

CARIBBEAN

Integrating islands

Around

40 finance ministers from all over the globe gather in Barbados this week for the annual Meeting of Commonwealth Finance Ministers (FMM), which takes place at Bridgetown's Barbados Hilton Hotel, from September 18 to September 20, 2005.

Owen Arthur, the Prime Minister of Barbados, plays host to this year's event. Significantly, the region he represents is undergoing tremendous change. With the loss of preferential trade agreements – one of the hot topics on this year's FMM agenda – Caribbean countries are diversifying economies and bringing in tougher efficiency measures to offer the right conditions for investors.

Now serving his third term, Arthur has lead responsibility for the Caribbean Single Market and Economy (CSME), which will come to fruition this year, and is keen to see the region move another step closer to economic integration and create a powerful platform for world trade. He says: "The CSME will help make the most vulnerable members of the Caribbean Community capable of being successful in the most important economic initiative ever conceived for our region. We must ensure it is not just a legal entity residing in a treaty, but a reality that can matter fundamentally to how the Caribbean people live, work and relate to the global economy."

Jamaica, still reeling from the effects of Hurricane Ivan last year, has introduced new financial and regulatory reforms to streamline bureaucracy, stabilize the economy and make inward investment easier. Omar Davies, Minister of Finance and Planning, says: "The loss of preferential trade agreements in the sugar and banana industries, has more of an impact for social reasons as they are big employers. In terms of actual earnings, they have decreased relative to the growth of other sectors. While there is a future for the sugar industry



Owen Arthur
PM, Barbados



Marion Williams
Central Bank of Barbados



Omar Davies
Min. of Finance, Jamaica

in Jamaica, we are creating a more efficient structure, one that is less labor-intensive, where sugar is just one of the by-products. The value added for rum, for example, is much higher than sugar. We recognize the future will not offer preferential tariff regimes which we can benefit from. The message is to seek the highest level of efficiency as we have to compete against the world."

Barbados, which is predicted to grow as much as 3.5% this year, is carving a niche for itself in the financial services industry, the country's second biggest earner after tourism. This is no small feat in what is already a competitive market, but Dr. Marion Williams, one of the conference speakers and governor of the Central Bank of Barbados, is confident: "The government's last Financial Policy Statement gave the sector some advantages specifically centered on regional development." The small twin-isle state of Antigua and Barbuda also welcomes the CSME. As it moves away from the popular, but unsustainable, "all-in" resorts, the government is keen to attract higher-end tourists and has made great strides towards transparency to attract the right kind of investors. Finance Minister Dr. Errol Cort says: "As a region, we are pressing for greater commitment and more funding for programs in sustainable development."

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Barbados

Prosperous Caribbean paradise

There is much more to the Caribbean's most-visited than sun, sea and sand

The island state of Barbados, although a showcase of Caribbean charm and beauty, has always managed to keep off the beaten track. Geographically, it sits alone to the east of the Lesser Antilles. It also possesses an unusual physical landscape of volcanic origins and is fringed by live coral reefs and white sand beaches.

Barbados stands apart as one of the region's most prosperous economies, with political stability and a high level of human resources development. With a population of 256,000, the island covers an area two and a half times the size of Washington DC and enjoys a tropical climate and natural features that make it a world-class vacation paradise.

Once dominated by the sugar industry, Barbados's foremost GDP contributor is now tourism, followed by a financial services sector which has undergone major changes under the auspices of Prime Minister Owen Arthur. Having adapted the island's regulatory framework to international standards, foreign investment is growing and diversifying into areas such as light manufacturing and information services. As a low-tax jurisdiction – not to be mistaken for a tax haven – boasting an English speaking, well-educated workforce, Arthur is confident that Barbados has the potential to compete in the global economy.

The sluggish growth of the global economy in the wake of 9/11 has only served to emphasize the need for Barbados to diversify its economic base and take advantage of a huge resource – the



Mia Amor Mottley
Deputy Prime Minister



Noel Lynch
Minister of Tourism

Barbadian people, or Bajans. Mia Amor Mottley, Deputy Prime Minister of Barbados, speaks of the government's plan to generate new productive sectors for the island. "Our future is in the services sector, whether it's tourism, international services or new areas such as culture, educational and health services – all areas in which human resource development gives us the edge," says Mottley. The outsourcing

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THE SECURITIES COMMISSION

“Small opportunities are often the beginning of great enterprises.”

Demosthenes 384-322 BC

In any market, investors need to know their money is working in a safe environment. The Securities Commission of Barbados works on their behalf to regulate the market, thus giving peace of mind to all that do business here.

The Securities Commission, Barbados, will be hosting the IOSCO Emerging Markets Committee Meeting in December 2005.

The Securities Commission

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View of St. John, one of the island's top attractions

industry has existed in Barbados for over 20 years and currently employs some 3,000 people in back-office services such as software development, insurance claim processing and database maintenance.

After years of negotiations with the British company Cable & Wireless, which holds exclusive rights to the island's communications, a watershed has enabled the liberalization of the telecommunications industry. The immediate and long-awaited effect of this agreement has been a dramatic drop in international call rates, to the relief of most service companies. "This agreement was imperative in order for us to unleash the economic potential that we have in the service sector," says Mottley.

Meanwhile, the financial sector is set to benefit from the government's new regulatory framework which operates through bilateral investment treaties and double taxation agreements. This is a model they hope will extend throughout the region now that the Caribbean Court of Justice has been ratified by CARICOM (the Caribbean's trading community) member states.

The existence of a final court of appeal under regional sovereignty is, according to Mottley, "absolutely critical" to paving the way for the long-standing ambition of a common Caribbean market with the independence to build its own future.

An exploding tourism sector

Many people, particularly the large number of U.K. visitors the island attracts each year, consider Barbados to be the reason people visit the Caribbean. With tourism continuing to grow, the sector is expected to maintain its primary contribution to GDP, which is currently at 40%, for years to come.

"Tourism is the driver of the economy," says Minister of Tourism Noel Lynch, adding that the forecast growth of up to 3.5% for this year is "a level which is sustainable." Sustainability is no minor issue for a small island that promises an authentic Caribbean experience in its new promotional slogan. Non-traditional tourism areas are also being explored for development. "We are looking at niche markets and trying to fill trough periods with specific activities," says Lynch.

The Barbados Tourism Authority (BTA), which is responsible for promoting the island's tourism sector, is already making this happen by securing events like the 2007 Cricket World Cup, a world-class sporting competition guaranteed to put the full capacity of Barbados's organizational prowess to the test. As a Commonwealth member and former British colony, the Bajans' passion for this uniquely British sport is unsurprising. Visitors from the U.K. accounted for a full 40% of the half million long-stay tourists that visited Barbados last year.

A "Caribbean Experience" mindset

Given that the "Little England in the Caribbean" has been welcoming visitors from Britain for many years, the Barbados Tourism Authority is now working to increase tourism from the United States and the rest of Europe. Vital infra-structure improvements are being applied to the island's airport and various seaports to accommodate the ongoing increase in international arrivals and the expected rise in cruise tourism.

The facilities and attractions used by tourists have also undergone extensive upgrades in recent months. They have

benefited from a global investment of U.S.\$500 million, in most part from the private sector with a substantial contribution by the government.

Stuart Layne, president and chief executive of the BTA, considers the work done so far as "adequate, but with room for improvement," although he has little doubt that things are getting better every day. "We had our best year ever in 2004, with 552,000 long-stay visitors from all over the world," he says.

Barbados is retaining its reputation as a top destination in one of the most competitive tourist regions in the world, a ranking which reflects the clearly defined strategy followed by the Tourism Authority. The diversity of the local tourist market – from high-end accommodation to more intimate niche market resorts – and the reduction in seasonality have been gained by meticulous market research that delves into the very mindset of the whole Caribbean experience.

The emergence of a "brand Caribbean" should represent a wake-up call for other islands as Barbados steps up to the global tourism market with a big Bajan smile and its homework all neatly done.

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Diversifying economies

Barbados has found a successful niche by developing its service sector

Behind

every great destination there are always great places to stay. One establishment making a contribution to Barbados's trademark charm is The Savannah. One of the "Gems of Barbados" group, this prestigious hotel sits right on the beachfront, close to the center of the capital Bridgetown.

Easily accessible from the airport, making it an attractive choice for the business traveler, The Savannah provides a sophisticated conference service which can cater for up to 200 delegates. Facilities include a theater-style conference center and a fully equipped business bureau.

Also worth a mention is the Hilton Barbados which has brought the appeal of a major brand name to the local hotel sector. This luxury establishment is surrounded by two white sand beaches and offers ocean views from all 350 rooms. Guest amenities include a 4,000-square-foot Hilton Meetings Complex, with a business center, board room and three meeting rooms, all set to satisfy the demand for conference and incentive tourism.

The key concept when discussing Barbados's economic sector is "differentiation." Being different is a defining characteristic that



Michael Griffith
Gems of Barbados



Anthony Sobers
BIDC



Larry Tatem
Barbados Port Authority

Barbados has skilfully turned into an asset of major economic consequence. The manufacturing sector, which is back on track after a brief hiatus of decline, continues to differentiate itself as a jurisdiction of very specific high-quality products. "We are seeing a turnaround in the sector," says Minister of Industry Dale Marshall. "I think we can expect our premier products to increase their global market share and this will be sustained."


Meanwhile, after a good performance by the services sector last year, Barbados is focused on expanding its treaty network with other countries and making the legal framework for financial services more user-friendly. Foreign markets are also being targeted for exports and services, beginning within CARICOM until the time is ripe for the American and global markets.

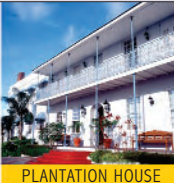
The Central Bank of Barbados (CBB), led by Governor Marion Williams, plays a central role in fostering the island's continuing development. Aside from the prime directive of maintaining the stability of the Barbados Dollar, the CBB works on the development of money markets and acts as advisor to the government on monetary and fiscal policy. Particular emphasis is put on transparency, security, price stability, management of foreign exchange reserves and other issues related to creating a favorable climate for investment.

"Foreign direct investment has always been very important for Barbados," says Williams. "Beyond the tourism sector there are growing opportunities for investment in financial services, high-end manufacturing and construction." Just as tourism is benefiting from infrastructure investments, which have allowed for a 30% growth in cruise visitors and a 7% rise in long-stay arrivals, the financial sector is being fine-tuned to maximize vibrancy. "There is a thrust to look at integrating the international financial services sector with other sectors so that it is no longer seen as a stand-alone sector," says Williams. In essence, now that the legal framework is in place to supervise and promote the development of this sector, Barbados would like to become a final destination on the global money-circuit, rather than just a pit-stop. First, however, must come the regional economic integration which is advancing on various fronts: once the Caribbean consolidates a single market, a regional stock exchange and a final court of appeal, there will be no missing it on the financial map.


The Barbados Investment and Development Corporation (BIDC), chartered to promote the island's industrial and financial services sectors, is aiming towards specialized market segments as the base of future growth. "The immediate future looks very

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encouraging, especially in the areas of captive insurance and information communication technology (ICT)," says Anthony Sobers, CEO of the BDC. The recent liberalization of the telecom sector is key to reducing ICT costs and making Barbados a competitive location for American and European companies looking closer to home to locate mid-size operations (typically involving 200 to 500 type operators or seats). The drop in call rates has completed the competitive picture already framed by a well-prepared workforce and more accessible ICT real-estate options.

Local manufacturing is also getting a boost from the BDC, in the form of a technical assistance program funded with eight million Barbados Dollars to improve competitiveness and sustainability. Areas of interest include the manufacture of botanicals from indigenous plant species, as well as local furniture crafting and the beverage sector, all of which have the potential to synergize with the tourist industry in innovative and unexpected ways.

Growing on Gas

As Barbados seeks to develop a diverse economic base, it faces the most basic of all economic axioms: nothing happens without energy. Barbados has its own oil reserves which currently supply 26% of the island's needs, mostly in the form of natural gas. The rest is imported from Trinidad and Tobago, the regional powerhouse that supplies practically the entire Caribbean. The decade-long strategic plan of Barbados's energy sector is to increase domestic oil and gas production while promoting natural gas as the fuel of choice and betting hard on alternative energy sources.

"The government will have to ensure there is an adequate supply of energy at an affordable price," says Minister of Energy and Public Utilities, Anthony Wood. The island is at the cutting edge of solar power technology and has in the pipeline a fuel-cane project, which would serve to reconvert the hard hit sugar sector, and a wind farm to harness eolic energy in the north of the island.

However, even if such sources were to reach the projected 30% contribution to the total demand by 2012, hydrocarbons will still be the most used energy source, as Ronald Hewitt, general manager of the Barbados National Oil Company Limited

Ready for take off Upgraded international airport will boost economy



A virtual image of the renovated airport which is due to be completed at the end of this year



Artist's impression of the new look airport's light and spacious interior

Grantley Adams International Airport, sitting eight miles from the Barbadian capital Bridgetown, is one of the main drivers of this Caribbean island's modern and liberalized economy. Currently undergoing a U.S.\$100 million upgrade and expansion program, the airport, named after the country's first Premier, will soon boast a brand new arrivals hall and departure lounge, a repaved runway, and a renovated terminal. All work is set to be completed by the end of the year.

The new-look airport will be a flagship for the Caribbean region. Its exciting, state-of-the-art design allows the light to stream in creating a sense of space and height for all passengers. There will be new carousels, upgraded facilities, and a level of customer service that reflects the country's image as an upmarket tourist destination and international business center. Security audits from international agencies have been extremely favorable, and the airlines are already forthcoming.

Colin Brewer, chairman of the Grantley Adams International Airport Inc., says: "Everything is geared towards making the visitor feel comfortable and relaxed, despite the increased capacity. Our cutting-edge computerized check-in system will speed up the process, leaving passengers with more time to enjoy the surroundings."

New facilities include a 35,000 square-foot shopping area, and in-transit link ups to golfing, day tours and other island activities. As well as providing opportunities for local retailers and service providers, these attractions will also bring in the revenue needed to make other improvements. A cargo facility, a private jet center, and more air/sea transfer links for cruise passengers en route to Bridgetown port are also planned, in line with the government's objectives to make the airport a hub for both passengers and cargo in the eastern Caribbean.

The weakened dollar has meant a growth in the number of tourists arriving from the U.K., many of whom like it here enough to buy a second home. New condominiums and apartments are being built and hotels are being upgraded to accommodate the new arrivals. Once the showpiece airport is operational, Brewer and his colleagues will work closely with the Tourism Authority to promote the sector. As Brewer points out: "The international financial services sector is also a significant part of the total economy and a very high net foreign currency earner. We get traffic because we are a business center, not just because we have sand, sea and sun."

With the number of people passing through expected to rise from the current two million to three million in the next 15 years, things on the paradise island look set to take off in a very big way.



Grantley Adams International Airport Inc. (GAIA Inc.)
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(BNOCL), knows only too well. The island poses major geological challenges to oil extraction and, unless a company with very advanced drilling expertise is able to prove otherwise, demand is expected to surpass sustainable production by 2007. Barbados is happy to consider joint ventures in this field, but is placing mid-term hopes on CARICOM's bargaining power in the global oil market to ensure a supply suited to each member island's particular needs.

Regulating the Market Concept

The fast and furious movement of money in the global market has swamped most self-regulating securities markets in recent years leading many countries to set up regulatory bodies to maintain investor confidence. The Securities Commission was established in 2003 with the purpose of market regulation, public disclosure and investor protection.

Neville Nicholls, chairman of the commission, remarks on the difficulties encountered in trying to refocus the local view of the market: "We had to work hard to get people to understand that to have an internationally recognized market, one

that must operate by internationally acceptable standards," he says, "and businesses are still reluctant to make use of the securities market. We want to encourage companies not to buy all the shares from a public company, but part of them so they do not lose total control. Many businesses will be vulnerable to takeover within the CSME."

Beyond increasing local competitiveness, the commission's controls serve to dissuade potential market abuse. "Ill-intentioned people think twice once they hear about these controls," says the commission's general manager Virginia Mapp. Ultimately, a unified Caribbean Securities Commission could become a reality, although currency and development differences between the region's islands represent a major obstacle at this time.

A Port for Progress

For an island like Barbados, which imports most of its prime necessities, the port is more than a place to dock and unload ships: it is the very heartbeat of the economy. The pulse of one reflects the



The new Hilton Barbados opened earlier this year

health of the other which means good news for the economy, especially given the growth in port infrastructure and activity that Barbados has undergone in the past decade. An ambitious port expansion plan, underway since 1994, is three-quarters completed and is already bearing significant economic fruit, especially in the form of cruise tourism visits.

The number of people reaching Barbados by sea has been growing in double-digit annual figures, hitting

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812,000 visitors last year (mainly from the U.S. in cruises departing from Miami). Two additional piers that will allow cruise and cargo to move simultaneously are due to be completed next year and a new finger pier for mega cruise liners is also under construction. These will bring a proportional increase in port activity in general and of cruise tourism in particular.

Larry Tatem, chairman of the public Barbados Port Authority explains that this is a crucial aspect of the overall strategy. "Right now our business is 75% cargo versus 25% cruise," says Tatem. "We want to grow the cruise and the related businesses, and depend less on cargoes." The master plan for the port's reconversion contemplates four distinct and segregated areas of activity that can operate simultaneously. One is designated for cruise tourism, another for cargo, a third for industrial and finally a special area for yachts and pleasure crafts.

While infrastructure improvements are the most visible part of the work being done, much effort is also being invested in other aspects necessary for a competitive port. Human resource training, for example, is a constant activity of the port company. "A well-trained workforce ensures operational efficiency and service satisfaction," says Tatem.

Other important areas include a fully-integrated IT system to improve cargo-tracking and the upgrade of security measures to comply with the International Ship and Port Facilities Security (ISPS) Code. New technologies have been applied to the dock cranes to allow for the fast cargo movements required in the transshipment sector, with standards that guarantee the number of container movements per hour, to keep the port moving full steam ahead.



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Jamaica

A link in the global supply chain

The

island of Jamaica needs little introduction as a world-class tourist destination. Places like Montego Bay, Negril, Nine Miles and the Blue Mountains are household names among Caribbean paradise lovers.

Less well-known perhaps are the forceful macroeconomic policies introduced by Prime Minister Percival James (PJ) Patterson which are already bearing fruit in the form of increased confidence in business and investment. Jamaica's new IMF-approved monetary and fiscal frameworks have brought flowing investment into traditional sectors as well as increasing the country's foreign exchange reserves and reducing inflation. Stability and predictability are the by words of the new economy, as the challenges of the global market become apparent. "We recognize that all industries need to be revamped to deal with world conditions," says Minister of Finance Omar Davies.

The local telecom monopoly was among the first to be liberalized to boost the emergent ICT sector and is key to the vision of repositioning Jamaica in the world market as a competitive knowledge-based economy. "We are the largest call-center destination in the region and, with the reduction in telecom rates, are due to explode in this area," says Phillip Paulwell, Minister of Commerce. While tourism remains the island's foremost industry,

other areas of interest include bauxite, alumina (the compound aluminium oxide) and agribusiness. The energy and coffee sectors are seen as particularly vital.

The Jamaican energy import bill is an onerous affair. With no oil, natural gas or coal, only 5.6% of the island's electricity comes from native sources. This is clearly not enough to ensure an affordable supply in years to come. The Petroleum Corporation of Jamaica (PCJ), together with subsidiaries Petcom and Petrojam, is determined to increase that share to 15% by 2012 while promoting the use of natural gas and studying the possibility of off-shore drilling. Wind and hydro projects have been set up, but the sector's great hope is in sugar cane which can be reconverted to produce bio-ethanol and bagasse – a waste product that can be burned as fuel. An ethanol processing plant, built with Brazilian backing, begins operation this year to supply the U.S. market and, within a couple of years, vehicles in Jamaica are expected to run on a 10% ethanol-to-gasoline mix.

Authorities are also concerned about how energy is being used. Electrical demand is relatively flat during the day, then rises around 17.00 and stays high until 23.00 at night. As managing director of PCJ, Raymond Wright explains: "This means Jamaica is not using energy for production, but to enhance its quality of life, which is perhaps our biggest concern." If energy consumption does not translate into GDP contributions, the balancing act of supply can become a freefall to shortage.

Coffee sector set to perk up

Meanwhile the coffee sector is at the forefront of the government's development strategy and is being assessed by the Jamaica Promotions Corporation who are responsible for facilitating investment and helping local companies become more competitive and investor-friendly.

Despite being surpassed by sugar cane and bananas in terms of revenue generation, Jamaican coffee has one major market advantage: it is a gourmet delicacy that lays outside the larger coffee markets and is immune to fluctuations in global prices. This protection does not, however, extend to tropical hurricanes, as Ivan proved. The coffee sector is still recovering from the havoc wreaked by hurricane Ivan in 2004. According to the Wallendorf Coffee Company Ltd – the commercial arm of Jamaica's coffee sector – damage extended to 40% of the coffee trees export value from the previous year, while much of the rural road network that reaches into the island's hilly interior was washed away.

Getting the sector back in shape is now top priority for Wallendorf and other sector players, such as private producer Jamaica Standard Products Company Ltd and regulatory body, the Coffee Industry Board. "The concern right now is the availability and cost of capital to allow for recovery programs," says David Martin, CEO of Wallendorf. Extra effort is being made to secure external funding for recovery. Fortunately, the very process of recovery offers interesting investment opportunities, suggesting that java-lovers will not be deprived of this Jamaican speciality for long.



Raymond Wright
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Antigua & Barbuda

With tourism expected to contribute 70% of Antigua and Barbuda's (A&B) GDP this year, the country is boldly repositioning itself to attract the discerning tourist.

The two islands, which span 170 square miles of the eastern Caribbean, have a joint population of 75,000 and make up one of the world's smallest nations. A hot and dry year-round climate and 365 different beaches have all secured A&B's reputation as a picture-perfect destination for cruise liners and airlines. Harold Lovell, Minister of Tourism and Civil Aviation, is now keen to take the sector to a new dimension: "We want to retain our popularity with the middle and upper-end market and offer optional features so that all stakeholders can directly benefit from the presence of visitors."

As well as being steeped in maritime history, the island of Antigua has coral reefs that remain almost unbroken even 200 years after Admiral Nelson's first fleet landed. Barbuda, 25 miles south, is a haven for birds and deer. Preserving these assets is very important. "We are monitoring developments very closely and emphasizing quality and personal service, with units no larger than 350 rooms on Antigua," Lovell says. The minister intends to attract at least two of the largest hotel brands and has ambitious plans to double room capacity over the next five years and increase the number of visitors to 500,000.



Intriguing, irresistible, seductive... and that's just the water

The British make up around 40% of the current arrivals and there are several flights from the U.K. each week. The airport is being upgraded, including a new terminal, to cope with a predicted 9% growth in demand and the 2007 World Cup cricket event. A new stadium, dedicated to Sir Vivian Richards, is also under construction.

Lovell is also keen to go deeper into the yachting sector. "We have very good anchorages and are working to improve safety and navigation around A&B," he says. The government recently implemented a program to fast track goods from yachts through customs and improve customer service. Sailing aficionados consider Antigua Sailing Week (April 30-May 6, 2006) to be one of the top five regattas in the world. The annual event attracts around 200 of the world's most impressive yachts, more than 1,500 Olympic, America's Cup and round-the-world sailors, plus some 5,000 spectators. "We are developing a calendar of events to make the destination attractive year-round," says Lovell.

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