

**THE ECONOMIC FUTURE
OF THE CARIBBEAN**

by

DeLisle Worrell
CENTRAL BANK OF BARBADOS

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I have just returned from an international symposium on forecasting at which the featured speaker on the opening day cautioned us against prediction. Instead, I will try to indicate to what extent the future is in our hands.

I hope to make the following points:

1. the Caribbean has an inescapable American destiny;
2. however, we do have some influence on the role we play in "greater America";
3. the extent of that influence depends on the clarity of our vision, the extent of our self-confidence and how well we inform ourselves;

4. the Caribbean starts with important advantages in the global marketplace; and
5. Governments and private firms need to spend more time and money providing themselves with information for strategic decisions and for successful international treaty negotiations.

1. The Caribbean Has an American Destiny

The Caribbean is already tightly bonded to the United States and Canada by trade, tourism, finance, business services, investment, capital flows, migration, language, cultural affinity and history.

The majority of Caribbean exports are destined for the US market. Sugar and bananas are the only important exceptions. The Caribbean's North American orientation is dominant in non-traditional agriculture, minerals and manufacturing. North America is the main source of Caribbean imports, both consumers' and producers' goods. Japanese motor cars and clothing and electronics from the Far East are the exceptions. Moreover, many imports which are originally produced elsewhere in the world are

sourced in the US by Caribbean importers. Imports from other countries are often sold by American multinational firms under their own brand names.

US influence is pervasive in services and finance, the Caribbean's most dynamic sectors. Two-thirds of Caribbean tourists are from North America and for some countries that figure exceeds 80%. Tourism promoters continue to see rich potential in that market.

International business services are a major source of income and foreign exchange in several Caribbean countries. Most of that business is from North America. It includes off-shore financial services and trading companies in the Bahamas, Cayman Islands and Barbados and data and information services in the Dominican Republic, Jamaica and Barbados. The Caribbean financial services sector is deeply penetrated by North American banks and other financial institutions which do wholesale and retail transactions throughout the region from offices in the Caribbean and North America. Recently, Caribbean financial institutions have been offering services in North America.

There continues to be important North American investment in the Caribbean in tourism, minerals, agriculture, wholesale and retail services and public utilities.

Capital flows are overwhelmingly in US dollars, both inward and outward. The limited potential for exchange control with respect to US dollar transactions links Caribbean inflation tightly to US prices and reduces Caribbean Governments' freedom to spend. Excessive spending incites capital outflows which precipitate currency depreciation and ignite inflation.

The US dollar is the universal standard of value and medium of exchange for international transactions in the Caribbean. Capital movements are triggered by expectations about currency values in US dollars. Inflation depends on expectations about currency devaluation in terms of US dollars. Settlements between Caribbean currencies are made in US dollars. Most prices in international transactions in the Caribbean are quoted in US dollars even where goods originate elsewhere. Almost all tourism prices are quoted in US dollars; most other international services are denominated in US dollars. The wages of internationally mobile workers are quoted in US dollars. The US

dollar is used alongside domestic currency in a few countries and some countries have given up on the attempt to dissuade citizens from accumulating their savings in US dollars. All these arrangements bind the Caribbean firmly into the US dollar area.

The Caribbean has extensive and durable links with North America through current and past migration. The large Caribbean community in North America is a source of continuing communication, travel, information and financial flows. For poorer Caribbean countries, remittances from North America are a major source of foreign exchange. The North American community is an important source of tourism revenues for Trinidad and Barbados thanks to Carnival and Cropover. Caribbean artistes have extended their range into the Caribbean/North American market. Even so the Caribbean has hardly begun to tap the potential of the diaspora in North America in terms of foreign exchange, skills and information that will serve to make the region more competitive.

The fact that we speak English, even those for whom it is not the native language, is a strong bond to North America. The strong cultural affinities between the Caribbean and North America reinforce the economic links perhaps too strongly for some tastes.

In recent times, even economists have come to realise that history matters. The fact that Caribbean companies have been doing business with North American companies for generations, that the ties described above are of long standing, that North Americans and Caribbean people have been interacting for three hundred years or more, largely defines the contours of future relationships. Changes do occur, but they are far more evolutionary than is often suggested. Moreover, many changes which appear inevitable may not occur because of sunk costs. The failure of the Apple Operating System in the world of personal computers is only one more conspicuous recent example of the effects of sunk costs.

The evolution of relationships in a period of change is best seen as a process which may proceed at varying speeds depending on history and institutional arrangements. One may illustrate by the contrast between

Puerto Rico and Guadeloupe. They are both subject to the influences described above and they are both headed towards deeper integration with North America. Because of Puerto Rico's political link to the US, the rate of integration is rapid and Puerto Rico reacts swiftly to developments in the US. Guadeloupe has very tight historical, institutional and political links to France which provide a large degree of insulation against integration into North America. The tendencies towards integration remains strong but the pace of integration is very slow and reaction to US developments is muted.

2. The Caribbean Does Have Options for Influencing the Nature of the Relationship with North America

A. *Specific Provisions for Market Access at the Commodity Level*

Tariffs per sé are a trivial issue in Caribbean/North American economic intercourse. Very little of the Caribbean's exports is inhibited by North American tariffs and Caribbean tariffs have never been much of a barrier to North American exporters. The Caribbean's export problems are due to non-tariff barriers which are many, diverse and subtle: quotas, rules of origin, absence of most favoured treatment, health regulations, food content

regulations, idiosyncratic certification procedures, predatory action by US domestic suppliers, the use of monopoly power and unfair trading practices, deliberately obstructionist administrative procedures, the threat of expensive litigation, etc.

Considerations such as these have produced a massive catalogue of safeguards, special provisions, exemptions, procedures for redress, dispute settlement procedures, grandfathering, monitoring and reporting which are an integral part of NAFTA, the Uruguay Round and all other trade agreements. They make the NAFTA specific to the US, Canada and Mexico; something quite different will be needed for a North American/Caribbean treaty.

The specifics of concern to the Caribbean and to North America have yet to be worked out. The Caribbean has a responsibility to define that agenda. We should table proposals that are not in the NAFTA as well; for example, if the US is seeking quantitative targets for access to Japan by US exporters they cannot reasonably argue against the inclusion of quantitative targets for Caribbean access to the United States markets.

B. The Phasing of Elements of Any Trade Agreement

All trade agreements contain many tracks for phasing in their provisions so as to cushion the shock of adjustment. The Caribbean must fight for provisions which will address its particular transition needs. This is especially important for members of the Lomé Convention. Liberalization measures apply not only to North America but effectively to all trade since they will, by the provisions of Lomé, apply equally to trade with the European Community. That accounts for most imports and means that the lowering of tariffs virtually eliminates the customs duty as a source of government revenue. Major fiscal changes are required in taxation and expenditure.

The transition time must also take account of the prospects for product enhancement, productivity gains and export diversification in the Caribbean and it must do so in a realistic timeframe.

C. The Choice of Fora in Which to Advance the Caribbean's Point of View

For some issues it may be better to negotiate strongly under the Uruguay Round where there is a possibility of making common cause with other countries having similar interests. In other areas, direct discussions between

the Caribbean and North America are more appropriate. On some issues, other negotiation fora are appropriate, for example, double taxation treaties. Some issues may be resolved by more effective use of existing administrative arrangements through embassies, international organizations and so forth. Certain fundamental issues should, however, be on every agenda, for example, the external debt of Guyana and Jamaica.

D. The Caribbean Diaspora

We should use the Caribbean Diaspora more effectively for lobbying and other means of widening markets for goods, finance and skills. This is already being done but the potential goes far beyond the numbers of persons currently involved, the range of activity and the depth of penetration of such activity.

E. Linkages at the Firm and Individual Level

The links that individuals and firms establish will, in the end, be the factor that shapes the Caribbean/North American relationship. Some links are of long standing through remittances, return migration and investment in retirement homes in the Caribbean. Others have intensified remarkably in

recent years, particularly artistic linkages, travel and telecommunications. Still others are now in embryo - joint ventures, strategic alliances between Caribbean and North American firms for access by new Caribbean exports.

F. Other Linkages and Alliances Offer a Degree of Insurance

By focussing on the Caribbean's North American destiny I do not mean to imply that external relationships are confined to North America. On the contrary, the Caribbean should take fullest advantage of traditional links to the European Community, both by treaty, through government relationships, and via private sector interaction. The Caribbean's historical association is a tremendous asset in enlarging its room for manoeuvre. The Caribbean should use its European ties to evolve a new relationship which looks towards the future. This has already begun in tourism and in technical assistance but it needs to be extended. The fact that some Caribbean countries have extremely strong ties to the European Community offers opportunities that may be mutually beneficial to those territories as well as to the rest of the Caribbean.

The strengthening of ties to Latin America by governments and by the private sector is another way to increase the Caribbean's options. However, in the absence of strong historical association the possibilities are much more limited. The Caribbean should focus on strategic areas where there is an evident market-driven impetus for a closer economic relationship. I would expect intensified relationships with Colombia, Mexico, Venezuela and Panama but I suspect there will be poor returns for investment of time, diplomatic contact, trade missions and tourism promotion beyond these countries.

I am deeply sceptical of efforts to strengthen economic ties with Pacific countries. The Caribbean has no spare resources of money or talent to spend on the Far East where the territory is unfamiliar and the returns uncertain when we currently do such an inadequate job of exploiting the North American market which is almost home ground and where the returns are palpable. If the Japanese and Chinese want to do business with us, they will seek us out, and we may contact them via their representatives in New York. The most we should do is to train and employ Caribbean people who speak

their language and know their culture who will be able to talk with them when they come here.

3. Making the Most of Our Options: The Challenge for the Caribbean Private Sector and Governments

In order to make the most of the Caribbean's options, the following should be given priority:

- a. We must spend more time and money preparing well-informed platforms for international negotiations, for a free trade agreement with North America on the implementation of the World Trade Agreement, on the agenda for the Association of Caribbean States, and for all other discussions with governments and international institutions.
- b. Leading private sector firms faced with strategic decisions about investment in export sectors need an informed medium-term perspective. Firms must devote time, money and skills to building a strong information base for decision-making.

They must also inform themselves of the possibilities for strategic alliances to overcome non-tariff barriers to export markets.

- c. Governments' export promotion strategy must be selective, guided largely by the example of dynamic firms.

- d. Private firms should first become profitable and competitive in areas where they already have some expertise using these as a springboard for ventures into unfamiliar territory.

- e. Governments need to provide finance, technical assistance and guarantees for firms which are prepared to venture into new areas where a comparative advantage may be established.

Governments may not now be exploiting the full range of possibilities in international negotiations because they are so ill-prepared. To cite just one example, Caricom has embarked on a major trade reform policy without any quantitative forecasts of the impact on exports, services and economic growth in member countries. Furthermore, there are no mechanisms for monitoring the effects of the trade reform.

We recognize the need for information only when decisions have to be made. If the relevant information is to be mobilised quickly there must have been prior intellectual effort in mobilization of data and critical analysis. Because we have not paid attention to this requirement we are always less well-prepared than those who sit across the negotiating table from us.

Industrial countries and multilateral financial institutions have technical and professional staff who devote full time to preparing for negotiations and setting down the options. The Caribbean mobilizes our own expertise only on an ad hoc basis to respond to the agenda as set down by the other side.

Instead, we should pool our resources to put together regional teams that will supply the Caribbean with information, analysis and a wider range of options. Individual countries cannot muster the range and depth of skill required. We need regional policy research institutes which can fill this void. We should look to the universities, to the CDB, Caricom, the Caribbean Tourism Organization, the Caribbean Association of Industry and Commerce and other regional associations to see what foundation exists for creating this

capability. Maybe we can use them as a nucleus, maybe we need to set up something new.

The private sector should see this as an important area for judicious investment, perhaps in collaboration with governments and regional institutions. It will not provide visible returns immediately but it may be a powerful factor in enlarging the scope for future exports and growth. Had the Caribbean possessed adequate information about the effects of trade reform it is unlikely that countries would have lurched haphazardly into precipitate measures which may yet reduce the credibility of trade reform with our populations.

Private firms also need better information and analysis for their own strategic decisions. You have to identify potential threats to your core business, to anticipate the effect of government policy, to analyze the impact of technical change, to determine what resources you can allocate to innovation, to assess the changes in markets and to make choices that will affect your bottom line.

You may need to re-examine your organisation and budgets for information services within the firm. I am satisfied that few firms are making the best use of available public information and analyzing it in a way which helps strategic decision-taking.

Much of the knowledge required may be shared. It makes sense to think of improving and extending the institutions and facilities that may provide relevant public information on an on-going basis. You may need to examine the functions of CAIC, CTO, the University, etc., and your support for these institutions, to see where best additional resources may be brought to bear. Moreover, strategic decisions call for cooperation between government and the private sector. Close links are needed between policy research institutions of whatever form and private sector knowledge centres.

The strategy for export development in the Caribbean must begin by finding avenues to profitability in the activities where we already have expertise: tourism, sugar, oil, food products, other selected light industry and bananas. Changes in marketing arrangements and low cost competition should be seen as requiring new technology, reorganization, productivity increases,

intensified marketing and other ways of building demand at a profitable price. They should not be accepted as marking the demise of any activity. That will happen only if we fail to rise to the challenge. Firms do not fail because a rival's goods or services are cheaper, but because they are seen as better value for money. High cost producers who give or are perceived as giving high value for money are the most profitable of all.

Some Caribbean countries remain low cost producers. We commiserate with them and hope they can turn this "advantage" into rapid growth which restores them to the ranks of middle income countries. We do not wish to emulate them so we must accept our status as relatively high cost and go forward from there. The industrial countries, for whose markets our goods and services are destined, have even higher costs than we do.

We must go beyond the things with which we are familiar but here the territory becomes increasingly risky. Our firms have to catch up with those who got there first. This makes a strong case for close government private sector partnership. There must be strategic choices sustained over the medium-term. We should expect to make some mistakes and we must put

aside contingency funds and get government guarantees conditional on performance. The only example of export diversification which is large enough to have had made a significant contribution to exports is the Trinidad & Tobago petrochemical industry. It was initiated over fifteen years ago and it has been subject to many years of sceptical criticism. It has been plagued by numerous teething problems but in the 90s it is the Trinidad & Tobago's economy main source of foreign exchange.

There are other exciting possibilities but none has been attacked with private sector/public sector resolve of sufficient magnitude and over a sufficiently long period to have produced a significant contribution to foreign exchange. They include information services, exotic fruit, winter vegetables and Caribbean design capability. We may cite individual successes in all these areas but so far they do not threaten to become the major export anywhere in the region. Furthermore, we do not have good mechanisms to learn from our failures to pick up the pieces and to try again with the benefit of experience to guide those whose competence and conviction may see them through.

4. Concluding Remarks

Although there are hopeful signs at the moment, the future of the Caribbean falls well short of potential but only because we have blinded ourselves to the range of choice open to us and we have failed to mobilize the knowledge to support well-informed decisions. On the positive side, the quality of life is high and our well-educated populations and good economic infrastructure give us an advantage. Despite recent economic difficulties, very few countries have seen a fall-off in standards in these areas. Most major regional firms have made important innovations in tourism, in finance, in manufacturing, in the development of new markets and in entertainment services. But neither government nor private sector is sufficiently well-prepared for the challenges ahead and, as a result, we continue to make expensive and unnecessary mistakes.

Caribbean firms and governments must set up mechanisms and institutions for better informed decision-making as a first priority. The wealth of our human resource, at home and in the diaspora, is the Caribbean's strongest suit in the global arena. We must put far greater emphasis on institutions that can focus that resource to win us the best deals and to give us the

keenness and flexibility to beat the international competition. We do have what it takes to assure the Caribbean a prosperous future, with improved quality of life for all. We must not fall short for lack of vision, determination and organization.

