the economy toward new types of economic activities for both

the national and global markets. In most developing countries, this involves structural transformation (not merely adjustment) to achieve economic diversification, in particular export diversification.

IV. STRATEGIC GLOBAL REPOSITIONING

Strategic global repositioning¹⁸ is a process of repositioning a country in the global economy by implementing a strategic plan. Such a plan is designed to consolidate and improve existing production while reorienting the economy by creating new types of economic activities. In most small developing countries, this means structural transformation, not structural adjustment, to achieve economic diversification, in particular export diversification. The need for strategic global repositioning is derived from trends in the global economy, and the composition of exports of small, developing economies, which is skewed to primary products. Strategic global repositioning must be accompanied by policies, which improve the competitiveness and efficiency of companies, by creating a stimulating entrepreneurial environment. Selective trade, fiscal and credit policies supported by medium term education, and technology policies focused on "strategic sectors", and close co-operation between government and the business sector contribute to the targeted development of internationally competitive industries. Market-orientated and strategic state management, combined with the cooperation of companies, government agencies, research institutions and funding institutions can create dynamic competitive advantages. These kinds of policies must be directed to long-term strategies to mobilise market forces, build up world-market-standard firms and systematically develop efficient economic locations.

1. Vision and Mind-set

The conventional wisdom in development economics since the early 1950s has been industrialization as a strategy for transforming developing economies into developed ones. Small, developing countries have traditionally attempted a transition from agriculturally based economies, which export primary products to an industrialized economy exporting manufactured goods. By nurturing infant industries by protectionist measures, and incentives to foreign investment, economies were to become exporters of manufactured goods, capitalizing on wage differentials between developed and developing countries. However, few developing countries succeeded in achieving this scenario, the most notable examples being the "Asian Tigers".

This, however, is not the disaster that it appears to be, because countries, with the necessary attributes, can switch to service-oriented economies. The export of services can provide the so-far elusive development, given that services are the fastest growing component of the world economy. Like industrialization, this is not an option, which every developing country can pursue. Those Caribbean economies with the potential must move immediately to seize this opportunity.

There must be both recognition of the need to change and a willingness to innovate. Every process of adjustment begins with a change of mind, outlook and attitude. This process of adjustment will only commence in earnest when this occurs in both the public and private sector and entrepreneurs dare to think the new and adventurous. There has to be a paradigm shift, which should now be possible since reality so clearly contradicts the viability of the entrenched paradigms.

2. Stable Macroeconomic Policy Framework

It is essential that stability in macro-economic policy be sustained in the medium term providing an environment conducive to investment and minimizing dislocating expectations. The macro-economic policy instruments such as fiscal policy, monetary policy and exchange rate policy must be applied in a consistent manner and complemented by an institutional framework, which facilitates private sector-led, market- driven growth.¹⁹

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

3. Competitive Exports

The outlook for the demand and prices for raw materials, and primary products is not encouraging. Raw materials, primary products and agricultural products have a history of fluctuating prices and declining terms of trade against manufactured goods, and given that the outlook is not encouraging is important that exports competitive in price and quality. Caribbean countries are not at the lower end of the wage spectrum and must expect the low-wage jobs to bypass them. In these circumstances many products in which the Caribbean was competitive may no longer be viable options or there will have to be a major effort to remain competitive. The solution is a combination of increased productivity, product innovation²⁰, and the penetration or creation of niche markets. Innovation, productivity and competitiveness are increasingly determined by the generation of new knowledge or by access to and processing of information. Small, developing economies must seek to create a technologically advanced, information-based society, and keep up with customization and “informationalization” proceeding in such key sectors as apparel.

a. Diversification

There must be a willingness to look beyond traditional economic activities to financial services and to the new dynamic sectors in the global economy e.g. micro-electronics, biotechnology, telecommunications, robotics, and informatics. The transition from low-wage, labor-intensive activities to technology and information intensive activities will depend on the quality of human resources. The workforce will have to be more skilled, knowledge oriented and capable of adopting new technology. Management, production and decision-making will have to be "informationalized". Export firms will have to develop the capacity to respond quickly to changes in demand in existing and new markets, in particular, the world economy.

Service activities are the fastest growing items in world trade and in the U.S. economy, the Caribbean's largest trading partner. The prospects for the export of services, especially to the United States are very encouraging. The services sector is estimated to provide one-half of all new jobs in the United States and these jobs are relatively high-wage and environmentally safe. Many of these jobs, e.g. data processing and accounting can be undertaken in small, developing countries given wage differentials and communications technology.

The need to focus attention on the expansion of services for the global market should not diminish attention to other sectors and products. While the opportunities for further industrialization are not as propitious for the manufacturing sector, they should not be abandoned at the expense of services. The substitution of one panacea for another would be detrimental. What is required is balanced development, emphasizing diversification of exports. This in effect means consolidating existing industrial production, improving cost efficiency, enhancing and maintaining the quality of existing mineral processing, agro-industrial, and manufacturing exports. It is also important to expand existing services e.g. tourism and data processing, which have attained international standards in productivity and are competitive in the global market place. Undoubtedly, there will be some new manufacturing industries in which small developing economies can successfully participate. The fundamental point is that industrialization is not the panacea it has been assumed to be and the focus of economic strategy should be shifted to place emphasis on the development of services for sale to the global economy.

- (i) The high cost of health care in the developed countries makes it cheaper for individuals to travel to other countries for treatment e.g. from the USA to Mexico²¹, the northern Caribbean and parts of Central America. With its proximity to the USA, the standard of health care and the quality of its medical professionals, health care is a major new opportunity.
- (ii) There is a growing trend for persons in developed countries to retire, particularly to developing countries with warm climate because their income purchases more abroad than in the USA. The market for retirement facilities will increase sharply in the next twenty years. The small, developing countries in close proximity to the developed countries year-round warm weather, and relatively lower wage levels constitute an environment suitable for the development of retirement communities. A decisive shift in population structure in developed countries has already occurred. Approximately 9.2 per cent of the population in these countries was over 65 years old in 1960, and this is projected to reach 20.2 per cent in the year 2020. Over the next 50 years, the global population over 65 years old will increase by 1 billion, nearly 50 percent of total global population growth.²²
- (iii) With its relatively less expensive expertise, India is becoming a leader in informatics and the export of computer software. The industry has continued to grow rapidly, with 60 per cent of exports going to the United States and almost 160 out of the Fortune 500 companies outsourced their software requirements to India. Several U.S. companies that have set up back offices in Ireland reducing their wage bill across the US.

- (iv) Some small, developing economies have the right factor mix, lower wages and access to markets in major industrial countries can exploit niches in the world economy can provide financial services and to be the sites for back-office operations such as data processing and accounting. The Bahamas, Barbados and the Cayman Islands have been successfully involved in offshore financial services based on comparative advantage.
- (v) The entertainment industry is one of the fastest growing sectors of the world economy. Music from the Caribbean countries has enormous potential for earning foreign exchange but the potential earnings from reggae, soca and calypso music have not been fully realized. Carnivals in Trinidad and other Caribbean islands are already a major industry with global demand, linkages and spin-offs. Film-making also has significant potential, as a series of recent productions have demonstrated that a lot more needs to be done to encourage this lucrative industry, e.g. an aggressive campaign to attract film companies and productions.

b. Revitalizing Traditional Exports

Defensive adjustment policies, including protectionism, which has as its objective the preservation of industries or the retention of aspects of production, which can be accomplished, at a lower cost in other countries is self-defeating. In the short run, it reduces competitiveness of exports and provides higher priced goods to the national market, reducing demand and increasing inflation. In the long run, entrepreneurs will find ways to import cheaper alternatives and will relocate uneconomic aspects of production in other countries in order to retain international price competitiveness and national market share.

Traditional sectors in export agriculture can be revitalized by improving the quality and price competitiveness of export staples, like sugar, bananas and coffee. The export opportunities of the traditional sector have not been exhausted, but require some imagination and innovation. First, attention must be seriously devoted to transforming these industries from exporting commodities in their unrefined or least processed form to using the output as an input in a product with higher value added. For example, maybe the sugar industry should be a cane industry supplying not raw sugar but inputs for a brand name rum industry and bananas for banana chips instead of as a perishable fruit. Secondly, change the product to meet demand in new markets e.g. organic rice, organic bananas Thirdly, developing new products, which utilize the existing resources, for example, land, labour and infrastructure displaced from banana cultivation might be switched to orchids, exotic horticulture, and "tropical boutique agriculture".²³

Tourism, which can now be regarded as a traditional export, is one of the fastest growing sectors of the world economy. Tourism in the Caribbean accounts for 25 per cent of the region's Gross Domestic Product (GDP) and 20 per cent of employment generated by 32 million tourists who spend almost \$18 billion.²⁴ While in many respects the Caribbean is producing a world-class product and has some world-class firms it must diversify if tourism is to continue to grow into the twenty-first century. Diversification could include new products²⁵ such as health tourism, eco-tourism, tourism geared to older travelers and cultural and heritage tourism.²⁶

Many governments need to disabuse themselves of the notion that industrialization is synonymous with development. This was the prevailing wisdom in development economics during the 1950s and 1960s but has proven not to be the engine of growth it was made out to be, indeed the export of manufactured goods is not a feasible growth strategy for many small, developing countries, either because it never was or because it no longer is viable. Apparel is a low skill, low wage activity and hence it is highly mobile international as it moves to where wages are lowest, therefore while it was a country industry at one time in the Caribbean, it may very well be an industry whose time has come and gone, gone to lower wages in Central America, Africa and Asia. Where the conditions for a manufacturing industry are propitious as in Trinidad it is a valuable export sector and should be pursued with enlightened vigor. However those countries where conditions are not as favorable can find opportunities, e.g. the 20 most market-dynamic 1980-1998 including a number of products which do not require “rocket science” such as perfumery and cosmetics, leather goods, electrical machinery, and undergarments, knitted and textile.²⁷

4. Improving Productivity

Globalization necessitates continual improvements in productivity, in particular, attention will have to be given to increasing labor productivity, improving managerial capacity and upgrading infrastructure.

a. Management

Achieving and maintaining international competitiveness will require improved and innovative management.²⁸ Managerial capacity has improved in recent years, but there is a need for further improvement, particularly in the public sector. In the short run, managerial capacity can be upgraded by importing skilled managers and other professionals. This need not mean that foreigners, unaware of the country's culture and traditions take over top managerial posts. There are more than enough skilled overseas-based Caribbean professionals who under the right circumstances would be willing to return to home. Countries must no longer be viewed as physical places but as a “nations without borders.”

In a business environment, characterized by frequent changes requiring rapid responses, the relationship between management and workers will have to be harmonious, if productivity is to be increased. The interaction within the work place will have to be more cooperative, permitting more dialogue between labour and management, and innovation encouraged. These developments will require trade unions to expand their traditional role beyond wages and working conditions to include employment creation/preservation, education/training, and ownership participation.

In the long run, upgrading the managerial capacity will require a re-orientation of post-secondary education to emphasize sciences, management, accounting, computer programming, and all aspects of modern technology. University level education will have to be significantly expanded.

b. Labor

Increasingly, the world economy will be dominated by knowledge-based industries, especially services, making the quality of human capital a critical factor. The productivity of

workers must be upgraded, and this requires improvement in the quantity and quality of education. This has to be pursued both within the individual enterprise and in the society as a whole, by putting an emphasis on vocational training and on the job education. Productivity can also be improved by social partnerships based on tripartite dialogue between the private sector, governments and organized labour.²⁹

Much of their human capital of the Caribbean resides outside of the region and every effort must be made to repatriate it. Just as incentives and special programs exist for foreign investment, similar schemes must be established to induce overseas nationals with professional skills to return home. It might even be necessary to run an advertising campaign to attract skilled foreign professionals. Returning professionals and entrepreneurs have spearheaded several of the new growth sectors, e.g. computer hardware and software.³⁰

c. Infrastructure

There is an urgent need to improve the extent and quality of physical infrastructure such as roads, irrigation, electricity, and telecommunications in order to reduce the operating costs of firms in all sectors. Telecommunications infrastructure now requires a quantitative leap in anticipation of increased demand and must be state-of-the-art technology. The improvement in infrastructure must focus not only on modernization but must take cognizance of the need to close the gap with developed countries. Under the right conditions, much of the required expansion in physical infrastructure could be financed by private capital, including foreign capital.

d. Technology

Inadequate international marketing has been a severe constraint on exports. Although, there are some sectors, which have achieved sophisticated levels of marketing, e.g. tourism. In some instances these weakness has been obviated by strategic corporate alliances, marketing agreements and sub-contracting. However, much can be done with new marketing technologies³¹, in particular, interactive electronic marketing, such as on-line services, Internet-based retailers, multimedia kiosks, interactive home shopping programs over cable and satellite and TV networks. These formats allow the consumer to purchase by telephone or computer and pay credit card, while allowing the retailer reduced costs of storage and display areas for products. The number of Internet users is estimated to be over 1 billion.

Some of the new technologies can be used to alleviate or overcome the disabilities of small size of firms. The advent of electronic commerce, i.e. business conducted on the Internet and other networks based data inter-change systems. E-commerce has and will fundamentally affect the way economic activities are conducted in financial services, telecommunications, entertainment and various other services.

e. Investment

The world is awash in capital as is evident in the flows to Latin America and the Caribbean during the period 1990 to 2000 when net foreign direct investment inflows as a percent of GDP rose from 0.7 to 3.9. In several of the small, developing countries of the Caribbean net foreign direct investment has increase as a percent of GDP during the last decade i.e. the Bahamas, Jamaica, Trinidad and Tobago, Grenada and Guyana.³² The mobilization of

private foreign investment can supplement and expand on domestic savings to raise the overall level of investment. Creating and maintaining a stable, predictable and open economic environment can facilitate successful business, promote domestic investment and attract private foreign investment. With the “right” policies the CARICOM countries can garner foreign capital, skills and technology to complement national resources to ensure economic development.

5. Strategic Corporate Alliances.³³

In today's global economy, capital has no nationality; indeed even bitter political differences and economic rivalry have been swept aside by strategic corporate alliances. Small size puts exporting firms at a severe disadvantage but collaborative corporate strategic alliances or mergers can provide a larger capital base, expand resources, pool expertise and introduce new technology.³⁴ Some firms and financial institutions from small, developing countries have become multinational corporations. A merger movement would make firms largely more viable and more likely joint-venture partners with foreign investors. This is critical, for exporters which are small compared to the multinational corporations against which they have to compete in the world market and major export markets like the United States and Europe.

6. Planning

Strategic planning namely a process of continuous dialogue and interaction between the leadership of the private sector, the public sector, the trade unions, and social sectors. This can be augmented by inputs from individuals and organizations abroad. Close and continuous cooperation between the leadership of these sectors is essential in order to effectively formulate strategic planning and targeted implementation. What is needed is a marriage, which harnesses the vision and expertise of all sectors. This cooperation has been a critical factor in the economic success of Japan and the newly industrialized countries of Asia particularly, private-public sector synergy and the allocation of decisions between the market and public administration.³⁵

7. Overcoming Xenophobia

Many elements in the public and private sectors need to overcome xenophobia. The preoccupation with national ownership is myopic and the apprehension about foreigners coming in and taking jobs is exaggerated. The Caribbean must abandon this mentality and worry less about ownership, and be more concerned about where value is added, why reinvestment occurs and how jobs are created. Foreigners coming in and finding employment should not be cause for worry, because people and investment from abroad create economic activity, they do not deprive locals of jobs or economic opportunities. The Caribbean has to overcome xenophobia and participate in the global economy, not in a defensive and reluctant way, but in a creative and opportunity seeking approach.

8. Re-dimensioning Regionalism

First, there is need to complete the process of regional integration by implementing the single market and economy. Secondly, widening CARICOM's membership to include the rest of the Caribbean and Central America to make CARICOM a much larger economic space and thereby increase the possibilities of realizing economies of scale. Thirdly, the integration process engineered by governments must be accompanied by corporate integration. Governments should promote the movement of capital in the region, as well as facilitate mergers and strategic alliances of corporate enterprises.

9. Trade Policy

The trade policy, which is now in place, is, unfortunately, largely externally driven. The region continues to scramble to react to the development of a trade agenda, which is set outside of the region. The region must take the initiative and be pro-active rather than the current reactive approach. Currently external developments dictate the agenda for the trade policy, the region reacts to that and implicit in that reaction is conforming to a development strategy. The region must reverse this process so that there is a development strategy, which precedes, informs and is serviced by an external trade policy. A regional cooperative approach is best and that process has begun with the Regional Negotiating Machinery. The CARICOM must shed 20th century ideas if it is to mediate the encounter with globalization in particular it must find a balance between unconditional free trade and special and differential treatment for small, developing economies. There must be consideration for small, developing economies and firms in these economies, which are all small by global standards. Such a demand is neither unprecedented nor unreasonable since every government makes provisions for small farmers and small businesses by tax concessions, special loan programmes, technical assistance, quotas etc but no such countervailing measures are available at the regional or global levels. Therefore sensitivity to the difficulties faced by small firms must be codified into the trade agreements themselves.

A regional approach is the most efficacious way to proceed because it economizes on the cost to the countries of the region by pooling scarce skilled human resources and sharing representational duties. A cooperative regional approach also increases the leverage of small states because by operating as a single unit they increase their critical political mass. The Caribbean Regional Negotiating Machinery gives effect to this approach to external trade negotiations.

It is imperative that the process of adjustment must commence immediately and cannot be allowed to await the completion of the various trade agreements. The adjustment process can start before the trade negotiations are completed because the negotiations whether in the WTO or between the EU and the ACP or the FTAA or in bilateral agreements such as the Dominican Republic and CARICOM, all entail basically the same elements and principles and these emanate from the process of globalization which is driving in one form or another, the trade liberalization agenda.

10. International Alliances

Involvement in international alliances will continue, however, existing alliances need to be kept under continuous review with a willingness to adjust and even change then where circumstances warrant such action. A re-evaluation must be conducted of the traditional assumption that there is third-world solidarity, or a developing country alliance but there are not such wide differences. The region needs to rethink foreign policy and strategic alliances to service its economic agenda and external trade objectives. For example, smallness is a major issue because as globalisation takes place, not only does corporate units enlarge but also national economies merge and become large economic blocs. In this regard there is an issue of smallness. It threatens not only small economies and firms in small economies, but also small and medium-sized enterprises in developed economies. There maybe an alliance, which transcends the old north-south and south-south axes, in which small entities can find common ground in dealing with multilateral rules, transitional corporations and globalization. These would involve a constituency, which spans the developed countries and the developing countries.

V. CONCLUDING REMARKS

Given the current trends in globalization, small, developing countries, in the Caribbean, need to immediately implement a process of strategic global repositioning. The history and recent developments demonstrate that the Caribbean has the capacity to successful formulate and implement a process of strategic global repositioning. The critical requirement for the adjustments and structural transformation necessary for economic development in the 21st century is skilled human resource. The Caribbean has more than enough human capital, both in quantity and quality, a fact that is obvious if the Caribbean is understood as a nation without borders as a transnational society and economy consisting of the homelands and the diaspora. The capital, technology and other resources, which must complement the human resources of the region, can be garnered from the global economy by establishing and maintaining the kind of economic environment, which is conducive and indeed attractive to such inflows.

There is a tradition of excellence that is evident in many of the goods and services produced by the region, in particular those which are unique and world renowned such as Jamaica Blue Mountain coffee, Demerara rum and Angostura bitters. The ability to compete in highly sophisticated industries such financial services, steel, natural gas, bauxite and tourism demonstrate that there is a capacity to be internationally competitive. The Caribbean has world-class products and world-class firms, for example, 48 of the world's 100 best all-inclusive hotels are in the Caribbean, and 17 of them are in Jamaica.³⁶

The Caribbean has produced people who have attained the highest levels of human achievement in every field of endeavor from sports to the arts. Societies, which have produced Marcus Garvey, Arthur Lewis, Derek Walcott and Bob Marley, can meet any challenge. The Caribbean people have overcome slavery and colonialism can cope with the constraints of small size and met the challenges of globalization. The future is not what it was but we must not see things as they are and ask why but see things as they could be and set about achieving that envisioned future.

Sustainable Private/Public Sector Partnerships

By Mr. Gary Voss

Dr. Compton Bourne, President of CDB, Distinguished Ladies and Gentlemen.

This morning is the first time I had heard Dr. Bernal speak, and I have to say I was highly impressed by the presentation. In fact, if I were wise, deep and knowledgeable, that is the speech I would have given. I think that he has an excellent grasp of the situation and the problems ahead. I think as Caribbean people, we are very fortunate that we have somebody like that heading our CRNM.

The relationship between public and the private sector is one of the fundamental changes that we as a Region need to make if we are going to get ahead. We desperately need to reinvent ourselves and our economy. I am talking as a Caribbean person now, and I certainly don't restrict Caribbean to CARICOM which I see as a very narrow part of the Caribbean.

As Caribbean people, we need to totally rethink our position in the world and wean ourselves away from patterns of behaviour that have been left to us by different eras and different peoples. We need to take stock, and I think it is in this context that the public and private sector need to work together like they have never done before. The historical relationship between the public and private sectors in the Caribbean is not unique and is an adversarial one. By and large, the private sector views the government as slow, obstructive, bureaucratic and many in the public sector see the private sector people as fast, loose, perhaps not always above board and needing to be controlled and contained. This is not a good start to a marriage, if indeed it is a marriage we are looking for. The reality is though, I believe, that if we are going to move ahead, if we are going to come with a common strategy, then the two parties, on the one hand—the facilitator as it is sometimes referred to—and on the other hand the engine of growth, need to be talking the same language.

With due respect to Dr. Bernal, this is my perception of the CRNM, that they really trying to be all things to all men. What is their role, what were they put there for. They were put there as a regional negotiation machinery, that is to say, to represent the Caribbean position in external negotiations largely. This is my own view. However, I see it that they have had to invent the Caribbean position, they have to derive a position, they have actually back-tracked because they are the ones that are going to represent a position and have found, I say, that there is no position. They are in fact the strategy and the policy-making body for the Caribbean. Now, I wonder if they have the resources and the time and the wherewithal to be all things to all men. This is one of the reasons for public and private sector getting together. If the Caribbean were a corporation, the first thing it would want to do is have a vision, and a mission.

It is imperative for the Caribbean to have a regional strategy. I certainly agree with Dr. Bernal that there are enormous opportunities in services and in particular health care and education. I look with admiration at the little island of Grenada and I am told that the University there, which is basically an off-shore service being provided by Grenada, is an export earner. The University, I am told, accounts for 30% of the GDP of Grenada. Why aren't we all providing geriatric homes or health care or fully-fledged hospitals and education facilities and

even military training facilities? We have a region where everybody would like to live. If you do a survey right now, all the eight billion people on earth and say where would they rather be, I think the answer would be very, very clear. We have enormous potential but we need to organise ourselves, galvanise ourselves. This is one of the major challenges that we are facing.

As has been said before and I will say it again, we are very good talkers. CARICOM is 29 years old. It is going to be an old man just now and we still don't have some of the most basic tenets and objectives of the CARICOM Agreement. They are not in place. We need as a people, both private and public sector, to devise ways of getting together, not just for one-day seminars but ways of working together to derive the path forward and the path forward is going to be very, very different. I don't have the answers, I don't know how that is going to happen, but I worry about whether there is a way to achieve that objective

We need to refocus, forget the comfort zone of the past and strive audaciously out into the future with a whole new vision. I would like very much at the end to have a clearer vision of how we are going to do that.

Thank you very much ladies and gentlemen.

Panellists

Dr. Lucretia Gabriel, Executive Director, Scientific Information Services Ltd.

Dr. Gabriel, in her presentation, noted that when we talk about dialogue we are talking about people and organisations with different perspectives on the same issue. Hence, it was important for communication to embrace a perspective that takes us forward by seeking to convert dialogue into reality. Her perspective was influenced by the fact that we as a Region talked too much, and this needed to be converted into action.

With reference to Newton's law of motion, Dr. Gabriel suggested that we need to have companies that grow fast enough so that they can penetrate markets but in doing so these companies must have critical mass to move forward. She felt this was possible since we have the ability, notwithstanding our small size, to be versatile and creative, which could make a difference.

She also indicated that it was important for regional institutions to provide information about what is likely to take place in the future on issues, including globalisation, trade liberalization and their possible implications.

Mr. Christopher de Riggs, Executive Director, Grenada Chamber of Commerce

Mr. Christopher de Riggs congratulated CDB for taking steps to encourage dialogue with civil society. He felt that there was widespread disillusionment among civil society that dialogue had degenerated into a ritual. He felt that there was a need to reflect on who should be the key drivers of the dialogue process. He emphasised the need for government to secure a buy-in from civil society in the dialogue process to achieve result-oriented participation. Civil society has been asking for dialogue with CDB, the Eastern Caribbean Central Bank (ECCB) and the World Bank in order to widen discussion on important national issues. There has been a tendency for governments not to take on board the views on non-elected officials and as a result antagonism could result due to personality differences.

Europe's Role in Providing Technical Assistance to Private Sector Development in the Caribbean Region

by John Caloghirou, Head of Delegation of the European Commission in Barbados and the Eastern Caribbean

Since the mid-1980s, the widespread adoption of an economic development model based on policies to strengthen market forces, increase competition and refocus the role of the state, has heightened the importance of private sector development. The private sector is perceived as an engine of economic growth, an important source of employment in the ACP countries, and its development is closely associated with the achievement of the major objectives of development co-operation, i.e. sustainable economic and social development, integration into the world economy and poverty alleviation.

The Community has a long-standing experience in supporting the development of the private sector in ACP countries. The different elements of the past approach are now brought together in a more coordinated and comprehensive manner to focus on the specific constraints of the ACP countries or regions. The European Commission's strategy combines support at the macro level: the business environment and investment climate; the meso-financial and non-financial intermediary level and the micro level: the enterprise competitiveness.

It always amuses me when people refer to the support to the private sector as a "NEW" policy, just as it amuses me when people say that that development will "from now on" focus on poverty alleviation, as if for the last 50 years we have been building hospitals and schools and operated scores of social programmes for the exclusive use of the world's rich. It is true that in the past we spent a lot of development aid in building roads, and airports, and telecommunications networks and ports, and universities and much social infrastructure. But then I ask, "why were those things built" and wasn't the private sector the main beneficiary – doesn't proper transport and telecommunications infrastructure form the very base of the so-called necessary environment? from the first business contact to the final delivery of the product at your client's doorstep?

I think it is more appropriate to say that our strategy to support the private sector has evolved in accordance with the times? in accordance with the needs? and also (why not say it) in accordance with the sector's own evolving capacity for absorbing and benefiting from such assistance.

So let me spend a few minutes telling you about the latest "models" of the instruments that the European Commission has developed to deliver assistance to the private sector, some of which are so-called direct access instruments.

DIAGNOS is a facility that works with ACP Governments, regional organisations, and the European Commission to identify the constraints of the business environment and investment climate and to design country level or regional level programmes to deal with the identified bottlenecks. The objective is obviously to assist the ACP countries to establish the proper institutional, legislative and regulatory frameworks that are considered so necessary for the private sector to operate.

EBAS? the European ACP Business Assistance Scheme? is a matching grant scheme that encourages enterprises and intermediaries to use short-term consultancy services to improve their competitiveness. Grants of up to €70,000 are available to individual enterprises which may be used to offset up to 50% of the cost of consultancy services. All ACP enterprises are eligible and the facility has been endowed with €20 million as a start-up fund. In each country or region there are administrative offices of the scheme, for example Caribbean Export houses the EBAS scheme for the Region, and the scheme often operates in close co-operation with CDE—the Centre for the Development of Enterprise (CDE).

CDE itself is one of the older but still very powerful instruments in the EU-ACP arsenal. Created in 1977, and originally known as the Centre for the Development of Industry? CDE assists businesses to become more competitive and to foster partnerships between ACP businesses and other ACP or European businesses. It provides advice and Technical Assistance (TA) and feasibility studies. CDE has a comprehensive network of representatives and co-operating institutions in the ACP countries and in Europe. In Barbados it has a very close relationship with BIDD. CDE delivers its services using either its own funds, it is endowed with a substantial allocation from the Lomé Convention, or drawing on other instruments such as the ones already mentioned or like PROINVEST for which it has been given full responsibility.

PROINVEST is an instrument developed in consultation with the private sector with the objective to facilitate and support investment promotion in the ACP private sector. It aims to increase the level of investment in the ACP countries and promote contact between ACP and European businesses. It will also assist in the strengthening of the capacity of intermediary private sector organisations in promoting investment and in conducting policy dialogue with governments.

The European Investment Bank (EIB) is another European institution deeply involved in development work and particularly in the support of the private sector. It is the principal source of investment capital for the private sector in the ACP. The EIB finances large-scale infrastructure and industrial projects by means of loans concluded directly with promoters or through financial intermediaries. Small and medium sized projects are funded indirectly through global loans and lines of credit made available to financial institutions. The EIB is the body selected for operating the much-talked-about investment facility, which was created under the recently-signed Cotonou Agreement.

The Investment Facility is not yet operational, as it awaits the ratification of the Cotonou Agreement by the parliaments of all the signatory states. In the meantime, much work is being done together with the EIB and the ACP authorities to finalise the details of how the facility will operate. This facility will stimulate regional and international investment, strengthen the capacity of local financial institutions, strengthen local capital markets, encourage foreign investment and aid the development of commercially viable enterprises and companies. It will achieve this by providing risk capital in the form of (a) equity participation (b) quasi-capital assistance to ACP enterprises or (c) guarantees and other capital enhancements for investors and lenders. It will also provide ordinary concessional loans under certain conditions. Beneficiaries will be small businesses in all sectors, local financial institutions and enterprises in the process of being privatised. The facility will be endowed with €2.2 billion and will operate as a revolving

fund. Loans will be granted on market-related terms with possible interest subsidies for loans fulfilling specific criteria.

And furthermore, we should not forget that there are many existing and potential individually tailored programmes in the Region for support to the private sector. There is never really a problem of funding, there is often a problem of putting together bankable and sustainable projects for funding by the private sector. This again is one other area where there is a dire need for private sector institutions to take the lead with the strong urging and support of their constituents.

Of course, in making reference to all these instruments we must not neglect to mention already existing schemes from which many enterprises have benefited such as the Caribbean Export Development? Agency Carib Export? which is an agency created through the Caribbean Regional Trade Programme funded by the EU to the tune of over €25 million. The competitiveness fund and the other operations of Carib Export have played a significant role in assisting Caribbean enterprises, although I will not say too much on this because I have noted that my good friend Vaughn Renwick will be addressing this gathering in a few minutes and he is definitely better situated to give you the details of the operation.

After having gone through this heady listing of all the wonderful toys that are on offer let me address in more down-to-earth terms the question of interaction between the public and the private sector that will assist in making all these benefits flow to the intended beneficiaries. Having been met on many occasions with cynicism on the part of a few members of the private sector, I am fully conscious of the problem, although I do not pretend, even for a minute, to have all the answers.

Many of you will have read or heard of a book that was in the headlines a year or so ago. I know it because my wife insisted it was very important to read. It was called : “Men are from Mars and Women are from Venus”. Obviously it was addressing the problems that men and women have in making their life together work. It made a very important point that men and women have communication problems because they have different thinking processes. Not to say that one is right while the other is wrong, just to say that they are different. Sometimes I wonder whether we shouldn't write a book saying the public sector is from Saturn and the private sector is from Pluto or some other planet, because we seem to be having the same problems. We are condemned to live together and try as we may, one will not manage to prove that it can do without the other.

The answer, therefore, is dialogue and reinforced communications.

There must be recognition that each of these two sectors, the public and the private, has a distinct role to play and that both have rights but also obligations and responsibilities towards each other and towards the wider society.

The public sector has a major role to play in establishing the appropriate infrastructure and regulatory environment in which private enterprise may flourish. It is also the role of the public sector to facilitate an appropriate environment in which representatives of the private

sector can have their voices heard, and to play their part in the overall policy environment. In many countries, there are now economic and social structures, composed of representatives of the social partners, and which have a direct input into public policy making. I am aware of the particularly effective arrangements that exist in Barbados between the public and the private sectors and these are worthy, I believe, to be studied and emulated by other countries in the Region. International public sector organisations such as donor agencies have to assist in this process.

But the private sector also has a role to play in promoting this dialogue and doing their bit to help things along. I, of course, wouldn't dare to stand before a group of successful businessmen and suggest how you should handle your business, but I do have a few words of advice on how to handle the wider public sector, government and international donors included. Here are some thoughts, which are certainly not exhaustive.

First I would suggest to develop a strong voice in matters concerning the sector. Very few firms in the world are big enough to be able on their own to have an impact of major economic issues. In the Caribbean, in particular, due to many local reasons most firms are small. It is therefore necessary that in order to interact at the international level, whether this is with donors providing assistance or in international fora related to trade negotiations, it is necessary to have a collective voice. This is not only necessary for governments, as has been proven by the successes of the RNM, but also at the enterprise level. To achieve that, it is necessary to build and strengthen private sector institutions such as chambers of commerce, trade representation bodies, and associations of various types. Participation must be as wide as possible in these organisations, as very often such organisations are dominated by small groups and end up representing the views of rather specific or narrow interests which are not representative of the wider sector. This is the easiest way for such bodies to lose credibility with donors.

I would also suggest that you keep abreast with developments. Fortunately or unfortunately, irrespective of our individual opinions on the matter, globalisation is moving forward at its own pace and there is a choice between organising to achieve as many benefits as possible from the process or going into denial only to admit at a later date that irreparable damage has happened. In order to be on top of things, it is necessary to be aware of developments and to try and influence them as far as possible. Again here, the fact that the private sector is composed of small entities poses a significant problem. Again the answer is to pool resources as far as possible. The same limited capacity that exists in the private sector also exists in many government ministries and it is critical that the private sector interacts, assists and supports the government's efforts in trade negotiations and similar events.

Similarly, it is important to maintain a realistic view of how things are going. Let us take the all important issue of trade preferences and protected markets. The general trend is towards elimination of such preferences if not sooner then later, but the trend is quite obvious. Some like to say that this or that is cast in stone, but the only thing that is cast in stone is "death and taxes". The choice is there: either concentrate entirely on a probably futile battle to undo the trend or mount a more balanced operation combining efforts to delay the process through longer transition periods while at the same time working fervently on the necessary changes to ensure survival in the new circumstances.

The public sector and international donors are there to assist and to provide support in this transition phase, but activities must be guided by the knowledge that international donors, and certainly the European Commission aid, is about funding real and sustainable change and not about funding compensation of any sort.

Take the time to acquaint yourselves with the instruments that are there, and how to access the available funding. Simple-minded cynicism leads many to adhere to the fallacy that donor assistance is far too bureaucratic and complicated to be of any use, especially to the private sector. That would have been a laugh it wasn't a seriously dangerous statement. How many in this room have walked into a bank, said they needed a couple of million for an idea they had which they really hadn't had the time to think through but would do so soon and walked out with a cheque in their hands. Of course, if it were as simple as that even a bureaucrat like me would have been a successful businessman. It is normal that aid requires a process through which it is disbursed. This process is designed to ensure transparency and merit in delivery, and is the minimum that the people who provide the money for the aid are entitled to demand. Don't forget that aid doesn't come from the European Commission's money printing press but from taxpayers like you and me. These processes are also useful to you because they make sure that when you have a worthwhile project there will still be funds for it and that my personal buddies and I haven't used everything up before you even knew that the funds existed. So do yourself a favour and make the effort to find out what is there and what is required to access it. You could be surprised, pleasantly, I believe. Again here collective bodies can be of significant help because they can do research and help their constituents as a group rather than having each individual do it alone. Demand from your institutions this service, and be aware of corporate jealousies that blind. I remember one regional organisation that resented that Caribbean Export was running a project in trade development who in a conversation with me pretended, with a lot of disdain, that they had vaguely "heard" about Carib Export from somewhere, instead of working with their members to help them access the competitiveness fund for their benefit.

As many of your chief executive officers like to say "There is no free lunch", so taking a few hours to study possibilities and learn the rules is, I believe, a small investment vis-à-vis the possible benefits. And as to the difficulty of our procedures, if anyone can master the rules of cricket then let me tell you, the European Commission's procedures are child's play.

Floor Discussion

The following issues were identified:

- (a) the CRNM was too thinly staffed and did not have enough resources to carry out its mandate. It was felt that the current staff compliment of five persons should be increased fivefold;
- (b) the idea of a regional policy-making body was mooted; but there was the issue of how such a body would be financed;
- (c) it was strongly felt that the Region has enormous potential but what we needed was to organise ourselves to move forward and this was a major challenge;
- (d) in the Caribbean, the problem is not funding but one of finding bankable projects;
- (e) an examination of our system of government and governance to determine whether it has failed; and
- (f) the need:
 - (i) to identify what is needed for ourselves so that we can devise mechanisms to make enterprises successful;
 - (ii) for the regional private and public sector to encourage more dialogue in order to provide for better working relations between both parties;
 - (iii) to recognise that both the public and private sectors have distinctive roles to play; and
 - (iv) to build strong private sector bodies such as chambers of commerce and avoid these organisations being dominated by special interest groups.

RECOMMENDATIONS

There is a need:

- (a) *for the private sector to assist governments in trade negotiations;*
- (b) *to develop a strong voice for the sectors that will allow small firms to interact at the international level;*
- (c) *to build and strengthen private sector institutions;*
- (d) *to encourage wide participation among stakeholders by integrating private sector interests in decision-making processes of government;*
- (e) *to keep abreast of developments including globalisation and trade liberalization with a hope of influencing these changes;*
- (f) *for public education at a broad level about the CSME to create greater interest among people in the Region;*
- (g) *for greater public education and dialogue on trade and public policy since the private sector has been reluctant to invest in ideas on trade policy;*
- (h) *for private sector entities to work with institutions already accessing funding and master the procedures for accessing the European Commission programme; and*
- (i) *to become more proactive with trade strategy and by so doing, develop a vision of where the Caribbean should see itself in ten years.*

Positive and Negative Impacts on the Caribbean

By Dr. Juliet Melville, Research Economist, CDB

“A deliberate and conscious attempt to extend the effective market space beyond national borders while ensuring that, as far as possible, the same or similar conditions/forces obtain as in the national market”.

DEFINING GLOBALISATION

Integration of Economies/Markets

Globalisation is often described as “a historical **process**^{1/} that entails the increasing integration of, and interaction between, countries as national borders become less significant.” This integration spans economic, cultural, political and environmental spheres. For our purposes today, we are concerned with global economic integration, defined as the integration of economies and markets around the world. Hereafter globalisation refers to economic globalisation. This integration is occurring primarily through trade flows, capital movement, the movement of skilled persons and spread of knowledge and technology (IMF Issues Brief April 12, 2000)^{2/}. The explosive growth of international transactions in these areas, particularly in the 1990s, is used as a gauge of the extent of globalisation.

Purposeful Action to Integrate Markets

This increasing integration of national markets/economies is neither divinely ordained or inevitable as some would like us to believe, but rather it is the result of purposeful political action by governments [of the advanced industrialised countries (AIC) in service of their multinational enterprises (MNEs)] to remove barriers to trade and to reduce or eliminate capital controls. As a result, international trade has grown phenomenally and capital has become more internationally mobile.

Globalisation Technologically Driven

The real driving force of globalisation is felt by some to be technological developments in transportation and information processing and communications which have made global market integration both technically feasible and economically worthwhile. These have made it possible for producers/firms in the AIC to look beyond national boundaries in search of greater profitability by relocating integral parts of their operations to cheaper locations (resulting in what

^{1/} Globalisation is on-going, and theoretically the end product of this should be a single economic space or a completely integrated market that would be characterised by the absence of any impediments to international mobility (mobility across national borders to) of – as the case may be – commodities, services, and the production factors (capital, labour and technology). (Schulze and Urspring, 1999)

^{2/} The increasing significance of trade and capital flows relative to gross domestic product (GDP) in the economies of countries where these flows have traditionally been relatively small (e.g., AICs) is taken as an indication of increasing globalisation.

is referred to as the disintegration of production/international outsourcing). Driven by the need to increase efficiency and raise or preserve profitability, developments in information and communication technologies and transportation have permitted firms in the AIC to reap significant cost savings through combining manufacturing or services activities done abroad with those performed at home. Additionally, for many industries, developed country markets are quite mature and the growth imperative generally requires companies to look to emerging markets for fresh opportunities. As MNEs pursue global strategies, this has provided the opportunity for businesses in developing countries to enter a variety of relationships with them. Through their global network, MNEs are instrumental in transferring capital, technology, skills, know-how, to the extent necessary to integrate foreign suppliers and markets into their value chain. In this way, MNEs of the AIC are driving the globalisation process.

Globalisation and the Neoliberal Paradigm

Globalisation is also associated/supported/accompanied by a dominant view of how best economic activities should be organised, how development is attained, and what is the appropriate role for the state. One commentator describes this as the emergence of a global mind set among key decision makers. This dominant view, often referred to as an integrationist strategy, urges countries wishing to catch up with the AIC to integrate fully into the international market by opening their borders to trade, capital flows and technology. This is to be supported by domestic reforms to make full integration viable with the private sector playing a lead role in development and the state providing the supporting macroeconomic and institutional framework (Wade 2001). The state is expected to retreat primarily to a regulatory role rather than a developmental one^{3/}. This neoliberal paradigm, supported by the policy prescriptions from the international financial institutions, also popularly referred to as the Washington Consensus, has dominated international public policy for the last 20 years.

Another defining feature of globalisation is the emergence of, or intensification of, regionalism in the form of trading blocs and the adoption of regional corporate strategies by businesses as both an offensive and defensive response. Despite all the talk about globalisation, much of world trade and cross border capital movements are highly regional and takes place within regional groupings.

^{3/} This is encapsulated in reduced state intervention; move from Keynesian towards monetarist macroeconomic policies; shift from state intervention in trade, industrial and social policy towards laissez-faire market (Stewart and Berry, 2000).

HOW IS GLOBALISATION BEING EXPERIENCED IN THE CARIBBEAN?

- Historically the economies of the Region have been highly open, with trade (exports and imports) accounting for more than 100% of GDP for most countries.
- Foreign capital has always played a significant role although mainly associated with Foreign Direct Investment in natural resource based industries, including tourism.
- What is new is the dramatic change in the trading environment and the fall-out from this. Managed trade is giving way to free trade. The protection of domestic markets from imports is in the process of being dismantled; non-reciprocal preferential trading agreements and special trading arrangements are giving way to non-reciprocal arrangements.
- The Region's trading relationships have become more complex as these relations are no longer confined to the traditional trading partners - such as the United States of America, Canada, EU and CARICOM partners. The Region has been diversifying its trading relationships through bilateral and regional arrangements, particularly with Latin America. There has also been a simultaneous deepening and widening of the regional movement, i.e., the creation of the CSME.
- Cross border investment within CARICOM has increased significantly with Trinidad and Tobago taking the lead.
- Some domestic and foreign owned businesses have been reorganising and restructuring their operations to raise productivity and improve efficiency, while attempting to consolidate their position in domestic and regional markets. Consolidation is taking place through alliances, takeovers and regional expansion, and in a few cases extra-regional expansion. These developments have been occurring most notably in the financial services sector, the distributive trade, but also in other sectors and involves some of the Region's largest firms. Some of these developments are giving rise to concerns about anti-competitive business practices. Regional businesses have also been entering relationships with extra-regional firms.
- At the level of the public sector, there has also been some amount of restructuring and reorganisation by governments. The scope of government activities has been trimmed; greater focus is being given to macroeconomic stability and creating an investment-friendly climate; and there has been some amount of institutional building to support economic activity in the new environment. It appears as if less attention is being given to long-term development issues even though the critical nature of these is increasingly apparent.
- The downside of globalisation is already being felt as businesses and workers in some sectors have been affected negatively.

CHALLENGES AND OPPORTUNITIES

Achieving International Competitiveness

As trade barriers come down, industries and businesses are faced with increased competition in all markets (domestic as well as export). The strategic focus of many Caribbean businesses has been primarily on the domestic market and exports have targeted regional markets with few exceptions^{4/}. With the elimination of protection, the contest for the domestic market has intensified and businesses have to strive to maintain their market position by keeping out or displacing import on the basis of competitiveness; additionally, they have to seek new market opportunities through exporting. Businesses not only have to contend with more vigorous competition from other regional producers and from traditional sources (such as North America and Europe) but also with products from other low cost, highly efficient, non-traditional sources such as Asia, South Africa and Latin America.

Similarly, firms and industries which have exported under preferential and special trading arrangements face imminent demise unless they can attain international competitiveness by moving up the value chain, i.e., making the much talked about link with agro-processing by the time these are dismantled (sugar, banana, rum). At present, mainly the market for goods is affected by liberalisation, but this will soon be extended to services, including government procurement, as the CSME becomes a reality and as the Region contracts further obligations under the North American Free Trade Association, EU/African, Caribbean and Pacific Group and the WTO.

All industries and businesses are being forced to perform according to internationally accepted norms for cost, service and quality (Wint 1997). Questions arising in these circumstances are:

- Can our industries and businesses attain these standards?
- For which products/services?
- What support is needed to help them attain these?

The elimination of trade restrictions means theoretically that firms have access to and can export to a wider array of countries. The capability to take advantage of these opportunities will be a determining factor.

In the current climate, countries are expected to attain economic growth and accumulate wealth by exporting to global markets without special considerations. These markets, for the most part, are characterised by competition based on quality and efficiency (low price). The bar is continuously shifting upward as more and more countries upskill their people and acquire the capacity to produce goods and services competitively for global markets. More and more goods

^{4/} In a study of 16 firms that had attained international competitiveness, it was found that only 6 began with an exclusive focus on export markets (Wint 1997). Recent work on the manufacturing sector of Barbados and the Organisation of Eastern Caribbean States also revealed a high concentration on the domestic and regional markets (paper presented at CDB's Discussion Forum by Dr. Don Marshall and Mr. Glyn Williams; February 26, 2000)

and services are taking on the characteristics of commodities (The China Effect). In this scenario, low cost and volume is the key to success. Competition based on low unit price is likely to place the Caribbean at a disadvantage due to high production cost and relatively small production capacity, particularly with respect to primary produce. As societies, we are being challenged to think differently about some of the activities in which we currently engage. For small Caribbean countries, accumulation of wealth through exports to global markets will always be challenging.

It may be useful to think of the challenge in the context of short and long-term options. Due consideration will have to be given to the following:

- As small high-cost producers, success in the international arena will have to be centred on positioning one's operation at the high end of the market for most goods and services, product differentiation and/or niche marketing in which one is not confronted with head to head competition from high-volume low-cost producers.
- Product differentiation and niche marketing must be the basis of the short to medium term response to globalisation. In the new environment, flexibility is central as businesses have to be equipped to stay one step ahead of the competition because with time, niches are encroached upon and differentiated products may lose their market appeal.
- In an effort to attain economies of scale in some industries and to meet the minimum demands of the export market, some consideration may have to be given to the amalgamation of production efforts within and across countries for some products, e.g., there are opportunities in the hot pepper industry but no one country can meet the demand of the North American market. To be viable, the industry needs to be organized along the lines of the banana industry, but engaging in the production of value-added products.
- The opening of markets and the increased mobility of capital are also presenting opportunities for businesses with well-established brands to relocate production to major extra-regional consumer markets. The advantages associated with this are access to skills, finance, technology, lower production and distribution costs and better distribution networks.
- In the short to medium term, partnerships, strategic alliances and other special arrangements (sub-contracting) with internationally competitive firms can be used as a means of overcoming some of the challenges, building competitive advantage, augmenting capabilities and venturing into new fields. Businesses will be required to undertake significant investments in upgrading production processes, technological acquisition, market research and market development and, most important, human resources development. Wint in his study of successful regional exporters found that they utilised a variety of relationships with parent company and importer/contractor to acquire some of these capabilities. Some of these relationships, however, are quite risky and unstable as the recent case of the garment industry under the Caribbean Basin

Initiative, and the Trinidad Cement Limited and the Cement Company Mexico issue demonstrate.

- Increased mobility of skilled labour presents an opportunity for businesses to acquire expertise from outside while seeking to build their internal capacity.
- *Financing the Restructuring*: This is going to be costly and the availability of resources to undertake the necessary restructuring and international expansion will be a real challenge.
- *More Focused Strategies and Strategic Planning*: Businesses will have to adopt more focused strategy and engage in long range planning in order to make effective use of available resources in responding to globalisation. Businesses are now required to give greater attention to building their internal capabilities to respond to change and integrate flexibility into their activities. Companies may also need to define a clear vision for the future business in terms of the capabilities to be built, either alone or with alliance partners (Gupta 2000).
- The opportunities created by globalisation are favouring knowledge and technology superior countries, businesses and individuals. It is clear that the greatest amount of wealth per capita comes from the production of goods and services of the highest value, i.e., technology and technology products. Therefore a long-term goal must be to become involved in the trade in technology and technology products. Producing technology for sale or licence has the potential to generate wealth in quantities not limited by small population and geographical size, both of which are characteristic features of the Caribbean. This is an area which has not been explored. Although we are not at the forefront of research and development and knowledge creation, there are examples of unique cutting edge research output in the Region. These are the result mainly of individual effort without the necessary support to take these to the stage of commercialisation. Using technology to generate wealth can only be accomplished by developing human resources of the highest calibre. Major policy changes and intervention will be required to emphasise the creation of knowledge industries based on innovation and entrepreneurship. In the Caribbean, despite our boast of having a well-educated labour force, large numbers of our people are not equipped for the new environment, and in too many cases the small pool of skilled and highly trained persons is not effectively utilised.

OTHER ISSUES

- (i) Role of the state? regulatory or developmental? Financial openness and trade liberalisation have adversely affected government revenue and impaired the ability to deliver social and other programmes. At the same time, the demand for social policy and other action, including industrial policy, to mitigate the negative fallout from globalisation has increased. The challenge is to continue to deliver these within the limits set by the WTO.

- (ii) Managing the tensions of globalisation: Undeniably greater openness and the ensuing restructuring have resulted in losses for different economic groups within and between countries. The position of workers has been eroded relative to capital; while workers in some industries (viz. agriculture and manufacturing) are being impacted more than others. These tensions have the ability to create a disruptive industrial climate, threaten social peace and political stability and therefore must be managed. Large groups face marginalisation because they are ill-prepared and ill-equipped for the new environment. Further, as domestic economic actors are adversely affected by imports, particularly from other member states of CARICOM, regional trade conflict is likely to erupt. These are issues of relevant to both the private and the public sector. Serious consideration must be given to the type of support that will be needed for those who have been impacted negatively or are being marginalised. Resources will have to be identified and set aside for this purpose.
- (iii) Influencing the Emerging Global Environment: As most other developing countries, the Region failed to play an active role in the Uruguay Round, so as obligations become due, groups affected seemed to be caught by surprise and unaware of the commitments undertaken by their government and are thus unprepared. There is clearly a need for more effective public/private sector interface with other interest groups to ensure that their specific interests and particular requirements are taken into account in trade negotiations. All interest groups? businesses, labour and non-governmental organisations? have to work closely with government officials, and through them the RNM to influence ongoing trade negotiations. In this way, the trade negotiation process needs to be linked to countries development strategy. This is important for bargaining for safeguards and measures to facilitate the things that are of importance to us.

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The Future of the Maritime Sector in Jamaica

By Mrs. Pauline Gray

The most significant drivers of strategic change in the world today are globalisation, technological innovation and competition, and each is constantly reinforcing the other to radically reshape and change how countries, governments, firms and individuals work together throughout the world.

I think we would all agree that it is not going to be easy for Caribbean Territories to join the Globalisation bandwagon. For most countries at the macro level, it is going to be a slow and painful process. Why? Because as nation states we have survived on a mixture of trade preferences and development aid, and these two pillars of our development policies are being rapidly whittled away. In fact many of us are acting like the mice in the famous book, “Who moved my cheese.”

We are seeing a global system that is becoming increasingly rules-based and mandatory, with national authorities fast losing their development and policy options. The writing is now on the wall, and the Region has to ask itself some serious and fundamental questions:

- How do we find a niche for ourselves in the global trading system?
- What is the right policy mix to energize the Region’s private sector towards competitiveness?
- At the micro level, how do we re-tool and re-engineer to exploit the opportunities presented by globalisation?
- How do we equip our people to survive and participate in the technologically demanding world of tomorrow?

Asking ourselves these questions is not enough. We need to implement programmes and policies which will make a difference in the long term. Our Region is notorious for endless discussion accompanied by very little action. I hope that this meeting today will help to change this dynamic and something truly useful will emerge from our day-long deliberations.

While it appears to be somewhat doom and gloom at the macro level, there are pockets of excellence, pockets of success at the micro level which spark a resurgence of hope, and faith in the future of the Region and our people.

So let me consider two drivers which will influence the future of the Maritime Sector. These are competition and technology.

Globalisation is not a new phenomenon to the Maritime Sector, we could safely say we cut our eye teeth on this ideology. For as a sector we have always had to compete internationally, being bound by international standards, regulations and quality.

The future of shipping has been predicted by industry experts as being one which will revolve around only five mega transshipment hubs or ports, strategically located in specific regions of the world. The Central American and the Caribbean Region has been identified as the potential site of one of these hubs, and a number of ports are already competing for selection.

The Port of Kingston, Freeport in The Bahamas, Manzanillo in Panama, San Juan in Puerto Rico, Rio Haina in the Dominican Republic are all ports which have made solid investments in infrastructure over the last five years. Cuba when it opens up will undoubtedly be a force with which to reckon. How do we stack up in Jamaica?

Well, over the last decade we have experienced phenomenal growth, particularly in respect to the capacity expansion in the facilities in Kingston. In 2000, some 3,581 vessels called at Jamaican ports with 65% of these calls being in Kingston. For 2001, the Kingston business increased by 28% over the 2000 figures, with most of this increase being recorded in the area of transshipment operations.

The maritime sector also captures a component of tourism with the cruise industry, and this, despite September 11, continues to be a vibrant area for Jamaica.

Late last year, we saw the end of a J\$1.6 billion expansion programme at the container terminal, and a new phase of expansion is beginning with the dredging of the harbour to accommodate the new generation of cargo vessels which are on the high seas.

If Jamaica sees a great potential for economic development in the maritime industry, trust me, so does every other country previously named.

In Jamaica we have developed what I term a Shipping Industry Competition Scorecard that allows the industry to assess in a “quick and dirty” fashion how we are doing with the drivers which influence our competitiveness (see Table 1).

The Port of Kingston is basing its strategy on a mixture of successfully addressing the drivers in the scorecard while utilizing appropriate technology to give the efficiency and productivity needed to compete globally.

There is now a new management team at the container terminal with a successful international track record. A.P. Moeller from Denmark won the contract and started operating last month. Within the space of 28 days, they had increased container moves from 16-18 boxes an hour, which is well below industry norms, to 21 moves per hour, and hope in the near future to reach 25.

What’s the strategy mix? For example, the appropriate use of technology, using:

- World class container tracking software systems
- GPS systems to create container yard efficiencies

- CCTV systems to address our Port security issues
- Underwater tracking systems to address drug smuggling issues
- New Post Panamax Cranes to address productivity issues
- IT infrastructure linking all major players in the port community and of course this links into our efforts to create a highly responsive, multi-skilled workforce, which is flexible and well trained.

Industry management is being asked to embrace international paradigms of efficiency, innovation and customer service. It is no longer enough to strive for customer satisfaction we want to ensure customer delight.

Shipping lines are merging, consolidating and demanding lower costs, greater value, high quality service. The question of port security is an issue that could take the whole day to debate, and this is currently foremost in industry minds, post-September 11.

We are all pretty much island states, so maritime services are essential to our economic development. The issue of the certification of ports, being proposed by the US, therefore, has serious implications for our future.

How a port, and an industry responds to these challenges, will be the measure of how competitive it becomes, and how it will survive in the future.

In Jamaica, the public and private sectors are working closely together through various mechanisms, to ensure that our future is a viable one, and that the Port of Kingston becomes the major transshipment hub of the Region in the next three years.

In closing, I would like to issue a challenge to the two sponsoring organisations.

To CAIC? to be more intrusive and supportive in the life of regional umbrella private sector agencies, and to the CDB, to be bolder and as Ambassador Bernal said, more audacious in its strategy and policy mix in support of the private sector.

We need to ensure that the Region develops a multi-skilled workforce, supported by strong IT strategies. CAIC and CDB are vital to the realization of this future.

Let me leave you with something that Einstein believed passionately, that the minds that thought us into the problem, cannot be the minds to think of us out of the problem. In this case, let me say that the paradigms that thought us into the problem, need to be changed and new paradigms developed.

CDB/CAIC Private Sector Summit 2002

Shipping Industry Competitiveness Drivers	OPF	PFO	ISL	PSA	UPF	IA
Geographic Location: Proximity international shipping lanes and to local industrial centers, draught of harbour						
Port Infrastructure Space for growth						
Equipment Generation Maintenance Facilities						
Technology Infrastructure Unified IT Systems CCTV						
Investment Capability Investment Capital for long-term development strategy						
Labour relations Industrial Harmony						
Human Resource Capability Multi-skilled Workforce and Quality Training Infrastructure						
Quick Vessel Turnaround Times						
Port Security Effective procedures to deter drug smuggling and terrorism, stowaways and piracy						
Quality of Allied Service Providers Customs, Customs Brokers, Haulier Services Pilotage, tug services General Bureaucracy and Red Tape						
Presence of Industry Standards Ship Waste Disposal Systems						
Overall Low Transaction Costs						
Competitive Environment						

Scoring from 1-5, with 1 – low and 5 – excellent

Legend: OPF – Owner of Port Facility; PFO – Port Facility Operator; ISL – International Shipping Lines; PSA – Public Sector Agency; UPF - Users of Port Facilities; IA – Industry Trade Associations

Pauline Gray
General Manager – Shipping Association of Jamaica
March 4, 2002.

Seizing the Opportunities

By Brian Jahra, Msc, Managing Director, Caribbean Interactive Multi-Media/eFreenet

Globalisation: Orthodox, Neoclassical Economic Theory

Orthodox interpretation is based on classical and neoclassical economic theory (Adam Smith) and states:

- Foreign trade is a propelling force – an “engine” for growth
- Trade is a vent for surplus productive capacity
- Comparative advantage will determine the pattern of trade
- Economies have a leading sector of growth? staple theory? (e.g. bananas, sugar and oil)
- International demonstration effect? using the best available technology for deployment in a developmental context

Corporate Globalisation

- Privatize (commodify) government assets
- Free markets from government intervention
- Globalisation and international trade unleashes innovation and the wealth creation process
- Focus on hypergrowth to deliver mega private profits
- Development of centralized/homogenized systems of trade and commerce
- Inexorable process with conscious and unconscious participants

Critique of Globalisation

- Citizens movements calling for democracy and diversity? WTO/FTAA protests
- World of increasing inequality
- Deteriorating environment and planetary life systems – threatening the existence of the human species itself
- Power to govern shifted from citizen based democracies to corporate powerhouses who wield power and control colluding, governments and Bretton Woods institutions
- Culture of greed and materialism
- Cultural imperialism designed to create homogenous tastes for foreign products and services
- Developing world is still on the periphery? source for raw materials and small market for finished goods
- IS GLOBALISATION A CULTURAL AND ECONOMIC NIRVANA?

But Globalisation is a Reality

- Not just trade in goods and services
- Technological advances in aviation and especially communications have made globalisation a mind-set
- Pervasiveness of cable and direct broadcast TV (more homogenous cultures)
- The Internet’s empowering capacity? go and find whatever you want wherever you want, anywhere in the world
- Email’s virtual instantaneity (document sharing, contract review, etc.)

- Sheer speed of international communications via satellite and fiber optics literally and virtually connects the world
- Even those on the periphery want to be in the Club

Globalisation – Key Elements of A Successful Caribbean Strategy –

Understand Global Alliances and Plans of Partners, Suppliers, JV prospects, etc.

- What local agents and firms do not understand may be better understood/appreciated by their overseas affiliates, reps, etc.
- Project funding can be sourced through the overseas donors, parent companies, etc. of local/regional firms
- Global outsourcing can bring the best and brightest onto your team

Capitalize on the Great Communicative/Enabling Power of the Internet

- Source product reviews
- Source technical documentation
- Download 10Ks and Annual reports of competitors or potential partners/customers/suppliers in order to learn the strategies of the big boys and global language of the targeted industry
- Subscribe to or regularly visit online periodicals such as Wall Street Journal, Financial Times, New York Times, etc.
- Establish Corporate Extranets
- Participate in technical user groups
- Leverage the speed and informational resource of document and contract sharing, editing and financial computation

Pursue Vertical Integration - Aggressive Establishment of a Global Presence to Increase Margins

- Registering legal entities in foreign jurisdictions (in the US, this can take as little as 20 minutes) thereby changing the perspective of the firm (from exporter to importer with a Caribbean facility)
- Seeking and accessing overseas financing (Benefits include: more knowledge about certain industries, better rates, better terms, more players)
- Evaluating options/risks and then establishing company owned distributorships, retail outlets, wholesale operations, etc. in foreign jurisdictions
- Pursue projects where value added can be provided locally

Cultivate an Attitude for Global Success

- Encourage and reward those who actively seek to educate themselves versus waiting for company training programs
- Encourage entrepreneurship and independent thinking within the firm? thinking out of the box to solve problems
- Learn benefits of Corporate Aggregation? Size does matter? (M&A/regional integration, especially in spheres of economics and corporate finance should be promoted)
- However, use small size as an advantage (e.g. first to market and faster response times)
- Leverage family and friendship ties that cross international borders (building the human network)
- Foster corporate responsibility and sensitivity to ecological, diversity, human rights, common heritage, equity and other principles of sustainable globalisation

Caribbean Poultry Industry

By Robert Best, Caribbean Poultry Association

I have been with the Caribbean Poultry Association for three years. The organisation was formed in 1999 and we now have 18 members from 9 CARICOM countries. Altogether, we account for 60-70% of all of the broilers produced in the Region. Our association has been struggling with the issue of globalisation and was in fact formed because of the fear of globalisation and in the process, we discovered that there was something called the Single Market, which most of our processors didn't know about. All of our industries have been inwardly focussed for the last 30 years, growing poultry mainly for the national markets and now we have to deal with not only the WTO but also the FTAA and the Single Market.

One of the great challenges that we have is that we are fundamentally, from a cost position, un-competitive with the lowest cost producers of the world. That is our opening position. If cost is the driver, then we are really not in the business. We have had a lot of agonising discussion about where we should go.

Our industry, unknown to many people, is one of the three large agro-industries of the Region in terms of ex-factory sales. In most of the larger countries of CARICOM, we are the top three industries with sales of USD 360 million per annum, ex factory.

Our industry has been growing for 30 years and in the last 10 years we have achieved a rate of 30% volume growth in consumption. We project that that growth can continue given certain trade policy decisions. We employ some 30,000 people across the Region.

In the Region, we consume as much poultry as some of the highest consuming countries in the world, some 39 kilos. We consume as much chicken as the highest consuming countries in the world, such as the US and Israel which is estimated at 39 kilos which compares to 24 kilos in industrial countries and an average of 9 kilos in developing countries. Approximately 80% of all meats eaten in the Region are chickens, and that has been growing over the last ten years.

If we put all the broilers producers in CARICOM into one processing plant, it would still only be the average size of a plant in the States and our largest processor in Jamaica is just about the size of the smallest processing plant in the States. So when it comes to economies of scale it is very difficult for us to make a serious impact.

Our average farm size in CARICOM is about 10,000 sq. ft. per farm compared to some 50,000 sq. ft. in the States and it shows the largest difference in farming assets that we have across the Region. The levels of modern technology we have on our farms that have environment housing are very small, less than 30% in one country and less than 5% in most countries very few automatic feeders, very few nipple drinkers. In countries like Brazil and the States, 95% of their assets are all automated.

This again shows the great variation within CARICOM. In the 30 hatcheries we have in CARICOM, their capacity ranges from 10,000 to 750,000 chicks per week and our hatchability

is about 7-10% below that of the international competitive benchmarks. We only produce 20% of our own product locally and we import some 20%.

The same thing holds for our feed mills. We have about 25 feed mills with a wide range of productive capacity from 10,000 to 225,000 metric tons. We are only producing 15% of our grain and we import most of it from the USA.

Across the Caribbean there is a great disparity in the cost of production, our factor cost that is, and if we take a look at labour, in Guyana, we are paying \$0.71 per hour for labour, Belize and Trinidad and Tobago \$1.25, Jamaica \$2.45, Barbados and The Bahamas \$4.50 and this holds true throughout CARICOM and poses a challenge of the impact of the CARICOM Single Market on our industry.

In terms of live production, not only do we have a problem within the Single Market, and when we talk restructuring I think we need to be very honest about what that means. Sometimes our consultants and representatives cloak it under nice words like restructuring, but here we are talking about massive movement of the industry out of some parts of CARICOM. We need to have a much more honest discussion than has been taking place now. In any event, the comparison with the USA and Brazil demonstrates that we have a long way to go in terms of live production costs. The processing cost of broilers in the Region is not that uncompetitive when compared with the USA, but we will never be able to get to the Brazilian position which is about \$0.10 per kilo. So ultimately, it is quite clear that apart from scale, we can achieve international efficiencies in a space of five to seven, possible ten years, but we can't achieve scale efficiencies, which are required.

Our policy environment in terms of tariffs governing the poultry industry in the Region is not even across the Single Market. This includes the application of laws and services within the countries.

So when we talk about competitiveness what are we really dealing with? Yes, industry competitiveness seem to be a lot of what we have been talking about today, but really our governments must compete in their provision of securing defensive tariffs for industries like ours, in putting in place modern laws in keeping with our regional commitments and making that the agencies that manage those things do so competitively. There are other issues which we haven't been talking about and which I would like to bring to the table. There are issues of non-trade concerns, food security, rural development and other things that sometimes fall under the environment. And I think that we need to acquire competitiveness in negotiating these rooms or space within our single market for the development of industries like ours that make contributions in those places.

Let us look at some issues or some roles that the CDB might play in supporting industry like ours. First of all, we are very thankful for the support we received in doing an industry trade competitiveness study and I remember Deryck Browne asking me why should the CDB give money to such a big industry in the Region. Well a lot of my directors never understood a lot of the issues, and since they simply did not understand them, I mean not entirely naively, they couldn't see the need for getting together and I think it is the role of the CDB to take people to

that stage where they understand. Now that we understand so much more, there is a much greater willingness on the part of the industry association and its members to move forward and do the necessary things. We have learnt that the trade agreements are legal constructs and they are not ordained from God as I said before, now we need to negotiate those legal positions in our own interest and I have heard a lot of talk here about the economic competitiveness and global trade but it seems to me that large countries are still taking advantage of us in terms of defining how our economies and how our industries will be going.

We also discovered, in much more detail than was available to our trade people, that the playing field is not level and we were able to demonstrate that the poultry industry in the Region is very sensitive but it is more sensitive to the large countries. We were therefore able to convince our trade people that we deserve sensitive status, which was then accorded to the poultry industry in January. We have also discovered that within the Single Market there is a lot more opportunity for collaboration in addition to competition.

But the CDB study and contribution stopped at the trade competitiveness study and we have proceeded with two workshops looking at developing strategies for solving the issues that face us. I wanted to point to the fact that if we are going to support industries we have to go beyond the initial support for studies and go into developing strategies and projects which actually make a difference on the ground.

There is to the need to strengthen institutions. Sometimes we query the way that aid or support is handed out to industries, and whether the institutions are being strengthened. Consultancies and the agencies that manage and as opposed to the industries association. I am sure people like CAIC would agree. We want to ask that more support comes directly to the industry associations and let us manage the consultants in our own interest.

The other things that we discovered in the CPA, is most of our directors never met so they never discussed business, they never discussed investments or sales. Now we meet three or four times a year, and I hear my colleagues speaking about what is happening in CARICOM. Any supporting industry groups must also seek to get industries to meet, and not just the industry members like ourselves, a lot of our public sector people don't understand what we are trying to implement.

Then there are other issues like R&D. How can we compete if our institutions are not as competitive in providing research and development, I am not talking about primary research, but making those quantum leaps in adopting the latest technology. We talk to the OECS about growing broilers and very often they are making the same mistakes we made in Jamaica and Trinidad, 20 years ago and we need to find ways to avoid that. If they are going to do anything, they have to go to the most modern positions and from the CDB's point of view, we just want to remind you that we are continually being asked to compete. Our interest rates are 12-25% compared to 4% and 8% in America and Brazil. Our loan rates duration are 7-10 years as compared to 20-40 years in countries that we compare ourselves with. Sometimes there is money available and we can't access it. And doesn't this all suggest that we need to take a larger Regional industry approach as opposed to national initiatives? Thank you very much.

Floor Discussions

Comments

1. CAIC has not been able to galvanise the private sector. It is smaller than the CRNM, and has fewer financial resources since it depends on voluntary contributions. It cannot be sufficiently emphasised, the need for the private sector to understand the seriousness of the obligations placed on them to concretise their role in the development of the Region and to utilise the institutional/organisational framework to interface with all the stakeholders.
2. Food Safety Management? There is need for the public and private sector to provide financing for plant upgrading, human resource training, R&D, including market research to determine the high value products where the greatest benefits at both the micro and macro levels can be derived.
3. The Caribbean is based on capital mobilisation predominantly through banks, as opposed to the developed countries where firms fill this role. How we achieve this in the Region will be through the types of companies that do not now exist, that is, those that generate or can provide venture capital. It is extremely crucial that the modalities surrounding this imperative be examined and a plan of action developed and implemented in order for us to deal with our changing role as a region in dealing with globalisation.
4. Isn't the public sector an employee of the public and therefore should be taking instructions from the private sector? If that is the case, why should there be a confrontational stance in dialogue? Shouldn't we therefore develop a different institutional approach to the collaboration?
5. Did the development in Information and Communication Technology (ICT) facilitate the continued growth of developed countries or was it merely a tool to serve the purposes of a pre-determined agenda?

Mechanisms to Enhance Private Sector Competitiveness

By Mr. Vaughn Renwick, Executive Director, Caribbean Export Development Agency

Introduction

Changes are not necessarily being driven by WTO/FTAA policy initiatives but by businesses and how they do business as evidenced by the following:

- (a) strategic alliances, e.g., Barclays redeeming their brandname
- (b) M&As
- (c) services and the entertainment sector
- (d) ICT and knowledge based industry are becoming more important
- (e) trade liberalisation

Competitiveness is more than just an enterprise issue as it involves a broad range of actors. It is a moving target. Two basic elements are needed, an enabling environment and enterprise level support.

The Enabling Environment

At the macro-level, the following is needed:

- Practical and strong business legislation, e.g anti-dumping, subsidies;
- Taxation and incentives, e.g duties on imports, certain facilities for manufacturers;
- Convertible currency and sensible interest rates;
- Transparency required particularly in the services sector. In some instances, governments; exercise too much discretionary power leading to a lack of transparency; and
- Good dispute settlement mechanisms.

At the enterprise level there is need for:

- Available business development services, e.g trade promotion, product development at national and regional level. Also in quality control and HASAP (food safety) training.
- Trade and Equity Financing vehicles
- Training at all levels, including management
- Promote innovation and success, e.g. Entrepreneur of the Year Award
- Special support for micro-business as this sector will need a suite of different services

Strong public sector institutions are a necessity. There is need to strengthen trade and finance ministries especially at the technical level. Customs departments are revenue earners but lack resources in staff and systems to produce timely service. There should be a focus on meeting international standards and quality benchmarks. A culture of training and research and capital market should be developed.

Strong private institutions need to be developed. There is sectoral representation across broad private sector base with spotty results, for example, the poultry association, with some good examples in the commodities but not across-the-board private sector base. There is need for a sound financial base. Kickstarts are needed from the public sector. The focus is on the core business and advocacy has been neglected. Strong private sector institutions should provide an array of member services.

CONCLUSION/RECOMMENDATIONS

Meeting the Challenge (applies to both private and public sector)

- *modernise and simplify regulations*
- *implement performance standards*
- *charge for services*
- *promote local alliances for inward investment - important core area for growth*
- *give clear (generous) incentives, set investment goals over a 20-year horizon, not just short term*
- *build solid information and communication technology infrastructure*
- *provide funds for building competitiveness*
- *implement special micro level programme*
- *train, train, train*
- *promote innovation, best practice and quality*
- *promote business networking. The secret of success has come from business people meeting each other to get ideas, emulate, mentor*
- *strengthen dialogue mechanisms. This may be in place but it is not functioning*
- *strengthen institutions that facilitate business*

Particularly to the private sector:

- *study trends, keep updated*
- *understand your market*
- *identify niches*
- *move up the value chain*
- *take nothing for granted? doh take no! There are always opportunities where others may see obstacles. For example, we see the inroads made by Trinidad and Tobago products in the Dominican Republic market. Case of exporting rice to Haiti.*

CDB's Proposed New Private Sector Development Strategy

By Ms. Anne Bramble, Project Review Officer, CDB

Private Sector Development (PSD) is an integral component of the Strategic Plan of CDB and the Strategies for Poverty Reduction, Governance and Institutional Development. CDB's present private/sector strategy focuses mainly on indirect and direct lending. The latter is very small relative to the total loan portfolio. Its involvement with the private sector, is mainly through financial intermediation which has increased over the years. In the context of globalisation, there was need for CDB to evaluate its existing strategy and develop a more responsive and comprehensive approach to PSD in its BMCs. In addition the recent epoch-making events of September 11, 2001, have changed forever the global landscape, and have highlighted the insecurity and vulnerability of the BMCs.

Many enterprises that are considered large in the Caribbean are really quite small in global terms. Size, economies of scale, ready access to information and technology, the ability to create physical and intellectual capacity, and continuous innovation, will make a considerable difference in the competitiveness of enterprises. Exposure to global competition requires that the enterprises invest heavily in retooling, re-engineering of processes and training just to maintain their local market share and build their export potential. Micro-, small- and medium-sized enterprises will be especially vulnerable where internal and external economies of scale or scope are difficult to achieve.

The main policy objectives of CDB and its BMCs have focused on sustained economic growth, poverty reduction and/or alleviation, and security. A continuously growing economy requires on-going change. A critical element in the process which fuels change and development is flexibility and adaptability: the capacity to recognise and seize opportunity, to adopt and adapt systems and processes, to innovate, to learn from the lessons of failure and to capitalise on successes. Private sector capacity is therefore critical to economic growth.

The specific objective of the proposed PSD Strategy is to improve the global competitiveness of the Region's productive private sector on a sustainable basis and reposition Caribbean economies into the main stream of the world economy. The proposed PSD Strategy has been designed to facilitate medium and long-term interventions that would seek to further CDB's broader objective of fostering economic growth and promoting social development of the BMCs. Development of a strong and dynamic private sector is critical to long-term economic growth, a necessary condition for sustained poverty reduction. In achieving this objective, CDB will pursue a three-pronged strategy aimed at supporting efforts by governments and the private sector, as a partner, client and resource, to:

- (a) *Create an Enabling and Supportive Policy Environment:* CDB will focus on:
 - (i) Policy dialogue;
 - (ii) Governance; and
 - (iii) the legal and regulatory framework.

Government policies have an important role to play in creating the appropriate environment for private investment, stimulating the competitive capabilities of indigenous enterprises and making the transition to competitive social and economic structures. Fostering a more robust private sector is high on the agendas of governments in all BMCs. CDB proposes to improve the overall economic management capacity of the BMCs by increasing its economic work in the BMCs, including TA, and by engaging in more frequent policy dialogue. In addition, CDB will support activities/initiatives which will update and strengthen the legal and regulatory framework within which investment and business decisions are taken. This is an essential component in attracting investment into CDB's BMCs.

- (b) *Catalyse Larger Investment Flow:* CDB's mobilisation of resources, including its private-sector lending, must also be informed by the changing "face" of finance in response to globalisation, both internationally and regionally. The structure and nature of the financial sectors in the Organisation for Economic Cooperation and Development (OECD) countries have evolved, as witnessed by the growth in cross-mergers, acquisitions and alliances, forcing changes to the rules and regulations that govern the sector. A similar trend is evident in the Region, at least with respect to the three largest economies of Barbados, Jamaica and Trinidad and Tobago. CDB's private sector operations will generally be guided by the principle of additionality and its role as a catalyst.

Financial intermediation will continue to be the most cost-effective and efficient way of channeling CDB's resources to the micro-, small and medium-sized business in the BMCs.

- (c) *Develop Businesses and Products:* CDB's strategy on business and product development will focus on enhancing competitiveness by:
- (i) facilitating the establishment of new, sustainable, productive enterprises; and
 - (ii) institutional strengthening of existing enterprises.

The small and medium-scale sector which plays an important role in absorbing labour and generating income for poorer households will be particularly vulnerable. CDB will continue to provide TA to facilitate strengthening and building capacity for this sector.

The key success factors in implementing the proposed strategy will be:

- (a) resource availability;
- (b) responsiveness to the private sector;
- (c) adaptable policies, procedures and processes; and

- (d) partnership with the private sector, private-sector institutions, donors and International Financial Institutions to ensure the most effective use of resources available to the BMCs.

Positioning the Bank to effectively respond to the challenges facing the private sector in the BMCs, demands bold and innovative changes in CDB's operational environment and orientation. This will involve a critical examination and subsequent adjustments to its financial policies, private-sector orientation, and financial and human resource allocation.

Strategy and Support Mechanisms for the Development of the Caribbean Private Sector

By Ronald Bulkan, Manager/Owner, Precision Woodworking, Guyana

I wish to thank the hosts (CDB/CAIC) of this summit for their kind invitation for us to participate. For me, it is both an honour and a pleasure to be among such a distinguished gathering.

I believe that this honour is due to the fact that not only are we the current holders of the title Caribbean Entrepreneur of the Year but that we are engaged in manufacturing and for export markets to boot. Incredibly, 99.9% of our output is exported.

The objectives of this Summit have been clearly stated and essentially are to *“identify opportunities to take advantage of trade liberalisation and globalisation”*, and as a result *“the developing of a vibrant, dynamic and sustainable business sector, with the ability to compete in the global market”*.

I understand that this initiative has its roots in a charge given by P.M. Owen Arthur to the 29th Annual Meeting of the Board of Governors of the CDB and namely that the CDB, in collaboration with others, notably the IDB, should consider the desirability of establishing a CARICOM Reconstruction Facility to support the re-engineering of the economies of the BMCs of CDB and IDB.

This charge was given in May 1999, i.e., some three years ago. No doubt, and with regard to this new liberalised international environment, P.M. Arthur had by then recognised that the situation here in the Caribbean was already so grave that he could argue that *“some countries faced the danger of becoming ‘failed societies’ ”*. I venture to suggest that P.M. Arthur may have suspected that there was more prescience than hyperbole in his remarks.

But to come back to the gestation period between P.M. Arthur’s charge and the implementation of facilitating measures designed to achieve the desired objectives, surely all would agree that the reaction was not fast enough. Indeed, Guyana’s President Jagan had spoken about the need for such a Fund/Facility long before and which he likened to a mini Marshall Plan. To successfully compete in the international marketplace, our reaction time does not have to be equal to that of an Olympic sprinter coming out of the blocks, but it needs to be close to that. Actually, it is more about foresight and less reacting.

I have no desire to be irreverent or provocative but I wish to be frank.

I would like to preface my further comments with a quote. It is by Alexander Herzen and is taken from his 1849 work, *The Other Shore*, in which he said:

“If nations always moved from one set of furnished rooms to another? and always into a better set? things might be easier, but the trouble is that there is no one to prepare the new rooms. The future is worse than the ocean? there is nothing there. It will be what men and circumstances make it”.

It is known that what is now referred to as the Uruguay round of GATT talks which began in 1986 eventually led to an agreement to set up the WTO (1. 1. 1995), to govern international trade. The successor to GATT (WTO) has, of course, the same aim i.e., to promote international trade and economic development by reducing tariffs and other restrictions.

How seriously did we try to understand the implications for our Region and attempt to cope in this New World Order? I will not try to answer this question except to say that each country has to be judged individually.

But to take the regional view, I will refer to two viewpoints, both of which were published in CEDP’s newsletter *Made In CARICOM?* one in 1994 and the other in 1995.

In his 1994 viewpoint, Claude Clarke, then Chairman of JAMPRO, said:

“Many of our aspirations for a better quality life are bound up with the expansion of intra-regional trade. We in the Caribbean have to wake up to the stark reality on the eve of the 21st Century. The future is not what it used to be. Gone are the days of benevolent preferential trade agreements. Trade liberalisation is the order of the day.

Aid from the developed world is declining rapidly to the point of disappearance. Private direct investment is being directed towards other regions thought to be more lucrative and efficient. In addition, technological changes have rendered a number of our traditional natural resources uncompetitive, if not redundant. And, of course our cheap labour advantage is rapidly losing its significance.

But crying over spilled milk is not a viable solution. What we need to do is to determine what we can do in the face of these to promote and advance Caribbean industry and economic growth. Our first task must be to build an alliance between our consumer and producer. CARICOM has a combined income of approximately \$12 billion.

And further

“In a world in which regional blocs are playing an increasing role, small states like ours in the Caribbean have to band together and forge a common front, in the sheer interest of our common economic survival. We will either hang together or fall separately. Increasingly, we have to think of the Caribbean as a single unit, rather than just a number of mini states. Our 5.5 million people compared to 5.5 billion in the world is really quite miniscule. But compared to the population of any individual state it is quite substantial. For us to begin to create economies of scale, we have to think in terms of a single common market, out of sheer economic necessity.

In his viewpoint published in the January 1995 issue, Dr. Neville Duncan of the University of the West Indies (UWI), examined GATT/WTO and the imperatives for the Caribbean and ended by stating the following:

“Mine is not an argument of despair. In any situation of difficulty, real opportunities for progress exist. We need to deal with these matters systematically, undertaking in a deliberate manner, the pluses and minuses which exist for us. Then we chart a proper course, determining what are the various elements needed to achieve success which is sustainable.

One thing is sure: going along in the old way will not work. The strategy which will have to be adopted is going to be a radical one. Are our business persons, our governments, our administrative systems, and our people busy with the tasks needed?

Some seven years have passed since the danger was unambiguously recognised. How successfully have we risen to the challenge? Obviously not very successfully, for if we were, then P.M. Arthur would not be bold enough to argue as he did in 1999 the notion of the danger of some countries becoming failed societies.

But maybe I have gone way beyond my remit? which really should be about identifying specific proposals or measures that can be adopted to increase efficiency in resource use in the economy, an expanded and more diversified export base and higher levels of savings and investments.

I have already alluded to the fact that we are engaged in manufacturing and for export. I would like to further qualify that and state that we use an indigenous raw-material (wood) and now with the use of all? local labour, produce fully-manufactured products which we sell in the developed world. Our exports in the last four years were to the tune of US\$10 million which I give only as a reference point.

Our business was conceived in 1983 having never previously existed in any way, shape or form. We started with no inherited capital and all funding was from commercial sources; very little developmental in nature.

The point I wish to make is that whilst the task is certainly daunting, the quest to achieve international competitiveness here in the Caribbean, is certainly possible; we have proven it.

But what does it take?

Firstly, this factor which economists refer to as core competence needs to be present. This presupposes the capacity, i.e., motivation and skill. Not to be overlooked is this question of integrity in the promoter, and finally patriotism. I accept that the last two factors might be less easy to define but they are not unimportant.

Finally, I can do no better than endorse the findings of the IDB/CDB Task Force contained in their background paper where they state:

“The availability of finance at competitive prices is a sine qua non of a dynamic and competitive private sector.”

What is this finance designed to achieve? It is to fund the investment in TRAINING AND EQUIPMENT which is the beginning of the process of trying to competitively produce goods and services in a liberalised world.

Measures to Enhance Private Sector Development

Mrs. Patricia Francis

Realities and Challenges of Globalisation

- ➔ Globalisation is the result of technology and trade policy, both of exogenous origin to Jamaica.
- ➔ With the increased globalisation of markets and the dismantling of traditional trade barriers, industrial success is heavily dependent on exporting strength.
- ➔ The key component of the export strategy must be the encouragement of a large number of new exporters with second priority on volume in the initial stages.
- ➔ More firms must get the experience of exporting to new markets as Jamaica's export base is still concentrated in those areas where preferences once existed.
- ➔ Foreign markets cannot become well developed and penetrated from a remote offshore base; direct investment in distribution, service, assembly and full manufacturing facilities eventually all become necessary to underpin a substantial position.
- ➔ Jamaica's export promotion strategy must involve a strong foreign investment component in which Jamaican firms are the foreign investors.
- ➔ The emphasis on globalisation of markets leads to tougher competition through greater economies of scale, and further rationalisation of the supply chain.
- ➔ The effects of globalisation will be to accelerate the process of concentration. It is important to emphasise that it is not only large companies which stand to lose, many niche markets will also be affected.
- ➔ Cross border agreements between firms based in different countries have become increasingly important complements to traditional FDI activities, with the range of such agreements growing ever wider. They include arrangements involving joint ventures, licensing, subcontracting, franchising, marketing, manufacturing, R&D and exploration agreements. The number of these agreements concluded annually increased from 1,760 in 1990 to 4,600 in 1995. This rapid growth in the number suggests that transnational corporations have increasingly used such arrangements to undertake international production.
- ➔ Globalisation means in the initial stage some amount of economic discomfort as firms either realign themselves or are realigned by market pressures.

- ➔ A component of the challenge to the government is to facilitate those firms which are dislocated partly through allowing strategic take-overs by international conglomerates and not only absorbing the bad debts of these firms.
- ➔ The government has to be clear on the industries which it is supporting. There has to be the recognition that some industries are only employment industries not creating much value added. These sectors are important but they are not sustainable as they are “cash cows”. There has to be an understanding of the trade-off between employment and earnings which might be inevitable if firms are to become global winners.
- ➔ Foreign investment tends to have a “knock on effect”^{1/}, pulling with it further investment from other areas. For example, as Japan established the UK as its European base for the assembly of cars, so French, German and US component suppliers moved to gain access to this new potential market through mergers, acquisitions, joint ventures and new production facilities in the UK. Following closely behind this comes the service sectors.
- ➔ Smaller companies wishing to expand do not necessarily have the financial strength to buy into a larger market and must look to licensing and joint venture agreements.
- ➔ In many cases a company or regional industry is unlikely to gain the required market share to finance world class R&D. Failure to make the necessary investment will expose the industry to external competition and ultimately hasten the slide towards a less competitive position.
- ➔ Hence, the scenario is a lose-lose situation if firms do not strategically examine the R&D investment which is mandatory for success, but by itself might compromise a competitive position because of the expenses involved. Globalisation will involve challenges to export competitiveness and the attraction of investment flows.

^{1/} This is not the same thing as a multiplier effect

Measures to Improve Competitiveness for Small Island Developing States

The Traits of Global Winning Companies

The approach to repositioning the productive sector must emphasise principles that are common in globally competitive firms. A survey on 300 multinational firms done by Ozan and Smith^{2/} shows that the principles of successful organisations centre around the following:

Market Research

Market research is too often the missing link in defining the specific performance objective of manufacturing operations. Since what can be done to satisfy the needs of the market is always more varied than an organisation's capacity for accomplishment, priorities must be established founded on an action based appraisal of what needs to be done to satisfy those needs.

Competitive Benchmarking

Simply understanding what the market desires most is not enough. Current and potential competitive standing based on the ability to satisfy market needs, together with current market share holdings of each competitor, help to complete the information requirements for the market-driven objectives of the manufacturing strategy.

Extended Process Recognition

The processes and functions surrounding production and service provision have a tremendous influence on the effectiveness of business operations. Successful efforts require that it is the extended process, that which connects the business with its customers, which is the focus of improvements, rather than just the sub-process of manufacturing operations or any other functional view of the business.

Investment in Employees

Investment in talent, education, training and motivating people takes precedence over almost everything else. This provides the foundation for moving the decision-making authority of the organisation closer to the customer so that process improvements are made in accordance with market needs. Successful companies invest constantly in their workforce so that people have the necessary skills and abilities to be empowered to improve (rather than just administer) the processes of the business.

^{2/} Ozan, Terrence R., and William A. Smith: International Manufacturing Strategy Resource Book (1992). These firms were randomly selected from developed and developing countries. These principles represent those common to 274 of the firms.

Sequence of Process Improvement Initiatives

The sequence of actions providing the most expeditious and economical path to process improvement is first, process stabilisation; second, process simplification; third, extended process integration, and fourth, automation. Taking the shortcut to automation without planning the route in advance actually slows down progress, and at best raises the cost of process improvement. Winning organisations recognise that there are no shortcuts to sound manufacturing renewal. The competitive edge lies in how quickly and sure-footedly these initiatives are accomplished.

Performance Measurement

Performance measurement systems need to be realigned to identify the activities which are adding value and driving costs. Traditional cost accounting systems do an inadequate job of distinguishing muscle from fat throughout the extended process of the business. The renewal agendas of successful companies acknowledge that such systems are worse than incomplete; they are misleading and disruptive.

Philosophy of Continuous Total Improvement

Markets change and competitors improve. This creates a natural turbulence in the marketplace and makes competitiveness a test of adaptability. Anything that improves the ability of the business to respond to the market with better products, of higher quality, at lower costs, in a more timely manner, improves adaptability. In this regard, two blind spots in philosophy can knock renewal efforts off course. Within organisations able to demonstrate success, the improvement process is continuous. In the longer term, the most competitive businesses may actually strive for turbulence in their markets, because of their ability to manage it better than their competitors.

Initiatives in Jamaica to Improve Competitiveness

Currently, the Jamaican Government is in the process of updating and revising its incentives regime to allow for greater competitiveness. This initiative is being structured around the following five **proposals**, all focussing on areas deemed as critical to improvements in competitiveness for Jamaican companies:

1. ***Reduction of corporate tax levels to be brought in line with personal income tax levels^{3/}***. This rationalization would therefore allow for the completion of the legislation to remove taxation on dividends to address double taxation issues. Investors will still be allowed to carry forward losses to periods of profitability.
2. ***Greater support for Modernization of Industry:*** This will seek to incorporate the *Accelerated Depreciation* into the *Modernization of Industry Programme*. The

^{3/} The Ministry of Finance has not yet signed off on a level but is currently in the process of assessing the possibility of a review of Corporate Tax levels.

new programme should be an all-encompassing initiative that promotes modernization of all industries. This will be done in two phases:

- i. A five-year "*Rapid Modernization Programme*" to promote modernization in all firms in all industries. During this period, investors in all industries will be allowed a two-year period for a 100% depreciation write-off on all capital equipment. Investors will also be allowed GCT relief on the purchase of new equipment. Under a modernization programme approved by the National Productivity Organisation some certified used equipment would be accorded the same treatment during this period.
 - ii. Following the Rapid Modernization Programme, the depreciation write-off period will be returned to the international standard of three to five years. GCT relief will only be allowed on the purchase of new capital equipment.
3. ***Greater Support for Human Resources Development:*** This Act would encourage private sector investment in the traditional education (4-16 years). These investments should improve the overall quality of the supply of human capital, encouraging an education system driven by the skills demanded by the private sector.
- ➔ The amount invested in schools will entitle the investor to a tax credit.
 - ➔ R&D undertaken through or in conjunction with educational institutions will be accorded special treatment. Purchase of equipment used in R&D will be treated like capital equipment and the amount spent directly at the school for the research will also be considered as an investment in the school.

Currently, these provisions are available on a limited basis through the "Adopt a School Programme". This new programme would see all schools, which are recognised by the Ministry of Education and Culture being accorded "Charitable Organisation" status.

4. ***Encouragement of R&D:*** The objective of this programme is to encourage greater utilization of R&D in all aspects of the daily productive process of local enterprises. The incentive will take two main forms:
- A "New Product Incentive" will be given to all local enterprises that have developed and patented a new product or technique. This incentive will take the form of a ten-year tax holiday on all profits generated from this product/technique.
 - The National Productivity Organisation (NPO) will conduct research to develop more efficient productive processes, which will be made available to all producers. One of the focuses of the NPO will be the development of

better energy saving techniques. The NPO will also be available for individual consultancies to address specific individual needs.

5. ***Improvements in the Intellectual Property Rights Framework:*** This will call for:
- ➔ The compliance with and the strict enforcement of all laws relating to international intellectual property rights.
 - ➔ The enforcement of labelling and other international health standards (e.g. HAACP) and other phytosanitary requirements on all goods and services produced and/or sold in the country.

Other non-fiscal measures

- ➔ ***Ports and Inland Infrastructure improvement:*** Ports-of-entry are continually being upgraded and the procedures by which inputs to production are allowed into the country modified to ensure the speedy movement of goods in a way which will not compromise national security.
- ➔ ***Improved trade monitoring:*** The Customs Department and the Bureau of Standards are being made ready and their efforts coordinated to ensure that all imports meet strict quality guidelines and adhere to fair market practices.
- ➔ ***Reduced bureaucracy:*** It is necessary to create and promote the commitment of the Government to the facilitation of investment through the reduction of bureaucracy and the provision of the required infrastructure. To this end, the Government has already made significant progress.
- ➔ ***Improved labour flexibility:*** Finalizing provisions for the flexibility of labour as to the treatment of hours worked is of utmost importance.
- ➔ ***In the end, the Government of Jamaica is gearing up to fully exploit the changes being made through the CSME, and use the CARICOM market as a springboard to generate the economies of scale and scope to penetrate the entire FTAA region.***

“Strategies and Support Mechanisms for Caribbean Private Sector Development” – An Indigenous Bank Perspective

By Mr. Ronald Harford, Chairman, Caribbean Association of Indigenous Banks

Mr. Chairman, specially invited guests, ladies and gentlemen, a good afternoon to you all. Today I would like to talk to you on Strategies for the Development of the Caribbean Private Sector? an indigenous bank perspective. For some time now, one of the primary objectives of developing and emerging economies alike has been the creation and development of a vibrant and competitive private sector. Indeed, the successful development of a dynamic private sector has been argued by some as one of most important mechanisms through which the economic and social goals of a country can be achieved. It is argued, that ideally, an industrious, competitive and enterprising private sector, can become the engine of growth for an economy. It becomes the mechanism through which such social ills as poverty and unemployment can be alleviated through wealth creation, increased domestic production and technical innovation.

In this scenario, government is seen primarily as an initiator and facilitator in this process, by creating the right economic and political environment to initiate and sustain this process and by ensuring that the basic prerequisites to facilitate this process are present, such as the provision of adequate infrastructure, an educated and technically competent work force and ensuring that the rule of law is applied and adhered to.

In recent times, as governments have “downsized”, countries in the Caribbean in particular, face the challenge of developing a strong and vibrant private sector. Many Caribbean countries have experienced and continue to face declines in their primary traditional export products and industries such sugar, bananas, rice and bauxite, as producers are faced with increasing competition from lower cost international producers who are able to sell their products in more liberalized markets. Others such as Trinidad and Tobago remain vulnerable in other ways.

It should be noted, however, that the track record for many Caribbean islands in the process of developing a competitive private sector, has not been bad. Today, many of our Caribbean sister islands have been able to successfully develop new industries in tourism, information technology and processing, on and offshore financial services, non-traditional agricultural products and manufacturing. More important, in many of these instances, the private sector has been the impetus through which these industries have developed.

However, there are many challenges that governments and the regional private sector continue to face. These include the need for greater access to markets (regionally and internationally), lower costs and more efficient production, greater technical innovation, entrepreneurial and managerial skill development and increased overall competitiveness.

We in the indigenous banking sector are very clear on the need to address certain limitations in the Region that would be of benefit to the private sector and economies of the Region. Some of these include:

1. The need to develop, more efficient and lower cost air and sea transport in the Caribbean.
2. Regularization of the legislative and regulative framework in regional countries.
3. The need for lower telecommunication costs.
4. The need for more active steps in the creation of a CARICOM Single Market and Economy. In this respect, we commend CARICOM's Inter-Sessional Heads of Government Meeting in Belize a few weeks ago, for approval of programmes for the removal of restrictions on the right of establishment, provision of services and the movement of capital.

As a banker, however, I will not be focusing in any great detail on any of these issues. Rather today I will examine the role that Indigenous Caribbean Banks (ICBs) in particular, can play in the further development of the regional private sector with the help of governments.

Today in the Caribbean we are increasingly being confronted with more innovative, competitive and technically competent financial organisations. ICBs increasingly bring with them a wealth of knowledge of the indigenous people, culture and institutions, in addition to a broad range of market contacts with high networking capabilities. Indeed, recent mergers and strategic alliances of indigenous and international banks in the Region have resulted in the development of the concept of a regional bank for the Caribbean.

Equally important has been the transformation of role the ICB, in functions we perform, to develop the private sector in the Caribbean. In terms of our role as a lender, the capacity of ICBs to raise larger amounts of capital has been greatly enhanced by new tools and measures, such as the use of syndicated and joint venture financing. ICBs have also taken active steps in facilitating private sector enterprises in raising capital on regional capital markets, through the underwriting of bonds and commercial paper.

ICBs have also taken on the role of being an initiator and facilitator of business through its support of trade missions and programmes aimed at bringing together key players in the business community. ICBs have also spent a lot of time in the identification and targeting of different segments of the private sector from the large conglomerates to medium to small enterprises, in the hope of better identifying and eventually satisfying the unique needs of each segment of the business community.

While the banking sector has indeed come a long way in support of the regional private sector, much more can be done to better meet the needs of the sector in achieving greater development of the Region. Some initiatives include:

- *Lowering borrowing costs* – Today the cost of borrowing from ICBs remains high, relative to other financial institutions in developed countries. The charge of a withholding tax by domestic governments on interest paid to foreign financial institutions by ICBs remains an onerous cost to these regional institutions and their customers. If eliminated, this can assist ICBs to charge a more competitive interest rate to the private sector and thereby, in turn, reduce their cost of debt. In this light, it is recommended that this withholding tax on foreign loan interest payments be reduced and eventually phased out by local governments.
- The case for lower reserve requirements on commercial banks as a means of reducing lending rates in the Region has been made elsewhere. I only wish to emphasize the point. Lower rates would bring the rates of indigenous banks much closer to international levels.
- *Developing better information sources and pooling in the Caribbean.* For some time now, up-to-date and accurate information on countries, sectors and businesses operating in the Caribbean has been difficult to come by. Increasingly, decisions on lending by indigenous banks for projects or new private sector ventures are based not only on the viability of the project but also on the quality and accuracy of information provided. Systems should therefore be put in place to improve the quality of Caribbean information whether through increased government allocations and pooling of regional data in which CDB might already be involved.
- *Continued support from government for small to medium-sized businesses (SMBs) in the Caribbean.* Apart from its contribution to the output of the national economy, SMBs play an integral role in the alleviation of poverty and ensuring a more equitable distribution of income. The success of these businesses therefore plays an important part in the overall development of a country. Governments, in conjunction with ICBs and other Non-Governmental Organisations (NGOs), can assist these institutions in organizing, planning and developing their businesses. A more organized and well-planned business venture increases the likelihood of success and making access to finance from the indigenous banks all the more easier.
- *Governments must also continue to ensure that national and Caribbean interests are secured abroad.* In the context of today's modern global market-place, we are seeing more and more Caribbean interests being marginalized. In Europe for instance, we face the eventual elimination of preferential market access of Caribbean products, while increasing tendencies to regionalism within the Americas, have tended to minimize the benefits to Caribbean goods and services in these markets. This situation is extremely precarious. Foreign markets represent the lifeblood for many private sector enterprises. Governments must therefore ensure that as the process of regionalism and

multilateralism continues, that the national, and indeed Caribbean, interests are preserved aboard.

In conclusion, what have we said so far? We have reiterated the importance of developing a vibrant and dynamic private sector in any modern developing or emerging economy. We have shown that some Caribbean countries have been relatively successful in this process of private sector development. However, we continue to emphasize that much still has to be done in this process. We have also looked at the role that ICBs have played so far in the process of developing the domestic and regional private sector. Finally, we provided what we consider to be some useful suggestions for future development of this sector from the perspective of ICBs. Indeed, it must be re-emphasized that the Region's development and the success of its private sector are intimately related. This requires careful planning, monitoring and cooperation among the parties involved. We in the indigenous commercial banking sector remain committed to the development of the private sector and indeed the Region as a whole, as we continue to play our part in this process. I thank you.

RECOMMENDATIONS

Deepening the Dialogue Process

INTRODUCTION

The Chairman, Dr. D. Brown, asked the question Why Dialogue? The Chairman and participants suggested the following, as reasons why the dialogue process must be deepened. Dialogue is always taking place but it needs to be developed and enhanced and the procedures adhered to.

Dialogue is not always representative and this leads to lack of follow-up, disenchantment and loss of momentum. Within the private sector, there is a vacuum in representation at the policy level. In the past, there has been mistrust and lack of confidence in the process on either side. The language of the dialogue needs to be complimentary, not adversarial.

There is the need for social dialogue to involve all social partners including labour and other members of civil society, not just the public and private sectors. The partnership should be genuine and should avoid tokenism. In addition, there is a need for greater transparency and inclusiveness on the part of governments.

ISSUES

Participants noted that there was an emerging consensus of the issues. Specifically, it was asked: What can be taken out of this Summit? One participant suggested that there should be a timetable for the achievement of goals.

The CRNM was called upon to develop a Trade and Investment Policy for the Region. The initiative should take the form of a regular forum, both nationally and regionally, in order to inform the CRNM. Parties to these fora would include trade unions, governments, the private sector, with CDB or a similar organisation acting as the co-ordinator. One member called for an honest broker to perform the role of facilitator. The need for such regular fora was seen to be urgent and the possibility of late implementation beyond 2005 was to be avoided. Three cautions were expressed to prevent the initiative from petering out and these were. There must be:

- (a) a serious on-going structure;
- (b) genuine partnership among all parties; and
- (c) the need to build in a re-tooling mechanism in order to bring in new partners.

It was clearly stated that there must be mutual trust and confidence to govern all partnerships and this theme was repeated throughout the discussions. In contrast to the historical adversarial approach to dialogue, we must approach things differently in the new globalised

economy. It was suggested that the Region should make small steps to build trust and confidence rather than have grand objectives.

It was also noted that there must be institutional capacity within the organisations in order to deepen the dialogue process. This would include the need for executives of organisations to keep their members informed of issues and developments to discussion regarding who represents the private sector. It was noted that membership in chambers of commerce is voluntary and this may be the reason why concern was expressed regarding who represents the private sector. The French model, whereby it is mandatory for all firms to join the chamber of commerce, was noted as a possible solution. The importance in providing an answer to this question was pointed out to participants, as it is a requirement in negotiations for the 9th European Development Fund.

It was noted that there are mechanisms already in place by governments, for national dialogue, but there is the need for such mechanisms in turn to feed the position at a regional level. An example cited was the possibility of a regional gas pipeline from Trinidad and Tobago to other countries in the Region. The enabling environment would not be enough since there would be the need for financing of activities. Some hand-holding is still necessary.

CONCLUSION/RECOMMENDATIONS

In conclusion, it was stated that the time is now right for deepening the dialogue process and action needs to be taken. The following recommendations were made:

1. *A high degree of urgency has to be placed on building capacity with respect to representation of the private sector.*
2. *Membership to chambers of commerce should be mandatory as in the French model. The dialogue mechanism must have very clear and agreed objectives. The power or authority must be clearly defined. It must be an advisory trade body since it will not have the power to implement.*
3. *There must be the means to measure successes and failures;*
4. *Representative organisations must demonstrate that they are truly representative and must involve their membership. It must be clear who are the legitimate voices; and*
5. *There must be a review mechanism for relevance and such a review should take place on a regular basis, for example, every five years.*

Institutional Support Mechanisms and Competitiveness

INTRODUCTION

The chairperson, Ms. Desiree Field-Ridley, outlines the objective of the discussion as private sector indicating the support mechanisms that are required to achieve competitiveness. The following highlights the areas of discussion with recommendations.

- (1) What is required to achieve competitiveness?
 - support from labor and rest of civil society
 - support from CDB and other donors
 - research and development
 - human resource development
 - forecasting ability? market-driven, i.e., technology, markets, products, etc. to inform negotiations
 - governments to facilitate an enabling environment
 - relevant education system

- (2) What is required from CDB and other regional organisations?
 - more direct lending
 - flexibility in approach
 - facilitate the flow of information across borders using technologies
 - facilitation of dialogue between public and private partners, bridge the disconnect, promote regional industry strategies that also integrate a strategy for the SMEs support groups
 - collection and development of baseline data that will inform policy decisions
 - TA support and training

- (3) What is required from the public sector?
 - facilitate participation of private sector in regional negotiations
 - market development and direction on appropriate industry strategies
 - source of information
 - creation of CSME to enable organisations to compete on a global scale
 - collaborating arrangements with key institutions - statutory, academia
 - fiscal incentives to the private sector that encourage R&D
 - network with key civil societies for legislative enforcement
 - relevant education and training to support development of entrepreneurial spirit
 - intellectual property rights
 - human resource development

(4) What is required from the Private Sector?

- establish associations/guilds with the capacity to provide services to its members, including easier access to information, shared experiences and transfer skills.
- transfer of information in a readily understood format to all its constituents
- re-equip itself
- inform the government/RNM of its requirements

(5) Institutional Arrangements

(a) Financing for Private Sector Organisation

Sources could include:

- (i) self-financing fees from mandatory membership;
- (ii) levy on imported goods: a trust fund could be one mechanism to ensure that funds are not channeled through the consolidated fund for example, in The Bahamas, a levy of 6% on imported goods is passed to the hotel association to support advocacy and training activities. Concern was expressed that the levy could be a burden during the transition period; however, the costs would eventually be passed on to the consumer;
- (iii) donor funding: direct assistance would be provided to the umbrella organisations, using consultants. Technical assistance should be provided to ensure umbrella organisations have the capacity to support the enterprises; and
- (iv) capital markets: developed capital markets could provide an alternative source of financing, for example, venture capital programmes.

(b) Institutional Strengthening:

- (i) Institutional strengthening is required at two levels, the macro level represented by the umbrella organisations and the micro level represented by the enterprises. There is a perceived need for connectivity between what the umbrella organisation is doing and what it delivers.
- (ii) Umbrella organisations, for example, CAIC, chambers of commerce, manufacturers, and hotel associations should provide information to members, facilitate international and regional dialogue, training.
- (iii) Advocacy capabilities should be strengthened and institutional arrangements for specialised sectors such as small business, indigenous traditional, foreign private sector should be developed. Each sector faces different challenges. Barbados, for example, pays more attention to the traditional sector, whereas small businesses are generally more innovative. The small business sector is generally the largest, yet government policy rarely addresses small business enterprises. The Caribbean Agricultural Research and Development Institute (CARDI) does not receive the required resources to deliver assistance to the agricultural sector.
- (iv) Individual businesses need enhanced corporate strategy planning capabilities. A strategy for each sector should be mapped to ensure survival mechanisms are in place.

Responsiveness of Financial and Capital Market Sectors

INTRODUCTION

This session focused on finding ways to facilitate business development and capital market activity. The ensuing discussion identified a number of key issues affecting financial and capital market activity in the Region.

ISSUES

Cost of Capital

- It was felt that changes in interest rates throughout the Region have not responded as swiftly as similar rate changes in the United States of America. As a result, there was significant divergence in the interest rate structure across economies in the Region. Some firms with the capacity to generate foreign exchange were finding difficulty in accessing US dollar loans because banks were concerned with their foreign exchange exposures.
- Reasons posited for high interest rates in the Region were high reserve requirements, source of funding and withholding taxes on interest. It was felt that to take funds from correspondent banks and lend for durations beyond a year created a dangerous exposure over which banks would have little control. Therefore the question arose as to whom should Banks lend foreign currency and how should it be managed. It was felt that there was need for prudent monetary and fiscal policy if we are to effect any reduction in interest rates.

Dollarisation

- Discussion centred around whether or not the Region should adopt the US dollar as its currency. However, it was felt that this could create a lack of sovereignty. As an alternative to dollarisation, it was suggested that the Region could explore the adoption of a common currency.

Venture Capital

- Companies in the Region are highly leveraged and as a consequence this has led to excessive borrowing, which exposes them to the vagaries of the business cycle. As a consequence, it was felt that there was a need to establish a risk capital pool, commonly called venture funds. The discussion indicated a preference for the European brand of venture capital, as opposed to the brand in use within the USA. Under the European brand of venture fund, there is an emphasis on buying-out existing operations and the expansion of existing enterprises as opposed to financing start-up enterprises.

- The discussion highlighted the need to mobilize a pool of capital to facilitate both private and public equity markets. Possible sources of venture capital could be pension funds, insurance companies and institutional investors. However, a notable impediment was the lack of enabling legislation in such jurisdictions that would allow such funds to be invested as risk capital. Businesses were challenged to create an enabling environment to allow for the acceptance of outside sources of equity financing and for appointed representatives to sit on their Boards. There was also a need to develop financial controls and to find suitable exit mechanisms so that equity investors can dispose of their investments within a predefined period.
- Examples were cited of venture capital firms operating in both Barbados and Trinidad and Tobago which have achieved limited success. Operating constraints to successful venture capital activity which were identified included difficulties in finding companies that qualify. It was felt that banks should do more to encourage businesses to seek venture financing. The need was identified for greater public relations and education regarding the availability of various sources of equity financing.
- It was noted that venture capital activity faces peculiar problems, among them being high failure rates and the need for a minimum amount of venture capital funds to allow that operation to cover its costs.

Development of Capital Markets

- It was suggested that one way of reducing the cost of funding was the creation of liquidity through a secondary market to address the needs of smaller firms. Such liquidity should not only be restricted to equity but should also include debt instruments. It was suggested that CDB should play a key role in this area by providing assistance to improve the pool of funds available in the Region.

Small Business/Micro-Finance Development

- These sectors can be used to encourage companies that demonstrate potential for growth to the stage where they can access venture capital financing and eventually go public. It was suggested that both government and institutions like CDB have a role to play in the development of venture capital firms. There was need for an incubator concept to identify potential entrepreneurs. It was also felt that some firms should be encouraged, where possible, to form strategic allegiances in the sharing of resources and ideas to achieve critical mass and, in so doing, provide greater possibilities for success.

Corporate Governance

- The discussion identified a need for greater disclosure of financial information among businesses. Sparse financial information makes it difficult to access financing; therefore, there was need to educate businesses about record keeping and financial disclosure. Data collection and information disclosure should be prerequisites for accessing venture capital or loans from financial institutions. Disclosure requirements of private companies should be raised to the same level as that for public companies in order to raise the level of financial disclosure across the Region. There is also need for the establishment of a rating agency to help in the creation of proper information disclosure. CDB should assist in the development of an online database for access to financial information on public companies.

CONCLUSION/RECOMMENDATIONS

1. *Adoption of prudent monetary and fiscal policies.*
2. *Adoption of a common currency.*
3. *Adoption of the European brand of venture capital in preference to the brand in use in the USA.*
4. *Develop financial controls and suitable exit mechanisms so that equity investors can dispose of their investments within a predefined period.*
5. *Provide greater public relation and education regarding the availability of various equity sources.*
6. *CDB to play a key role in the development of capital markets by providing assistance to improve the pool of funds available to the Region.*
7. *CDB and government should play a role in the development of venture capital firms by promoting the incubator concept and forming strategic alliances.*
8. *CDB should assist in developing an online database for access to financial information in public companies.*

Technology and Services: A Source of Competitive Advantage

INTRODUCTION

The discussion focused on defining technology and the group agreed that this was a driver process that adds value, an element of productivity enhancement, and a combination of know-how that included equipment and processes.

It was noted that technology does not have to be high or low and that the Caribbean needs to use low-level technology to add value. There was a trade-off between the affordability of technology and the high cost.

The use of technology in some industries was not optional, for example the tourism industry has automated reservation systems and other technology that can be used to reduce operating cost and add value. The linkage between value and technology was highlighted using the example that some hotels have the latest reservation systems and other supporting technology, but this did not add value, as the customer service was poor.

ISSUES

The group noted that the following issues need to be addressed:

- ensuring Regional competitiveness in the global economy;
- identifying the Regional advantages;
- technology drives the economic adjustment process;
- appropriateness of technology and the resulting added value;
- linking the Region's competitive advantage with the global opportunities for the marketing of services;
- the Region's use of technology as a product, e.g. bio-technology is a product which facilitates participation in the agriculture sector;
 - the use of technology to improve processes to meet global benchmarks;
 - for education - distance learning applications;
 - to facilitate access to information;
 - to facilitate access to the global markets, e.g. small businesses in the Region are currently using e-commerce and the Internet to access the global market;
- development of marketing mechanisms and/or incubators for small to medium businesses;
- reduction in telecommunications costs;
- the cultural orientation and other factors such as rurality, income and cost, which are impediments to the use of technology;
- changing the regional focus of the private sector to one which recognises that technology provides an opportunity for export services;
- using the experience in the Region to create a technology-based service that can be exported;

- creating opportunities for the Caribbean in services; and
- re-training and re-tooling the human resources in the Region.

RECOMMENDATIONS

The Group made the following recommendations:

- *training and education in IT for persons in the Caribbean should be a priority;*
- *accelerate the telecommunications liberalization process;*
- *develop further the intellectual property rights system;*
- *develop telecommunications policy and infrastructure to international standards;*
- *create project opportunities for global investment in technology;*
- *encourage strategic alliances in services to facilitate penetration of external markets through information sharing and through private sector networks;*
- *the Region should look beyond telecommunications to other knowledge-based, value added innovations such as bio-technology; and*
- *the need to change the perspective of the private sector from being users to being producers of technology. While size does matter, small size can be a competitive advantage.*

Background Papers

TRADE NEGOTIATIONS: THE IMPACT ON THE DEVELOPMENT OF THE PRIVATE SECTOR IN THE CARIBBEAN

The Caribbean Export Development Agency

Introduction

The trade negotiations being undertaken internationally and here in the Caribbean are all part of the movement to create a global market with all its promises of liberalised trade in goods and services and prosperity for all.

In January 1995, following the Uruguay Round of Trade Negotiations, the WTO was established to oversee the multilateral trading system, which evolved over the last 50 years. It is also a forum for continuing negotiations to liberalize the trade in goods and services through the removal of barriers and to develop rules in new trade-related subject areas.

In the Region, bilateral and multilateral free trade agreements have been or are being brokered ahead of the eventuality of the FTAA. These free trade agreements include CARICOM/Dominican Republic Free Trade Agreement, the Trade and Economic Cooperation Agreement between CARIFORUM and Cuba, CARICOM/Venezuela Free Trade Agreement and CARICOM-Colombia Free Trade Agreement.

There are also hemispheric and international trade arrangements established with the Region. The ACP-EU Partnership Agreement, popularly known as the Cotonou Agreement is an aid and trade agreement established in 2000 between ACP and the EU. This agreement represents a commitment to agree at a future date on ACP-EU trade agreements that are WTO compatible, and introduces a level of reciprocity with the EU as a successor to the Lomé style preferential arrangements.

The Canadian version of a trade and economic development programme, CARIBCAN was introduced in 1986 to extend to a variety of Caribbean products, preferential one-way, duty-free access to the Canadian Market. A recent decision has been made in CARICOM to negotiate a Free Trade Agreement with Canada. Then there is the US-driven Caribbean Basin Initiative (CBI) of 1983, which was subsequently amended in 1990, affording duty free access to the US market for a range of products from CBI beneficiary countries. The Caribbean Basin Trade Partnership Act (CBTPA) also in place since 2000 provides beneficiary country status to 24 of the CBI countries in a somewhat enhanced trade preference arrangement, but one which requires conformity with some US trade and labour standards as well as WTO intellectual property agreements.

Concurrent with this high level of trade negotiations, the Region has been pursuing over the last decade, the establishment of a CSME. At the recent intercessional meeting of the Heads of Government, a programme for the removal of restrictions on the right of establishment, provision of services and movement of capital was approved. This programme envisages that by the end of 2005, all barriers will be removed. The programme sets out all the various restrictions

currently in place, by country, with different deadline dates for their removal (2003, 2004, 2005). The Heads also signed protocols to enable the transition to the CSME from a Caribbean Common Market and for the provisional application of the revised Treaty.

Status of the Agreements

Some of these Trade Agreements are already in place but are in various stages of implementation.

The main legal instruments negotiated in the Uruguay Round include the Marrakesh Agreement which established the WTO, Multilateral Agreements such as: the General Agreement on Tariffs and Trade (GATT 1994) and its associate agreements which include: Customs valuation; Pre-shipment Inspection (PSI); Technical Barriers to Trade (TBT); Application of Sanitary and Phytosanitary Measures (SPS); Import Licensing Procedures; Safeguards; Subsidies and Countervailing measures; Anti-Dumping (ADP); Trade Related Investment Measures (TRIMS); Textiles and Clothing (ATC); Agriculture; and Rules of Origin. There is also a General Agreement on Trade in Services (GATS), an Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and plurilateral trade agreements comprising Trade in Civil Aircraft and an Agreement on Government Procurement. These Rules are now in place and all members of the WTO can apply these in the conduct of Trade in Goods and Services.

On February 1, 2002, the Trade Negotiating Council (TNC) comprising all WTO members and countries negotiating membership reached a broad agreement on the structure of the negotiations launched at Doha Ministerial Conference in late 2001. They also outlined the guidelines and procedures for the negotiations, which are scheduled to run until 1 January 2005.

The TNC (scheduled to meet once every three months or more frequently if necessary, agreed to seven negotiating bodies, viz., agriculture, services, non-agricultural market access, rules, trade and environment, geographical indications for wines and spirits under the agreement on TRIPS and reform of the Dispute Settlement Understanding (DSU). Negotiations on agriculture, services, environment, TRIPS, and DSU reform will be executed in Special Sessions of the regular committees and councils. Negotiations in non-agricultural market access and rules will be conducted in new negotiating groups created for that purpose. The TNC and all other negotiating bodies and groups will operate under the authority of the General Council, as mandated by Ministers in Doha.

The proposed FTAA, comprising the 34 countries of the Organisation of American States (OAS), will be the largest free trade area in the world with an expected GDP in excess of US\$9 trillion and a market of 765 million people. Political leaders at the first Summit of the Americas agreed to this in 1994. It is anticipated that the FTAA will promote prosperity through increased economic integration and free trade among the countries of our hemisphere establishing a Free Trade Area, in which barriers to trade in goods and services and investment will be progressively eliminated. Negotiations are ongoing and are scheduled for conclusion no later than 2005.

The FTAA process involves the Summits of the Americas, Trade Ministerial Meetings (Ministerial) meetings of the various negotiating groups and a trade negotiating council. A preliminary draft FTAA Agreement was produced in the sixth Ministerial in Buenos Aires (April 2001). This is a heavily bracketed text that will be subject to substantial negotiation over the period up to 2005, the date for completion.

To date CARICOM has submitted to the TNC, texts and amendments to texts for all the negotiating groups. CARICOM States will have to be more proactive in providing guidance and information to the negotiators and to inform the regional negotiating strategy. Negotiations are to be initiated by May 15, 2002, with the results of this round of negotiations being put to the TNC Meeting in October.

The CARICOM/Dominican Republic Free Trade Agreement which was signed in 1998, entered into force provisionally in December 2001 between Dominican Republic and the More Developed Countries (MDCs) of the Caribbean Community, with the exception of Guyana and Suriname, which are currently undertaking internal consultations and will be advising the CARICOM Secretariat on its schedule of implementation shortly. The first meeting of the CARICOM/Dominican Republic Joint Council is scheduled for 25-26 February 2002, in the Dominican Republic to discuss any areas of concern and to begin negotiations on the services component of the agreement. There are reportedly on both sides, products which the respective parties wish to put on, or trade off the negative list.

The Trade and Economic Co-operation Agreement between Cuba and CARIFORUM was signed in June 2001 and should have been in force by July 2001. The CARICOM and Cuba Technical Team met in Jamaica in August 2001 to consolidate and finalise the products lists (annexes I-IV) in both English and Spanish. To give effect to the agreement and protocols, member states of CARICOM were expected to put in place, the required internal legal and administrative measures. CARICOM MDCs need to legislate the preferential access for specific goods imported from Cuba and to provide the authorised signatures of the persons designated to certify documents related to the export of goods to Cuba. Under this agreement CARICOM Less Developed Countries (LDCs) are not required to legislate preferential access to goods from Cuba. Cuba has advised that it is in the process of ratification of the Agreement. CARICOM Member States are also expected to name their representatives to the expert groups on tourism, travel related services and entertainment.

The CARICOM/Venezuela Free Trade Agreement, became operational in 1992, on a non-reciprocal basis. In November 1998, the Government of Venezuela requested the extension of preferential tariffs as was granted to Colombia by CARICOM MDCs. On the basis of submissions by Member States, adjustments are being made to the list of products under consideration. There are still, however, some outstanding concerns relating to transportation, administrative difficulties, commercial agents, market information, language of documentation, protracted testing and difficulties relating to the harmonised coding system, which also need to be addressed.

The CARICOM/Venezuela Joint Council has not met in six years, however, CARICOM is trying to facilitate one in the first quarter of 2002.

The CARICOM/Colombia Trade Agreement came into effect in 1994 and was amended in 1998. This agreement is currently being reviewed and discussions were to have taken place in this regard at a meeting in Cartagena, Colombia in February this year. Meanwhile, steps are being taken to forge a closer relationship between CARICOM and the Andean Community through the CARICOM-CAF project, a cooperation agreement that seeks to promote the development of closer relations between the private and public sectors of both regions.

According to regional press reports, CARICOM governments have also recently agreed to begin talks about a free trade agreement with the Central American Countries.

The Cotonou Agreement, which replaces the Lomé Agreement, is presently awaiting ratification. In January 2002, the EU Parliament had consented to the Agreement, but only three EU Member States had ratified thus far. All EU Member States have to ratify the Agreement as well as two-thirds of ACP countries before the Agreement can enter into force.

The Cotonou Agreement is expected to last 20 years with allowances for revision every 5 years. The Cotonou agreement focuses on economic and human development, regional cooperation and integration, with gender, environment and institutional development being promoted as well. Unlike the Lomé Conventions where trade cooperation took the form of preferential tariffs, trade and economic cooperation under the Cotonou Agreement will consist of a more comprehensive set of arrangements. The new approach will focus on improving the ACP capacity in trade and to attract international private investment. In the long run, there will be a progressive removal of the obstacles to trade between the parties in accordance with WTO rules. This will be achieved through, trade arrangements to be negotiated from September 2002 and is supposed to enter into force as of January 1, 2008. Meanwhile, the current non-reciprocal preferences and the regimes of the various protocols, with some modifications, will be maintained.

The 1986 CARIBCAN Agreement continues to provide benefits for CARICOM partners. So too is the US-driven CBI and the CBTPA. There have been concerns that recent changes in US trade policy, viz., the approval of the US Trade Promotion Authority or "Fast Track Authority" undermines the CBTPA, as it imposes stricter rules of origin for preferential imports of Caribbean goods under the CBI into the US. This decision by the US Congress imposes stricter enforcement of trade laws for textiles by mandating that all US knit and woven fabrics undergo all dyeing, finishing and printing procedures in the US in order to qualify for benefits under the existing CBI.

Issues and Implications

The rationale behind CARICOM involvement in this bewildering array of trade negotiations varies. For some agreements, there is a strong trade (export) interest, particularly in the regional (Caribbean Basin) agreements. The potential for both outward and inward investment through the policy framework created by these agreements is also important. With an older existing agreement such as the Lomé, the interest has been to maintain the status quo, which has been critical for several traditional commodity-like exports from the Caribbean. For

some countries, the FTAA and WTO processes are part of a positioning strategy to maintain and build a stable investment-open profile as opposed to a market-opening strategy.

The strategy behind the proliferation of regional free trade agreements is the joining of forces to negotiate better terms with the larger more powerful players. It is also an approach to prepare a more gradual entry into hemispheric or global liberalised economy. This strategy implies a phased process with regional agreements preceding the hemispheric and global arrangements. However, this clearly has not occurred, as the regional arrangements have moved at a far slower pace than originally envisaged. Even the CSME core arrangements (free movement of services, capital and right of establishment) will not be fully implemented until the end of 2005, the same timeframe for the completion of the FTAA treaty. Indeed, in some areas, the regional process is in danger of being overtaken by progress at other levels.

Notwithstanding the benefits to be realised from these trade arrangements, there are also some other concerns and issues. A major concern is the ability of regional entrepreneurs to participate in these arrangements. At the same time, civil society actors have expressed concerns related to the opportunity and ability of corporate interests to dictate the trade agenda at the expense of human rights and environmental integrity. Others have criticised the secrecy of the negotiations, the increasing commodification of everyday life including control of education, health, food, water and electricity by corporations operating at a profit.

Although the Trade and Economic Cooperation Agreement between CARIFORUM and Cuba has not been fully implemented, there was some anxiety by participating Caribbean Governments that regulations such as the US Helms-Burton Law may encourage withdrawal of US aid and technical support from the Region. Caribbean Governments also failed to take advantage of the liberalisation and diversification of the Cuban economy, although several barriers to market access still persists.

Many of the trade issues and implications are inextricably linked to social and economic concerns. The ability to trade and compete effectively in a global market place requires a level of efficiency and productivity, which perhaps will not be realised in a Caribbean, separated in micro economies. Smaller economies such as those in the Caribbean and elsewhere, competing in a fully liberalised economic space will be at a distinct disadvantage. While Caribbean Governments are being coerced to remove subsidies from agriculture and other sectors, those in the developed countries seem to disregard the recommendations of the World Trading System and continue to support their economies through massive subsidies.

Governments will be operating in a situation where their ability to maintain sovereignty over natural resources will be increasingly reduced. It is in this context that the proponents of the CSME urge the consolidation and hastening of the process to complete the CSME prior to the completion and coming into force of FTAA. Otherwise, Caribbean people are doomed to become mere consumers in a global market place.

Moreover, in the context of maintenance of cultural integrity and diversity, the protection of indigenous and traditional knowledge is of major concern especially in smaller societies such as the Caribbean. The protection of intellectual Property rights and the associated issues of bio-

diversity, geographical indicators and trademarks of special relevance to the Region continue to be nebulous and feature prominently as negotiations continue.

There is also concern in the Region that there is shift in focus from the Agricultural Sector in favour of Tourism and Services sector. This is based on a perceived comparative advantage in the aforementioned sectors. The reality is that agricultural production still accounts for a major percentage of the Region's GDP and of its exports. The food and agricultural business activity must be the basis for creating value added and creating a situation where Caribbean countries are in control of the food supply chain in the region, especially with the issues surrounding organic food, Genetically Modified Organisms and the like. The food security issue must be understood in the context of these trade negotiations and the questions of independence, sovereignty and terrorism where food can be used as a bargaining chip in what can soon become 'food terrorism'.

Role of the Private Sector

In each of these negotiations, the private sector must set out its interests and the opportunities and threats presented. While governments have been generally good at deriving an overall framework that respects the special needs of the developing and the Caribbean (e.g. special and differential treatment), business must develop positions, sector-by-sector, product-by-product, which must be reflected in the trade negotiations. They must also determine what assistance is necessary to enable them to participate in the developing trade arrangements.

The private sector must feature prominently in respect of these agreements, as they provide the opportunity for trade and market access. The private sector is also expected to make use of the enabling environment provided by the public sector through these agreements to generate wealth and drive the economies of their respective states.

The private sector must encourage the participation of its members in the development process and support their member organisations to provide services, mobilise their interests and engage governments in dialogue. They must also be involved in the process of understanding the issues, creating the ideas and informing the negotiators of their special access needs. The private sector needs to secure adequate representation at the level of government interaction in trade and policy negotiations. A key role must be in developing the trade and economic policies required for the new environment.

The reality is that the private sector organisations are ill prepared to make meaningful contributions to policy dialogue. In some cases, too, the private sector is perceived as focused solely on profit making at the expense of the public interest and as such is viewed with suspicion by governments. On the other hand, governments have tended not to engage the private sector in decision-making, although this is changing. It means therefore that there is need for building and strengthening the capacity for policy dialogue. The ability of the private sector to work collectively and respond fruitfully to policy issues requires investment in institutions.

Under the Cotonou Agreement, there is a comprehensive programme of action to support the private sector. There is a new investment facility to stimulate investment and strengthen the

capacity of local financial institutions. There is also support under this agreement for an ACP-EU Private Sector Business Forum to encourage dialogue among ACP and EU private sector actors and in the public sectors of these regions.

This means that members of the private sector in the Region must now work with Government and other agencies to develop strategies and programmes for increasing their capacity in areas to support the objectives of the many agreements brokered.

Conclusions

A few conclusions can be drawn here. Certainly, the CSME and other sub-regional arrangements must be concretised well before the conclusion of the FTAA negotiations. The Private Sector must be at the forefront of supporting such efforts at regional integration.

It is clear that the private sector must be informed and become conversant with the workings of the many agreements, which relate to trade in goods and services. This requires training and access to relevant information. The many agencies and organisations involved in trade related concerns must also engage the Private Sector in the Region to keep them abreast of the shifts and changes in policy as it relates to trade and the agreements.

Private sector capacity to engage in governmental decision-making and their inclusion in that process is now more than ever a priority. The strengthening and enhancement of that capacity must be effected sooner than later through skills development and the creation and/or strengthening of mechanisms for dialogue between the public and private sector.

It has been recommended elsewhere that the creation and or revitalisation of vibrant, functioning private sector organisations should be considered as a means of improving opportunities at participation. Key also is forging links with other regional private sector agencies and associations to develop common approaches to accessing opportunities through private sector assistance programmes.

The private sector must also liaise with community groups, other members of civil society and with governments to advise on and contribute to their needs in respect of negotiations.

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Background Papers

CARICOM SINGLE MARKET AND ECONOMY

By Desiree Field-Ridley, CARICOM Secretariat

The CSME seeks to convert the Region into an enlarged single economic space as near to single market and single economy as is possible without political integration. It provides an open market for the free movement of factors of production and for goods and services. It covers all the economic sectors (and some social sectors) and production requisites in Member States such as goods, services, labour/skills, capital, establishment of enterprises and trade. The associate support measures treat with issues such as human resource development, use of technology, the investment/production environment and environmental integrity.

In summary, the CSME:

- provides a single enlarged economic space achieved by:
 - the absence of restrictions on the cross-border movement of goods, services, capital and technology and persons;
 - non-discriminatory access to the Region's resources and markets for CARICOM nationals; and
 - a common external trade policy;
- is aimed at supporting competitive production for both the intra-regional and extra- regional markets;
- is intended to result in increased opportunities, scale and scope of production and therefore increased incomes for producers, increased employment;
- provides opportunities for workers, improved quality and choice of regional goods and services for the consumer and increased economic activity and revenues at the level of the Member States; and
- has the underlying principle of not treating third countries better than our CARICOM partners.

Effectiveness of the CSME requires a shift in our mind-set to a focus which looks to the entire Region rather than one which regards only the country in which the CARICOM national resides as being available to that national.

Rationale

The Community's decision to deepen and widen the integration arrangements was in recognition of the challenges and opportunities being faced. The Region had been unable to effectively exploit the opportunities under our various preferential arrangements. At the same time, Member States were increasingly having to function in an environment of increasing global trade liberalisation, resulting in increased international competition and thus the need to achieve increasing levels of international competitiveness. Not only do Member States have to defend their domestic markets but they also have to compete for the markets out there? regional and extra-regional. CARICOM comprises small countries with limited leverage, not producing enough and not producing competitively. Further, Member States were producing in an environment where there were inadequate resources in some places at the same time that there were unused resources in other places. The intention of the deeper and wider regional arrangements, therefore, was to provide the necessary support framework for competitive production.

The Region's response was in the Grande Anse Declaration when CARICOM Heads of Government in 1989 set out the work-programme for the deepening of the integration process and the strengthening of the Caribbean Community and agreed to the establishment of a single market and economy for the Caribbean Community. The steps at that time included the implementation of arrangements for the free movement of skilled and professional personnel as well as contract workers on a seasonal or project basis. Further, conscious that people rather than institutions are the creators and producers of development, Heads of Government had also agreed, *inter alia*, to the elimination of the requirement for work permits for CARICOM nationals beginning with the visual and performing arts, sports and media travelling to CARICOM countries for specific events. Further, the Grand Anse Declaration, *inter alia*, highlighted the special roles for the private sector, the trade union movement, women, youth organisations and other NGOs.

Up until now, our integration arrangements have focused primarily on intra-regional trade. The Region had, however, set itself the goal of a viable Community? economically and socially? with the objectives of:

- full employment;
- improved standards of living and work;
- accelerated, co-ordinated and sustained economic development;
- increasing levels of competitiveness;
- increased production through effective and efficient production systems based on larger and more integrated factor market;
- conclusion of trade and economic arrangements; and
- greater level of economic leverage and effectiveness *vis-a-vis* other States, groups of States and entities.

The realisation of these objectives however needed, *inter alia*:

- an integrated market for goods and services;
- a focus on facilitating competitive production and production integration through the integration of the product and factor markets and access to all the Region's resources; and
- provision of supportive and facilitating infrastructure for the promotion of competitive production.

Since the Treaty of Chaguaramas establishing the Caribbean Community did not provide for the movement of persons and had only limited rights for the provision of services and movement of capital, the Treaty had to be revised to provide for the establishment of the CARICOM Single Market and Economy.

Overview

The CSME is a regional framework arrangement which requires legal, institutional and administrative provisions, systems and action at the national level, consistent with the obligations assumed including national public information and consultative processes. It moves the integration arrangement from a Community and Common Market to a Community including the CARICOM Single Market and Economy. The provisions for the CSME apply to all the Members of the Community except The Bahamas, though The Bahamas is signatory to the Institutional Arrangements relating to the Organs and Bodies of the Community.

With the establishment of the CSME, the focus shifts to providing for competitive production for both the intra-regional and external markets based on the principle of promoting and supporting operations and production in an enlarged single economic space. There is therefore need to shift the mind set of, for example, the farmer, manufacturer, service provider, investor or entrepreneur from considering his/her particular Member State as the limiting boundaries within which he or she has to operate, and instead consider the entire Region as his or her economic space.

The Revised Treaty

The Revised Treaty covers the provision of new Institutional Arrangements, Right of Establishment, Provision of Services and Movement of Capital, Movement of Persons, Community Industrial Policy, Community Agricultural Policy, Transport Policy, Trade Policy, Subsidies and Dumping and Disadvantaged Countries, Regions and Sectors, Competition Policy and Consumer Protection and Disputes Settlement. It also has a built-in Agenda providing for additional Protocols to treat with Government Procurement, Electronic-Commerce, Free Zones, Free Circulation and Rights Contingent on Free Movement.

Treaty Provisions

With all Protocols integrated into a revised Treaty, the provisions are intended to work together and be mutually reinforcing:

- The Institutional Arrangements which apply to all 14 Member States set up new Regional bodies and specifically require the establishment of consultative processes at the national and regional levels.
- The Right of Establishment, Provision of Services, Movement of Capital and the ultimate Movement of all Persons can be considered to be the defining departure from the original Treaty provisions. CARICOM nationals now have the right to establish businesses, provide services and move capital anywhere in CARICOM except for those restrictions in those areas which the Conference has approved for retention between now and 2003, 2004 and 2005.
- Key measures provide for removal of restrictions (legal, administrative and other) to these rights and also on the establishment of agencies, branches and subsidiaries and on the movement of managerial, technical and supervisory personnel including spouses and immediate dependent family members and include the right to non-discriminatory access to land, buildings and property.
- The current coverage of free movement of persons also includes free movement of graduates, media workers, artistes, sports persons and musicians.
- The Community Trade Policy relates to both intra-regional and external trade arrangements for goods and strengthens, tightens and continues the Common Market provisions. It also includes the Regime for Subsidies and Dumping.
- The Community Industrial Policy deals, *inter alia*, with small and microenterprises and development of the services and tourism sectors.
- The Community Agricultural Policy reflects the Regional Transformation Programme for Agriculture (RTP) and includes provision for natural resources, fisheries and forestry management, marketing, acquisition, generation and transfer of technology and an effective sanitary and phytosanitary regime.
- The Community Transport Policy, *inter alia*, treats with provision of adequate, safe and internationally competitive Community transport services for the development and consolidation of the CSME and also addresses the Special Status of the Caribbean Sea.
- The support measures necessary for effective sector policies include the promotion of research and development, protection of intellectual property rights, human resource development, environmental protection, standards development, Community investment policy and the legal, financial and macro-economic infrastructure therefor.

- The Regime for Disadvantaged Countries, Regions and Sectors provides, *inter alia*, for support for sensitive industries and measures to redress disadvantage or economic dislocation arising from the operation of the CSME. The Treaty establishes a Development Fund to provide for the transitional or temporary technical and financial assistance towards achieving economic viability and competitiveness.
- The Community Competition Policy sets out the rules of competition to ensure that the benefits intended by the CSME are not eroded by unfair business practices, and a Regional Competition Commission is established. Here, the Treaty for the first time treats with consumer protection.
- Disputes Settlement is provided for through six modes ranging from good offices, mediation, consultations, conciliation, arbitration to adjudication and the Caribbean Court of Justice in its Original Jurisdiction.

Safeguards

- There are of course, as with any Treaty, safeguard measures which provide for emergencies and injury. These include circumstances where difficulties arise from the exercise of rights or the impact of particular imports, where there are serious balance-of-payments and external financial difficulties and for the usual general and security exceptions.

Status of Implementation

Key to giving effect to the CSME are:

- (i) Completion of the legal framework - the Revised Treaty
- (ii) The Caribbean Court of Justice (CCJ)
- (iii) Removal of restrictions
- (iv) Enactment of national legislation
- (v) Harmonisation of laws
- (vi) Establishment of Regional Institutions and Institutional Arrangements:
 - CARICOM Regional Organisation for Standards and Quality (CROSQ)
 - Regional Competition Commission
 - List of Conciliators and Arbitrators
 - the Development Fund
 - Regional Accreditation Body
 - the enhanced CSME unit
- (vii) Enhanced national capacity
- (viii) Facilitation of travel
- (ix) Public Education and marketing of CSME.

The following current position is detailed in the attached matrix:

- (i) All Member States except the Bahamas and Montserrat have, in February 2002, declared Provisional Application of the Revised Treaty pending ratification.
- (ii) the Agreement Establishing the CCJ has been signed by ten Member States.
- (iii) The Conference of Heads of Government at its Inter-Sessional Meeting in February and in accordance with the Treaty, established Programmes to be effective March 1, 2002 for the removal by 2003, 2004 and 2005, of all restrictions on Establishment, Services and Capital which could not be immediately removed.
- (iv) Legislation for the free movement of **skilled nationals** is in place in 12 Member States, excluding Montserrat. Suriname has to declare the date for Entry into Force. A number of Member States still need to take the necessary action to make the legislation operational. This is long overdue (1996) and the Conference has agreed that all action should be completed by June 2002.
- (v) Only three Member States, Belize, Guyana and Jamaica, have explicitly legally provided for the free movement of sports persons, musicians, artistes and media workers. All other Member States have to either make the necessary Order or amend their existing legislation to explicitly legally provide for these categories. Barbados is currently doing so administratively. The Conference has agreed that all action should be completed by July 2002.
- (vi) The **Social Security Agreement** is in place (signed and ratified) in 12 Member States excluding Suriname. Two of these Member States have to enact the necessary national legislation to give effect to the Agreement. The Bahamas also has signed the Agreement. Some Member States are paying benefits under the Agreement.
- (vii) The Intra-Regional Double Taxation Agreement is in place in 11 Member States excluding Montserrat and Suriname. Of these, Member States only 5 have enacted the national legislation to give effect to the Agreement.
- (viii) Model legislation has been drafted or is being contemplated in a number of areas including companies, intellectual property rights, competition policy, standards, banking, insurance and securities.
- (ix) Nine Member States have signed and agreed to the Provisional Application of the Agreement Establishing CROSQ among themselves pending signature by all Member States and Entry into Force.

- (x) With respect to the Competition Commission, a consultancy is on the ground developing recommendations for the establishment of the Commission and model Competition legislation has been drafted with the aim of assisting Member States at the national level.
- (xi) All but two Member States have to submit nominations for the List of Conciliators and Secretary General has to compile a List of Arbitrators for Disputes Settlement.
- (xii) The CDB is undertaking the necessary work to advise on the Development Fund for Disadvantaged Countries, Regions and Sectors.
- (xiii) Regional Accreditation Body is not yet in place. At the national level, two Member States have national bodies while other Member States are at different stages of developing theirs.
- (xiv) The Government of Barbados has allocated space for the CSME Unit and the Bureau of the Conference is to consider financing issues.
- (xv) The Caribbean Centre for Development Administration (CARICAD) has been contracted to undertake an assessment of the capacity of Member States to implement the CSME and to provide assistance to establish the necessary systems to facilitate implementation.
- (xvi) Facilitation of Travel: Work is on-going with respect to the outstanding issues regarding the CARICOM passport, the use of an electronically readable Identification (ID) Card for intra-regional travel and a common E/D form.
- (xvii) Efforts are on-going to implement an effect public awareness programme.

Quasi Cabinet

The Conference in March 2000 allocated portfolios for the Quasi Cabinet as follows:

External Negotiations	-	Jamaica
CSME	-	Barbados
Health and Human Resource Development	-	St. Kitts and Nevis
Science and Technology	-	Grenada
Tourism	-	The Bahamas
Services	-	Antigua and Barbuda
Agriculture	-	Guyana
Security (Drugs and Illicit Arms)	-	Trinidad and Tobago
Labour	-	Dominica
Sustainable Development	-	Belize
Community Development and Cultural Cooperation	-	Suriname
Justice and Governance	-	St. Lucia
Bananas and Transport	-	St. Vincent and the Grenadines

Prime Ministerial Sub-Committee on the CSME

The Conference in 2001 established a Prime Ministerial Sub-Committee comprising Heads of Government with lead responsibility for Services, Governance and Justice, Labour, Security and External Negotiations chaired by the Prime Minister with responsibility for the CSME. The Sub-Committee has access to a Technical Advisory Council comprising membership representing the regional economy and civil society, including representatives from UWI, producer and other private organisations within the Region, the labour movement, youth, the media, and persons in their own capacity.

Both the Prime Ministerial Sub-Committee and the Advisory Council have had their first meetings.

Implications for the Private Sector

The CSME provides challenges and opportunities, as has been said of the global liberalisation process. The liberalisation process of the CSME, however, has the advantage over the global process as it provides the frame work for support for achieving competitiveness at the same time that restrictions are being removed, thus making it less difficult to meet the hemispheric and global challenges. In fact, facing up to liberalisation policies of the WTO and even moreso of the FTAA, both of which Member States have already committed to, would be even more disruptive without the CSME. The challenges from our CARICOM partners will be less than those from the FTAA at the hemispheric level and from the further rounds of the WTO at the global level.

Increasingly, Member States and entrepreneurs are recognising the need to take the steps to become competitive with the expectation that competitive production could lead to increased exports to third countries as well as to other CARICOM countries replacing imports into the Region. The CSME provides the opportunity for achieving the desired production and competitiveness levels.

Here all stakeholders have a role to play. There is a vested interest in taking on that responsibility of ensuring that the CSME is effective if the intended benefits are to be reaped. This is a partnership to effect the necessary changes and all have worked together to this end.

At this implementation stage of the CSME and to meet these challenges, the private sector must take centre stage while the public sector must ensure the creation of the enabling environment at the national level.

The Treaty points to the promotion of the modernisation of government bureaucracies and closer public/private sector collaboration. Governments have the responsibility of implementing the necessary national legislation and regulations and administrative reforms, economic and other infrastructure, systems for the consultative process and an effective public education and awareness programme. This of course requires the necessary allocation of financial and human resources.

The private sector has to take the steps of any business which wishes to stay in business. It has the responsibility of restructuring, modernising, and improving productivity, of ensuring that there is strong management, the acquisition of new skills and increased attention to research and development. The CSME makes more possible, economies of scale and scope and the more intensive use of plant and greater flexibility in resource use. Thus, there is the possibility of diversifying and widening the product range, and therefore the need for increased investment and investment in new areas. With the removal of cross-border restrictions, production integration becomes more possible, namely, new forms of association and cooperating with enterprises in other Member States, integrated industries and joint ventures partnerships.

Other Trade Agreements

The CSME is of course far more than a Trade Agreement. One of the principles guiding the drafting of the Treaty was the ensuring of consistency with the international obligations of Member States. Thus, our WTO and FTAA arrangements informed and were informed by the CSME provisions. For example, for treating with trade in services, the Conference established a Working Group on Services Negotiations for just that purpose. Also, the whole timetable for the removal of restrictions by 2005 has been informed by the FTAA time-table.

External Trade Policy is an integral element of the CSME arrangements. One important rationale for establishing the CSME was to better enable Member States to exploit existing trade agreements, understanding that the external market is essential for the viability of CARICOM enterprises, given that the CARICOM market is relatively small. CARICOM has concluded Trade Agreements with Colombia, Venezuela, the Dominican Republic and Cuba in addition to the older Regional agreements with Canada, the USA and the European Union. The Revised Treaty stipulates that the Community shall pursue the negotiation of trade and economic agreements on a joint basis but provides for the negotiation of bilateral agreements by Member States in pursuance of their national strategic interests. However, the Treaty stipulates that all bilateral agreements shall be without prejudice to the obligations of Member States under the Treaty and shall, prior to conclusion be subject to certification, so that other CARICOM States are not put at a disadvantage and denied the benefits expected from the CSME.

Conclusion

Choices, there are none. The regional approach is not a substitute for national action. The CSME is not intended to be the complete answer but rather to make more possible or to better achieve the objectives that the Region has set itself. Action will always have to be taken at the level of the Member State to give effect to the provisions. The commitment to the framework has been given in the signing of the legal provisions by Heads of Government. Now there must be equal commitment to the implementation of the measures. The CSME will only be as good as the extent to which the private sector takes advantage of the framework that is being established.

It is reasonable to ask what is in it for me? The key is to know the provisions and be able to exploit the opportunities. The threats are not intra-regional. But it cannot be business as usual.

CARICOM Secretariat - February 2002

Private Sector Summit - 2002: Report on Proceedings

(P.M.)

SESSION III: "Strategies and Support Mechanisms for Caribbean Private Sector Development"

1:30 – 1:45 Address: "*Mechanisms to Enhance Private Sector Competitiveness*"

Mr. Vaughn Renwick
Executive Director
Caribbean Export Development Agency

"CDB's Proposed Strategy"

Ms. Anne Bramble
Project Review Officer
Caribbean Development Bank

Session Chairperson

Dr. Warren Smith
Director (Ag.)
Finance and Corporate Planning
Caribbean Development Bank

Panellists

-

Mr. Ronald Bulkan
Manager/Owner
Precision Woodworking
Guyana

-

Mr. R. Harford
Chairman
Caribbean Association of
Indigenous Banks

-

Mrs. Patricia Francis
President
Jamaica Promotion Corporation

2:15 – 2:45 **Questions and Discussion**

2:45 – 3:00 **Coffee/Tea Break**

CLOSING SESSION

3:00 – 4:15	Break-out Groups		
	<u>Recommendations</u>	<u>Table No.</u>	<u>Facilitator</u>
	<i>“Deepening the Dialogue Process”</i>	1	Dr. Deryck Brown Project Officer Caribbean Development Bank
	<i>“Institutional Support Mechanism and Competitiveness”</i>	2	Ms. Desiree Field-Ridley Advisor, Single Market and Sectoral Programmes CARICOM Secretariat
	<i>“Responsiveness of Financial and Capital Market Sectors”</i>	3	Mr. Charles Pink Senior Caribbean Director Barclays Bank PLC
	<i>“Technology and Services: A Source of Competitive Advantage”</i>	4	Mr. Sean Ifill Chief Executive Officer (Ag.) Caribbean Association of Industry and Commerce
4:15 – 5:00	Table Presentations/Recommendations		
7:30	Formal Dinner		
	Vote of Thanks	-	Mr. Gary Voss President Caribbean Association of Industry and Commerce
	Closing Remarks	-	Dr. Compton Bourne President Caribbean Development Bank

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