

DeLisle Worrell: Four pillars of a forward-looking forex-driven growth strategy for Barbados

Address by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, to the Barbados International Business Association's Monthly Luncheon, Bridgetown, 24 January 2012.

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The average Barbadian fully understands that the immediate priority for economic policy is stability. If you are out fishing and you get caught in the midst of a sudden storm you batten down the hatches and keep things shipshape until the storm passes. By analogy, it is reasonable to expect renewed growth in the Barbadian economy only when we have found a way out of the present international economic tempest.

The actions of the social partners in Barbados have so far succeeded in stabilising our economy. The evidence is that we lost only 1 percent of foreign exchange reserves last year, and the value of the Barbados dollar is as well protected now as it was a year ago. Barbados has been able to stabilise the economy and still maintain a good quality of life because we have a very high level of human development, as measured by the United Nations Development Programme (UNDP). We have also contained job losses, thanks largely to the strength of our acclaimed social partnership.

The second element of economic policy is to make use of the current period to cement the foundations of future economic growth. Those foundations, which are the subject of my lecture today, are:

- A. Tourism;
- B. International Business and Financial Services (IBFS);
- C. Alternative Energy; and
- D. Integrated Agriculture.

In each of these Barbados is internationally competitive, or can be. Investment should be concentrated in these areas, for the medium term. In the short term the Balance of Payments should be kept stable; that is the best we can do. But the investments we are doing and need to do in 2012 can secure us a future of modest but steady growth, which is exactly what Barbados needs to further improve the already superior quality of life our citizens enjoy.

Tourism

Barbados aims to be the Lexus of the tourism market. We are known in North America and much of Europe as a high-end destination, because of the availability of luxury accommodation, the quality of our infrastructure, our ideal climate and the authenticity of the Barbadian experience. The company that makes the Lexus also makes Toyotas, and Barbados does have accommodation to suit all pocketbooks. However, just as Toyota makes its highest margins on its luxury brand, so too we ground our tourism at the top end, where the returns are highest. Recent investments, ongoing projects and forecast investment in tourism all fortify Barbados' competitive position in the top end of the market. That is why the Four Seasons is such an appropriate and timely investment, and an excellent opportunity for the NIS to diversify its portfolio in the interests of the economic development of the country.

A second strength of Barbados' tourism is market diversification. Visitors come from Caricom countries, the US, and elsewhere, as well as the UK, our largest market. Thirdly, the Barbadian vacation experience is quite varied, in terms of the cultural and sporting activities on offer, although this is an area where much additional investment is needed, to enrich the visitors' menu of choices. Our foremost challenge in tourism, one which affects other leading

sectors as well, is to achieve and maintain acceptable professional standards of service at all times.

The International Business and Financial Services Sector (IBFS)

Thirty years of effort and initiative have yielded Barbados an IBFS sector which is second in importance as a foreign exchange earner, though a long way behind tourism. We have inherited natural advantages of climate, good international connections, the English language, and a convenient time zone. We have added a network of Double Taxation Agreements, a strong regulatory system which is constantly updated as international guidance dictates, and a small pool of domestic expertise. I will end this talk with my reflections on the challenges we face in the IBFS sector, but first a few words on the other two pillars of the Barbadian economy's growth.

Agriculture and Agro-industry

Our major success, one that we share with our Caribbean neighbours, is in the rum industry. The Caribbean, with help from the EU, has invested in the production and marketing of aged rums, and Barbados now earns more from the export of rum than from sugar exports. However, a strategy has not yet been put in place to integrate sugar cane and other agricultural production into a layered, mutually reinforcing agricultural and agro-industrial sector. I believe that an integrated sector, building on the established institutions in agriculture and food processing, has significant potential for foreign exchange earnings and growth.

Alternative energy

The substitution of alternative energy sources for fossil fuels as an energy source is the area where Barbados can make substantial savings in foreign exchange spending. The technologies for this are now commercially available, and they can be made affordable. Importantly, the fact that policy initiatives in this area are supported by IDB financing means that there is additional foreign exchange available to support the needed investment. Among major projects being contemplated are a wind farm, a waste-to-energy plant, and the use of renewables such as bagasse. However, the process where the country is most advanced is solar generation. Already a handful of businesses and individuals have installed systems, and gov't has led the way with major installations at Harrison's Cave and the Ministry of Transport and Works. There is an opportunity here for retailers, banks and financial institutions to sell household systems, tied to the grid, on the basis of down payments and monthly payments that the middle class can afford.

The quality of service

There remains a major threat to Barbados' competitiveness in all sectors, and it is our inability to guarantee consistently high standards of service in the private and public service. It is not enough that we should have examples of service excellence, and we do. What we really need is an average standard that is outstanding, by international comparisons, and a minimum standard that never falls below the acceptable. This is absolutely essential, because we compete on quality, not price. This is not the place to elaborate, but this is, I am convinced, THE threat to the future growth and prosperity of this country.

What about construction and other sectors?

They cannot lead because they need foreign exchange to expand, and they do not generate any foreign exchange. So they must depend on the foreign exchange provided by tourism,

the IBFS sector, agriculture and agro-industry, and on the foreign exchange saved from the use of alternative energy.

Strategies for the IBFS sector and role of Central Bank

I am not the expert on the sector, but it is my understanding that the IBFS sector has had to reinvent itself on more than one occasion. It may be time for another reinvention, to address changing circumstances and opportunities in the international market. The challenges arise from the on-going need to upgrade our legal and regulatory framework, in line with international standards as well as those of countries with which we do business. Barbados has begun to respond appropriately to these challenges, but we need to up our game in every case. I will touch on the Global Forum, the FSB, the FATF, and recent changes in the practices of the Canadian Revenue Authority.

The Global Forum

The Global Forum has been set up to provide a more transparent means of certifying that countries meet an agreed standard for the exchange of tax information and other related practices. Former Prime Minister Arthur played an important role in the initiatives leading up to the establishment of the Forum, and Barbados is a member. We are participating in an ongoing international process of country evaluation. We have had some stumbles, but it is my understanding that we are recovering from them. There are others in the room who can better elaborate on this than I can.

The Financial Stability Board (FSB)

We have also made a positive response to the initiatives of the FSB, the body charged with coordinating the reform of the international financial system. We have prepared two studies which we have aired at regional and international meetings, on the importance of the IBFS sector to Caribbean economies, and documenting the measures we have taken and are taking to ensure that our regulatory systems are kept up to marks with the guidelines published by international bodies. The papers can be accessed on the Central Bank of Barbados website. We are also gearing up for our next Financial Sector Assessment Programme (FSAP), more than a year away, and Central Bank and the Financial Services Commission (FSC) will be engaging with you on this.

Financial Action Task Force (FATF)

With respect to the Global Forum and the Financial Stability Board, we now have reasonably transparent international processes that we can work with. That is not yet the case with FATF. Like the FSB, FATF is an exclusive members club which presumes to impose its rules on countries who are refused membership. Both FSB and FATF have addressed this anomaly, in a fashion, by establishing regional advisory groups. We have been able to use the Regional Consultative Group of the FSB to make the case for the Caribbean, and the Caribbean Financial Action Task Force (CFATF) is gaining momentum in protecting the interests of the region. In all three areas we need transparent processes by which countries may be certified as having achieved acceptable international standards.

The Canadian Revenue Authority changes and the need to diversify markets

Changes made recently redefine the competitive landscape in the Canadian market, and the fact that tax information exchange agreements may now provide benefits similar to those available under double taxation agreements exposes Barbados to competition from countries where there is no income tax. This matters a great deal, because so much of our IBFS

business is concentrated in the Canadian market. We must market the other factors that make Barbados competitive, including our regulatory framework and superior infrastructure.

We need to take appropriate measures to solidify our position in the Canadian market; we can't afford to lose our strong companies, and those of long standing. However we must begin a deliberate campaign to diversify the countries that use our international financial centre, to reap the benefits of our network of double taxation agreements. That is an enterprise which we need to embark on together, the industry, the community of professionals active in the international financial centre, Invest Barbados, the Ministry of International Trade, the Financial Services Commission and the Central Bank.

Finally, a word on the role the Central Bank plays. Next month look out for the first issue of our new quarterly IBFS newsletter, to be published on our website. It will update you on all the latest developments affecting our IBFS sector. Our contributors are all leading players in the industry, and we invite anyone who might wish to contribute to be in touch with Neville Pollard at the Central Bank. On March 15 we plan our second annual IBFS conference, together with FSC and BIBA. Invitations will be sent out shortly.

Thanks, and I am happy to entertain your questions.