

Benefits from Caribbean Business Integration

How to take advantage of the Challenges and Opportunities in the CSME

Dr. Claudius Preville*

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Mistress of Ceremonies, Ms. Sharon Knight; Mr. Hesketh Williams, Labor Commissioner; Mr. Maurice Christian, President of the Trade Union Congress; Mr. Pedro Corbin, President of the Antigua and Barbuda Employers' Federation and Mrs. Corbin; Mr. Henderson Bass, Executive Secretary of the Antigua and Barbuda Employers' Federation; other invited guests, Ladies and Gentlemen, Good Evening to you all.

I have been asked to speak on the subject of the "Benefits from Caribbean Business Integration", with specific reference to the question of how to take advantage of the Challenges and Opportunities in the CSME. First, I would like to thank the Antigua and Barbuda Employers' Federation for extending such an honor to me and to be a part of your Awards Dinner tonight. Second, I want to say that I am no stranger to Antigua and Barbuda and consider it to be my third home having lived here for five years. It indeed feels good to be in the company of friends again.

Introduction

I would like to commence by providing an overall context in which to situate the question for this evening. The context is that of

* The author is with the Caribbean Regional Negotiating Machinery (RNM) and serves as Trade Policy Advisor and Representative to the OECS. The views expressed in this paper are those of the author and do not necessarily represent the views of the RNM or the OECS. Comments and suggestions may be sent at: cpreville@crnm.org or cpreville@gmail.com.

globalization, which is propelled by the need for private firms to become more competitive in the World Economy. In their pursuit of this competitiveness, the global environment is increasingly characterized by liberalization of trade, not only in goods, but also services, investment and the protection of intellectual property rights, among others. The desired end result of all of this is the elimination of all barriers to doing business and exchanging goods and services in the World Economy.

Context

Liberalization agenda is propelled multilaterally in the World Trade Organization (WTO). But it also exists within our own Hemisphere – the negotiations to create a Free Trade Area of the Americas (FTAA); and bi-laterally at several levels: CARIFORUM and the EC are negotiating an Economic Partnership Agreement (EPA); CARICOM has completed several Free Trade Area Agreements (FTAs) or Cooperation Agreements with countries in the Hemisphere including Costa Rica, Cuba, Colombia, Venezuela and the Dominican Republic; and CARICOM is contemplating FTAs with the United States, Canada and MERCOSUR.

What all of this is geared at is bringing about greater *efficiencies* across the world. The thinking underpinning all of this originates in the principle of **comparative advantage**:

“A country should specialize in the production of goods or services in which its absolute disadvantage is least”

However, even when the country specializes according to *comparative advantage* it may find itself at a “*competitive disadvantage*” relative to other countries. **Competitive advantage** implies that:

“One country is more efficient and cost competitive in producing a product or service than another”

Innovation

What seems to be causing one country to be more prosperous than another is *innovation*. I view innovation on three levels. At one level it is about developing ways by which the cost of an established product or service can be reduced by performing the processes in a sequence and manner that results in greater productivity. Here, *technology* looms large in this type of innovation.

At another level innovation is about how to create a *differentiated product or service*, thereby conferring some degree of monopoly advantage to the innovator. Here, it is the *vision* of the entrepreneur and his ability to understand the market for the product or service that allows him to produce new variants that others cannot readily identify.

Yet another level of innovation might be the creation of a *completely new* product or service. This generally requires lots of research and development, entails considerable risk, involving sunk costs that may or may not be recoverable. Here, the innovator has *vision* beyond that which already exists in the world around us.

Economies of scale

A well known and documented limitation of a small, open economy like that of Antigua and Barbuda is the difficulty of realizing *economies of scale* in production of both goods and services. The small population of the country induces investors to limited investment in plant and equipment with operations that tend to be characterized by high per unit cost. If the market can be expanded, then the entrepreneur perceives a larger business opportunity and invests in larger plant and equipment. As such

investments are made, the cost of production per unit of output declines and *profitability rises*.

Now, one obvious way to expand the size of the domestic market is through *regional integration* – in its loosest sense it is about creating an FTA, in a deeper sense it is about creating a common or single economic space in which there exists free circulation and ideally, a single currency.

CSME

This takes me to the region's pursuit of the CARICOM single market and economy (CSME). Of course, the region already has a fairly deep degree of integration within CARICOM. There is a Common External Tariff (CET) for goods – duties are zero-rated for goods produced and traded *intra-regionally*, while non-zero tariffs apply for goods originating from extra-regional sources. The CSME wants to take that integration process further to include full liberalization of services trade, investment, capital and labor. The full liberalization of *services trade* means that any service supplier is free to provide his service to consumers throughout the Region without having to face any restrictions on supplying that service. Restrictions, especially with respect to his mode of supply of the service cannot be allowed – commercial presence for instance means he will have the right to enter Antigua and Barbuda and establish his plant and equipment there for the purpose of providing this service. He is also entitled to do the same if he seeks to provide a product within the territory. Of course, in a *reciprocal* manner so too will any citizen of Antigua and Barbuda be able to enjoy similar rights in other CSME member countries.

It is important to note that there already exists a significant amount of integration within the OECS countries and such integration is scheduled to deepen even more, with the formation of an economic union. The Draft Treaty for the *Economic Union* already exists and consultations are taking place in member states with the view to

implementing it by 2008. I must also say that an economic union is the deepest form of economic integration possible. The only deeper form of integration beyond this is a political union – the formation of a single state or Federal Republic of States.

It is my view that the OECS governments were right to see the need for their own accelerated deepening of economic integration as a prerequisite to deepening integration with the greater CARICOM. It is the only way to preserve the integrity of the concentric circles of the regional integration processes. However, the private sector now needs to follow that lead and re-think the manner in which it conducts business to reflect the vision of regional integration as has been developed at the political level.

Challenges to Integration

Regional integration everywhere in the world comes with its challenges. In some way the participating countries are each giving up some of their own sovereignty to the other, but in the process they all share in a greater sovereignty – that created by the sum of all participating countries.

Within any regional integration process the challenge is for each participating country to identify and “lock-in” on the sectors in which it has *comparative advantage* and to utilize the single space created to increase efficiency and profitability in targeted sectors.

The movement of labor is generally seen as a potentially problematic thing in the Region’s integration – waves of nationals from a less developed state are feared to move to a more prosperous one and in the process, driving wages downwards and undermining the value of social security in the recipient country.

However, how credible might such a perception be? The evidence of integration experiments elsewhere, such as the European Union, suggests that not to be the case. Labor tends to move only to

destinations where there is a demand for it. If there is a demand, then there must be economic activity and so the movement of labor stimulates economic growth. The potential difficulty that I see is a scenario whereby some countries are at low skill levels and others at high skill levels – in such a case movement can result in *structural unemployment*. But this can be corrected if the government is focused, in terms of the areas where its country has, or wishes to develop comparative advantage. What is then needed of the regional integration system is to secure resources for appropriate training and education for progress.

What about availability of *financial capital*, is that a challenge? I argue it is not necessarily a challenge. The problem most often is that our business people fail to innovate - they fail to sit and visualize what it is they want to accomplish. The power of all innovation originates in human minds, i.e., our thought processes are creative. So if we are failing to innovate it is because we are failing to think constructively. Yet, no one country has a monopoly on ideas for business. Business ideas originate from individual minds, so the success of business is directly related to the quality of thought that has gone into its creation. Thought is the only creative power and is possible to be found in all of us if we so desire to make the appropriate application.

So I argue that provided sufficient *concentrated thought* has gone into conceptualization of a business, it will automatically attract all the financial capital needed to infuse life into it. No venture capitalist will pass-up the opportunity of investing in a profitable business regardless of the origin of its conceptualization.

Opportunities from Integration

A major opportunity from integration is *market building* – expansion of a small national market to include those of all integrating entities as part of it. Market building implies a larger

consumer base and serves as a catalyst for investors to develop larger plants in which they will realize economies of scale.

So, in the CSME context a firm established in Antigua and Barbuda that finds its operations too small to be optimally profitable can establish subsidiaries in other member states where conditions no less favorable to it than those enjoyed by the firm in the foreign country obtain.

Business integration should therefore infuse a concept of *production sharing* – coordination of all activities of the “commodity or service chain” not only nationally but also across the single economic space. Rather than being restricted to being a national entity, the Caribbean firm can operate as a regionally integrated entity, where decisions on output volumes are made jointly by all parts of the regional firm. This would provide the “launching pad” for the firm to operate internationally.

Of course *labor movement* within a regional integration context implies that employers can seek the most skilled labor within the region to accomplish the tasks of the firm. In so doing we have an *increased sum game* - labor gets the best possible wage, while the firm gets the best possible product or service for its market.

Concluding Remarks

In order to take advantage of the challenges and opportunities under regional integration the Caribbean firm needs to see itself not merely as a national entity servicing a domestic market, but as a *regionally-integrated entity* facing a market several times its domestic size.

Success in the conduct of business nationally will be influenced by how the firm positions itself as a regional or international player. Caribbean firms must, therefore, first use the regional integration process to increase their efficiencies and productivities regionally.

Simultaneously, they need to keep their eyes on the international market. Every Caribbean firm should consider establishing a presence in each others' markets and in extra-regional markets – United States, Canada, and the European Union. Establishment of businesses in those markets is predicated upon the fact that there already exists a significant Diaspora and the fact that tourists who have visited the Region should have acquired a demand for its products and services.

Caribbean firms should also seriously consider their role in *innovation*, protection of their ideas through patents, then implementation of the businesses that derive from them either regionally or internationally.

Ladies and gentlemen, in conclusion, it must never be forgotten that the heart of any business is the power of the *thought processes* behind it and thought is found in each and every one of us. It is time that the Region views itself differently and starts engaging in *right thinking*. Rather than concentrating on the weaknesses of small size, businesses should concentrate on integrating regionally to build efficiency. The CSME provides an optimal opportunity to pursue this. And, once they have done so, as in Richard Branson's advice, they should immediately seek to establish a presence *abroad*, as no firm is too small to do so.

Ladies and gentlemen, I thank you.