

THE EXPERIENCE OF THE PRIVATE SECTOR PARTICIPATION IN THE FORMULATION OF TRADE POLICY

**PRESENTATION BY MR. JAMES MOSS-SOLOMON
EXECUTIVE IN RESIDENCE, MONA SCHOOL OF BUSINESS, UWI**

November 6, 2002

Circulated by the NPC Secretariat
2002/11/06

THE EXPERIENCE OF THE PRIVATE SECTOR PARTICIPATION IN THE FORMULATION OF TRADE POLICY

Finally, we have arrived at a crisis position, which is why we are all meeting here this weekend. The year 2002 is an unprecedented year of international negotiation, both in frequency, and importance. The CSME, FTAA, EU/ACP, and the WTO are all in full swing, and are all at critical stages, which will influence our lives from here onwards.

To quote my friend Michael Lee Chin of AIC Funds, "The Chinese word for crisis means two things – problems and opportunities".

My assertion this morning is to suggest that we have considered and focused more on problems, than on the opportunities, which accompanies them. I will also make a few recommendations as to what constitutes in my mind, a feasible way forward which can be acted upon now.

A. PROBLEMS

i) CSME

- We have had severe difficulties arriving at final positions on which all of CARICOM can agree. Firstly, the negotiation required a consensus among countries, which proved difficult if not impossible to arrive at. Therefore, within the last two years we have had to abandon these principles and allow countries to move forward at their own pace.
- In the early stages there were limited calls from Government for Private Sector involvement prior to signing agreements, and when these came we of the Private Sector largely ignored the invitation. Therefore much of our activity has been targeted at overturning policy after the fact, rather than influencing it before.
- In 14 democratic countries, we are probably averaging 2 – 3 general elections, and 3 – 4 local Government elections per annum. The frequency of Government and Ministerial changes is not a factor, which speeds up our decision making ability or even lends itself to continuity. Therefore, the involvement of Opposition Parties in the process and some commitment to continuity of policy direction is extremely important.

- From the political point of view, many policy issues of the CSME manifest themselves during the electoral periods in various countries, and provide fodder for the platform pronouncements during the hustings. For example, issues such as the ownership of land, free movement of people, and foreign investment become highly politicized issues, which are quite contrary to the direction of CARICOM. No single issue has perhaps been more ventilated than the Caribbean Court of Justice (CCJ), and certainly here in Jamaica it is seemingly a major point of political debate. However, the CSME hinges on having a Court of Final Jurisdiction in order to deal with matters of trade. We, stymie ourselves with the belief that "hanging" is the be all and end all of this issue. Quite frankly, we need a means of resolving Single Market Trade concerns if we intend to make progress within a globalized world.

We need therefore to engage our Governments in discussions towards trade policies which offer continuity beyond their expected term of office so as to allow the necessary growth adjustments to take place in the goods and services sectors.

ii) FTAA

- The proposed date of January 2005 is quickly approaching and no clear direction for negotiation is yet apparent. I suggest that we are running out of time if we intend to negotiate as CARICOM. Our own CSME arrangements as mentioned previously have deadlines of removal of restrictions going up to 2005. Based on our previous implementation schedule we will not meet this objective without serious effort.
- The recent trade actions by the United States with regard to Steel imports and Soft Wood products send a clear signal that anything which they deem damaging to their own local interest will be the subject of strong action, whether sanctioned under the WTO or not. Therefore, in light of this possible action we need to align ourselves with as many countries as possible in the developing world in order to have a strong negotiating position. This has proved to be the strength of the EU when challenging the United States. We, as developing countries need to understand the strategic implications of trying to

stand as a group or stand-alone. I suggest that stand-alone cannot be a viable alternative.

iii) ACP/EU AND WTO

- It is clear to see that many if not all-preferential arrangements are being phased out. This has serious implications for primary agricultural products, which are highly politically sensitive in the small economies of CARICOM. It is obvious that change is essential, but this is often seen as something to be resisted, and also in many cases, a sure reason for political unpopularity.
- We are approaching a new round of talks with the WTO, and we have yet to implement across CARICOM many of the agreements signed in 1996.

iv) PRIVATE SECTOR BUY IN

- Based on my observation of Private Sector "buy in" across the region, we still have a long way to go. Many firms believe that the CSME will have no impact on them. The sooner we get the message out, is the sooner we will be able to convince our colleagues that they need to gear themselves towards the dismantling of protection.
- Protection is possible to a certain degree, but can only assist those who are prepared to make the necessary changes in order to become world competitive, and cannot be used ad-infinitum for the inefficient. This is a reality, which has the potential for causing rifts between the Private and Public Sector, and one, which readily fans the flames of political indecision.
- The early policy decisions were largely made by Governments and as I mentioned previously this was not their fault, as we failed to grasp the opportunities to participate in policy formulation. We have further delayed the process by trying to find ways around these agreements when they do not suit our individual purpose.
- Our action has therefore led to the highly disparate levels of implementation as evidenced by the long list of restrictions to be removed across the region before 2005. Many of these restrictions make investment and establishment by firms within the region more difficult than for external investors.

(v) PUBLIC UNDERSTANDING

- There is a generally low level of public understanding of the importance and implication of the CSME. The average "man in the street" does not grasp the opportunities implied, or the changes necessary to ensure success in the new environment.
- We of the Private Sector are similarly uninformed, misinformed, and worse than that, seemingly uninterested.
- Firms seem to be more interested with protection rather than taking an objective view of the opportunities.
- Major leaders of the Private Sector are more concerned with domestic events, and leave the international involvement to their "second eleven". This bears no reality to the scale of opportunities offered by the CSME and further globalization.
- We seem to have established a level of comfort by not doing anything except objecting to all previous arrangements.

As I conclude the problem areas, there seem to be no other alternative than for the Private Sector, Governments, and Civil Society to put aside their differences and join in urgently forming a working partnership in order to protect our negotiating positions in the year 2002. This cannot wait, on Ministers, Government changes, or Private Sector Associations still espousing protectionism, and must be seen as our most urgent business priority. This will include participation in negotiation; sourcing and seconding expertise where necessary, shared funding, and shared information in order to complete the necessary industry studies required for a successful conclusion to our agreed policy direction.

B. OPPORTUNITIES

i) CSME

- The concept allows for a broadening of participation in markets through the Right of Establishment. This will allow firms to spread their risks across larger markets, and gives some protection from the vagaries of a single country.
- Additionally services can be established across the region gaining similar benefits.
- A real opportunity arises from the movement of people within the Single Market. In my opinion, this should not

only encompass professionals and other selected categories, but should include a wide range of skilled and semi-skilled workers. To do other than this would be to limit the opportunity for thousands of construction and agricultural based workers, who need the ability to move to wherever work and/or land respectively becomes available.

- There will be additional benefits in the years to come after we fully realize the potential advantages of a Single Market as opposed to a Common Market. We need to encourage our Governments to participate in meaningful public education programmes so that our citizens may be well informed and prepared to go beyond the restraining factors of insularity.

ii) FTAA

- The urgency of a single negotiating platform cannot be over emphasized. It is our only defensive mechanism for successfully concluding the arrangements for our benefit. The Developed Countries have rich markets, and the developing countries of South America have large populations. We have neither; therefore we lack key strengths, which must be augmented through solidarity.
- The free movement of people to the developed world must be another key negotiating strategy. There will be some dislocation of jobs in the early years of the FTAA in small developing countries, and we must insist on our rights to be able to move freely to where the new employment opportunities will exist.
- We need to utilize our nationals currently residing the developed countries in order to further our access and growth in those markets. I call this the "Trojan Horse Strategy". We have seen it used successfully by the Chinese, Italians, and Indians in the past century. It is now our turn and we must convince our Governments to look at these assets "outwardly", rather than only as means of remittance flows.

iii) ACP/EU

- The phasing out of preferences will have a dramatic effect on our traditional bulk commodities such as sugar, and bananas. It does not seem possible to immediately

- discontinue production of these items as that would lead to even greater unemployment levels. Our focus therefore, must be to make these industries as efficient as possible in the short term, so that we can explore additional options.
- A mindset change is required immediately. We need to consider a value-added approach to traditional agriculture and stop competing in the world bulk commodities market.
- As an example, if we invert our thinking, sugar becomes only a by-product, and molasses becomes the major focus, then we are able to produce more rum and related alcoholic products, which can be branded. If we decide not to sell our sugar on the world markets when preferences are removed, then we need to consider what other branded products can be produced using our sugar, which would be then a valuable by-product. This is an urgent Research and Development requirement.
- The argument set forward above applies equally to bananas, rice, and spices.

iv) STRATEGIC PARTNERSHIPS

- Even our largest corporations in the region are small by world standards and therefore lack the critical mass necessary for effective expansion in a globalized world. We need to encourage the building of companies, which can compete with the truly international corporations of the developed world.
- To do this requires a paradigm shift from the concept of the sole family proprietorship, to ownership of equity in larger and professionally run enterprises. Our international competition includes many global companies whose turnover exceeds that of our combined GDP.
- In collaboration across the region, our private sector companies need to find efficient mechanisms to access non-traditional markets, with a critical mass of products and/or services which make an impact on the distributive arrangements. In short, we need to create our own Caribbean version of Nestle, Unilever, Proctor & Gamble, and Citi-Corp.
- In doing so, we will be able to efficiently fund the exploratory costs of entering and developing new markets. We will also have an opportunity to consider effective branding of goods and services in order to create on-going intellectual property values.

- This requires initial dialogue within the Private Sector, to be followed by support from our Regional Governments in the form of allowable development incentives.
- The need for a single Caribbean Stock Exchange is an essential requirement for equity growth in the region.

v) PUBLIC UNDERSTANDING

- We need to encourage really small firms to join with our larger firms in order to survive. Transparency, and disciplined financial accounting practices will have to be a priority in order for meaningful dialogue to take place.
- We, Private Sector and Government need to distill a strategy to enlist our overseas nationals as part of our developmental thrust.
- We, the Private Sector, need to convince our Governments of the value of "outward investment", and stop their focus on foreign exchange restrictions which is counter-productive to this effort.
- In talking about investment, we need to jointly publicize the fact that the word "investment" does not only mean borrowing. This will set the stage for greater equity participation.
- Finally, we need a massive programme for understanding the value of intellectual property and copyright. It is here that the creativity of a people and/or individual is not constrained by power, or financial advantage. We in the Private Sector need to spend more time and resources on being "originals" rather than trying to compete in the "secondary" markets.

In conclusion, I have tried to identify some of the differing perspectives between Governments and the Private Sector, and hope that this will generate sufficient dialogue to arrive at a consensus which will allow us to quickly implement our growth strategies in a rapidly changing world.

Prepared by:
 James Moss-Solomon
 Chief Corporate Affairs Officer
 Grace, Kennedy & Co. Ltd.
 April 16, 2002

"FROM INSULAR TO INTERNATIONAL – WHAT STRATEGIES"?

This paper is intended to provide a basis for further discussion at The National Planning Council. It is a background following another paper also circulated entitled "The Experience of the Private Sector Participation in the Formulation of Trade Policy".

I will utilize the meeting's time to present a summary recommendation of joint activity by Government and the Private Sector in furthering our interests through the mechanism of the CSME and the FTAA.

I believe that change is necessary and inevitable, and that the sooner we accept "united we stand, divided we fall", the closer we will be to economic prosperity.

Background

Before the advent of the current Caribbean Single Market and Economy (CSME), we have attempted many cooperative ventures varying from political integration to free trade in goods. These have had differing degrees of success. Apart from freer trade in goods, the others have been largely unsuccessful.

The CSME broadens the scope of previous arrangements, excluding political integration. However, there are many political differences and sensitivities which makes this arrangement difficult to sell in fifteen different and sovereign nations, of vastly different perceived sizes, (although by world standards we are all small, and relatively poor).

Our deadline of 2005 for the implementation of the CSME coincides with the proposed date for the Free Trade Area of the Americas (FTAA), which promises to bring a possible 34 countries in the hemisphere into a close trading alliance. This is geared towards trade in both goods and services, and calls for a reduction of tariff and non-tariff barriers to trade.

Caricom's strength in this negotiation lies in the cohesive action of our 15 members. This however requires some accommodation of positions within our membership. The challenge is, are we really able to do this

without having first resolved those differences within the context of the CSME?

I do believe that it is possible, but I doubt that it will happen before the converging deadlines of 2005. The differences between Governments and Oppositions, MDC's and LDC's, and Private Sectors and Governments, large and small countries, and expansionists and protectionists, are too great at this time.

This does not suggest that we should do nothing. To the contrary, we must assess our current situation, evaluate the best course of action, and move with alacrity.

Assessment

1. We are very focused on products in which we lack economies of scale, or have not yet established a competitive advantage.
2. Our firms are too small by world standards to undertake widespread expansion.
3. The structures of our firms are mainly family owned, and may not find expansion capital outside of limited debt financing without radically transforming their ownership from private to public.
4. Our small and segregated Stock Exchanges cannot provide the necessary vitality needed to transform companies by widening ownership.
5. Our culture is to fight to protect very small markets, and thus we see other CARICOM businesses as "foreigners", rather than potential allies. Thus, we defeat the need to create larger, and more competitive Caribbean-owned businesses.
6. Our exports (goods) are largely targeted to pools of West Indians in the USA, Canada, and the United Kingdom. We have not looked at satisfying the needs of the wider overseas markets.
7. Our expectation of our overseas nationals is remittances, rather than capital formation in the host countries. Thus, we transfer our individualism to the developed world. In this way we fail to create a basis for future growth and expansion, and the wealth dissipates after the death or retirement of the wage earner.
8. Our focus on services is limited to our home territory and possibly one or two other countries within Caricom. Here we lose our island ability and international focus which we gained over the years

simply by being small spaces surrounded by water. Thus our international experience is not used gainfully.

9. We do not see investment as a two-way vehicle and therefore market saturation in small economies happens quickly. We therefore expand across industries in order to keep growing, and eventually lose focus and/or competence.
10. We think of, and migrate to, the first world, but never collectively, always as individuals. So while some may move up the ladder within the structures of the host society, very few accumulate real corporate wealth or influence.

Threats

1. Our local markets may become overrun by competitors from outside the region who have greater economies of scale.
2. Our local markets may become overrun by competitors within the region who achieve world class competitiveness.
3. Our traditional overseas markets may tend to dwindle over time unless migration continues at a high rate.
4. Our traditional overseas markets may be supplied from extra-regional sources.
5. Our regional cultural practices may prevent us from unifying in order to achieve a critical mass for overseas expansion.
6. Our overseas West Indians may be too steeped in "island culture" to develop the collective corporate habits needed for expansion in the developed countries.

Opportunities

1. The distance and size of our local markets may deter many foreign entrants in the early years of the FTAA, as they may opt for the more lucrative South American markets. This will buy us some time, but not much.
2. The cultural impediments, at home and abroad, can be addressed. However, this will require a strong leadership role by the Private Sectors and Governments.
3. Our overseas nationals must be seen as assets for accessing traditional markets, and providing growth opportunities and influence in the main stream of the host nations.

4. Non-traditional markets can be explored in a cost effective manner through joint ventures and strategic alliances which may not have to await the signing of Trade Agreements.
5. Through copyrights and patents, we can protect those aspects of our heritage and culture which are appealing to international markets, and we should expect that these will be protected within the Trade Agreements which we negotiate.

Action

1. Start upgrading and benchmarking against international standards in all industrial and service industries wherever necessary. Set targets which will bring us to the competitive zone by 2005. Also review the organizational impediments which may prevent the achievement of our goals, and resolve them.
2. Start a database for all Caribbean nationals living overseas, so that we can communicate with them and involve them in our strategic planning and implementation.
3. Experiment with joint overseas marketing to non-traditional markets, starting with the Caribbean Transnationals. This requires 4 steps:
 - a) An armchair study by students in appropriate tertiary institutions.
 - b) A refinement of (a) to the most likely prospects for success.
 - c) A visit by high-level corporate executives to the selected markets.
 - d) A formal study by appropriate consultants in order to plan an entry strategy.
4. Form one Caribbean Stock Exchange and promote equity investments aggressively.
5. Investigate and promote a variety of investment mechanisms which will attract small and large savers. The mechanism should also include our overseas nationals and be geared towards investments in productive ventures, rather than consumption.

In conclusion, I contend that these actions do not require major political approval, and can be undertaken almost entirely by the private sectors and civil society. They do not imply waiting until trade agreements are negotiated, signed, and implemented.

We must however engage the Governments as active players in our strategic planning and action by including them as participants and facilitators wherever possible. We must honestly subscribe to a single Caribbean long term goal, expressed in 3 -4 measurable criteria to be achieved in 2030, and defined in workable five-year segments. These must be easily understandable by every citizen across the region.

These are just a few actions which rely on our own initiative and entrepreneurial abilities.

A failure to act decisively now will prove to be our own undoing. Let us discuss this further at our forum and plan accordingly.

James Moss-Solomon
October 24, 2002