

## PRIVATE SECTOR DIALOGUE

The private sector issues were discussed in a Joint Session with the Experts Forum in the afternoon of Day One and in two extended sessions by the private sector on Day Two. The broad topics addressed were:

- (i) the international competitiveness of Caribbean countries;
- (ii) the role of energy in the competitiveness of Caribbean countries;
- (iii) opportunities for growth in US-Caribbean trade;
- (iv) financing options for development; and
- (v) sectoral opportunities for growth, specifically in the areas of –
  - (a) cultural industries;
  - (b) health and wellness tourism;
  - (c) financial services; and
  - (d) agriculture and manufacturing.

The discussions on each issue area were guided by invited speakers and panellists but with very interactive participation from the general body. The discussions were very positive and action oriented. There were cross-cutting as well as sector specific issues and recommendations.

The most fundamental points among the cross-cutting issues were that:

- (i) the international environment has changed fundamentally, with the Region losing competitive advantage in most of its traditional areas of economic activity. The Region must make a paradigm shift in thinking and attitude away from comparative advantage, based on natural resources, to the competitive advantage inherent in its people and culture. There is need for massive investment in human resources development – education to make the population trainable; employable; and to release its creativity;
- (ii) access to financing, on appropriate terms, is a major issue for small- and micro-enterprises; for persons involved in innovative and creative activities and in provision of services such as consultancy. There is a need for venture capital funds;
- (iii) internationally recognized standards are a major requirement and challenge in almost all areas, including for products, for services and for education and training. The CARICOM Regional Organization for

Standards and Quality (CROSQ) is important but will need to be significantly strengthened to address the range of areas;

- (iv) the distinction between the national/regional and the international market place has been significantly eroded. CARICOM producers of goods and services must be prepared to compete with the world. Caribbean people are naturally competitive and this spirit must be cultivated and encouraged;
- (v) the CARICOM Region has to place increasing emphasis on organization and on cooperation and integration at the levels of individuals, companies, sectors and states with the Region and the diaspora, to mitigate constraints resulting from small size, limited resources and lack of access;
- (vi) most countries in the Region have been strengthening their physical, telecommunication and legislative infrastructure. Significant resources are still needed however to bring and maintain these at international standards in many cases;
- (vii) the CARICOM countries are all small; highly open, specialized, trade and preference dependent, and extremely vulnerable to external developments. Yet, there are significant differences and these economies so that no single set of policies “one-size-fits-all” approaches will respond effectively to their conditions;
- (viii) the need to strengthen the capacity for the production of data and information on arrange of social and economic variables as well as on the CARICOM Diaspora in various countries;
- (ix) the need to facilitate, assist in organizing and making greater use of the capacities and resources of the Diaspora.

In relation to the specific areas, the main issues discussed, points raised and recommendations are set out below.

- (x) the need to facilitate, assist in organizing and making greater use of the capacities and resources of the Diaspora;
- (xi) strong effort should be given to trade facilitation.

## **INTERNATIONAL COMPETITIVENESS OF CARIBBEAN COUNTRIES**

### **Key Issues**

The Region confronts a range of issues in relation to its international competitiveness. Important issues include:

- (i) growing at average of 2 per cent but lagging in the world economy;
- (ii) the locational advantage of the Region is decreasing with developments in transportation and communication technology, nature of products and location of high growth markets;
- (iii) relative political and macro-economic stability but the corrosive effect of issues such as economic volatility and vulnerability, economic shocks from natural disasters, savings levels and budget deficits and debt and debt servicing;
- (iv) relative cost of capital (financial);
- (v) productivity enhancement, the positive role of labour and the need to treat with labour management issues. The need to move from cheap to more educated and skilled labour. The Region has strong labour relations but needs to give attention to modernizing the institutions and legislation relating to labour;
- (vi) rapid reduction of trade preferences, cost of diversification;
- (vii) need to strengthen the organization and capacity of firms, in particular SMEs and micro enterprises, to participate in global economy.

### **Recommendations**

In order to address the challenges of international competitiveness, it was recommended that the Region:

- (i) continue the process of implementing the CSME, in particular the free movement of persons;
- (ii) maintain, identify and grow niche markets, especially in areas where the Region already established its competitiveness;
- (iii) seek to transition from commodity driven economies to high value added goods and service driven economies;

- (iv) develop new clusters of economic activities;
- (v) negotiate more mature economic cooperation arrangements which include mutual recognition for its trained people;
- (vi) invest in its greatest assets, its people;
- (vii) move from a crisis management style to a strategic management style at the level of firms, nations and the Region as a whole;
- (viii) increase knowledge as a value-added to production rather than cheap labour or cheap materials;
- (ix) increase productive capacity, including physical, institutional, legal and human infrastructure;
- (x) maximize the contribution of its vibrant and resilient culture and peoples;
- (xi) promote “Champions for Change”; and
- (xii) invest in innovation.

## **ENERGY FOR COMPETITIVENESS**

### **Key Issues:**

- (i) Energy is a critical factor in CARICOM's development and competitiveness. Currently, all Member States, except one, are dependent on imported petroleum and petroleum products which typically account for over 90 percent of commercial energy.
- (ii) High, increasing and volatility in petroleum prices create grave uncertainty and pressure on energy importing economies.
- (iii) CARICOM countries are in the process of negotiating a Regional Energy Policy to address issues of:
  - (a) Sustainable security of supply of energy in and for the community;
  - (b) Accelerated development and restructuring of sources of energy supply;
  - (c) Sustained growth of intra-community trade in energy;
  - (d) Enhanced energy conservation and efficiency, and cleaner production in the community;
  - (e) Increased investment in production, transformation and distribution of viable energy resources;
  - (f) Strengthening and enhancement of the human and institutional capacity in the community in the energy sector;
  - (g) Programmed expansion of electricity generation, transmission and trade;
  - (h) Access to affordable energy by the poor and vulnerable;
  - (i) Greater use of renewable energy; and
  - (j) Establishment and facilitation of an institutional framework for financing mechanisms for the development of viable energy resources.
- (iv) All CARICOM countries have significant resources for the development of renewable energy. Technology, investment resources and mindset are key constraints to the pursuit of renewable energy resources.

- (v) There is a strong linkage between energy and some key agricultural sectors for producing biofuels, e.g. ethanol from sugarcane.
- (vi) There are encouraging cooperative movements towards diversification in two projects under development for the use of natural gas and some Member States have been producing ethanol from imported feedstock mainly for export.

## **Recommendations**

To enhance competitiveness and the security of energy supplies, it was recommended that:

- (i) urgent action be taken to finalise the Regional Energy Policy and to broaden it to cover all aspects of the energy issue;
- (ii) emphasis be given to developing energy skills in the Region. A useful starting point is the development of a skills bank in this area;
- (iii) the development of education and training programmes in the Region on all aspects of energy;
- (iv) a greater level of coherence in regional approaches to energy management;
- (v) the availability of technical assistance to support alternative energy programmes in the Caribbean;
- (vi) the development of financial programmes to support private sector activities in the area;
- (vii) the development of stronger and coherent energy conservation programmes;
- (viii) the United States to share knowledge and information on renewable energy technologies and the training of the Region's human resources.

## US-CARIBBEAN TRADE: OPPORTUNITIES FOR GROWTH

Presentations and discussions sought to answer the following key questions:

- (i) What are the Main Trends in Bilateral Trade Flows?
- (ii) How do CARICOM Exporters Perform in the US Market?
- (iii) How important are the Current US Trade Preferences for CARICOM Exporters of Goods?
- (iv) What Market Access Conditions do Services Exporters Face?
- (v) How is the US Positioned in the CARICOM Market, Relative to EU and Other Trading Powers?
- (vi) How protected is CARICOM's Intra-Regional Trade from US Competition?
- (vii) How protected is CARICOM's Services Market from US Competition?
- (viii) Where are the Opportunities for Export Growth?
- (ix) What does CARICOM want from the United States?
- (x) What does the US want from CARICOM?
- (xi) How can bilateral trade links be expanded?

Important points included:

- (i) the US is the most important market for CARICOM exports of goods and services, and an important source of regional imports. Market share has been falling in both cases;
- (ii) the US has been enjoying an increasingly positive trade balance with the Region especially since 1984. The Region had a positive balance in 2004 and 2005 as a result of increases in exports of petroleum and related energy products but the positive trend continued where these products are excluded;
- (iii) only 4% of regional merchandise exports enter the US market under full duty conditions;
- (iv) the preferences are important but the value of existing preferential arrangements has diminished due to global erosion of preferential margins and the extension of similar or superior conditions to and increasing number of third countries;
- (v) given the current pattern of trade and the objective circumstances of CARICOM economies, future US-CARICOM trade relations should be based on a more comprehensive and secure set of arrangements to provide dynamism to CARICOM goods and services exports and stimulate investment in new growth sectors;
- (vi) a stable future arrangement is in the mutual interest of the US and CARICOM but the US template for bilateral FTAs would not provide the flexibilities required by CARICOM countries. CARICOM should seek an EPA-type model for future trade arrangements with the US, infused with a strong development component;

- (vii) trade in Services provides one of the most prospective areas for bringing dynamism to CARICOM competitiveness in the US and global markets but this must include labour services;
- (viii) need to address the challenges to expansion of US-CARICOM services trade posed by US services barriers:
  - (a) Immigration/Residency/Citizenship requirements (Mode 4)
  - (b) State level accreditation requirements for professional services and non-mutual qualification recognition
  - (c) Licensing requirements

In this regard, mutual recognition of certification will be vital.

- (ix) CARICOM also needs to address internal challenges posed by the unfinished intra-regional services agenda, and the absence of regulatory harmonization in services area across the Region;
- (x) the Region has competitive advantage in the provision of hospitality and a vast range of other tourism related-services, such as wellness, cultural, medical, sports, education and heritage tourism. These should be facilitated and promoted;
- (xi) strategic policies are required to harness and exploit the growth and investment opportunities presented by these sectors through:
  - (a) investments in the development of human, physical and communication (including transportation) infrastructure to support these services sectors;
  - (b) investments in Caribbean human capital and training to world class standards;
- (xii) paradigm shift also needed in CARICOM firms whereby manufacturing activities can be out-sourced to cheaper destinations and greater focus on developing competitive advantage in higher value-added areas such as design, marketing and distribution activities, while safeguarding CARICOM intellectual property rights;
- (xiii) greater attention needed to be paid by CARICOM countries to trade facilitation as part of the process of improving the Region's competitiveness, through simplified and more transparent customs procedures. Time is an increasingly important factor in competitiveness;
- (xiv) lack of access to international donor purchases, even where the Region's firms satisfy international best practices, needs to be addressed;

- (xv) while CARICOM firms have a locational advantage over countries such as China in terms of delivery time to markets, but this could be offset by impediments in manufacturing and transportation processes;
- (xvi) improvement of intra and extraregional transport linkages is critical.

### **Recommendations**

- (i) CARICOM should seek an EPA-type model for future trade arrangements with the US, infused with a strong development component.
- (ii) CARICOM should strengthen /increase local presence at the State level in the US through trade or economic councils, such as those in Hartford, Connecticut and Los Angeles but preferably on a regional basis.
- (iii) Encourage the participation of the Caribbean Diaspora in the United States as potential investors and harness intellectual capital resident in the Diaspora.
- (iv) Encourage public-private sector partnerships to build a platform for economic growth, through investment in areas such as education and customs reform.
- (v) Wellness tourism - seek to encourage US private insurers to provide coverage for US citizens seeking this service in CARICOM countries.
- (vi) Develop CARICOM-US partnerships and joint ventures targeted at areas such as alternative energy and technology and modern IP registration, protection, collection and payments systems.

## **DEVELOPMENT OPPORTUNITIES IN SELECTED HIGH POTENTIAL SECTORS**

### **TRADE AND DEVELOPMENT FOR CULTURAL INDUSTRIES**

- (i) The cultural/creative industries sector is one of the fastest growing sectors of the world-economy.
- (ii) Global estimates forecast that the creative industries will grow by 33% in the next four years (PWC, Entertainment & Media Report, 2005)
- (iii) Creative content is driving the new sales (30 - 50%) in computers, broadband, cell phones, ecommerce (IFPI Music & Internet, 2006).
- (iv) Rising demand for domestic & regional content (literary works, fashion, festivals).
- (v) Existence of significant capability and untapped potential in the creative industries in the Caribbean, but Caribbean is net importer of Cultural content;
- (vi) Cultural industries already making significant contribution to some economies through music industry, festival tourism, etc.
- (vii) Growing global demand for Caribbean creative industries / good returns on investment.
- (viii) Growth in the diasporic economy is generating demand for domestic & regional content and provides a bridge to mainstream and international markets.
- (ix) Caribbean can improve its competitiveness once the human resources, innovation pathways, industry institutions and governmental agencies are upgraded and harmonized.

#### **Some Specific Needs of Cultural Industries**

- (i) Investment in human capital development
- (ii) Intellectual property protection & administration is essential to stymie copyright infringement and recoup investment.
- (iii) Heavy marketing (e.g. media access) and branding based on genre is required to build audience loyalty and create hits.
- (iv) Innovation and technological upgrading is vital to boost global competitiveness.

#### **Some Key Issues**

##### ***Trade and Border Measures***

Do existing measures raise transaction costs, inputs/imports and retard competitiveness and exports?

### ***Organisational Issues***

How organized are the structures and operations of the sector and do they serve the collective interest of entrepreneurs?

### **Incentives Regime**

What types of incentives are available to the sector and level of accessibility and effectiveness?

### **Industrial and Innovation Issues**

What is the level and pace of technological and institutional innovations?

### **Recommendations**

- (i) Creation of an enabling environment for creative industries through the development, implementation, and harmonisation of government policies on trade, industrial and intellectual property policies relevant to the sector.
- (ii) Proactive policy framework aimed at promoting investment in the cultural sector.
- (iii) Explore and operationalise linkages with other sectors, e.g. tourism.
- (iv) Harmonisation, simplification, and implementation of intra-regional trade measures to facilitate the deepening of the regional market:
  - (a) Common customs regimes and procedures, and national skills certification procedures.
  - (b) Freedom of movement of cultural workers and equipment.
  - (c) Reduction of tariffs and taxes on inputs for creative products.
- (v) Improve access to finance, credit, and business support services for emerging and export-ready firms and artists, and educate financiers on **valuing intellectual capital**, for example, royalties based lending.
- (vi) Upgrade the human resource capabilities of the cultural sector through technical training in the arts at the secondary and tertiary levels.
- (vii) Sensitise students from earliest levels to value of careers in cultural industries
- (viii) Expand training in arts administration, management, and cultural entrepreneurship.
- (ix) Introduce incentive regimes specific to creative industries.
- (x) Tax concessions for importers of specialized equipment, double-taxation treaties to address the issue of withholding taxes.

- (xi) Develop cultural industry associations to represent the interests of each of the various sub-sectors/ overarching regional council of industry associations.
- (xii) Copyright exploitation, protection, and collective administration are vital components of the industrial and export upgrading agenda.
- (xiii) Conduct anti-piracy and public awareness campaigns in the regional and diasporic markets. And establish rights management centres.
- (xiv) Increase local and regional content on the airwaves (e.g., radio and TV) through local content legislation/regulation where needed.
- (xv) With regard to educational publishing, encourage the use of culturally relevant content and use of local/regional publishers.
- (xvi) Encourage and facilitate the “uploading” of local and regional content onto the World-Wide-Web, for example, through the web-casting of festivals and events.
- (xvii) Improve accessibility to broadband Internet services to facilitate alternative broadcasting, marketing, and distribution of cultural goods, services, and events.
- (xviii) Improve data collection systems, document the economic impact and market/export dimension of the cultural industries.
- (xix) Prioritise culture as business.
- (xx) Reform public sector thinking -address the issue of perceptions, attitudes and knowledge of cultural industries among policy makers and other public sector personnel.
- (xxi) Engage the diaspora in development of the sector.
- (xxii) Institute specific copyright industry accounting.

## **HEALTH AND WELLNESS – NEW DIRECTIONS IN TOURISM**

- (i) Competition for conventional tourism is increasing but opportunities in niche areas such as tourism are increasing at a fast pace.
- (ii) The Region is well placed to this fast growing segment but it must pay particular attention to:
  - (a) embracing community tourism and indigenous peoples;
  - (b) develop and implement standards and an accreditation system;
  - (c) invest heavily in specialized educational and training programmes;
  - (d) emphasise domain integration (cohesiveness, efficiency, productivity, creativity, innovation and competitiveness);
  - (e) information technology support systems such as websites;
  - (f) building image as a “serious player” in the health and wellness tourism;
  - (g) instilling trust in the key players;
  - (h) providing exceptionally high standard;
  - (i) creating economies of scale through mergers, acquisitions, consolidations and collaboration;
  - (j) stimulate equity financing for the sector;
  - (k) developing linked activities such as training of nurses, production of organic products, indigenous treatments and green architecture;
  - (l) executing dynamic marketing strategy that focuses on relationships;
  - (m) catalogue of wellness resource and people is needed;
  - (n) the Region should negotiate with the International Medical Spa Association of the USA to allow the Caribbean to use its Accreditation Programme which is an international one.

## **FINANCING OPTIONS FOR DEVELOPMENT**

Financing is a major challenge for business development, especially for small- and medium-sized businesses including services providers using their intellectual and creative capacities.

The presentations suggested increasing recognition of the problem by regional and external private financial institutions and some multilateral and hemispheric financial institutions.

Key issues and recommendations include:

- (i) there are 83 banks in the Region, including two international banks, 14 Ministries of Finance, eight Securities Commissions and three Stock Exchanges and the focus of all financial institutions is cooperation and partnerships instead of competition but there are gaps in terms of range of

- financial services and the nature of businesses seeking finances. There is a Caribbean Association of Indigenous Banks (CAIB);
- (ii) commercial banks are hesitant to lend to SMEs, and the relatively high rate of interest when they do lend; issues of access, e.g. for micro and small. The Caribbean is seen as a high risk Region by the international financial community. The comparatively small size of loans needed by borrowers from the Region, the relative cost and the need for intermediaries by international financial institutions;
  - (iii) the IADB has made major changes and is positioning to play a more developmental role for the Region as the loan process and cost of borrowing from Wall Street is prohibitive;
  - (iv) the urgent need of equity funds, including to provide venture capital. There was a specific proposal to encourage the development of a Venture Capital Fund into which members of Diaspora could invest;
  - (v) difficulty in sourcing financing for intellectual and creative industries, including music and entertainment, given the absence of physical collateral;
  - (vi) the urgent need for CARICOM businesses to adopt a “Cooperative Model” to sharing risks.

There are some innovative approaches emerging, for example:

- (i) the IDB initiatives to provide funding “the majority”;
- (ii) OPICs sought for opportunities to enterprises with at least 25 per cent ownership by US citizens.

It is recommended that the Region, including the private sector, encourage collaboration which would facilitate mixing of funds.

## **FINANCIAL SERVICES**

The session dealt with two aspects of financial services:

- (i) International Financial Services; and
- (ii) International Financial Flows related to Debt and Equity Financing and Foreign Direct Investment

### **International Financial Services**

The Caribbean has developed specialization in several areas of financial services. The OECD has exerted significant pressure on some of these jurisdictions under guises such as money laundering even after significant strengthening of legislation and surveillance capacity.

There were four major concerns expressed at the Conference, each of which elicited a suggestion for overcoming same. First, in reaction to the US Senate initiative threatening the international financial services industry, it was suggested that, unless the USA relented, it was in danger of violating WTO rules with respect to discriminating against other suppliers and appropriate action needs to be taken

Second, new entrants are trying to burst onto the scene especially in the Middle East, where it is felt that diversification is necessary in light of the eventual drying up of petroleum resources. Renewed efforts are required in order to maintain market share in the international financial services industry.

Third, the things that have brought the Caribbean to this point ought to be appreciated and continually enhanced and these include trust, political and social stability, tradition of integrity, ease of entry of foreign lawyers and accountants, and a branding and well tried and tested location.

Fourth, some means should be found of encouraging a part of the portfolio of the vast funds attracted by international financial services suppliers to be invested in long term instruments in the host country so as to assist the transformation process. At the same time, foreign suppliers would need to continue to have trust in the system

### **International Debt, Equity and FDI**

It was suggested that there is need for a Davos type Caribbean Conference involving the major stakeholders, including local business leaders, foreign investors, and multilateral institutions, since the existing development model is no longer sustainable. Some of the reasons given include the following:

- (i) while the high level of liquidity in the international financial system makes it easier to access the government debt market, this makes for increasingly high levels of indebtedness, with adverse effects on macro-policy making in the future;
- (ii) since a significant part of the increased corporate debt and foreign direct investment is being used to build hotels, second homes and condominiums for international elites and golf courses, rather than houses and other basic requirements, this is likely to cause further alienation between the classes, reduced social cohesion and other adverse socio-economic effects;
- (iii) family businesses tend to be too risk averse and tradition bound and so are not filling the existing economic gaps in terms of income and employment generation;
- (iv) the Region should seek to involve experts from the Diaspora in issues and approaches to Sovereign Debt Management.

## **AGRICULTURE AND MANUFACTURING**

Traditional agriculture and manufacturing under significant pressure.

There are important new areas especially in agriculture to promote food security, feed tourists and provide new exports.

Key areas include:

- (i) personal care products (hand made natural soaps);
- (ii) traditional culinary spices;
- (iii) condiments;
- (iv) herbal teas and beverages;
- (v) fruit and vegetable snacks;
- (vi) preserves, fruit spreads
- (vii) fruit mixes and punches;
- (viii) traditional/ethnic foods.

There are opportunities to link a range of tourism areas to agriculture and manufacturing. These include:

- (i) Entertainment Tourism;
- (ii) Culinary Tourism;
- (iii) Heritage Tourism based on traditional agriculture and traditional craft;
- (iv) Health and Wellness Tourism based on alternative health/wellness products.

Recommendations include:

- (i) strengthened effort at holistic planning and linkage;
- (ii) refocusing of education and training.