

**PRESERVING AND STRENGTHENING OLD PARTNERSHIPS
IN A NEW DYNAMIC GLOBAL ENVIRONMENT**

**Statement by
Sir Neville Nicholls, President
Caribbean Development Bank
to the Board of Governors
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- I. OPENING REMARKS

Mr. Chairman... Distinguished Representatives of the City of Toronto and Metropolitan Area... Distinguished Governors, Directors ... Members of the Diplomatic Corps... Representatives of West Indian Organisations in Canada, and other Dignitaries... Observers, Guests... Vice-Presidents, Directors of Departments and other Members of Staff of the Caribbean Development Bank...Personnel of the Canadian Coordinating Committee... Ladies and Gentlemen.

I am delighted to add my acknowledgement of the very warm welcome extended to us by the Government and people of Canada. It is deeply appreciated.

II. INTRODUCTION

Mr. Chairman, this is, indeed, a truly historic occasion for the Caribbean Development Bank. By hosting this Twenty-seventh Annual Meeting of the Bank's Board of Governors, Canada has ensured for itself another place in the annals of our institution by becoming the first location outside of the Caribbean Region in which an Annual Meeting has been held since the Bank was established 27 years ago. Certainly, it is an event which accords with the rich traditions of this great City of Toronto; for I understand that the name Toronto, when translated from its Huron roots into English, means... "the meeting place". Indeed, that is what Toronto is generally and has been for many West Indians over the years.

Mr. Chairman, I have received complimentary reports from many persons who have passed through the international "gateways" to this City for our Meeting. I concur whole-heartedly with those compliments.

And I can attest, on the basis of my own experience, to the accuracy of their comments. We have come to a City that contains much that is still part of the Caribbean: and to a country whose close relationships with the Caribbean, although predating the establishment of the Caribbean Development Bank, have no doubt, because of the existence of the Bank, become warmer, more cordial, more beneficial.

III. 3. ANNUAL REPORT AND CDB'S PERFORMANCE DURING 1996

Mr. Chairman, copies of the Annual Report have been circulated to Governors and other participants. It was also made available to the Media, on embargo, until today. Therefore, I will mention only a few aspects of the Report's contents.

a. BMC's Performance

Most of the 17 BMCs recorded growth in Gross Domestic Product, a few of them with what could be termed significant growth. Indeed, Guyana sustained the process of economic recovery of the past few years with a

growth rate of almost 8% in 1996. The Cayman Islands, continued to be vibrant with 5% growth; and Barbados recorded a very encouraging 4.5%. Most of the others experienced growth ranging from slightly above 3% to just under 1%.

The available figures suggest that there was contraction in two of the economies, those of Anguilla, and Montserrat. The negative results from Montserrat came as no surprise, because throughout 1996, its population had to continue an heroic struggle begun in July 1995 against the highly damaging effects of an erupting volcano. CDB was among those institutions and countries which came to Montserrat's aid in 1996 when a Grant of US\$500,000 was approved to assist in financing the construction of houses in the "safe zone" for families forced to flee homes in the vicinity of the volcano.

Overall, the economic performance in the Region depended heavily on factors in the international economy where growth in 1996 dipped below the levels achieved during the previous two years. Moreover, the performance of the tourism sector, which has a pervasive influence on most Caribbean economies, was dampened mainly by competition from high public-interest activities in the United States of America and fear of dangerous weather systems in the Region.

Generally, in the other major sectors, the difficulties faced in 1995 persisted throughout 1996. The banana industry battled a combination of unfavourable weather conditions, unacceptable fruit quality and uncertain market prospects in Europe. And whereas the production of raw sugar expanded, considerable threat to its trading preferences exist within the new dispensations of the World Trade Organisation. Problems were encountered by a number of the BMCs with the production and marketing of various other agricultural crops because of pest infestation. Incidentally, CDB has provided financial assistance to help deal with this problem.

The Annual Report notes, Mr. Chairman, that economic and institutional adjustment in the BMCs continued to be, in 1996, a critical area for policy action, to gain competitiveness within the framework of market liberalisation. There is still work to do on this matter.

b. Some Specifics on CDB

Mr. Chairman, in 1996, there were areas in which the Bank performed most creditably, and other areas in which we would have liked to have done much better. For example, total net income from ordinary and special

operations, at the equivalent of US\$28 million was the highest ever although borrowers benefitted from a percentage point reduction of interest rates on ordinary capital resources in the second half of the year. CDB rates now compare favourably with those of the larger multilateral development banks. However, negative net transfer of resources to the BMCs reached an unprecedented level. In this context, the growth of undisbursed balances on approved loans is a continuing disappointment. CDB understands some of the difficulties being encountered by BMCs in this regard, relating to absorptive capacity, institutional capability and budgetary considerations. And we have put in place a number of initiatives in the effort to assist in improving the disbursement performance. Where appropriate, CDB has cancelled long undrawn project funds so that those resources might be made available for other priority development activities.

Gross approvals totalled US\$104.8 million, representing an almost 6% decline from the amount reached in 1995. However, within that figure, grant approvals were US\$18.3 million, compared with US\$3.3 million in 1995. The large increase in grant approvals is attributable to the start in 1996 of the fourth phase of the highly acclaimed Basic Needs Trust Fund programme, an entirely grant-funded operation.

Additional resources were directed during the year towards projects in the social sectors, particularly for basic education and rural development, and this new thrust by the Bank is being continued.

Mr. Chairman, new resources raised by CDB during 1996 totalled the equivalent of US\$105 million. US\$35 million of this was raised through CDB's third private placement on the United States capital market. The equivalent of nearly US\$32 million was raised from the European Investment Bank; US\$20 million from the Inter-American Development Bank's (IDB) ordinary capital, and US\$18 million from the IDB's Fund for Special Operations. Bank staff have been working assiduously to identify and prepare projects for financing with these resources.

Towards the end of the year, the Board of Directors, Management and Staff were engaged in a strategic review to assist in the formulation of a new Directional Plan to guide the Bank's activities into the next century.

In the interest of greater involvement with the private sector, CDB in 1996, began a series of seminars for specific interest groups so that there might be greater understanding of the Bank's operations and the opportunities which private investors have for accessing its resources.

It is my pleasure now, Mr. Chairman, to share with this distinguished gathering some thoughts on Canada's relationships with the Caribbean and

CDB, and prospects for the future, within the topic "Preserving and Strengthening Old Partnerships in a New Dynamic Global Environment."

IV. PRESERVING AND STRENGTHENING OLD PARTNERSHIPS IN A NEW DYNAMIC GLOBAL ENVIRONMENT

Mr. Chairman, nearly one hundred years ago, in April 1898 to be exact, the newly elected Liberal Government of Wilfrid Laurier agreed to a new system of tariffs on both raw and refined sugar that afforded preferences that were highly favourable for trade between Maritime Canada and what the then Minister of Finance (W. S. Fielding) dubbed "those colonies in the sunny south".

Just as today, it was a period of dramatic change in hemispheric and global trading relations; and both Canada and those "sunny West Indian colonies" were in need of a jolt to their sluggish economies. However, the historical record reveals a feature of Canada-Caribbean relations that has remained constant for longer than a century. There has always been an aspect of those relations that goes beyond mere economic calculations. The two regions have been partners in trade and investment with mutual benefits, but perhaps more importantly, they have been long-standing friends. Canada was, therefore, a very natural Charter member of the Caribbean Development Bank (CDB). Indeed, Mr. Chairman, the difference in weather apart, we feel as much at home in Canada today as we hope the hundreds of thousands of Canadians who visit the Commonwealth Caribbean each year feel in our various territories.

The emotional links I am trying to describe have some of their roots in the common membership of Canada and the Caribbean - or more correctly speaking - the West Indies, in the eighteenth century mercantilist system shared by France and Great Britain. Over the years, those links were greatly influenced by the need for both regions to respond to the growing economic and cultural dominance, of our common neighbour, the United States of America. When I stop to reflect on the current set of negotiations between that colossus and the Caribbean recently stimulated by President Clinton's visit to the Caribbean, you must forgive me if I resort to the expression in one of your official languages that I think best sums up much of our history. Mr. Chairman "plus ça change, plus c'est la même chose". This, though, is no attempt to disparage the normally friendly relationship that both Canada and the Caribbean enjoy with the United States. Let me, nonetheless confess, that I can think of no more felicitous application of the French phrase I just quoted, than to the cordial relations that exist between this country and the peoples of the Caribbean. Today, I shall attempt to explore how those relations can be strengthened to the mutual benefit of both our regions and to the larger hemispheric, and indeed, global welfare to which both our peoples are committed. I shall offer some suggestions about how CDB may contribute to that process.

a. Trade, Communications and Investment

As I have just said, there are strong emotional ties between the people of Canada and those of the Commonwealth Caribbean. These emotions have been long nourished by profitable commerce between the two regions. In our case, this has generally involved all of our territories. In Canada's case, it has been the Maritime territories for which trade has mattered most. The sea between our two regions has been an open door long before the skies gave access and widened the opportunity for trade for both our regions. Indeed, one expert observes that: "the early prosperity of what we now know as Atlantic Canada was dependent upon favourable trade relations with the West Indies".

The noted Canadian author, Peter Newman, has drawn attention to the fact that both Canada and the West Indies had more to gain from trade with the U.S. than from trade with each other. But he explained that even this mutual dependence on our common larger neighbour caused us to forge what might now be called a synergy in our mutual relations. It does not appear to have weakened our emotional ties.

It is well known that these ties grew stronger after the American War of Independence. This was at the height of the mercantilist system of trade. When the thirteen American colonies left this system, it denied them the privilege of trade with the West Indies, in those times not the insignificant trickle it could be regarded today. The Canadian colonies, by now all British, responded enthusiastically to the opportunity to advance the interest of the empire and replace the "thirteen American colonies" in a lucrative trade. Thus, the commercial and emotional ties that have characterised our relationship were, from very early times, intertwined. Unless this is understood, nothing about the present role of Canada in the Caribbean, indeed, in CDB, will make complete sense.

On the other hand, once the significance of those early ties is grasped, it becomes easily predictable that two Caribbean Professors of Economics (H.R. Brewster and C.Y. Thomas) would commence a contribution to a symposium on West Indies-Canada Economic Relations, thirty years ago, with the sentence: "Throughout this century Canada had (sic) been the third most important source of imports for the West Indies, the first two positions being occupied by the United Kingdom and the United States of America". This perspective is also necessary to understand in 1997, why a group of distinguished economists and other experts had the following to say in 1969, regarding a suggestion by Dr. Benjamin Stephansky, who had supported the proposal that an arrangement be made to include Canada,

the United States, and all the Caribbean and Central American countries in a special trading zone. Those experts concluded that: "these are propositions which have very little political support - they are just not "on" politically in the foreseeable future - and discussion of them is therefore essentially academic. A Canada-Commonwealth Caribbean free trade scheme seems, on the other hand, to be within the realm of the politically possible".

The fact is that things have now somewhat reversed themselves, and a trading association between Canada on the one hand and the rest of the hemisphere on the other, now seems more politically attractive than one between Canada and the Caribbean only. However, I would urge that we start to explore ways in which a stronger trading partnership between our two regions, could be a means for each of us to penetrate more profitably the wider hemispheric market, that must certainly be our common objective.

A region that has a market size of less than six million cannot offer the full range of opportunities to a partner the size of Canada. But there could well be niches in which specialised groups of firms from Canada might have export skills for the larger market, which could be better honed in the friendly CARICOM market. In this sense also, the more things have changed, the more they have remained the same. For the situation has not gone far beyond what was so excellently summarised by Professors Levitt and McIntyre thirty years ago. As they succinctly observed then: Canadian "exports to the West Indies may have been significant at one time or another for particular industries or areas {but} they have never assumed an order of national importance". Likewise: "exports to Canada, although important for some Caribbean countries, are marginal to others". It should be noted that this was, nonetheless, before tourism assumed the important role it now has in the whole of the Caribbean, a prospect that, in general, Caribbean scholars were then reluctant to enthusiastically embrace.

Mr. Chairman, I introduce these observations to make it clear, that I have no illusion about the importance of Canada-Caribbean trade in relation to, either the size of the Canadian economy, or to the total import needs of the Caribbean. Because we have been friends for so long and novelty wears thin with long friendships, I shall not be too surprised if some suggestions made this morning sound a little like a re-hash of old positions. But I still maintain that we have here the possibility of continuing to develop much that is mutually beneficial, and as my title suggests, searching for ways to strengthen a congenial partnership.

At the outset, let me tell you that the declining trend in Canada-Caribbean trade noted by others thirty years ago has not been arrested. The latest figures I can cite with reasonable confidence reveal that in 1995, the

whole of the then CARICOM region imported US\$260 mn. of merchandise from Canada which was roughly 4 percent of the region's imports in that year. At that time 46 percent of the same region's imports were from the USA, and significantly, both Japan and the European community, excluding the UK, had overtaken Canada in the third place it had traditionally held in the Caribbean market. In fact, the rest of the European community had actually overtaken the UK as well.

Now, I know we must not make more of this than is warranted. The patterns of trade of both regions with the rest of the world have obviously changed. But as friends, I think we should be concerned that whereas Canada's share of world trade had fallen from 4.7 percent in 1970 to 3.3 in 1995, a decline by marginally less than 30 percent, Canada's share of CARICOM's imports had in the same period fallen more than that 30 percent, in a period when our region's imports had quadrupled. As I have already said, in absolute terms, the numbers might not have made much difference, but I think that it is regrettable, on both our parts, that Canada's share of trade with the Caribbean has not grown proportionate to the increase in CARICOM's imports.

From the point of view of the Caribbean, it is gratifying that over the years, our trade with Canada has moved toward balance. Our trade deficit with Canada as a ratio of our exports to Canada has moved from 59 percent in 1970, when CDB was established, to 18 percent in 1995. We must thank Canada for keeping its market relatively friendly to our exporters, and especially for the introduction of CARIBCAN. Notwithstanding that, the share of our exports that has gone to Canada has declined from 5.74 percent to 5.18 percent. It therefore appears to me that there is much work that could be done by the Canada-CARICOM business interests to move trade further in both directions. I believe the time is right for each side to move in the other's market.

I know the figures I have just cited can be given a more favourable interpretation, the point of which must not be missed. Toward the end of the nineteenth century, there was considerable interest both in Canada and in the West Indies in some form of political union between the two regions, notwithstanding doubts that both McDonald and Laurier had about any such merger. Although there could have been other motives in this, the greater urge undoubtedly came mainly from perceived economic advantages on both sides. The two regions were very important to each other then. With time they have each become less so. In recent times each has had to position itself with regard to the growing importance of the Asian economies. That the importance of our trade, each with the other, has declined, has in fact been due to our separate dynamic adjustments to changes in the global economy. This should not be regretted, on either side. The call to our businessmen and women to increase bilateral trade is

not a call for retreat from the larger regional and global market place.

On the contrary, it seems to me that with the good relations we have had for at least over a century, there should be some scope for a resurgence of the partnership between us essentially in penetrating other markets. Some of this is already taking place. The Caribbean (and more generally the West Indies) has always been a hospitable host for Canadian investment. To quote from one authority:

All historical evidence points to the fact that the Caribbean was the first major extension of Canadian financial involvement in the international system. The Sun Life Assurance Company of Montreal opened an office in Barbados in 1879 and in 1882 ... the Planters Bank of Canada. In the same year the Royal Bank of Canada, then known as the Merchants Bank of Halifax, opened its first branch in Bermuda even before it had a branch in Montreal. The Bank of Nova Scotia opened its Jamaican branch in 1889 and a year later the Merchants Bank of Halifax opened a branch in Trinidad. The Canadian Bank of Commerce placed branches on a number of Islands and by World War 1 Canadian Banks had branches throughout the Caribbean.

It is commonplace, that this financial penetration by Canada into the Caribbean was critical for the transformation of both regions and helped to propel each in a different way into the modern global economy.

b. Canada and CDB

It is therefore not inappropriate that Canada was a principal founding member of the CDB, and has offered such generous support to its activities from its inception. In 1970, the paid-up portion of Canada's subscription to CDB's ordinary capital resources was US\$10 mn. By December 1996, Canada's paid-up capital subscriptions and other contributions to the Bank's resources totalled US\$126.6 mn. To have contributed in excess of twelve times that initial commitment in 27 years is strong membership support indeed.

Canada's support has been, in particular, important for CDB's Special Development Fund to which its contribution amounted to 23 percent of the total made available up to December 1996. This strong financial support has earned Canada considerable influence and respect in our Bank and in our region. Canada's counsel, both at the level of this Board and at that of the Board of Directors has been generous and wise.

Mr. Chairman, what this all suggests to me, is that Canada and the Caribbean should be doing more in partnership in the rest of the world, than they are at present doing. Canada has far more experience of the Caribbean's reputation as an investment host than any other potential foreign investor could boast. That experience ranges from connections with bauxite and gold in Guyana, and with bauxite combined with modern agriculture in Jamaica, to hotels in Jamaica and Barbados. The evidence I have seen, indicates that small as the Commonwealth Caribbean is, in terms of population as a region, it has been the third largest host of Canadian foreign direct investment for most of the post-war period. I wish to suggest that the contacts that have been engendered by this investment and nurtured by tourism could be developed for other economic purposes, to the mutual benefit of both regions.

c. The Present Challenge

There should be no illusion that in the present multilateral trading environment, there is much scope for large benefits to flow from direct trade between the two regions. It cannot be concealed that, notwithstanding what I said earlier about the past importance to Atlantic Canada of its trade with the West Indies, the current share of Canada's trade with the Caribbean, is less than one percent of Canada's world trade. Neither has the failure of CARIBCAN to generate large volumes of exports from the Caribbean to Canada been unnoticed. These observations suggest that there should be a shift in emphasis.

What I now wish to suggest, is that both the public and private sectors in both regions see the present globalisation of the international economy, as an opportunity for them to combine their efforts to invade the global market. In other words, let there be a Canada-Caribbean thrust into the rest of the Americas, into Europe, into Asia and Oceania and anywhere else for that matter. As I have said, this will have to be in targeted niches, where Caribbean labour costs and geographic propinquities are still relevant. Although I have made much of our sentimental ties, I am not here asking businessmen and women to rely too heavily on them for this new thrust. For it to work, on both sides, we must be as hard-headed as I know our people can be, notwithstanding the good manners for which populations of both our two regions are universally respected.

Mr. Chairman, I am fully aware that the small and fragmented nature of the CARICOM domestic market does not make it easy for foreign direct investors to exploit the fastest growing element of international commerce, which is intra-firm trade of transnational enterprises. A recent World Bank

publication points out that total worldwide intra-firm sales of US\$5.3 trillion in 1992 exceeded worldwide exports of goods and non-factor services of some US\$4.6 trillion. As I just said, our small markets will not be much affected by this trend. But the data do illustrate the importance of business-networking which is, of course, the ultimate justification for the existence of the multinational corporation. I believe though, that the same motive of global business networking can be marshalled to stimulate the kind of cooperation that I am suggesting could characterise the Canada-CARICOM partnership in the future. Despite the size constraint of the Caribbean, some of this intra-firm activity is already going on. There is scope to expand it significantly without dependence on sales in the Caribbean.

I have spoken at length about the good relationship Canada has with the Caribbean. This is a matter of record. But it is also true that for various reasons, both regions also have enviable relations with much of the rest of the world. I have already mentioned our common links with the USA. We also share and highly regard our broader Commonwealth links and we have both been strongly influenced by French culture. We each also have links to the rest of Europe. These are only some of the ways in which both Canada and the Caribbean are good members of the global community. I am sure we both cherish these various universal linkages. I am pleased that many of them are encouraged through membership in CDB, where for instance, Canada, as part of our OECD membership, joins with other members of that group, to offer CDB and the region both resources and advice of a very favourable character.

What we notice here, is a feature of the modern world that we should all welcome. That is the ability of regions that have several tangencies to be part of several interacting groups. Our world is truly becoming more dynamic and any partnerships between regions such as the one I have been describing between Canada and the Caribbean, must take note of these new diversities. It means that the preservation of old partnerships will become more difficult and more challenging, but also potentially more rewarding as maturity deepens.

CDB stands ready to be a catalyst to enable Canada and the Caribbean to extend their historical partnership in the direction I have been describing. We have started the process of defining a new strategic plan that should guide our work for the next decade or so. We expect that at the end of this process, we should be a keener organisation, in the sense of being more honed and focused. However, even in anticipation of those possible reforms that may arise, we have already begun to make changes that will better equip us to play the catalytic role which I am now suggesting. For example, our Projects Department is recruiting a services specialist who should be able to assist our BMCs in restructuring their economies to

bring them more in line with their dynamic competitive advantage. We are also hoping to improve the research capacity in our Economics and Programming Department with a similar aim in sight. This should enable us to increase our capabilities to assist our region to interface with any section of our Canadian friends, amongst others, participating in the global economy, as I have just outlined.

This, I trust, is the approach Canada and the Caribbean will take to their old partnership as it enters a new century.