Statement by
Sir Neville Nicholls, President
to the Board of Governors
at the Thirtieth Annual Meeting
Radisson Cable Beach Resort
Nassau, The Bahamas
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RESPONDING TO THE CHALLENGE OF A NEW ECONOMIC ERA

1. OPENING REMARKS

Mr. Chairman, Rt. Hon. Hubert Ingraham, Prime Minister of The Bahamas, Distinguished Governors, Members of the Board of Directors, Your Excellencies, Observers, Guests, Vice-Presidents and other Members of Staff of the Caribbean Development Bank, Representatives of the Media, Ladies and Gentlemen:

CDB has been fortunate since the Inaugural Meeting of the Board of Governors in 1970, and at regular ten-year intervals since then, to enjoy the legendary hospitality of The Bahamas. On this occasion, as in previous years, we are indeed touched by the warm welcome extended to us, and genuinely impressed with the exceptional arrangements made to host us for this Thirtieth Annual Meeting. We are confident that under your skilful guidance, Mr. Chairman, this all too brief sojourn in your beautiful islands will prove to be both pleasant and productive.

I have already conveyed privately to you, Mr. Chairman, our delight at the knighthood conferred on you earlier this year in Her Majesty's New Year's Honours List, in recognition of your service to banking, civics and politics. I now take this opportunity to publicly express our sincere congratulations on this well-deserved honour, which is as much yours personally as it is shared by your country.

CDB and The Bahamas have enjoyed an excellent relationship over the past thirty years. I have already referred to CDB's decadal rendezvous in these beautiful islands. However, there are other - more concrete - ways in which the relationship has been mutually beneficial.

The Bank has approved the equivalent of US$53.4 million in loans and technical assistance grants for The Bahamas during this period. These funds have been used to finance development in sectors such as tourism, agriculture, transport, communications, housing and education. The agreement for the most recent loan - a $10-million line of credit to The Bahamas Development Bank - was signed here on Monday of this week, and will be used for onlending for agriculture, industry and tourism purposes.

2. ANNUAL REPORT AND CDB'S PERFORMANCE DURING 1999

As is customary, I now offer a broad overview of the performance of the Bank and its Borrowing Member Countries (BMCs) in the last financial year. A more detailed presentation and analysis are contained in the 1999 Annual Report, which you would have received by now.

During the year, the Board of Directors approved 17 project loans and two technical assistance loans, compared with the 16 project loans and 10 technical assistance loans approved in 1998. Gross loan approvals totalled $166 million, up from the $161 million recorded in 1998. For the second consecutive year, there were positive net transfers of resources to our BMCs, a factor that is most heartening as we seek to improve our responsiveness to the BMCs. In 1999, the transfers totalled $40 million, a significant increase over the $20.4 million achieved in the previous year. Disbursements of loans and grants during 1999 amounted to $112.7 million, a 25% increase over the 1998 total of $89.7 million. The Bank's main thrusts in 1999 reflected the themes outlined in the Strategic Plan: 2000-2004, which, significantly, include widening the scope of intervention in addressing social development concerns. There was progress in our programme directed at the reduction of poverty in our BMCs with the completion of the Country Poverty Assessment (CPA) for Grenada. This brings to four the number of such assessments completed, and work continues on CPAs for the Turks and Caicos Islands and St. Kitts and Nevis.

Additionally, the Board of Directors approved a loan of $14.1 million to the Government of Jamaica for use by the Jamaica Social Investment Fund (JSIF) to assist in poverty reduction in that country by enhancing JSIF's capacity to finance social and economic infrastructure, social services and organisational strengthening of sub-projects in poor communities.

Approval was also granted for the establishment of a Microfinance Guarantee Programme. Under this programme, CDB will provide a guarantee for a line of credit from a commercial lender to a specialised microfinance institution, which would then onlend these funds to micro and small enterprise. In this way, the Bank will be contributing to the fostering of entrepreneurship among the citizens of our BMCs and empowering them to escape poverty and earn a decent living for themselves and their families.

3. BMCs PERFORMANCE

In the BMCs, positive GDP growth ranged from less than 1% to over 8.5%. Growth was especially strong in services-oriented economies such as yours, Mr. Chairman, which have invested heavily in tourism plant within recent years. With regard to the vital tourism sector, growth in stayover visitor arrivals to the Region slowed to around 4% in the first nine months of the year. A notable exception to this trend was the significant 13% increase recorded here in The Bahamas.

There was increased agricultural output and more favourable export prices, factors that mitigated against another year of lacklustre performance in this sector. There was also some improvement in manufacturing, despite strong competition from extra-regional producers. CDB is fully cognizant of the rapidly changing nature of the global economic environment, and earlier this year the Bank co-sponsored two important seminars in an effort to help our BMCs cope with the new environment. The first was a seminar held in conjunction with the International Monetary Fund on the theme "Towards a Caribbean Consensus: A Region Coping with Globalisation". The second was a Risk Management Symposium jointly sponsored with the Inter-American Development Bank, part of a technical assistance project to establish a Risk Management Programme for the BMCs.

We pledge our continued assistance to the BMCs in **Responding to the Challenge of a New Economic Era**, which is the substantive theme of my Statement to you this morning.

RESPONDING TO THE CHALLENGE OF A NEW ECONOMIC ERA

4. INTRODUCTION

Mr. Chairman, I think it is appropriate that we should hold this first Meeting at the dawn of the new century, in this country where we met for the inauguration of this Bank thirty years ago.

Governors will already have received the Bank's own retrospective account of these thirty years, in which figures prominently the historical background to the establishment of the CDB. It bears some reflection that nearly all of the principals who attended our first meeting here, including several Governors, have passed on. I am sure that present Governors from various countries can recall the influence on themselves of those founding fathers. Happily, there are still among us some, including myself, who served in various offices in support of those stalwarts.

The retrospective to which I have just referred, records that a strong motive for establishing this bank was the concern for the need of most of our BMCs as they are now called, to remodel their economies to cope with the very changed circumstances that followed the demise of the short-lived British West Indies Federation. Today, we are similarly concerned with the urgent need for all our BMCs to adjust to another new set of challenging circumstances. In what follows, I wish to tell you how the convening of this Meeting here has influenced me to see an approach to facing our current challenge.

5. THE CHALLENGE OF THE 1960s

Mr. Chairman, independent status began to be achieved by Caribbean countries just when the United Kingdom was attempting for the first time, to enter the European Economic Community (EEC). The new states of the Caribbean were, therefore, faced by more than a change in constitutional status. The whole arrangement that underlay their economic existence was likely to be thrown into turmoil. Things did not seem hopeless for the mineral rich countries. Although the index of petroleum prices in real US Dollar terms remained constant throughout the 1960s, this was at a level that was affording oil-producing countries a standard of living in excess of the average developing country. Our sole oil-exporting BMC, Trinidad and Tobago, was, therefore, faced with fairly reasonable economic prospects.

Much the same could be said of Jamaica and Guyana. From 1960 to 1970 world consumption of aluminum grew at an annual rate of 3 per cent. This must have afforded bauxite producers a steady rise in economic welfare.

The situation was rather less sanguine for most of our other BMCs. This imbalance was undoubtedly a source of the insular conflict that led eventually to the end of the West Indies Federation. Following the demise of that experiment, and the attainment of independent status by Jamaica first, and later in the same year, 1962, by Trinidad and Tobago, there was some measure of disarray among the countries in the Eastern Caribbean.

The record suggests that, in particular, the Government of Trinidad and Tobago put great store on the emergence of a realignment of Caribbean countries arising out of the anticipated accession of the United Kingdom to membership of the EEC. As it turned out, neither of these events took place. By 1963 it became clear that our Region had to discover a new strategy both for political stability and economic development.

It was in this crucible that the idea of the Caribbean Development Bank was conceived. When on the 26 January, 1970, the Agreement setting up CDB came into force and the first Governors met five days later, it was frankly a very modest beginning. The initial subscribed capital of US$50 mn. was soon to seem even less adequate when within a mere three years, the financing gap of the non-oil producing developing world was to move from US$16 bn. in 1973 to US$41 bn. in 1974. The Caribbean economies were inevitably entrapped in the difficulties that were to engulf the developing world of which they were the most recent members.

As we all know, initially there was a general rise in commodity prices that created some buffer against complete insolvency. But it soon appeared clear that affected countries would have to adjust their economies in radical ways. Two were critical. Countries had to learn to bring their expenditure in line with their more modest revenues and they also had to seek new ways of paying their way in the world. The latter often meant shifting their output pattern from a reliance on protected agriculture and inefficient manufactures to an emerging service sector. Mr. Chairman, your country was an important role model. And we were fortunate and glad to have your membership of this Bank from the start.

I think that we are all aware that today we are facing an intensification of the need to adjust to new dynamics in the global economy. For many of these, the unique features of our region, such as: small domestic markets; higher than average per capita incomes in the hemisphere (when its OECD members are excluded); high levels of social participation in policy making; and high per capita cost of infrastructure are additional complexities. But I am not raising this as an excuse for not making the much needed greater adjustment. Rather, I wish us to see it only as adding to a challenge we will boldly attack.

6. THE PRESENT CHALLENGE

Mr. Chairman, the concepts of globalisation and liberalisation, sometimes used interchangeably, have become so commonplace in recent years, that another reference to them might border on the hackneyed. Nonetheless, their frequent mention reflects the fact that in some ways, something very new has taken place in the global economy. Again, it is not trite to stress that we are a part of the latter and are likely to be affected by any changes to it. As many have said before me, the new international economic environment is, at the same time, the source of both new opportunities for enhancing our economic well-being and threats to its maintenance. It is, therefore, worthwhile to think again about what seems to have produced the new economic situation. I think we shall notice how interrelated the causes are.

Undoubtedly, among these are the revolutions that took place in cyber technology and financial markets during the last two decades or so. But of equal importance has been the rejection, among perhaps the majority of policy makers, of previous dirigistic models of economic development. This outcome has been much influenced by the apparent success of the more liberalised approach to economic management of the south east Asian countries, even taking account of the recent financial crisis there, compared with what appears to be a much worse performance of other developing countries that had received much more official development assistance. In my own opinion, the story is far more complex than it is often believed to be. Nonetheless, the general impression about the best approach to economic management that has, in the last decade or so emerged, greatly affects the way the performance of our BMCs is viewed. We cannot avoid taking account of this.

Mr. Chairman, I do not think I need to state to this audience that the Region's performance has not been dismal. In fact, I have often argued that when account is taken of our commitment to democratic values and social equity over the years, it is possible to claim that our economic performance has been quite good. But I would also hasten to add not good enough. If, as I would contend it is, our mission is a Caribbean with greatly reduced poverty, we still have far to go.

I believe that what our experience has shown is that: (a) when we have moved fast to adjust our economies to external shocks, and (b) where we have adapted our economic strategy to make it conform to new areas of comparative advantage and we have stuck to programmes in line with those two approaches, our economies have shown substantial positive achievement, even sometimes, during inauspicious circumstances. For that reason, I wish us to reflect for a moment on what our emerging comparative advantage in this region appears to be. And I cannot stress too much how helpful it is to be considering this issue in the Bahamas.

7. EMERGING CARIBBEAN COMPARATIVE ADVANTAGE

It is because we know we are small, open, vulnerable economies in an era of liberalised global markets, that we must seek to make our way in the world economy in line with our realised and potential comparative advantage.

Our region initially entered the global economy in the seventeenth century. Some of our countries had been Spanish possessions since the time of the papal bull of 1493; others had a French connection. But it was later, as British Colonies, that they became major sugar economies. Their success, by the eighteenth century, is captured in the writings of the late Dr. Eric Williams who has the following to say in his **Capitalism and Slavery:**

"The amazing value of the West Indian colonies can more graphically be presented by comparing individual West Indian islands with individual mainland colonies ... . In 1773 British imports from Jamaica were more than five times the combined imports from the bread colonies; British exports to Jamaica were nearly one-third larger than those to New England and only slightly less than those to New York and Pennsylvania combined. For the years 1714-1773 British imports from Montserrat were three times the imports from Pennsylvania; imports from Nevis were almost double those from New York ... from Antigua were over three times those from New England ... from Barbados were more than twice as large as those from the bread colonies, (and) from Jamaica nearly six times as large."

I suspect that even this audience would tire of greater repetition, and what we have seen, must be allowed as sufficient to remind us of how important to the mercantalist era of globalisation, was our little region. It was highly integrated into that economy as an exporter of tropical agriculture, and a valuable market for the incipient British manufacturing industry. So pervasive was that manner of integration that its effects have continued to influence the pattern of our BMCs' economic development up to the present. It is, perhaps, our misfortune, that for many, "history is bunk". But I have not repeated those facts to keep our minds mired unduly on past acts of glory on one hand, and on the other, on ancient injustices. I state them only as a preamble to the fact that our BMCs form a region that has already made historic strides in adjustment to previous rapid changes in their global economic environment. Mr. Chairman, none of our countries has done so, better than yours. Which is why I have said I regard it as fortuitous that we should have to consider this topic here.

Sir, your predecessor in the chair last year reminded us in graphic terms, of the enormity of the challenge our BMCs now face to make the appropriate adjustment to the changes that are presently taking place in the global economy. As you will recall, I was unable to be present when Prime Minister Arthur delivered his address of welcome. But I was soon after apprised of its message. It so impressed me that I proposed to President Iglesias of the Inter-American Development Bank (IDB) that his institution and ours should collaborate in answer to the challenge that address posed to everyone concerned with the economic development of this region. I am happy to report that he agreed that our two organisations should endeavour to work together to see that the dire consequences of an inadequate adjustment by our region to the challenge of globalisation are not realised.

Although we have already learned a lot from our collaboration in this venture, which has, to date, most certainly impacted on the individual programmes of our two institutions, we are continuing to forge a more effective combined response to Prime Minister Arthur's theme. And I wish to assure you that you will hear more about our efforts in due course. But meanwhile, the task of adjusting to the global challenge continues.

A moment ago, I argued that that adjustment could be best seen through adapting our economic strategy to take account of the changing pattern in our comparative advantage. That comparative advantage is clearly no longer in export agriculture. However difficult, I think we must all come to understand the importance of this.

Nonetheless, Mr. Chairman, if adjustments were ever entirely without pain, there would seem no grounds for insisting on them. For it would mean that the new state of affairs could be achieved without loss in welfare to anyone. That in turn must mean that the new state must be just as good or better for all, as the old one. If it were only just as good, there would be no motivation to change, and if it were universally better, we would expect rational agents to embrace it when it was explained. This would be analogous to an economic system operating well within its efficiency frontier. Since this is not the typical case, we expect that some pain will always accompany major economic adjustments. Whenever I have spoken on this issue, I have stressed that our democratic culture forces us to take account of the distribution of the cost of adjustment to a greater extent than do most other developing regions. Sometimes this is misunderstood by those who do not know us well, as a reluctance to adjust. But we have to avoid falling into the opposite trap of being too tardy.

I think we all know that our current comparative advantage lies, in a broad sense, in the services sector. And the success of this country's economy over the last half century, has shown that there could be considerable benefit to pursuing our advantage in that area.

Mr. Chairman, in the first statement I delivered to this Board in 1988, I raised the issue whether for all our BMCs, tourism might have had the prospects for being an engine of growth. I thought I had noticed a tendency to regard our services sector as somewhat inferior to primary economic activities. I was, therefore, minded to stress ... "the fact that during the entire decade of the 1970s those regional economies in which the tourism sector played a major role performed consistently better than those in which it had lesser significance ...". On reflection, I could have generalised my thesis to refer to the whole of the modern services sector including with tourism, all the areas since negotiated in the General Agreement on Trade in Services (GATS) in the Uruguay Round, and more recently in the Financial Services Agreement (FSA) of 1997 that will considerably impact on our economies.

Let us reflect for a moment on why we may have a comparative advantage in the services sector. There are two sides to this. Some things are harder for us to do than they are for others, while on the other hand, some things are relatively easier. Since the time of the classical economists, there have been views about what determines comparative advantages, and resource endowment has figured greatly. Certainly, the Caribbean's geography is responsible for the superiority of much of its tourism product. But we must bear in mind that one of the major effects of the revolutions we are discussing is the diminishing role that natural resource endowment is playing in the comparative advantage of countries. Of much greater importance, is the role of human capital and the various technologies it embodies.

Why has this become so? Some answers to this question are well known. Modern manufacture is very resource efficient. It uses far fewer natural resources than older vintages did. Modern manufacture is also very modular and customised, now having a large array of light components that can be assembled in many locations. This has greatly affected the arguments about economies of scale, which among others, my distinguished predecessor, Mr. William Demas, was quick to raise at an earlier stage of our history. Importantly, the contribution of the services component to a product's value-added has greatly increased. Therefore, today when we consume any manufactured commodity we are consuming a much greater amount of services than we used to think was natural. In fact, much of the debate about the genetic modification of agricultural products seems to some as no more than an extrapolation of the trend I have just mentioned from manufacturing to farming. I am, of course, not here denying the warnings of those who argue for caution in making that extrapolation.

Mr. Chairman, it seems to me that two important things follow from what I have been arguing. The first is that some barriers to profitable manufacturing that once confronted our economies have been removed. The other is that there are far greater opportunities in the emerging services sector than there used to be. Both implications mean that the loss of our traditional comparative advantage in export agriculture does not require that we, as it were, close shop. There are new ways in which we can hone our people's talents to do well in our new liberalised economic environment.

But as I have said, the transition from one pattern of comparative advantage to another is not likely to be painless. It will most certainly not be achieved without much effort, and worse, without risk. Speaking of which, I think it would be amiss of me if I did not draw attention to the harm that could come to those economies of our BMCs that are trying to develop their financial services sector, if excessive inferences about money laundering are drawn from occasional episodes of inadequate supervision. But this is, certainly not to deny the crucial importance of our BMCs committing to, and maintaining always, the highest international standards of supervision in their financial jurisdictions. But have there not been recently some well publicised cases of major money laundering in some OECD financial centres where, presumably, there exist the highest international standards and practices of supervision of financial institutions?

I now wish, Mr. Chairman, to speak briefly about both features of our new strategy. And in so doing, tell you how I hope CDB will be allowed to assist its BMCs in their adjustment to their new environment.

8. REQUIRED POLICIES FOR APPROPRIATE ADJUSTMENT

We saw earlier that the role of human capital in our comparative advantage has increased in line with the erosion of that of natural resource endowment. If we are right, this should call for policies to greatly enhance our stock of human capital.

Earlier this year, I had the honour of delivering the Feature Address at the Graduation Ceremony of the Barbados Community College. I wish to share with you an idea I suggested to that audience. Much of the current discussion about education takes the form of the right of all our citizens to a good education just as they are entitled to a whole array of other social services. I do not think we should deny these demands. But it is important also to think of education not only as something that our citizens have a right to consume but as a source of investment. I suggested that the challenge we face is to harmonise the social and personal aspects of education in the language of CDB's distinguished first President, Sir Arthur Lewis, to harmonise education as consumption and as investment.

Why that is important is that if we treat only the personal aspect of education, it is possible to expend considerable resources on it, without seeing the social benefits we should be able to expect. If the concept of human capital applied to education is to remain relevant, we must try to reconcile the consumption requirements of our population with those for investment. I found it helpful to quote Sir Arthur who said in 1969: "Since money is a magnet, it is always possible to devise schemes for getting more students into parts that are undermanned. Keeping them out of overcrowded parts is more difficult, ...". I offered a challenge to the Barbados Community College to devise a strategy to achieve both of Sir Arthur's objectives to wit: increase the numbers in the undermanned faculties and reduce those in overcrowded, without sacrificing the right of all our citizens to consume as much education as they are capable of. I should like to extend this challenge to education planners in all our BMCs. For we must achieve the harmonisation of the two aspects of education if we are going to acquire and keep a comparative advantage in services in general.

Mr. Chairman, we at CDB have been working with a highly respected regional consultant to formulate a strategy for moving from the production of tourism services, through the delivery of many new financial services to the frontier of all the new services that are sometimes difficult to demarcate from manufacturing activities. We believe that, out of this consultancy, there will arise a new approach to understanding the interrelationship between both traditional and new services on one hand, and the primary and manufacturing sectors on the other, which will guide our BMCs in their future macroeconomic planning.

What it is important to stress is that this new somewhat comparative advantage is exceedingly dynamic and will require continuous fostering to remain competitive. The new WTO regime will mean very soon that even our domestic market for services will be invaded as the nature of services consumption is changed.

Just as our education system must adapt to this new dynamic situation, so also should the rest of our economic institutions such as our legal and accounting systems; and all the factors that go into generation of entrepreneurs. Our retirement and pension schemes should be brought in line with the new liberalised environment. So should our approach to risk, which will, in any case, require the reform of institutions that manage exposure. In this connection, it is important to see our work in poverty reduction, as an aspect of human capital development, to which, let me stress, we are fully committed.

CDB is aware that it must continue its own adaptation to these phenomena. We know that some of our changes should be faster than we have grown accustomed to and we look forward to our Governors and Board of Directors guiding us as we invigorate our drive for new borrowing and other membership, and as we learn to shift out of some of our own more traditional activities into newer ones, but without abandoning all we have learned to do well over the last thirty years. This is, in effect, the intent of our new Strategic Plan, already approved by the Board of Directors though awaiting a final decision about financing.

Mr. Chairman, as I said, there could be no better location to embark on this change in emphasis both for our region and for its Bank, than here in the Bahamas that, long ago, pioneered the development of a comprehensive services economy that is a model for the whole world. The well-being of your country's citizens is an inspiration for the whole of our region, that the kind of adaptation which is signalled, could be achieved in a truly Caribbean manner. Mr. Chairman, we understand our task and take heart from your country's experience.