

## The Caribbean Marketplace; Succeeding in a Globalizing World

*Address delivered by Dr. Emsley D. Tromp President of the Bank van de Nederlandse Antillen on the occasion of the 2007 TOG Partners' Conference. Willemstad, Curacao, July 3, 2007*

Ladies and gentlemen, good morning,

After a look on the conference agenda, I noticed that you already had two busy days behind you: one to get to know the island a little better (I am sure you enjoyed that) and yesterday your first conference day, while everybody else on the island was celebrating Curacao's national holiday "dia di himno i bandera" (day of the national anthem and flag). I wish you a productive and interesting second half of the conference and hope that you will find some more time to enjoy the hospitality and beauty of our island.

I also like to seize the opportunity to congratulate Ralph and his team for bringing this prestigious conference to Curacao, making a welcome contribution to our tourism sector, and with their new office they recently moved into. A new office—aside from being a true architectural beauty-- is a sign that doing business in Curacao has been good for KPMG and confirms confidence in the future of the island.

I have been asked to address you on the topic "The Caribbean marketplace." Without any further elucidation, I took the liberty to interpret this topic to mean: the need for further Caribbean cooperation and integration to seize the challenges of a globalizing world.

My address this morning is structured as follows. First, I'll give you a brief overview of the implicit weaknesses of Caribbean economies. Next, I will discuss the impact of globalization on the region, followed by an overview of some critical elements of a regional globalization strategy. I'll conclude my address with some closing remarks and the role KPMG can play in preparing the region for successful global competition.

Ladies and gentlemen, we have to realize that Caribbean countries alone, by their sheer size, cannot survive in a globalizing world. Most countries in the Caribbean are very small and have open economies and, therefore, very vulnerable to international developments and external shocks. The erosion of preferential market access to the European Union, the establishment of NAFTA, the terrorist attacks on the United States, the international efforts to combat money laundering and terrorism financing, and natural disasters all had a great impact on our economies.

The high vulnerability of our economies as I mentioned is primarily the result of our smallness, resulting in significant diseconomies of scale. Both the private and public sectors are affected by these diseconomies of scale.

The small size of economic units and the small size of our national markets limit the international competitiveness of the production of goods and services for both export and the domestic market. Small firms are at a disadvantage in the global market place, because they cannot realize economies of scale, are not attractive business partners, and cannot spend significant funds on marketing, research and development.

Small economies have severe constraints on their material and labor inputs both in amount and variety, related to their limited land area and small populations, leading to high unit costs of production. For instance, the small size of the labor market limits the range of available skills, pushing up the price of scarce skills. On the supply side, employment alternatives are limited, which promotes a brain drain of high-skilled workers and causes high social costs for low-skilled workers when industries have to restructure. Moreover, the small market size and limited range of resources result in a narrower range of domestic and export production and tends to cause high costs because there is often a lack of competition.

The provision of public goods and infrastructure is usually characterized by indivisibility. This has two implications for small economies. First, the costs of public services per capita are higher than in larger economies. Second, the government may be forced to provide various goods and services—often at subsidized rates—that would typically be offered by the private sector in larger economies, increasing budgetary pressures.

Besides diseconomies of scale, our countries are characterized by high vulnerability to external shocks. Various factors contribute to this vulnerability, largely beyond our control. I like to mention here our geographical location and high level of openness. Our countries are located in a tropical area and, therefore, prone to natural disasters, particularly hurricanes. These natural phenomena are recurrent and affect a large proportion of our population and economies. In some cases, economic damages have exceeded annual GDP, taking a long time to recover. Our high level of openness, illustrated by levels of imports and exports of goods and services near and even over 100% of

GDP, also entails a high degree of vulnerability to external shocks. This is aggravated by the concentration of exports in a narrow range of products and markets. For example, the erosion of preferential access of agricultural products to the European market is having a significant impact on some Caribbean economies.

To mitigate the effects of diseconomies of scale and the high degree of vulnerability to external shocks, broader and deeper cooperation between the countries in the Caribbean region is a viable and inevitable strategy. This is even more evident in light of the structural changes taking place in the world and the way they affect the countries in the region.

These structural changes can be captured under the phenomenon of globalization, a multi-dimensional process transforming all aspects of national and global activities and interactions in a rapid and profound way. Inherent in the globalization process is that barriers to international flows of goods, services, capital, money, and information are being increasingly eroded and/or eliminated. The fact that world trade grows about three times faster than world output serves as an illustration of this development. The small Caribbean countries which are vulnerable to external events and that have limited adjustment capacity are particularly exposed to the effects of globalization. Let me elaborate some more on a number of aspects of globalization that impacts the region.

#### 1. The phasing-out of preferential trading arrangements.

The Caribbean region has been enjoying preferential access for several of its export products to the markets of the European Union and the United States for a long time. However, pressure is increasing to eliminate preferential arrangements and replace them with agreements based on reciprocity, exposing the Caribbean countries much more to international competition. The dismantling of the European Union's banana and sugar regimes is an example of this development, forcing various countries to structurally adapt their economies.

#### 2. Rapidly increasing dominance of the global market.

Technological developments in telecommunications, computerization, and information technology have eliminated the barriers of distance and time, resulting in the reconstitution of the world into a single economic and social space. To survive, every business must become globally competitive, even if it produces and sells only within a local or regional market because standards of quality and costs of production are set globally.

#### 3. Increasing importance of the services industry.

Services constitute one of the fastest growing sectors of the world economy. This is also evident in the Caribbean region, in which tourism and international financial services are the main pillars of most of the island economies.

#### 4. Economic concentration.

Globalization is creating larger units, both corporate entities and the coalescing of national economies through regional integration to form regional trade blocks. The number of countries that participate in trade blocks and the share in world trade they encompass are ever increasing, representing a transition from an atomistic world economy of national economies to a global market. CARICOM is a good example of this development in the Caribbean region. The most prominent feature of corporate concentration has been mergers and acquisitions. Particularly in the financial sector, we can notice this development also in the Caribbean region, with the regional expansion of RBTT, FirstCaribbean bank, and Guardian for example.

#### 5. Erosion of policy autonomy

Globalization is shifting power away from sovereign governments toward multilateral institutions and multinational corporations. Sovereignty in all its dimensions has been considerably constrained by economic interdependence. As a result, governments' control over the design and implementation of national and international economic policy has been diminishing.

From the discussion of these aspects of globalization, it becomes clear that formidable challenges confront the Caribbean region for successful adaptation to this new environment and achieving sustained economic development. A pro-active adjustment strategy, as opposed to reactive adjustment, offers the greatest chance to success. Such strategy should focus on consolidating and improving existing economic activities while reorienting the economy toward new types of economic activities for the national, regional, and global markets. I like to discuss with you some critical elements of this strategy in more detail.

#### 1. A stable macroeconomic policy framework.

For creating a stimulating entrepreneurial environment conducive to investment, it is essential that macroeconomic policy instruments, such as structural policy, fiscal policy, and monetary policy, be applied in a consistent and sustained manner, complemented by supporting policies – in the fields of for example education and infrastructure – and a stable institutional framework. This environment will facilitate private sector-led, market-driven growth.

## 2. Strengthening existing economic activities.

Tourism and international financial services are the most important economic activities in many Caribbean countries. Tourism is a highly labor intensive sector in which many companies from small to large, spread over several sectors of the economy are involved. Tourism activities are particularly significant in the retail trade, hotels & restaurants, and construction sectors, generating a considerable part of employment and foreign exchange in our economies. Due to the effects of globalization, the Caribbean tourism sector is facing increased competition from other regions, such as Asia and the Pacific. Therefore, to remain competitive and maintain a sound growth in tourism, new products and markets must be developed. This diversification could include health tourism, eco tourism, tourism geared toward older travelers, cultural and heritage tourism, and conference tourism.

The international financial services industry in the region is facing many threats. Pressure from the industrialized world through international institutions, such as the OECD, the IMF, and the Financial Stability Forum, has increased to address issues like harmful tax competition, money laundering, and terrorism financing. Moreover, the impact of globalization is particularly eminent in financial services, which is not restricted by borders. Therefore, competition is fierce from other regions and countries. To remain attractive and reputable providers of international financial services, our strategy should focus on the strengthening of supervision to improve compliance with the current best practices and requirements imposed on international business and finance. If our legal and supervisory infrastructure is considered adequate by the countries we get our business from, we will be able to develop new products that can maintain this sector as an important contributor to our economies.

## 3. Development of new economic activities.

In identifying new economic activities, contributing to a diversification of the Caribbean economies, we have to realize that our countries are not at the lower end of the wage spectrum. Therefore, we have to focus on increasing productivity, product innovation, and the creation of niche markets, in other words: more knowledge-based economic activities. Given the importance of services-based industries in Caribbean economies and its encouraging prospects, the development of new activities in the provision of services is likely to produce the greatest rate of success. Evidently, our workforce will have to be properly skilled, knowledge oriented, and capable of adopting new technologies. Some interesting activities that could be explored are the provision of retirement facilities to persons in developed countries, health care services to foreign patients, bio-technology, internet-based services, and entertainment.

## 4. Improving productivity.

Achieving and maintaining international competitiveness in a globalizing world necessitates continual improvements in productivity. This comprises not only labor productivity, but also managerial capacity, adaptation of new technologies, and improvement of infrastructure.

Increasing labor productivity requires improvement in the quantity and quality of education through vocational training as well as on the job training. Social partnerships based on tripartite dialogue between the private sector, trade unions, and the government could promote the improvement of labor productivity. However, it is well known that much of our high-educated human capital resides outside the region. It is, therefore, also important to establish schemes to induce overseas nationals with professional skills to return home.

Productivity can also be raised by improving managerial capacity in both the private and public sectors. To perform well in a constantly changing environment, the relationship between management and workers must be harmonious based on cooperation and dialogue. Managerial capacity can be improved in the short run by attracting skilled managers and professionals from abroad with an emphasis on Caribbean nationals who have a better understanding of local culture and traditions. In the long run, improving education is the road to pursue.

Finally, the adaptation of new technologies, such as the use of the internet to do business, and improving the physical infrastructure, such as utilities, airports, and telecommunication, will contribute to higher productivity.

## 5. Overcoming xenophobia.

Many Caribbean countries suffer from varying degrees of xenophobia, hampering a successful participation in the global economy. We have to abandon this mentality, be less preoccupied with national ownership and focus on what foreign investment can mean for economic activity, the development of new products and services with higher value added, and the creation of jobs.

#### 6. Strategic corporate alliances.

The small size of most Caribbean firms put them at a severe disadvantage in the global economy. Collaborative corporate strategic alliances, mergers, and acquisitions can provide a larger capital base, expand resources, pool expertise and introduce new technologies, largely eliminating this disadvantage. In addition, larger regional firms are more likely joint-venture partners for foreign investors, contributing to extra-regional expansion. The further increase in size will equip them even better to compete successfully in the world market.

#### 7. Further regional integration.

In addition to corporate integration, regional integration should be expanded. CARICOM is the most suitable entity to take this task upon it by widening its membership to include the rest of the Caribbean and Central America which will create a much larger economic space and thereby increase the possibilities of realizing the necessary economies of scale. The ultimate objective should be the completion of a regional single market and economy. Combining forces through a regional cooperative approach is also the most effective way to proceed in international trade negotiations. It increases the leverage of small states, because by operating as a single unit we can increase our critical political mass, and it economizes on the costs to our countries by pooling scarce skilled human resources and sharing representational duties.

Ladies and gentlemen, I have tried to demonstrate that the Caribbean countries and companies on their own will fall rapidly behind and marginalize themselves given the current trends in globalization. Through regional alliances, cooperation and integration, we can overcome our inherent weaknesses and will be able to compete successfully in the global market. This process of strategic global repositioning is far from finished and requires unrelenting efforts of our governments, business companies, and other interest groups to implement the adjustments and structural transformation necessary for sustainable economic development in the decades ahead. To refer back to the topic of my address: the Caribbean marketplace, in my opinion, should not be seen as the last stop but as an instrument to succeed in the global marketplace.

In concluding ladies and gentlemen, KPMG is a good example of a global company. With offices and expertise in countries all over the world and a solid regional presence, KPMG pre-eminently can assist governments and companies in the Caribbean in the difficult and complex processes of change necessary to prepare the region for global competition. Many different fields of expertise will be involved, such as international business and finance, mergers and acquisitions, management training, interim management, and head hunting. All fields of expertise in which KPMG can pride itself as being among the world's foremost.

By collaborating with other stakeholders, KPMG can play a pivotal role in converting the weaknesses I have identified in the Caribbean economies into strengths. This will go a long way in making the Caribbean not a final stop but an important stepping stone to do business in this globalizing world. This will not only lead to strengthen local economies, but it will also help improve social conditions to make the Caribbean an even better place to live and visit.

Thank you for your attention and wish you a productive conference.