

Marion Williams: Opportunities in the Caribbean

Speech by Dr Marion Williams, Governor of the Central Bank of Barbados, at the 6th Euromoney/Latinfinance Caribbean Investment Forum, Bridgetown, 10 May 2006.

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Mr. Chairman, Minister of Tourism and International Transport, Mr. Noel Lynch, Members of the Diplomatic Corps, Distinguished Ladies and Gentlemen.

As we observed yesterday, this conference serves as a useful forum for the exchange of ideas on the way forward for the Caribbean. This morning I will add a few ideas about how Corporate Caribbean can position itself, so as to distinguish itself from the pack in this the first decade of the 21st Century, as we cope with the myriad changes occurring all around us. My presentation will deal with internationalization generally; but it will have a special emphasis on services and on the financial sector in particular.

One thing is clear; it is important for the regional corporate sector to integrate itself into the international environment. Corporations sometimes balk at the idea of foreign ownership which they see as the main vehicle for internationalization. However, this is only one form of integration into the international environment.

Because so many of our companies are small in a global sense, it will be important for them to be more nimble and innovative in constructing new relationships, building smart partnerships with companies in other jurisdictions and seeking ways to obtain synergies from their operations jointly with those of others are options. Use of common services where this is feasible and shared platforms where possible are other possibilities. We must also be able to respond to change rapidly. This means restructuring where necessary, taking decisions to revamp our operations to international standards, using the technology available more effectively, and commercializing our official development assistance institutions.

The active involvement of financial service providers, both in the private sector and the public sector will be important; for when corporate change at the individual company level takes place in the context of supportive changes in the general business environment then it is more likely to gain momentum.

Globalization and balance of payments stability

Inevitably, financial liberalization, taken to its logical conclusion, will require that capital mobility be accelerated, though, at a pace consistent with manageable levels of financial volatility and consistent with domestic monetary stability. The macroeconomic and monetary environment have therefore to be as supportive as possible also, but most importantly, that environment must be as stable as possible. Liberalization must therefore be balanced against stability. The latter being the more important.

Many Caribbean economies have identified services as a key sector which offers faster prospects of internationalization. Caribbean economies have realized that they can accelerate development of their services sector even before the manufacturing sector matures. This is certainly the case with some international financial centres (usually termed "offshore centres") whose manufacturing sectors had not yet reached the levels of sophistication of many developed countries, but whose services sectors have grown exponentially. Barbados, Bahamas, Bermuda and Cayman are well-known examples.

Support services are very critical to the development of the services sector in the Caribbean. Business services, telecommunications, information technology and computer based services influence the ability of many service economies to deliver cross border services and are critical to the building of a vibrant international services sector. We are happy to say that the Caribbean is beginning to benefit from the liberalization of the telecommunications sector and the results are already obvious in terms of lower operational costs of business.

We have also observed that in the current global environment, there is a clear shift away from physical product-based wealth accumulation to knowledge-based wealth accumulation. Professionals with the flexibility to adapt to the changing environment can provide the catalyst needed to propel the Caribbean to higher sustainable growth paths. At the same time, growth of our services sector has the potential for greater employment because of the labour-intensive nature of service activities and offers

the possibility for small-scale operations to expand rapidly by drawing on the potential linkages with the other sectors of the economy and with the rest of the world.

Electronic commerce is also providing opportunities for Caribbean companies, since it does not recognize size as a constraint. It allows service providers in the region to offer services in foreign jurisdictions with greater ease, though admittedly, it also permits foreign professionals to offer services in the region as well. This means that local providers have to step up their game, since technology has already outpaced the ability to protect domestic service providers and is forcing the internationalization of service markets. In fact, services are becoming the most traded item on the Internet. This mode of service delivery while giving developing countries like the Caribbean an advantage, will not be a give away since it does not take the competition away.

Because of the traditional perception that developed countries do it better, the quality of services provided by the Caribbean will need to be superior to that provided by develop country operators. This will require a massive investment in education and training by our universities, colleges and corporations, since many professional services allow for provision without a presence there are possibilities for expansion in overseas markets at low costs.

No longer can the financial service provider consider himself competent if he is not maximizing the use of the modern technologies and techniques. Clients have computerized their systems, many will be using the Internet to conduct commerce, and others will be utilizing electronic transmission, more sophisticated methods and other forms not yet invented. Already the traditional approach to understanding the clients' business, validating it, advising on it, recommending changes to control systems and system improvements, will require that the financial service provider has a sound understanding of these technologies, which, in most cases must be superior to that of his client. The financial service provider in the Caribbean must keep himself and his firm in the forefront of technological development irrespective of his location.

In the globalized world, financial service providers will be required to deal with new owners, with different cultural norms, different organizational structures, differing levels of efficiency, speed, productivity, and standards of transparency. Flexibility will therefore be important.

Identifying and evaluating a wider range of risks in a globalized environment

Greater internationalization will also mean greater attention to risk management and the need for a keen appreciation of different types of risk including: including principally country risk, interest rate risk, exchange rate risks and systems risk and, increasingly, operational risk. This applies not only because domestic companies are forming alliances with foreign companies, but also because domestic companies themselves are conducting significantly more business in other currencies and in other countries. There will be increasing need for the profession to track the international financial markets, to monitor potential changes in those factors which can impact on corporate effectiveness, profitability and survival. They must be equipped to evaluate the risks which lie behind complex financial instruments and be able to use them effectively. There are clear signs that this is beginning to happen in Barbados.

Greater in-depth knowledge of tax systems of other domiciles

Increased cross-border activity will also require greater and more in depth knowledge of tax systems in other domiciles, and tax experts are likely to become highly sought after professionals both by companies as well as high net worth individuals. If the professionals are located in the Caribbean, then there is greater likelihood that such businesses will be attracted to the region.

Tax and legal guidelines on conducting trade in cyberspace

What is clear is that internationalization is moving us toward global rules and global systems and financial compliance rules are becoming international. The signs are that it will be a continuing and accelerating process, and adjustment times will need to become increasingly shorter if we are to stay in the game.

The divide between financial type activities is already becoming less distinct and non-banks are encroaching on the areas traditionally provided only by banks. These changes can achieve synergies

and can make the new institutions potentially more cost efficient. They can also help to afford a wider global reach and generate a greater flow of information that may benefit financial markets as a whole, but it will be important that we develop an orderly and level playing field for such expansion so as to avoid regulatory arbitrage and the possibility of some categories of companies being treated differently from others.

Productivity

Emphasis on productivity is vital in the current global economic landscape. High levels of productivity cannot by themselves solve problems of competitiveness but they certainly increase all countries' ability to cope with some of the challenges. Inroads being made into the viability of small service-producing countries can be partly counterbalanced by higher levels of efficiency and productivity which enhance their competitiveness and by quality improvements in service delivery so that we do not have to rely as heavily on tax concessions since there have been subject to challenges.

Transparency will be essential for international transactions to thrive. It has the potential to create a greater degree of certainty in the market, making it more likely for investors to commit themselves to continued investment, particular in distance and unfamiliar locations.

Disclosure can be too excessive

There will be occasions however, when it is necessary to withhold some information on policy initiatives. Where markets learn ahead of time of planned initiatives, they can, by their actions, undermine the intended outcomes. The general tendency towards disclosure should however be encouraged, though the use of discretion will still be required from time to time.

New Basel Accord and new measurement of risks

International regulators have identified a need to upgrade the regulatory framework governing commercial banks and have produced new guidelines referred to as Basel II. This will place additional pressure on Caribbean banks to enhance their skill sets and to put new systems in place. The new provisions will be one more challenge for the region, but because many of us are home to international banks, we will be propelled into adapting Basel II sooner rather than later. Again, despite assurances that we don't need to comply, we will be forced to prove that we are in the game or we will most certainly be treated like second cousins.

Globalization and rating agencies and risk assessment

The role of rating agencies will be given a fillip as a result of the new guidelines. Ratings give greater knowledge and confidence to investors, particularly to investors unfamiliar with the jurisdiction or with companies in the jurisdiction and it should facilitate the internationalization of financial transactions. In many instances institutions that are not currently rated will need, due to their relatively small size, to seek to have themselves rated. Though this is an added cost of integration into the international financial landscape, the Caribbean must position itself to remain relevant in this new environment and will have little option or we run the risk of losing investment or of having to raise funds at higher costs if unrated. Our new regional credit rating agency is well-positioned to provide some of these services.

Globalized payment systems

Electronic payment systems, the increasing size of transactions, and the fragility of some corporates, have prompted payment systems to enhance their methods of operation with a view to improving security of large-value transactions. Banks in the Caribbean are a part of such enhancements as they seek to participate on competitive terms in large transactions involving transnational corporations.

Securities

At the same time, emphasis is being placed on the development of paperless cross-border trading systems and on systems which enhance the security and finality of transactions. In addition, greater efforts are being made to ensure compatibility of systems in order to more efficiently facilitate cross-trading of securities on a regional basis.

Prospects for growth in the international financial services sector of developing countries

A quick evaluation of the future of the international financial sector, more familiarly termed the offshore sector, shows that, as high net worth companies and individuals grow in wealth and seek vehicles for tax planning to reduce their tax liabilities, the international financial services sector worldwide will grow despite efforts to prevent it. The power of large corporations will almost certainly ensure that these services continue.

As long as the skills development which is taking place in the international financial services sector continues, this sector will flourish. There is already an increase in the number of fund managers who can engage in securities management at a sophisticated level. Professional organizations in the Caribbean are therefore encouraged to continue to bring these skills on board.

Employment prospects in the international financial sector

Instant information on account updates, intra-day positioning by banks and multi-currency portfolio packages are now possible through the use of specially developed software and hardware. This has redefined the types of skills which are needed in banks and other financial institutions. The restructuring of the sector in the last few years has tended to emphasize the importance of skills renewal. Familiarity with multi-currency funds management, and skills in managing a wider range of instruments will be increasingly necessary and greater predictive capability about movements in overseas markets will be required.

These are some of the challenges and opportunities I see facing the services sector and especially the financial corporate sector as it attempts to grow. This first decade of the 21st century promises therefore to be an exciting one for the Caribbean provided if we are willing to grasp the many opportunities presented and provided we are not side tracked from our goal of keeping up with the front runners. We cannot afford to fall behind. I trust that over the rest of this conference our deliberations will help to confirm our resolve.

Thank you.