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*ISSUES IN THE DEVELOPMENT OF SERVICE
INDUSTRIES IN CARICOM*

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THEME:
Economic Reform:
Towards A Programme For The Resuscitation of Economic Growth
And Development In The Caribbean



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Issues in the Development of Service Industries in CARICOM

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CCMS Annual Conference
*Economic Reform: Towards A Programme For The Resuscitation Of
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Economic Challenges

- Reliance on traditional goods exports no longer viable
- Declining competitiveness in basic goods
- Erosion of relative value of preferences in EU, US, Canada
- End of preferential treatment in key markets
- Need to diversify exports – increase services exports
- Need to develop new services industries
- But political importance of goods negotiations has much greater profile

Challenges (cont'd.)

- Few Caribbean economies are large enough to be competitive in the production of goods in a liberal trading environment.
- Young populations with pressures on job market; need to facilitate sustainable growth.
- What are the options?

Investment Picture

- Need to increase investment (domestic and foreign) in services
- ECLAC reported in 2003 that total FDI into LAC decreased for third straight year. Fell from \$84 bill in 2001 to \$56.7 bill in 2002
- In 2002 higher invest. in Financial services
- More & increasingly sophisticated host countries compete for smaller global FDI flows
- Cbbean countries must target specific industries/sectors based on development goals

Size-Related Constraints Re Goods

- Lack of economies of scale due to the small size of firms;
- Higher transport costs due to small volumes;
- Higher per capita utility costs associated with lack of scale and indivisibilities;
- Greater difficulties in diversifying because of narrow specialization and small markets;
- Limited natural resources.

Constraints (cont'd.)

- Higher transaction costs for Caribbean firms to enter foreign markets in areas such as acquiring marketing information and penetrating distribution networks;
- Limited technical and administrative capacity in government; and
- The destructive impact of recurrent natural disasters such as hurricanes.

SERVICES AS % EXPORTS

Antigua	91.4%	Jamaica	56.6%
Montserrat	91.0%	Dominica	55.0%
St. Lucia	81.9%	Belize	44.8%
Barbados	79.6%	Haiti	37.6%
The Bahamas	78.6%	Guyana	21.1%
Grenada	72.1%	Suriname	18.6%
St. Kitts	68.2%	Trinidad	12.5%
St. Vincent	66.9%		

Source: IMF and EOCB

Caricom Small Service Suppliers

Limited financial capital

Limited human resources to:

- Build referral networks
- Find local partners in overseas markets
- Identify market opportunities
- Research regulations

Issues re Services Development

1. Investment/Finance Issues
2. High cost of telecoms
3. Lack of targeted investment incentives for service industries
4. Very conservative national approaches to services liberalization
5. Information asymmetries

1. Finance/Investment

- High cost of capital - interest rates range from 10 % in Barbados to 22 % in Suriname.
- Difficult for services firms to get loans. Banks unable/unwilling to value intellectual capital. Fixated on physical assets but most Services SMEs do not have much.
- Need for special financial facilities for Caricom services firms. Venture capital market underdeveloped and not quite relevant.

2. Telecoms Cost

- Key Infrastructure Service but high cost of Telecoms - some change in some countries but still very high input cost to most other service sectors. New technology not diffusing fast enough.
- Caricom states IT indicators are not good.
- Monopolies in Antigua and Barbuda, Suriname, Trinidad and Tobago. Where markets were opened - very slow to allow interconnection.
- In spite of the obvious role for telecoms in a Caricom single market – practically excluded from CSME. Antigua, the most conservative, is lead for telecoms & IT in CSME.

3. Lack of Incentives for Services

- Traditional bias re manufacturing – plant, equipment, etc
- Main incentives in tourism but related to hotel development
- Targeted incentives for ICT sector in Jamaica has good results
- Performance requirements (TRIMs) re services are not WTO-illegal; only goods.

4. Services Liberalization

- Given the need for greater investment in service industries why are Caricom states very conservative in services negotiations?
- Very limited GATS commitments in 1994; still very reluctant but the devpt. of many services depends on interlinkages with other service sectors. Need to open some sectors to stimulate devpt. of others.
- Can reserve "space" for domestic players even in sectors that are opened
- How to promote innovation in service industries – foreign technology/ideas?

5. Information Asymmetries

- Absence of accurate statistics on service industries & what current trade is taking place.
- Difficult to formulate support policies & negotiate market access if one does not know the baseline.
- Consultation with services stakeholders – lack of feedback from private sector in terms of the areas of market access in which they have interest.
- Governments need to put in place systems for collecting data on services production and trade.

Caribbean-US Services Trade * \$m

	Exports	Imports	Balance
1992	5167	3077	2090
1993	5727	3371	2356
1994	6100	4056	2044
1995	6036	4628	1408
1996	6377	5062	1315
1997	7023	6529	494
1998	7893	7566	327
1999	7030	8714	-1684
2000	7923	9403	-1480
2001	7577	9040	-1463

Local Success - PRISM

- Small Barbados firm; founded in 1993 by two partners
- 2003 – employs 55 professionals across Caribbean
- Offices in Barbados, Trinidad, Jamaica, St Lucia, Miami
- Excellent future growth prospects

PRISM's Services

- ATM implementation and connection to major networks
- Setup & mang't of debit and credit networks
- Customer loyalty schemes – Magna,
- Co-branded and loyalty software
- Credit card issuing
- Strategic planning for electronic banking products

PRISM's CUSTOMERS

- VISA, Mastercard
- Various Caribbean banks
- Cable and Wireless
- Cave Shepherd, Supercentre, etc.
- BWIA

Critical Factors

- Trained people & ability to move them around its operations – Mode 4 regulations
- Finance – Hard to raise funds in early stages due to high cost and risk aversion by banks; still gets finance overseas.
- Communications – Telecoms cost– affects costs of its services and that of its customers.

Successful “Foreign” IT Firm

- Advanced Technology Development Center – US firm with Jamaican operations
 - training
 - software development
 - employs 100 developers
 - clients in Malaysia, Bahamas (customs and immigration)
 - outsourcing work in development, data management solutions, etc.

Policy Dilemma

- How to reconcile trade policy with industrial policy in services?
- How to encourage investment but safeguard space for domestic firms?
- Which service activities and which modes of supply to liberalize in order to promote the development of service industries?

Developing Services Exports

- Which are competitive sectors?
- Are indigenous firms ready for exports?
- If not, how to attract investment?
- How to foster the development of service sectors – incentives, incubators, soft loans?
- How efficient/clear is your investment regime?

INFORMATION

- Information on your services industries – What is being exported to where? What would firms be interested in exporting?
- Short term vs long term

- Statistics critical but need to consult with private sector about new market interests
- What is the state of regulations in key sectors?
- Can you grant market access without proper regulatory regime?

Telecoms Reform Initiatives - Selected CARICOM Member States

Country	Particulars	Overview of Key Features	Updates
Barbados	<p>Telecommunications Act 2000</p> <p>Approach Gradual Managed Transition</p>	<p>Full Liberalization by December 2002</p> <p>Phase One (Dec 2000- March 2001) Allow competition in CPEs (single line, inside wiring and multi-line systems), Mobile, internet, domestic voice (value added) switched resale of minutes using incumbent's network, international leased circuit capacity resale</p> <p>Phase two (April 2001 – Dec 2001) Full competition in CPEs, domestic voice fixed wire line network competition</p> <p>Phase three (December 2002) Full competition domestic voice, full network based competition international voice, including V-SATs.</p>	
Belize	<p>Telecommunications Act 2001</p> <p>Approach Rapid Transition</p>	<p>Full liberalization by December 2002 Public Utilities Commission, issue licenses but only after public consultation.</p>	
Jamaica	<p>Telecommunications Act 2000</p> <p>Approach Gradual Managed Transition</p>	<p>Full competition in all telecoms sectors by March 2003</p> <p>Phase One (March 2000 –Aug 2001) Allow Competition in Mobile services, internet and data excluding voice and using incumbent's network Paging, resale of incumbent's international voice minutes, CPE and within Free Trade Zones</p> <p>Phase Two (Sept 2001, Feb 2002) Allow competition in domestic voice services, internet services provided by television providers, resale of incumbent's domestic switched minutes</p> <p>Phase three (March 2003) Full competition</p>	
Trinidad and Tobago	<p>Telecommunications Act 2001</p> <p>Approach Rapid Transition</p>	<p>The de-monopolisation of the telecommunications sector such that service providers other than TSTT may provide services to operate a public telecommunications network or provide a public telecommunications or broadcasting service.</p> <p>Equal treatment of all similarly situated operators and providers of services except</p>	

Country	Particulars	Overview of Key Features	Updates
		<p>where special treatment is necessary for introduction of competition. Additional obligations to be imposed on operators or providers whose dominance is established in a particular market in accordance with the criterion laid out in the bill.</p>	
<p>Organization of Eastern Caribbean States through ECTEL) (Antigua not included)</p>	<p>Approach Gradual Managed Transition</p>	<p>Cable and Wireless signed an agreement with the OECS on 7th April 2001 C&W has agreed to a transition period of 12 – 18 months from April 1st as follows.</p> <p>Phase One Allow competition in domestic mobile/cellular infrastructure CPE, single and multiline Resale of international minutes carried through incumbent's network VSAT facilities to serve call centre/data entry businesses (no interconnect with PSTN) Internet but no voice and no bypass Call back licensing</p> <p>Phase two 12 – 18 months from beginning of phase one Total international plus domestic mobile cellular International facilities based competition voice and data, including internet, Domestic voice and data infrastructure competition Full internet</p>	
<p>Antigua and Barbuda, Suriname</p>	<p>Monopoly Telecoms provider</p>	<p>No clear indication of market opening</p>	

INTEREST RATES IN CARICOM STATES

Table 1A. Commercial Bank Weighted Average Loan Rates (%)

Countries	Actual											
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bahamas	15.4	15.3	14.9	14.2	13.3	12.6	12.8	12.3	11.8	11.7	11.5	11.3
Barbados	15.0	12.6	11.3	11.9	11.8	11.9	11.9	11.6	11.7	11.9	11.1	10.4
Belize	14.3	14.4	14.6	15.0	16.3	16.2	16.6	16.3	16.2	15.8	15.4	14.5
EC Currency Union	12.2	12.2	10.9	11.5	11.8	11.8	11.9	11.6	12.0	12.0	11.5	11.3
Guyana	33.2	29.8	18.7	19.6	20.7	18.5	18.3	18.3	17.9	17.7	17.6	16.8
Jamaica	34.0	46.0	49.6	45.8	48.6	37.8	31.9	30.1	24.6	22.1	19.5	18.3
Suriname	9.0	9.0	9.7	32.2	39.6	34.9	28.8	25.7	28.5	29.0	23.5	21.3
Trinidad & Tobago	11.8	12.8	13.1	13.9	13.4	14.2	11.9	15.2	15.9	15.3	14.5	12.8

Table 1B. Commercial Bank Average 3-Month Deposit Rate (%)

Countries	Actual											
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bahamas	7.1	6.1	5.2	4.5	4.7	5.1	5.3	5.5	4.5	3.9	4.2	4.0
Barbados	7.5	5.0	2.9	5.0	5.0	5.0	4.3	4.8	5.1	4.8	3.5	2.5
Belize	6.4	6.0	6.0	6.1	7.2	6.2	6.7	6.0	5.7	5.0	4.3	4.5
EC Currency Union	5.5	4.5	3.3	4.0	4.3	4.3	3.8	4.6	4.6	4.6	3.8	4.0
Guyana	29.2	18.2	10.9	12.8	12.9	10.4	8.4	8.0	9.3	7.4	7.2	3.7
Jamaica	29.9	23.7	42.6	31.2	26.0	22.8	13.8	15.9	14.2	13.7	11.1	9.6
Suriname	4.6	4.5	4.9	12.9	20.4	16.4	16.6	15.7	15.9	15.4	11.1	8.4
Trinidad & Tobago	5.7	7.8	7.8	7.2	6.3	6.5	6.5	6.8	6.4	6.6	7.2	3.4

Table 1C. Commercial Bank Interest Rate Spreads

Countries	Actual											
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bahamas	8.5	9.2	9.7	9.8	9.1	7.5	7.5	6.8	7.4	7.8	7.2	7.2
Barbados	7.5	7.6	8.4	6.9	6.8	6.9	6.9	6.4	6.5	7.1	7.6	7.9
Belize	7.9	8.4	8.6	8.9	9.1	10.0	9.9	10.3	10.5	10.8	11.1	9.9
EC Currency Union	6.7	7.7	7.6	7.5	7.5	7.5	8.1	6.9	7.4	7.3	7.7	7.3
Guyana	4.0	11.6	7.8	6.8	7.8	8.1	9.9	11.2	9.9	10.4	10.9	12.5
Jamaica	4.1	22.3	7.0	14.6	22.6	15.6	18.1	14.2	10.4	8.4	8.4	8.7
Suriname	4.4	4.5	4.8	19.3	19.2	18.5	12.2	10.0	12.6	13.6	12.4	12.9
Trinidad & Tobago	6.1	5.0	5.3	6.7	7.1	7.8	5.3	8.3	9.5	8.7	8.8	9.1

Source: Caribbean Centre for Monetary Studies