Sir K Dwight Venner: Growth, profitability and regulation – the imperatives

Opening address by Sir K Dwight Venner, Governor of the Eastern Caribbean Central Bank, of the 33rd Annual Caribbean Association of Indigenous Banks Conference "Growth, Profitability and Regulation - The Imperatives", Port of Spain, 16 November 2006.

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Mr Chairman

I am appreciative of the invitation of the CAIB to address your Opening Ceremony at this very important juncture in our history.

We are a very short time away from a year that will go into the before and after category, that is 2007.

It can prove to be our undoing, or the path and stimulus to sustainable growth and development, which we have been waiting for these past four decades and counting.

When it comes to Caribbean affairs however, I am forever the optimist and see it as the golden opportunity we have been waiting for.

Your theme *"Growth, Profitability and Regulation: The Imperatives"* is sufficiently flexible, yet focused to allow me to build on the above statements.

Growth as has been recorded by economic historians has always been episodic and sometimes ephemeral in many countries and regions. Its sustainability over substantial periods of time has been limited to a relatively few countries, most of them being in the northern hemisphere.

The first instance of sustained economic growth in modern times took place in the United Kingdom over the period 1760-1850. This was effected through a fundamental structural change from mercantile capitalism to industrial capitalism.

This first episode has affected the thinking on growth and development to this day as we consider the sequential steps in the evolution of economies from the production of primary commodities in agriculture and mining, to secondary areas in manufacturing and processing, to high quality services in design, financial services, personal services and entertainment.

This first growth episode was followed by similar sequels in continental Europe, Germany, France, The Netherlands, and the United States of America.

The so called G7 countries, which after a time included Italy, particularly northern, and Japan, seemed to have a monopoly on sustained growth.

The Post World War II period ushered in a significant change in the thinking on growth and development. The coming into existence of many new countries through decolonisation and the intrusion of the East-West divide resulted in four significant imperatives for reviewing the nature and causes of growth.

- The war ravaged countries were trying hard to reconstruct their economies.
- The underdeveloped countries were attempting to initiate economic development.
- The advanced countries, being relatively free from periodic slumps, were trying to concentrate on raising the long-term rate of growth.
- The socialist countries were determined to overtake the richer capitalist countries by fast economic expansion.

Despite significant development aid and assistance, however, the next and most marked instance of sustained growth occurred in the East Asian countries of Hong Kong, Singapore, Taiwan and South Korea between the early 1960s to the late 1990s when the miracle crashed, so to speak.

In the light of these experiences it is possible to sift through the policies and circumstances of the countries cited above, and our own countries in the region to come to certain conclusions.

These conclusions, while identifying where we supposedly went wrong, should not preclude us from accepting this and reverting to better policies or actions. Certainly, for us at this juncture, it is not about looking backwards to convince ourselves of what we cannot do because we failed to do it before, but to objectively decide what we should do if we are to succeed.

There are two issues we must therefore confront if we are to proceed apace namely, Globalisation and Regionalism.

The first growth episode occurred in environments of open trading systems mixed with a consolidation of domestic markets brought about by the formation of larger states from small divided entities.

This was the case of the United Kingdom, particularly the Union of Scotland and England.

Similarly, with Germany under Bismarck and most notably the United States of America, which was created from thirteen former colonies. Such was the case of Italy under Garibaldi.

Customs Unions were formed by the new states to protect their embryonic manufacturing sectors while actively trying to compete in export markets.

In the case of the East Asian NICs, they followed the Japanese model, the so called flying geese and picked up industries which had become uncompetitive in Japan.

Pre World War I was a significant period of globalisation with the free flow of commodities, capital and labour which facilitated development in the developed countries.

The 1950s, 60s and 70s were periods of global growth which facilitated the East Asia NICs.

Where does the Caribbean stand in all of this?

Certainly our economies, based on a plantation system of exploitation, was disfigured, but certainly in the early 1960s, when independence came to the region, the larger countries, Jamaica, and Trinidad and Tobago were ahead of the East Asian NICs, and were in close proximity to the NICs' largest market, the United States.

The question then becomes what went wrong and what were the events and/or policies which put us off track?

The major argument I would posit was not to have consolidated the West Indian State as was the case of the United Kingdom, United States, United Germany and United Italy. We opted for disintegration for the very reasons they opted for consolidation, namely, customs union and movement of labour.

The greatest historical irony is that forty years later these are the very things we are desperately trying to put in place.

On the policy front, another historical irony is that the script written for our development *"The Industrialisation of the British West Indies"* was rejected by us and applied by the East Asian countries, particularly, Singapore and Taiwan which are small island states with less natural resources than the combined Caribbean. Singapore is in fact the same size as St Lucia!

I have calculated on the back of an envelope that we are not particularly poor in the Caribbean. Taking the example of the Eastern Caribbean Currency Union (ECCU), where all foreign exchange reserves go into a pool and all the commercial banks have in addition, their own external assets, if this was to be extrapolated to the wider region with combined receipts from Oil, Tourism, Finance, Services and Manufacturing, we would be a very powerful economic entity.

They say that opportunities lost can never be regained. From my vantage point I would say, can the Caribbean genius, including our tendency towards the traits of Ananci, put Humpty Dumpty together again?

The answer must be yes, or why else are we gathered here under the auspices of the Caribbean Association of Indigenous Banks (CAIB) to discuss *"Growth, Profitability and Regulation: The Imperatives."*

The word Imperative gives it away – there is an urgency to do something as 2007 approaches and the train is about to leave the station.

We also have to do it together or why else are we assembled here from all parts of the region, from Guyana in the South and Jamaica and The Bahamas in the North, and all points in between.

We also have the belief, and correctly so, that the financial sector is going to be one of the main drivers of our growth and development.

Following these assertions, or if you wish, assumptions, what have we learnt, and what can we put into practice?

Let me be very frank with you and speak of what I know, and not what I assume.

It is assumed and acknowledged by the statements made at the time that the West Indian Federation failed, among other reasons, due to the inability to deal with the extremely small state problem, the same one that was resolved in the United States in 1776.

Our small States, not having the where withal of the largest States, had no choice but to engage in joint activities such as a common judiciary, common currency and central bank, joint regulation of civil aviation, banking, securities, and telecommunications. Joint procurement of pharmaceuticals, joint overseas diplomatic representation, cooperation in Agriculture, Tourism, Transport, etc.

In the financial arena we have over the years worked hard to maintain a stable currency through thick and thin, to ensure that we had a safe, sound and profitable banking sector, and to create regional institutions and markets for government securities, equity and secondary mortgages.

We now have an electronic exchange, which is probably second to none internationally, with a settlement period of T +1 and a dematerialised environment. With respect to connectivity, all our countries are connected to the platform in St Kitts and we have successfully connected from Guyana, Trinidad, Barbados and the British Virgin Island in the region, and from Singapore in East Asia.

Let me say factually that we are a microcosm of what CARICOM would like to be in the future with a common currency and a regional stock exchange.

If my assumptions are not correct in the above statement then a number of questions logically follow. For instance, Have the OECS/ECCU countries been on the wrong track? Does this stem from a notion that there is nothing in these countries that the others can emulate? Should we then dismantle these arrangements to enter into the wider CARICOM arrangements?

When the OECS paused to reflect on their entry to the CSM, CSME early in the year, the criticisms flew thick and fast.

Two issues were conveniently forgotten:

1. That we were the stones the builder rejected forty years ago; and
2. That the OECS is at a much higher level of integration than the rest of CARICOM.

Where do we go from here with 2007 so near at hand?

The financial sector has demonstrated that it has the capacity and vision to be a significant leader in the thrust for regional integration. Our banks and insurance companies have led the way by their cross border activities.

The way ahead however, lies as we have recognised in the ECCU, through the Integration, Development and Regulation of the financial sector on a wider scale.

This will require the satisfactory resolution of three issues:

1. Uniformity of Legislation and Regulation;
2. Appropriate Technology; and
3. The question of Ownership.

If our financial sector in the region is to reach its full potential the rules under which it operates must not be so widely different that they become more of an obstacle course than a facilitator of innovation and development. The amazing thing about the Caribbean is how seriously we take our insularity. We come to the table with ingrained notions of how different we are, and argue vehemently about points which are in the wider scheme of things, singularly unimportant except to the protagonist who has been charged with protecting national pride and sovereignty with his life. On a less serious note, and this being Trinidad where picong is a way of life, can you imagine a Jamaican, Trinidadian or Barbadian conceding an argument to someone from the OECS and living to tell the tale!

We must recognise that in a rule based environment, when there is the need for progress, the rules must be uniform and simple. Once there are deviations and exceptions, rules become restrictions and not what they should be, that is, sign posts to allow progress to be made.

The utilisation of technology is a critical factor in the evolution and development of the financial sector. The ability to connect across long distances and the necessity to handle large volumes of transactions at high speeds is the rationale for the use of technology. For our region, where face to face meetings are costly, both in terms of time and money, other means of communication through video and teleconferencing are important constructs for our progress. We must invest significantly in technology if we are going to be successful.

Ownership is a critical factor in any integration arrangement. Integration in a fundamental way has to do with the allocation of productive resources and the distribution of benefits across countries.

In a situation where capital and labour cannot move, benefits only accrue to the country or place where productive resources are located.

If labour and capital can move freely then labour in a country where the productive resource is not located, can move to that location, and the benefits can be spread in that way. With the movement of capital, individuals can purchase shares in the enterprise and enjoy benefits while not being resident. This means of sharing benefits through the financial sector is much more palatable in the first instance and therefore stakes out a special place for the financial sector in successful integration arrangements.

It is for this reason that the various branches of the financial sector in the region need to come together, firstly among themselves, and then in joint meetings to map out a vision for the integration, development and regulation of the sector to facilitate the sustained growth and development of the region.

The Cricket World Cup 2007 (CWC) could be the event that catapults us into action. After successfully achieving adult suffrage and independence we have had no event which has had the capacity of capturing the imagination of the West Indian people like this one.

After all, it is cricket, and we will have the world looking at us. People both within and outside of the region will ask the obvious question. Why are we not more united? We will have no reasonable reply.

The CWC will demand of us an upgrading of our commercial and networking skills. It will provide us with better physical infrastructure and facilities. It will expose us to the world.

What better platform could we hope for to launch us into a period of sustained growth?

We need to avoid continuing down the road of insularity and recall not only our own history in this regard but also the fact that we live in an increasingly globalised and liberalised world and that regional integration and state formation worked for those countries which are now developed.

We have to use our imagination and have a vision of what could be if we are united.

In the words of George Bernard Shaw:

> *“You see things that are, and say, ‘Why’?*
>
> *But I dream things that never were, and say, ‘Why Not’!*