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CARIBBEAN EQUITY MARKETS AND INTRA-CARICOM CAPITAL MOVEMENTS

by

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Abstract

This paper examines the equity markets in the Caribbean and their impact on intra CARICOM capital movement. This is done in a setting characterized by liberal financial regimes, inconvertible currencies and different foreign exchange regimes. Here the author discusses the likely benefits of an integrated equity market for the region arguing that such a market would bring about increased efficiency in all markets and substantially reduced risk of over exposure to one market. The paper also argues that the liberalization of the foreign exchange markets in the Region along with the introduction of new telecommunications facilities has helped to break down former barriers to cross border trade in equity.

SECTION ONE

Introduction

In the Caribbean, as in many other developing countries, the main sources of financing for most businesses are the domestic savings mobilized by commercial banks; supplemented by foreign savings in the form of loans from multilateral and bilateral institutions or from foreign banks with a relatively small part of investments funded by domestic or foreign equity capital. Businesses are thus very vulnerable to increasing interest rates. Against this background, Caribbean Community (CARICOM) policy makers have recognized the need for the development and promotion of efficient equity markets. Policy-makers recognize that -

(I) the appropriate gearing between debt and equity is critical to the financial viability of enterprises;

(ii) investment in equity requires the capacity to spread risks and to diversify an investment portfolio;

(iii) access to equity should not be constrained by the location of an entity but that the region should be treated as one enlarged market place.

CARICOM governments have, over the years, examined various ways of encouraging increases in local equity capital of firms operating in the Region. In 1989 they agreed to the creation of a regional stock exchange which came into effect in 1991 (this is not a physical entity but an arrangement entered into with the three existing stock exchange whereby they will cooperate in the trading of securities issued in each other's market)[1]as the first step towards the integration of the capital markets and in particular the stock markets in the Region. A number of studies were undertaken with a view to determining how the region could best achieve the objective of an integrated capital market.

In this Paper, a theoretical analysis of the equity markets in the Region and the impact of those markets on the mobilization of capital for economic development across the Region is undertaken.

The Paper is organized as follows: Section One is an

[1] For more details on the regional stock exchange please see booklet " The facts about the regional stock exchange " by Enid E. Bissember CARICOM Secretariat and the development of the Capital market in the Caribbean also by Enid E. Bissember

introduction to the paper and sets the background against which the analysis will be conducted. Section Two is an overview of recent developments in the capital markets in the Region and efforts to achieve integration. Section Three looks at equity markets in the theory of economic development; this section is meant to provide the theoretical foundation for defining a role for equity markets in economic development. In section Four the Caribbean equity market is examined and some of the developments in cross border flows are highlighted. The Section also focuses on some key weaknesses in the capital markets in the region including -

(I) The institutional obstacles such as the low level of capitalization and limited liquidity of traded instruments;

(ii) thinness of the markets;

(iii) Clearing and settlement mechanisms/ arrangements;

(iv) The legal and regulatory framework governing investment in equity.

Section Five discusses the steps that are necessary to increase the cross border flow of capital and summarizes the major issues raised in the Paper.

SECTION TWO

OVERVIEW OF RECENT DEVELOPMENTS IN THE EQUITY MARKETS IN CARICOM

This examination of the equity markets in CARICOM focuses largely on the markets in Barbados, Jamaica and Trinidad and Tobago with slight reference to the OECS and Guyana. The equity markets in the other territories are not here considered because research and information on those markets is still limited. It is intended at a later stage to undertake the necessary research to include those markets in future analysis. In fact one of the objectives of the CARICOM Single Market and Economy is to create a single economic space in which capital can flow unhindered across all countries in the Community.

CARICOM equity markets are in a constant state of change. The policy makers have recognized that given the pace of liberalization globally, the Region must position itself quickly in order not to be left behind. The existing stock exchanges have, since the mid 1990s started to modernize their operations and have received financial and technical assistance from the international donor community to introduce the necessary measures to allow them to operate in a liberalized environment.

The need to modernize the operation of the existing stock exchanges has been recognized at all levels. One of the major steps towards the modernization of the equity markets in the Region is an Inter-American Development Bank Multilateral Investment Fund (IDB, MIF) project which is designed to provide hardware and supporting software to enable the exchanges to become more efficient in certain priority areas of operation including clearing and settlement. Steps have also been taken to increase the number of products available for trade across the region and that include the possible creation of new financial products. This is expected to induce an increased demand for capital market products and more specifically that for equities, while at the same time providing additional sources of financing for the productive sectors of the economies of the Region.

Another element in the upgrading of the overall system in countries with stock exchanges is the modernization and putting in place of revised laws and regulatory mechanisms including Securities Exchange Commissions to facilitate the process. Attempts have also been made to increase the flow of information, improve the education and awareness of both issuers and investors across the Region.

INTRA CARICOM CAPITAL MOVEMENT

Despite the number of ways that have been identified in the literature in which capital can flow across the region it has been observed that intra CARICOM capital flows have traditionally taken one basic form direct equity purchase by investors in the host stock markets.

For some time now the level of reported transactions taking place on the regional stock exchange has shown marked reductions from the level reported in 1991. In 1991, twenty three million shares were purchased cross border but by 1995 the volume of shares purchased had fallen to six hundred and ninety thousand.

TABLE 1 CARICOM CROSS BORDER TRADE IN EQUITY 1991-1995

Year	Volume bought	Number of transactions	Volume sold	Number of transactions
1995	690,126	51	81,835	7
1994	8,731,479	137	1,536,899	65
1993	1,525,680	140	234,120	14
1992	756,023	49	1,888,091	228
1991	11,876,296	1,334	1,492,537	229
Total	23,579,604	1,711	5,233,482	543

Source: Compiled from Stock Exchange reports 1991-1995.

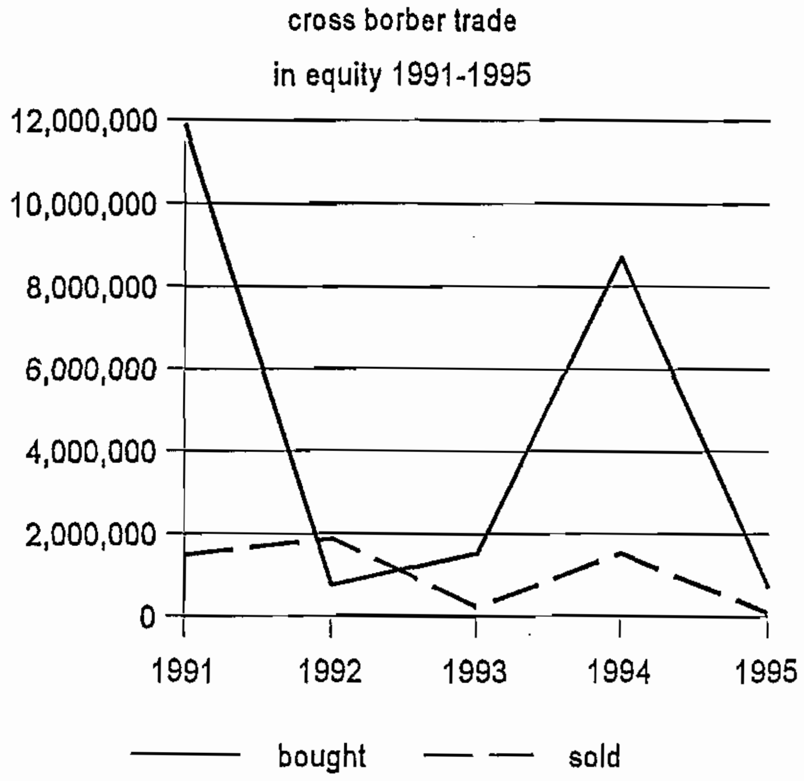

Figure 1 Cross border trade in equity 1991-1995(volume)

During the same period, the volume of shares sold cross border also declined, moving from five million in 1991 to eighty one thousand by 1995. A number of reasons have been given for the low level of reported cross border trade on the regional stock exchange. Among the reasons given are:

(I) The liberalization of the financial markets which makes it easier for investors to obtain foreign exchange with which to make settlement for transactions cross border;

(ii) The difficulties and time consuming nature of activities associated with accurate reporting of cross border trade by brokers; and

(iii) The relaxation of foreign exchange transactions reporting requirements by some Central Banks which could mean that there are transactions which are not reported .

Table 2

AVERAGE SIZE OF TRANSACTIONS ON THE REGIONAL STOCK EXCHANGE 1991-1995

Year	Average Size of Purchase Transactions	Average Size of Sales Transactions
1995	14,419	11,691
1994	63,700	24,000
1993	11,000	17,000
1992	15,000	8,200
1991	8,900	6,500

Source: Compiled from table 1

Table 2 gives the average size of each transactions taking place on the regional stock exchange for the period 1991-1995. Looking at the table one can see that the average size of each transaction on the regional stock exchange has increased significantly between 1989 and 1995. The size of the transactions can be considered large by most standard, an indication that the participants are perhaps large high net worth investors.

It is felt that the actual level of cross border transactions might be higher than revealed by the official statistics. This is an area for further investigation.

With the liberalization of the markets and in particular that of the financial markets the region while being a positive move, has witnessed a fall in the levels of reported cross border activity. For example in 1995 the level of reported trade on the regional stock exchange was 690,125 shares purchased and 81,835 shares sold compared to 8.7 million shares purchased and 1.5 million shares sold in 1994, a substantial reduction by any standard. The volume of shares purchased across the region in 1995 was a mere 8% of that reported in 1994. This, however, needs further investigation as liberalization of the financial markets while facilitating cross border trade has rendered some kinds of reporting unnecessary.

The questions therefore which one might need to ask in trying to assess the importance of the regional stock exchange in the regional development process and the thrust towards a Single Market and Economy with the free movement of capital are:

(I) what is the true level of cross border transaction in equity? and

(ii) how can policy makers keep track of the levels of cross border trade in equity.

Table 3 cross border trade in equity; individual exchanges 1991-1995

stock exchange	% of purchase 1995	% of sale 1995	% of purchase 1994	% of sale 1994	% of purchase 1993	% of sale 1993	% of purchase 1992	% of sale 1992	% of purchase 1991	% of sale 1991
Barbados	nil	nil	N.A.	N.A.	0.45	Nil	nil	0.07	33.59	1.31
Jamaica	10.16	14.18	76.24	15.57	16.92	nil	10.31	0.15	0.05	0.13
Trinidad and Tobago	89.84	85.82	23.76	84.43	82.63	100.00	89.69	99.78	66.36	98.56
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Compiled from information supplied by the stock exchanges

Table 3 which gives the percentage of transactions taking place on each exchange is meant to show the relative attractiveness of each market to regional investor.

The Jamaica and Trinidad and Tobago stock exchanges remain the most active for cross-border trade in equity continuing the pattern set since the inception of cross-border activity in 1991 when 66 per cent of all purchases and 98.56 per cent of all sales transactions were on the Trinidad and Tobago stock exchange.

SECTION THREE

EQUITY MARKETS IN THE THEORY OF DEVELOPMENT

What role do equity markets play in economic development and how is it achieved? These are questions which will be answered in the context of the Caribbean as the role of the equities market in the region's long term sustainable development process is explored. The role of Equity markets in economic development is seen in different lights by different writers depending on their particular perspective. Even in particular disciplines there are divergent opinions on the role of equity market in economic development. Some writers, for example, Richard Sylla believe that equity markets play a useful role in economic development. Others believe that these markets are not important to the economic development process as they add nothing new. According to Richard Sylla

> " *many people including some economists do not think that secondary markets are important in a fundamental economic sense because they only shuffle assets from one owner to another*"

He went on to say "*This view is incorrect for at least two reasons one is that the primary market would probably not exist or would be much smaller than they are if the secondary market did not exist to give liquidity or shiftability to securities after they are first issued and in the second place secondary trading activity produce an extremely valuable commodity, information* "[2]

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[2] Richard Sylla; The Rise of Securities Market, World Bank Research Working Paper #1539 ,1995 page 4

Richard Sylla points out that securities markets do contribute positively to development in that they increase savings and investment flows and make the allocation of the flows more efficient. He argues that in doing so securities markets reduce the cost of funds to borrowers and investors in real productive assets while increasing the returns to savers, and financial investors. Writing on the same issue Courtney Blackman states:

> *"the critical importance of the stock market is that it sustains the liquidity of trillions worth of common stock accumulated by the public for over one hundred years"*[3]

Robert Feldman and Manmohan Kumar writing on emerging equity markets states

> *"the rapid growth of emerging equity markets in recent years has raised several important questions".*

The questions which concerned them the most were:

> *What factors underlie this growth?*
> *what benefits do these markets provide to the home country and to international investors"*[4]

Ross Levin, in his 1996 article on Stock Markets, Corporate Finance, and Economic Growth said

> *"stock market may affect economic activity through the creation of liquidity. Many profitable investments require long term commitment of capital, but investors are often reluctant to relinquish control of their savings for long periods"*[5].

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[3] Dr Courtney Blackman: the development of equity markets in the Caribbean page 9

[4] Feldman and Kumar Emerging equity markets growth benefits and policy concerns The world bank research observer vol 10 no 2 August 1995 page 181

[5] Ross Levin, Stock market :A spur to Economic Growth, Finance and development March 1996, page 7

He states further that liquid equity markets make investment less risky and more attractive because they allow savers to acquire an alternative asset - equity- and to sell it quickly and cheaply if they need access to their savings or want to alter their portfolios.

The foregoing review will help to form the basis for our discussion of the Caribbean equity markets and capital movement. In the context of this presentation the focus will be almost exclusively on the intra regional flows of equity while being aware that there are inflows into the equity markets of member states that are not captured by the official statistics. Consideration is also given to the fact that there are inflows into the equity markets of the region by foreign investors. The amount of these inflows where they occur however, are for the time being small relative to the size of the markets.

Any study of the equity markets in the Region should bear in mind that, like the individual economies there are difference across countries which must be confronted by policy makers on all fronts.

SECTION FOUR

CARIBBEAN EQUITY MARKETS

The main issues concerning the development of equity markets in the Caribbean revolve around the likely efficiency of these markets in mobilizing savings and in channeling them optimally so as to facilitate the needs of the productive sectors and to bring about sustained improvement in productivity and economic growth.

The equity markets in the Caribbean evolved at different times with the one in Jamaica being the oldest and the largest in terms of number of listed companies and capitalization, it is also the most active market in the Region.

At the end of 1996 the four stock exchanges in the Region were in Barbados, Jamaica, Trinidad and Tobago and Suriname. The OECS, the Bahamas and Guyana have embarked on a programme to create the infrastructure for a stock exchange and have been exploring the possibility of setting up a facility for trading in equity. At the same time one should not discount the fact that there are aspects of stock market activity in other countries and in particular in Guyana where a Call exchange was established in the early 1990s but became inactive shortly afterwards.

Table five below shows the number of listed companies on each of the three stock exchange from 1990 to 1997. The number of listed companies increased from 88 in 1990 to 92 by 1997, an increase of 4.6%. The largest increase took place on the Barbados securities exchange, where the number of listed companies increased from 14 in 1990 to 19 by 1994 and remained at that number into 1997 an increase of approximately 36%. The Jamaica stock exchange also saw an increase in the number of listed companies moving from 44 in 1990 to 51 by 1995 and 49 in 1997 while Trinidad and Tobago saw a decline. The number of listed companies in Trinidad and Tobago moved from 30 in 1990 to 28 in 1995 and declined to 24 in 1997. For all three stock exchanges, the numbers increased in the 1993-1995 period. A look at the GDP for those countries showed that there was a corresponding peak in real GDP during that period also perhaps explaining the increase in stock market activity.

Table 4: Gross domestic product for selected CARICOM countries in constant 1990 prices 1989-1996 US$Mn

Country	1989	1990	1991	1992	1993	1994	1995	1996
Barbados	1531.7	1482.6	1422.6	1340.9	1354.6	1406.1	1443.2	1522.6
Jamaica	4030.1	4250.4	4281.6	4347.8	4407.5	4456.9	4481.1	4404.2
Trinidad & Tobago	4992.8	5068.1	5204.1	5118.3	5043.9	5224.0	5349.3	5513.7
Total	10554.6	10801.1	10908.2	10707.0	10811.0	11087	11273.6	11440.5

Source: CARICOM Secretariat Statistics Division

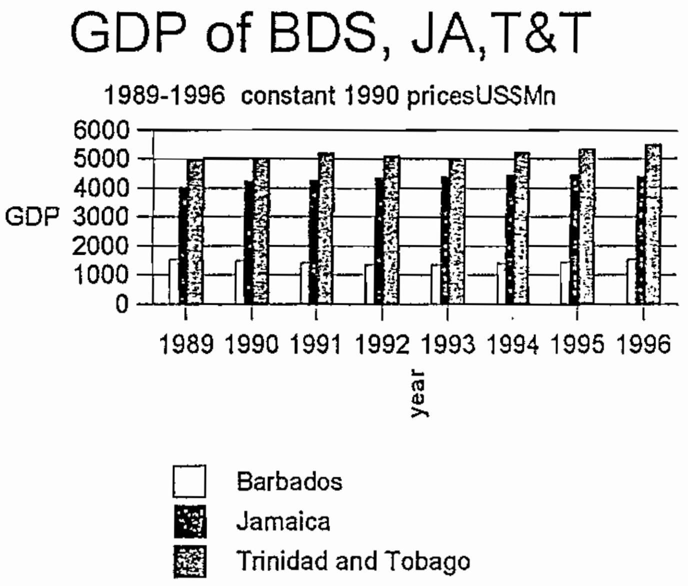

Figure 2: GDP of Barbados, Jamaica and Trinidad and Tobago 1989-1996

Table 5: Caribbean Equity Markets and the number of listed companies 1990-1997

Country	1990	1991	1992	1993	1994	1995	1996	1997
Barbados	14	14	15	16	19	19	19	19
Jamaica	44	44	48	50	50	51	49	49
Trinidad and Tobago	30	31	28	26	27	28	26	24
Total number of listed companies	88	89	92	92	96	98	96	92

Source: compiled from information from information obtained from the stock exchanges

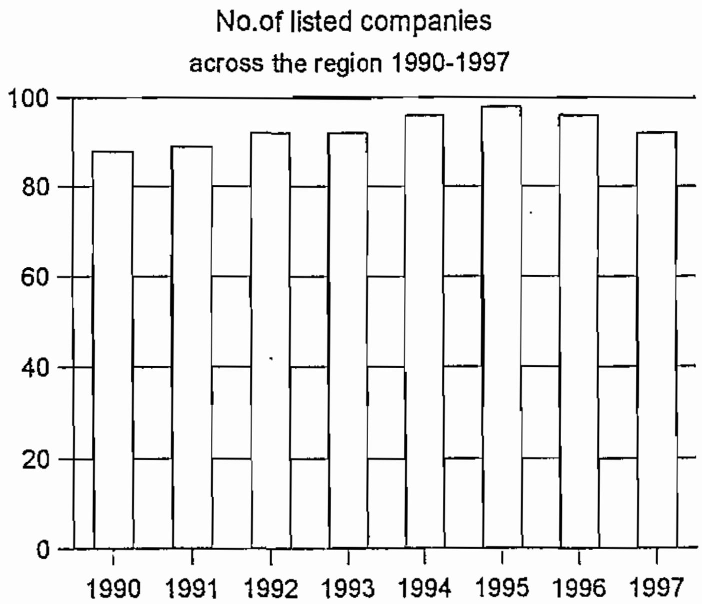

Figure 3 : Number of listed companies on the three stock exchanges 1990-1997

The increase in the number of listed companies across the Region moving from 88 in 1990 to 98 by 1995 and down to 92 by 1997 meant there was an overall increase in the equity investment options available to the regional investors. If one were to include the number of public companies operating in the rest of the Region the number of listed companies would be substantially higher thereby further increasing the investment options of the regional investor.

By operating in more than one market the investors' choice is significantly increased. The same could be said with the prospects offered by globalization and liberalization of financial markets. The advantage of operating in the region though, is that regional investors are operating in an environment in which they are familiar with the culture, systems and procedures for transacting business in equity. The systems and procedures are for the most part similar across the Region thus reducing the level of uncertainty for the small investors who are more vulnerable.

MARKET CAPITALIZATION

The regional Stock Exchange which consists of the Barbados Securities Exchange, Jamaica Stock Exchange and the Trinidad and Tobago Stock Exchange, was capitalized at approximately US$2,967,601.7 in 1994 up from US$2,037,099.8 in 1991, the year cross border trading began.

The Jamaica Stock Exchange is the largest, capitalized at approximately US$1.8bn in 1996 or 48.14% of total Market Capitalization. The Trinidad and Tobago Market is the second largest with a capitalization of approximately US$1.47bn in 1996 or 37.59 % of market capitalization. Barbados' Market which is a much smaller Market than that of Jamaica's and Trinidad and Tobago's was capitalized at approximately US$560 Mn in 1996 or accounting for 14.27% of total market capitalization. In table 5 the market capitalization of the three stock exchanges that are part of the regional stock exchange mechanism is given. All markets recorded increased capitalization between 1991 and 1996 with that in Trinidad and Tobago showing the largest increase.

Table No.6 MARKET CAPITALIZATION, END OF PERIOD 1991-1996, US$

Stock Market	1991		1992		1993		1994		1995		1996	
	capitalization	% of total	capitalization	% of total	capitalization	% of total	capitalization	% of total	capitalization	% of total	capitalization	% of total
Barbados	308,273.8	15.13	259,167.7	6.09	328,143.7	15.58	517,711.9	17.45	494,393.72	15.61	560,164.59	14.27
Jamaica	1,057843.6	51.93	3,482,999.1	81.83	1,269,070	60.25	1,758,123.2	59.24	1,450,164.4	45.78	1889,035.91	48.14
Trinidad and Tobago	670,982.4	32.94	514,080.6	12.08	509,086.6	24.17	691,771.6	23.31	1,222.950.2	38.61	1,475,360.8	37.59
TOTAL	2,037,099.8	100.00	4256,247.4	100.00	2,106,300.3	100.0	2,967,606.7	100.00	3,167,507.32	100.00	3,924,561.30	100.00

Source: Compiled from information supplied by Stock Exchanges
Exchange rate used to convert TT$ to US$ in 1994 --US$1 =TT$5.6

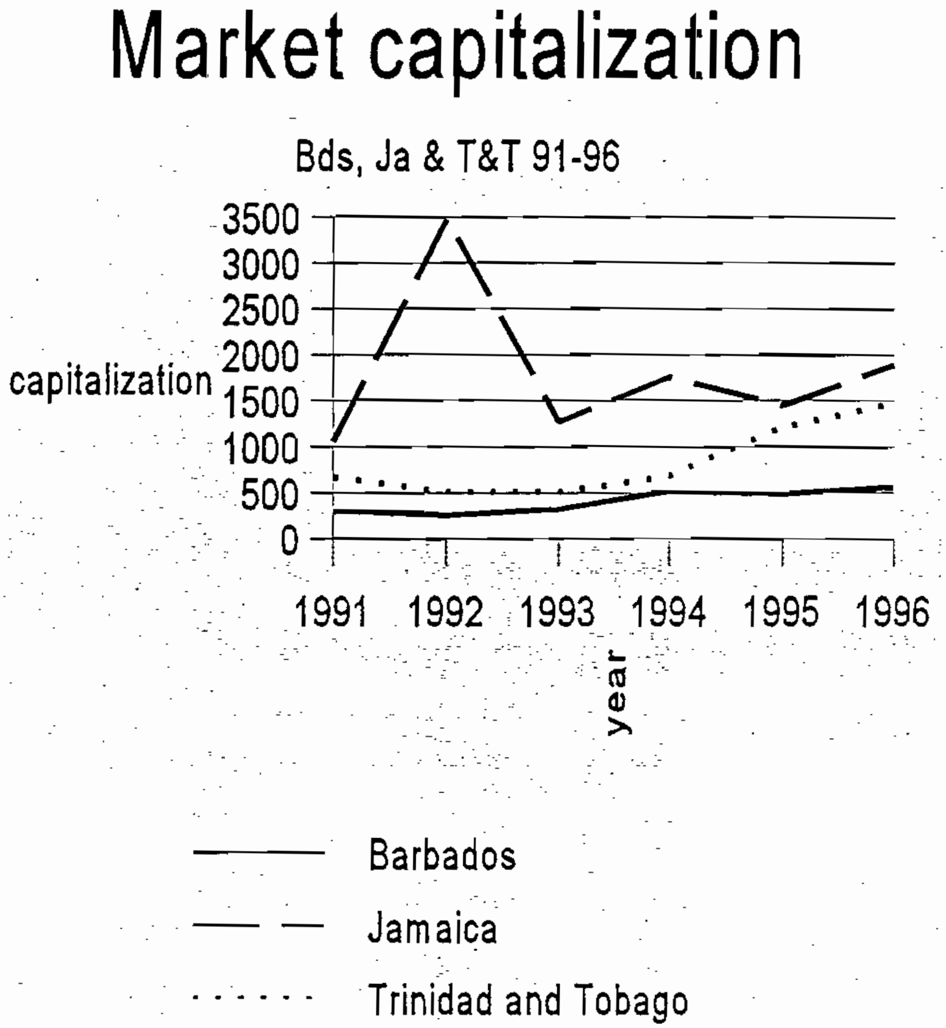

Figure 4: Market capitalization of the Stock exchange of Barbados,Jamica and Trinidad and Tobago 1991-1996

Table 8 : SECURITIES EXCHANGE OF BARBADOS
level of activity 1989-1996

YEAR	VOLUME	VALUE bd.$
1996	5481654	12,399,175
1995	3,013.084	6,254,223
1994	6,416,646	11,502,042
1993	3,532,751	8,923,832
1992	1,897,175	4,395,687
1991	7,207,550	18,271,793
1990	3,774,435	10,142,865
1989	2.118,765	6,425,046

Source: Barbados securities exchange

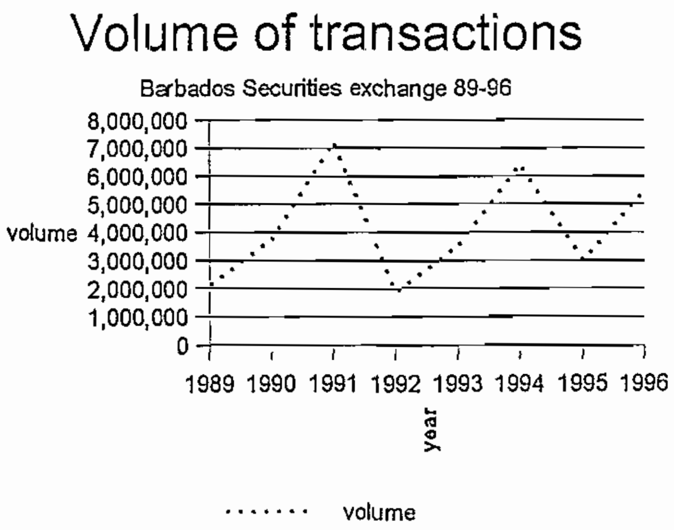

Figure 5: Volume of transactions on the Barbados Securities Exchange

Table 9: The Trinidad and Tobago Stock Exchange

Level of activity 1989-1996

YEAR	VOLUME	VALUE TT$
1996	121,347,803	695,996,109
1995	131,651,789	812,395,236
1994	67,624,928	300,890,722
1993	77,971,790	301,242,168
1992	34,309,339	94,585,392
1991	103,475,680	338,710,355
1990	66,386,513	235,313,910
1989	71,280,836	146,688,119

Source : Information supplied by Trinidad and Tobago Stock Exchange

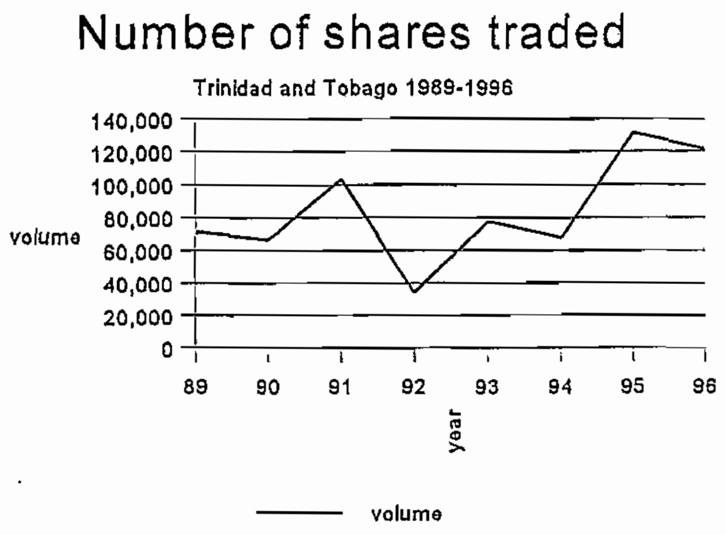

Figure 6:volume of transactions on the Trinidad and Tobago stock exchange

Table !0: The Jamaica Stock Exchange Level of Activity 1989-1996

year	VOLUME '000	VALUE J$
1996	560528	4629395
1995	3565607*	11560485
1994	741754	5155463
1993	567454	8346770
1992	395606	4687337
1991	144258	1156609
1990	57960	230782
1989	95202	516456

Source: Jamaica Stock exchange

** includes transfer of Cable and wireless PLC 79% (3.01 billion) stake in TOJ*

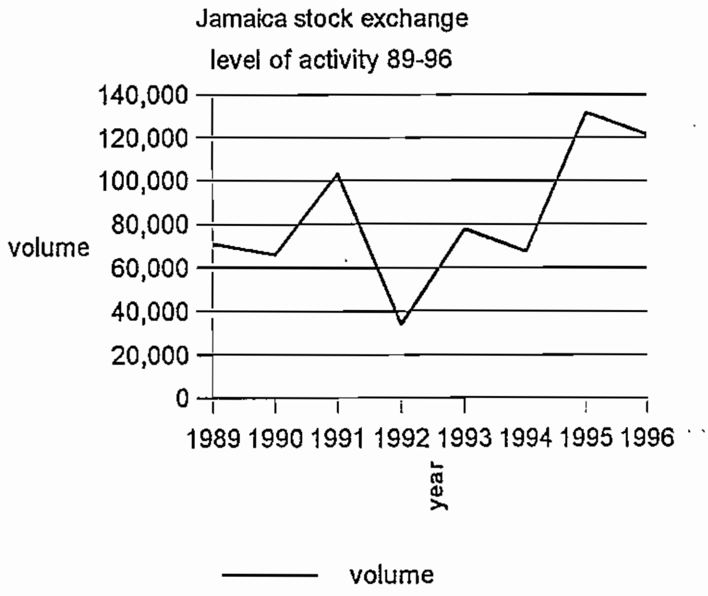

Figure 7: Volume of transactions on the Jamaica Stock exchange

The bulk of equity capital in the region has been concentrated in a relatively few companies and in just as few countries. Of these markets the most active by regional standards are Jamaica and Trinidad and Tobago. Because of the arrangements in place to facilitate the movement of equity cross border using the facility of the regional stock exchange it appears that the countries of Jamaica, Barbados and Trinidad and Tobago should benefit from increased equity investment. With an expansion in the facility/ arrangement other countries could also benefit from increased equity flows across the region. However, the information to drive the market must be made available to all participants. The extent to which these countries will be able to benefit, will depend on their ability to undertake the necessary reforms to give the added fillip to the market. Also the countries which have relatively well established markets are still not large enough to withstand sudden burst of activity and would need to put the relevant measures in place to guard against such sudden upsurge in activity.

In the Caribbean the markets are thin, and for the most part illiquid and trading activity tends to be low except in unusual cases of Jamaica up to the mid 1990s and more recently Trinidad and Tobago where the stock market seems to be performing exceedingly well for a number of years. In Caribbean economies, information is not widely available on the market in other territories, the effect of which contributes to keeping the markets small and the level of activity lower than what it might have otherwise been if there were adequate information available to both investors and firms needing injection of equity. Other obstacles facing investors in the Caribbean countries include sharp equity price fluctuations, limited availability of trading instruments and inadequate monitoring of insider trading activity. Institutional investors also face bureaucratic restrictions that can limit market access. For example there is a limit to the amount of the portfolio that can be invested in certain kinds of instruments. These obstacles could hinder the settlement of payments and make the clearing system unwieldy.

Institutional obstacles are also common, including small capitalization in relation to a country's GNP, limited liquidity of traded instruments and an outdated and often over regulated financial system.

POTENTIAL REACH OF EQUITY INVESTMENT ACROSS THE REGION

The number of listed companies in the region is at present less than one hundred. However, by the turn of the century that should substantially increase with the inclusion of the markets in The Bahamas where there is an estimate of 38 public companies, Guyana where there are approximately 14 public companies , The OECS with 27 public companies and 12 in Suriname. Creating the institutional infrastructure in those countries would immediately add an additional 91 companies to the pool that already exist, thus making available more options to the regional public. The inclusion of the other territories will serve to bring the number of listed companies to approximately 183, an increase of approximately 100%. Feldman and Kumar in their work on emerging markets divided emerging market countries into four groups as follows :

Chart #1

grouping	characteristics	examples can be found in
Group 1	▸ early stages of development ▸ few quoted companies ▸ small capitalization ▸ high concentration ▸ low liquidity ▸ high volatility ▸ rudimentary institutional setting	▸ Kenya ▸ Côte d'Ivoire ▸ Zimbabwe ▸ Hungary and ▸ Poland
Group 2	▸ Market liquidity higher than group one ▸ wide variety of companies are quoted ▸ foreign investors interested in the market ▸ equity market still small in relation to the economy ▸ corporate sector began to rely increasingly on equity financing	▸ Brazil, ▸ china, ▸ Colombia ▸ Pakistan ▸ India ▸ Morocco ▸ Philippines
Group 3	▸ market returns less volatile ▸ rapid increase in trading activity ▸ increase in the volume of shares issued ▸ capitalization expands ▸ more increase in developing mechanisms to transfer risk ; such as currency hedging instruments	▸ Argentina ▸ Malaysia ▸ Thailand ▸ Indonesia
group 4	▸ high liquidity ▸ high trading activity ▸ market breadth is substantial ▸ equity-risk premiums-risk adjusted returns relative to short term money market interest rates are close to internationally competitive levels. ▸ stock market serve as barometers of domestic economic conditions and reflect the degree of confidence in which the country is held by global investors.	▸ Hong Kong ▸ Korea, ▸ Mexico ▸ Singapore ▸ Taiwan

source: Robert A.Feldman and Manmohan S.Kumar;Emerging equity markets: Growth, benefits, and policy concerns. The World Bank Research Observer, vol.10, no 2(August ,1995)pages 186-187

The authors also observed that shifts in the portfolio of industrial countries, even if small from the perspective of the investing country, may result in inflows and outflows that are large in relation to the size of the recipient's equity market. Based on the chart done by Feldman and Kumar, CARICOM'S equity markets display characteristics which are found in both the group one and group two countries, that is, few quoted companies , small capitalization, low liquidity, and an equity market which is still small in relation to the economy.

DETERMINANTS OF CAPITAL MOVEMENTS

It is often difficult to say exactly why capital move from one country to another. Despite this, however, there are some factors which have been identified in the literature as having some effect on the movement of capital cross border. In the Caribbean it might be reasonable to say that the structural adjustment measures taken by member states have aided in the liberalization of the economies and encouraged the movement of capital cross border.

Beginning in the late 1980s some of the economies of the Caribbean were characterized by among other factors -

(i) declining fiscal deficits especially in some of the larger territories which have traditionally run large budget deficits such as Jamaica and Guyana;

(ii) stable and realistic market determined exchange rates, lower inflation rates; and

(iii) a private sector which is beginning to take on the role as the engine of growth in a number of economies and again the best examples are Jamaica and Guyana.

REGIONAL POLICY TOWARDS CAPITAL MOVEMENT

Country experience suggests that specific measures undertaken to improve the institutional setting tend to build investors' confidence and stimulate the market. Take for example the case of Jamaica in the early 1990 when efforts were made to create a securities exchange commission, and activities on the stock exchange increased from what it was in earlier periods. Some member states, notably Trinidad and Tobago are taking measures to improve the regulatory environment of the stock exchanges and other capital market institutions in the Region.

The creation of the regional stock exchange has also helped to broaden the investor base by linking the existing markets into one market thus giving investors access to a larger pool of equity and companies. The privatization of state owned enterprises was expected to enhance stock market activity. However, where this is undertaken the distribution is not sufficiently wide to impact on the market, except perhaps in the case of Jamaica with the privatization of the Telecommunications company and the National Commercial Bank. Those sales helped to increase substantially the level of new share issue in Jamaica and across the region. The cross border issue of CIBC West Indies Holdings also impacted on the ownership of shares across the region. In Guyana privatization of state owned enterprises has not led to any measurable increase in wide spread share ownership. That is so mainly because of the method of privatization employed in Guyana as compared to that undertaken in Jamaica. In Guyana the option was for sale to strategic partners while Jamaica opted for a wide distribution of shares.

BENEFITS OF CAPITAL MOVEMENTS

The creation of an integrated equity market in the Caribbean is likely to bring about both risks and rewards for the participants as well as for the countries themselves. The benefits are likely to include -

(i) risk sharing in the provision of long term finance;

(ii) imposition of some degree of control over firms;

(iii) easily available information on companies in other Member States;

(iv) the provision of risk capital; and

(v) the diversification of risks.

It has been recognized in the literature that equity markets have the potential to finance the risky yet productive enterprises that bankers tend to avoid. A wide ownership of equity allows the risk associated with any new project to be spread across many stockholders who in turn can diversify across different enterprises. This diversification can reduce or eliminate the unsystemic risk of investment and hence increase the availability of capital.

The movement of capital while conferring benefits to investors has the potential to carry a cost, especially to national economies. That capital, in whatever form, has an opportunity cost which must be taken into account when assessing the cost and benefits to cross border capital movements. Some flows tend to have destabilizing characteristics and contain the seeds for macroeconomic instability especially of the financial system. Ann Dugan (1990) observed that " vital for the future of the market is the underlying shift in investment patterns"[6]. She was at the time referring to, the Turkish equity market which was emerging .

[6]Ann Dugan Turks get the equity habit, Euromoney, November 1990 page 92

SECTION FIVE

THE NECESSARY STEPS

In order to increase the flow of equity capital to the productive sectors of the region it has been recognized that the following would assist the process.

(i) Establishment of the legal and regulatory framework for capital markets which would include reforms to the companies act throughout the Region, bringing them in line with that of their major trading partners and which, while taking into account the peculiarities of the individual markets would aim for as much harmony as possible.

(ii) Adequate protection of investors. Where there is trading in financial instruments measures for the protection of investors is important. Thus a Securities Act providing for the encouragement and regulation of securities trading would add to the attractiveness of the Region as an area for investment. It would also serve to attract cross border flows as individual investors would then have confidence in the system;

(iii) The development and implementation of harmonized requirements for listing on the stock exchanges of companies. This is also considered important for increasing the flow of equity capital across the Region;

(iv) The creation of institutions for trading in equity as this would serve to increase activity and investors interest in the market where there are no functioning stock exchanges. In this regard the development and expansion of secondary markets is indeed a necessity in all countries;

(v) Coupled with the above is the more important need of an public education and awareness programme which would serve to sensitize the peoples of the Region about the market and it pitfalls and benefits;

(vi) Information.Stock markets are driven by information. It is therefore the responsibility of the National exchanges to provide the public with regular and timely information to allow for the making of rational investment decision. This would in turn give some needed fillip to the market activity.

(vii) Policy makers should also actively encourage the incorporation of enterprises as public companies and their eventual listing on the stock exchanges. Above all, the governments should maintain a stable and conducive macroeconomic environment. This is necessary to engender confidence in the stock market. Where the macroeconomic fundamentals are strong the stock market also tends to be strong.

CONCLUSIONS

AND RECOMMENDATIONS

There is significant effort at integrating the capital markets in the Region. The success will however take time. Lack of information, less than perfect regulatory mechanisms and the reluctance of firms to go public are major inhibiting factors. On the positive side governments are likely to increase incentives for firms to mobilize resources on the capital market as more and more reliance is placed on the private sector to propel development. The regional stock exchange showed meaningful growth at the start of operations in 1991. This suggests that there is real possibilities but that the inducements must be present. The key is to find such inducements consistent with the objective of developing the Single Market and Economy.

As the regional market becomes more active it is more likely that new companies will list their securities on the "regional" exchange and thus make them available to the regional investor. In that case market capitalization and the number of listed companies should increase and will itself lay the basis for the introduction of new products, thus adding breadth to the markets. The interaction of participants in the market will to a large extent dictate the types of products that are traded in the market bearing in mind that as investors become more sophisticated they will require different investment products.

In addition to the institutional and legal and regulatory changes underway, activity on the stock exchange could be enhanced by -

(i) a greater volume of information through increased use of the print media to provide relevant information on companies listed on the three exchanges and on public companies operating in other countries,

(ii) policy-makers putting in place uniform investors' protection safeguards, including disclosure requirements, accounting standards and custody and settlement procedures.

(iii) expanding efforts to build institutional capacity in countries without stock exchanges.

(iv) removal of barriers to the integration of the capital markets. The Capital Markets are not yet fully integrated - as there still remains certain barriers to the free movement of capital cross border.

(a) some uncertainties about sustainability of macro-economic stability in some member states which can and is often an important deterrent to the flow of cross border investment;

(b) the lack of a high quality transparent regulatory framework.

Finally we believe that there is room for a sustained expansion of the equity markets in CARICOM in the years ahead. Increased supply driven by the creation of the CARICOM Single market and economy and of stock exchanges or similar institutions by countries without such facilities are expected to significantly transform the equity markets in the region. These developments coupled with the supporting institutional changes should enlargen the investor base allowing for a widening an deepening of the markets.

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