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Statement

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INTRODUCTION

On May 4th this year, the Management and Staff of the Caribbean Development Bank welcomed the new Premier of the Turks and Caicos Islands, the Honourable Sharlene Cartwright-Robinson, to our headquarters in Barbados.

In her capacity as Chair of CDB's Board of Governors, the Premier took the opportunity, to share with the Management and Staff, her vision of people-centred development for her country – an approach which has also been embraced by our Bank and the wider development fraternity.

Madam Premier, we were all inspired by your spirit of optimism and determination to make a difference in the lives of the people of TCI during your tenure as leader of your country.

Please be assured that the Government and people of the TCI will continue to have the Bank's full support.

Thank you also, for hosting the 47th Annual Meeting of the CDB. We deeply appreciate your generosity. Already, we feel overwhelmed by the warm welcome and courtesies extended since we arrived in the spectacularly beautiful island of Providenciales. Under your Chairmanship, we are confident that our deliberations, this week, will be fruitful.

INTERNATIONAL CONTEXT

The Meeting of our Board of Governors takes place against the backdrop of an uncertain global environment that has the potential to derail the modest and tentative return to growth being experienced by our borrowing member countries.

Although showing signs of increased buoyancy, global growth remains below pre-crisis levels; and productivity growth is low. Both are largely explained by weak productive investment. The slowdown in the rate of investment is a major constraint to world trade, which continued to decline in 2016, albeit at a slower pace. Undoubtedly, this served to propagate and reinforce the global slump in investment and, in turn, to stymie productivity growth.

This is the vicious cycle and context within which our borrowing member countries must chart a path forward.

INWARD-LOOKING ECONOMIC POLICIES THREATEN ACHIEVEMENT OF SDGS

The prolonged period of weak international economic performance has contributed to the growing discontent with the inequitable distribution of costs and benefits of globalisation and international trade. This trend has strengthened the appeal of protectionism and inward-looking policies in several developed countries.

On the current trajectory, it is imperative that our Region continues to craft bold and innovative strategies to ensure that progress towards the 2030 Sustainable Development Goals remains on track.

AN APPROPRIATE CARIBBEAN RESPONSE

In the face of this emerging reality, what would be an appropriate response for Caribbean countries?

I will argue this morning, that “*as they turn inward, we must turn outward!*” Our focus must now be on fully exploiting the opportunities for deepening trade and investment within existing and new regional markets. That is, CARICOM must become the stepping stone to penetrating those non-CARICOM markets which still recognise international trade as a powerful underpinning for dynamic economic growth.

Not surprisingly, Sir Arthur Lewis, Nobel Laureate and the first President of CDB, appreciated the inevitability of a regional solution for the Caribbean. In 1965 he wrote, with his characteristic candor:

“[T]hese islands did not start on the federal road in a fit of idleness. They started because it was clear that a Federation is the only possible solution to their problems.”

Admittedly, the high bar of a Caribbean Federation is probably not a realistic prospect in my life time.

But, the Region has made progress in other forms of integration, such as the Caribbean Free Trade Association in 1968; the Caribbean Community (CARICOM) and Common Market in 1973; and the CARICOM Single Market and Economy (CSME), which is just over 15 years old. CARICOM is designed to promote the development of the Region through economic integration, functional and regional security cooperation, and foreign policy coordination.

Functional cooperation predates CARICOM and is, perhaps, the best illustration of the value of a regional approach to development. In 1948, the establishment of the University College of the West Indies (now the University of the West Indies (UWI)) was the earliest form of regional cooperation in higher education. Most will agree with the transformative effects of UWI through its pioneering research in several fields and by consistently producing regional leaders in every sphere of social, political and economic life. The actual value of UWI’s contribution could not have been paid for by any one CARICOM country, acting on its own.

The takeaway, here, is that the benefits that have accrued to member states, especially from functional cooperation in health, education, security, disaster mitigation and in the provision of common services across a wide range of human and social activity, have been significant and, most importantly, sustained.

The furtherance of functional cooperation and the enhancement of the provision of common services are most relevant within the context of the fiscal crisis confronting a number of Caribbean Governments.

But, improving functional cooperation will not on its own, resolve the development challenges facing our Region.

Our economies need to grow; and they need to do so in a sustained way. For this growth to become a reality, the highest priority must be given to improving the competitiveness of our economies through building a business-friendly environment.

In that type of environment, enterprises will be incentivised to invest in productivity enhancing employees and technologies, thereby enabling them to engage in regional and international trade.

This has been our refrain for some time, and will feature prominently in my presentation this morning, and in our discussions for the remainder of this meeting.

BENEFITS OF REGIONAL INTEGRATION: THE ASEAN EXPERIENCE

Businesses which cannot compete cannot trade.

And small economies which cannot trade in goods and services will not grow and be able to provide sustainable livelihoods for Caribbean people.

How do we explain this faith in regional connectivity to drive trade and economic growth?

Where is the evidence of its efficacy?

Successive studies have yielded mixed results on the question of a causal link between regional integration and economic growth. However, there is supporting evidence of a positive correlation between regional integration and the constituent variables of economic growth, such as investment, trade and competitiveness.

This correlation is simply too strong for us to ignore the transformative possibilities which can derive from deeper Caribbean economic integration.

Several studies, including one done by the National University of Singapore, have concluded that regional trade agreements can positively affect foreign direct investment. This impact occurs directly through investment provisions, and indirectly through trade liberalisation.

The available evidence points to substantial improvement in the investment environment following the implementation of the 1998 Framework Agreement on the ASEAN Investment Area. This Framework was designed to make ASEAN a competitive, conducive and liberal area for

investment. Further, increased intra-regional trade was encouraged as ASEAN investors began to receive the same treatment as local investors, and as their access to local industries rose.

Such reforms led to increased investment in the ASEAN countries as well as stimulated exports and imports, generally. ASEAN's share in global FDI inflows rose from less than 2% in 2000, to nearly 5% in the mid-2000s and exceeded 6% in 2015, while total trade in the region almost doubled over the same period.

Admittedly, the ASEAN integration process has taken place in a very different part of the world, and involves much larger countries. However, its integration framework is, in some respects, less advanced than CARICOM's.

Yet, ASEAN has achieved much better results than CARICOM in attracting investment flows, and in expanding intra- and extra-regional trade.

LEVERAGING THE REGIONAL MARKET

How then do we give real meaning to "*when they turn inward, we turn outward?*"

Is it a pipe dream to believe that small economies with small populations and similar natural endowments are capable of creating a dynamic intra-regional trading bloc as a stepping stone to a wider international marketplace?

What are some of the issues which need to be addressed to ensure that a strategy of regional connectivity can be the best pathway to economic prosperity for Caribbean people?

I will address each of these questions before closing my statement, this morning.

First, we need to realise that, when we speak of "*trade*", we are referring to the exchange of goods **and** services, not just merchandise trade.

In a very insightful piece published in 2003, the late Dr. Trevor Farrell, former UWI Professor of Economics, observed that the first 30 years of CARICOM "*often seemed to be a labour of Sisyphus.*" However, he acknowledged that, in subsequent years, a shift had begun to take place, with service-based industries starting to lead the integration process.

Dr. Farrell was referring to the regionalisation of Caribbean enterprises and the emergence of Caribbean multinationals alongside the growth of intra-regional portfolio investment and the evolution of a regional capital market. This development has continued apace, especially in tourism and financial services as well as in light manufacturing and retail industries.

As Dr. Farrell pointed out, "*...virtually all of the major conglomerates operate regionally.*"

For me, the regionalisation of Caribbean conglomerates was inevitable. It occurred in part because of the small size of their domestic markets, and, partly, because of the need to manage risk through portfolio and geographic diversification.

What has subsequently happened is that many of these firms are becoming sufficiently competitive to expand into the international marketplace in pursuit of growth, further diversification, and increased profitability.

This outcome is good for the Caribbean and critical to our Region's development.

What is happening on the large conglomerate side of the Caribbean economy is also beginning to grow in the much smaller cultural industries, especially in the areas of music and other forms of entertainment. Music festivals and carnivals are now a growth industry in many Caribbean countries, attracting regional as well as extra-regional participants. Individual artistes and large carnival bands perform in the many musical events that take place across the Caribbean and much further afield on virtually every continent. Increasingly, these artistes and their management and production teams are leveraging social media and creatively utilising digital platforms to expand their market reach.

This industry will only get larger as the regional tourist industry continues to grow.

Caribbean tourism is the largest earner of foreign exchange, and the biggest employer of local and regional labour in most CARICOM countries. Tourism is a service industry, which requires a vast array of inputs in order to meet the needs of its customers.

Apart from the demand for entertainers, the typical Caribbean hotel or attraction needs huge quantities of food, alcohol, fruit juices, furniture and other inputs to be able to be competitive. This large export industry represents an opportunity, not only for the local agriculture and other merchandise sectors, but also for regional producers of these goods.

The reasons for the now large non-Caribbean import content in the regional tourist industry are legion; but can be traced principally to antiquated and, therefore, uncompetitive production practices, primarily in agriculture. The inefficiency of the logistics arrangements, notably in aviation and shipping, only exacerbates the challenge. Nevertheless, the prospect of increased intra-regional trade in agriculture and of creating strong agro-tourism linkages remains enormous.

GETTING THE ENABLING ENVIRONMENT RIGHT

This morning, I have sought to establish that, as our Region faces the threat of some of our traditional development and trading partners turning inwards, the Caribbean can mitigate that risk by turning outwards. This strategy is based on the premise that a closer embrace of CARICOM opens up the prospect for increasing trade, foreign exchange earnings and employment opportunities, principally for our trained young people.

The attractiveness of this strategy is substantiated by the achievements of several large, medium and small Caribbean enterprises, which have grown their businesses by moving cross-border to other regional and international markets.

However, for this strategy to work, the arrangements which are enshrined in the Revised Treaty of Chaguaramas have to be perfected.

Let me speak to some of the more urgent matters.

Most of the CARICOM jurisdictions have enacted the provisions to remove over 450 legal and administrative barriers that initially stood in the way of the free movement of goods, services, capital and labour in the Region.

The reality, though, is that the mere removal of restrictions doth not a single market make!

First, the removal of such restrictions has not resulted in a sufficiently meaningful improvement in market access. This is because fundamental challenges still remain in the application of rules of origin, trade facilitation, the Common External Tariff, non-tariff barriers and the resolution of disputes.

Second, the Movement of Factor Act, which removes barriers to the rights of establishment, has not been enacted in many member states. The establishment of a single jurisdiction to allow for the equal treatment of business entities across CARICOM has also not been implemented.

These are important mechanisms for supporting the development of regional enterprises by removing requirements for alien landholding licenses, for example, and eliminating the need for registering a CARICOM business in every jurisdiction in which it wishes to operate. Such actions add to the cost of doing business, both in terms of time and monetary value. They also hamper the extent to which some CARICOM businesses can penetrate regional markets.

Third, in 1995 CARICOM Heads of Government finally agreed to the free movement, and consequent elimination of the need for work permits for a limited group of skilled workers, that is, Selective Free Movement.

Over twenty years hence, where is our Region today?

A recent report by the CSME Unit noted that a total of ten categories of persons now have the right to seek employment in other CARICOM member states without the need for a work permit. While legislation in the 12 CSME participating countries have all recognised the categories specifically identified in the Revised Treaty (Article 45), to date only Guyana and Jamaica have fully included the ten categories of workers in their respective Skilled Nationals Act.

In addition to the failure to enact the requisite legislation, there is the reality of a scarcity of skilled workers in the Region to meet labour market needs. As such, regional companies are forced to fill vacancies with workers from outside of the Region, through the work permit regime. There is, therefore, urgent need for closer alignment between our Region's education system and the skills' requirements of the business community.

Finally, there are valid concerns that the benefits of integration are unevenly distributed. This results partly from delays by member countries in meeting the commitments and obligations of the CARICOM Single Market. The Treaty provides a number of Dispute Resolution Mechanisms, for example, the Council of Trade and Development; the Competition Commission; and the Caribbean Court of Justice. These mechanisms can be used in situations where a member country concludes that it is being disadvantaged by selective application of the terms and conditions of the Treaty.

Carefully crafted dispute mechanisms are intended to, among other things, reduce the risk that disputes lead to conflict between the affected parties; enhance the legitimacy of the international treaty and international organisation to which it is aligned; and ensure that fairness prevails. The way in which signatories actually comply with the obligations of an international treaty is a critical determinant of the efficacy of that treaty. Utilising the mechanisms, and subjecting them to testing help to promote transparency of the process as well as build confidence among stakeholders.

In short, we need to test them!

CLOSING REMARKS

This morning, I have argued that an intensified focus on international trade must be a central tenet of the Caribbean's growth strategy.

I have also argued that the CARICOM market is the obvious launching pad for the Region's deepened foray into the global marketplace.

I am convinced that regional integration can be the Caribbean's "secret" weapon for unlocking economic growth and enhancing the prospect of greater prosperity for our people. The urgency for the adoption of this strategy is occurring at a time when there is a clearly emerging trend towards inward-looking policy platforms and a retreat from globalisation in the United States of America, the United Kingdom and Europe - traditional trading partners of the Caribbean.

The implications of this shift could be manifested in reduced international aid flows; diminished funding for multilateral development banks like the CDB; more difficult access to traditional markets; and the requirement to refocus on new export alliances and trading partnerships. Existing trading arrangements could disappear or markets become more difficult to access, necessitating policy shifts in the Caribbean.

Foremost amongst these shifts would have to be an intensification of the process of making our economies more attractive for productivity enhancing investments.

It would also require a so far elusive resolve amongst our regional leaders to implement, in full and without further delay, all of the outstanding provisions of the CSME.

In short, our Region is calling on its leaders to have a laser focus on “*doing what is right, not what is easy!*”

One urgent corollary of this call to action is the requirement to expand the reach of CARICOM. Possible candidates for this broadening could be Cuba, the Dominican Republic and the Dutch Caribbean territories.

Another corollary is the reopening and conclusion of the stalled trade talks between Canada and CARICOM.

We should also continue the outreach to our neighbours in Central and South America for deeper trade and economic co-operation.

CDB, the Region’s development bank, has a vital role to play in the successful execution of this strategy. However, its borrowing membership will have to become more diversified so that concentration risk and interest rates can be reduced and its lending capacity enhanced. New membership will bring additional capital both from new BMCs and from the new non-borrowing shareholders which could be attracted by larger BMCs. We will explore this proposition further when we meet with our Governors in caucus tomorrow.

Ladies and gentlemen, at this juncture in our history, we have the opportunity to be “*the masters of our fate and the captains of our souls*”

Let us grasp it!

I thank you!