



GOVERNMENT OF BARBADOS

ADDRESS BY

THE RT. HON. OWEN ARTHUR
PRIME MINISTER

AT THE
OPENING SESSION

OF THE
NATIONAL ECONOMIC CONSULTATION

SHERBOURNE CONFERENCE CENTRE

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This event, the National Economic Consultation, has now become by far the most significant single event sponsored by the Social Partners of Barbados.

For too long, the formulation of economic, fiscal and financial policies to be carried out by the State has been undertaken in a climate of secrecy which has been both unnecessary and counter productive.

Such a tradition has perhaps only served to make Ministers of Finance appear to be more powerful than they are and has led to the perpetuation of the Gladstone/Disraeli syndrome whereby the Prime Minister is overworked by having to be his own Chancellor of the Exchequer.

No wonder Prime Ministers sometimes may appear to be weary.

We however now live in new times, requiring of us new responses, not the least of which must be sustained engagement on every front, in every sphere such that there is a shared and common perspective of the change over which we must preside, and a shared and common sense of ownership by all of the policies that should best be used to carry us forward.

The purposes just described are the considerations which confer such special significance on the consultations which are to engage us over the

next two days.

From the outset, let me therefore also assert that this National Economic Consultation should be seen, not as a stand alone event, but essentially as part of a series in which the focus may change from year to year but for which the over-riding objective is to ensure that Barbados is kept on a path of sustainable development while simultaneously repositioning itself in an evolving regional and global economy.

There is now an evolving climate of public opinion in this country in which it is difficult to sustain interest in serious but unexciting things, because of a growing preference for controversies for their own sake.

It therefore becomes necessary for me to provide proper context for the specific matters which will engage us over the next two years, by sharing a broad perspective on the nature of Barbados' economic circumstances.

Central to this must be the proposition that in the first decade of the 21st century, the environment within which the growth and development of the Barbados economy takes place has come to be shaped by a combination of forces which bear no relationship to those which were at work in the immediate post Independence era, and which has made, and will continue to make it more difficult for us to achieve economic growth and to sustain it.

Principally, the application of WTO trade rules has meant that some of our economic sectors and enterprises, long dependent for their survival on the existence of protectionist barriers and supports, have had, for the first time to face international competition in foreign and in the domestic market.

The consequences have been adverse especially for manufacturing and agriculture.

Preparing the economy to be part of the new CSME has triggered its own challenges and responses. It has inspired the programme of direct tax reform intended to bring our tax rates and regime in line with the best in Caricom. It is helping to make us more competitive and attractive as a location for doing business in Caricom.

But it has also taken its toll on the growth of government's revenue.

Graduation from access to sources of concessional financing has also meant that we are now largely on our own as the financiers of our development.

By way of interesting comparison, the Grantley Adams Airport was constructed in the late 1970's by a loan from the Canadian Government which was subsequently written off. The recent re-development of the

Airport was carried out in part by funds sourced on the international capital market on commercial terms.

We have, in this first decade of the 21st century, had to fend off challenge after challenge to the legitimacy of the arrangements we have put in place to make Barbados an important location for the performance of international business and financial services activities.

Our sector continues to grow, but the climate of uncertainty which envelopes it imposes upon us the obligation to continually make changes in its legislative and institutional support systems just merely to hold our own.

Barbados now also faces major challenges from countries such as India and Mauritius in the market for skills-intensive, knowledge-based industries - an area which has been identified as one of enormous potential for Barbados given our human resource endowment.

Our Tourism industry has exhibited the features of a mature industry which faces intense competition from newer destinations with fresher, more competitive products. We have therefore had to entirely rewrite our incentives for supporting the industry, and to make substantial expenditure on investments to improve the products and the attraction which we put on show.

Technological and new cultural forces are also bombarding our economy, influencing significantly the pattern and composition of our demand, the relative position of industries and sectors and the formation of costs in Barbados.

We now also have specially to be on our guard to deal with unanticipated international shocks. For example, in the aftermath of September 11, we have had to meet new external marketing and security requirements that have put a considerable strain on our resources. We now also have to gear our economy to deal with the reality of higher energy prices than we had bargained for a few years ago. This will be one of the matters that will engage us at this Consultation.

Of course, there are some things which will never change.

One is the condition that the maintenance of sound macro economic policies are an essential requirement for stable and sustainable growth and development.

Manageable fiscal deficits, wage increases that are in line with productivity gains, the careful management of our domestic demand to keep it in line with our capacity to pay our way in the world, the nurturing of an

enterprise culture conducive to increasing the competitiveness of our enterprises are all vital, enduring aspects of the discipline of sound economic management, especially for an economy where the anchor that is expected to hold is that of a fixed exchange rate.

As such, whenever there is a deviation from any of these aspects of best practice, for any reason, we have to make the necessary adjustments to ensure that Barbados' growth and development can continue to rest on sound macro economic foundations.

This brings me to a consideration of the recent performance and immediate prospects of the economy and allows for a reflection of the strategic significance of the major matters to be addressed at this Consultation.

Over the past five years especially as a result largely of our deliberations at these Consultations, we have put in place major policy reforms as part of a general framework to reposition the Barbados economy. The reform of our direct and indirect tax regimes, telecommunication reform, the major adjustment of the legislative and institutional environments within which our main economic sectors function, the assumption by government of a financial intermediation role to provide development financing and technical assistance to enterprises to facilitate their restructuring the reform of the NIS, new insolvency legislation, new competition policy and the like,

have all been part and parcel of the effort to build a more modern and more competitive economy.

From the very outset, we had indicated that the economic reforms intended to reposition the economy had to be phased in sensible proportion to the economy's capacity to accommodate change.

At any juncture therefore, the agenda of reform to bring about structural adjustment of the economy will have to be refined and added to in the light of evolving realities.

The agenda for this consultation has been designed to carry forward the policies for the reform of the economy in two significant areas.

First, we now live in a global economy which is opened for business on a 24 hour basis.

Our economy is still largely functioning as an 8 hour shift economy.

To persist with this economic culture will make this economy uncompetitive. Matters related to the flexibility of our labour market arrangements have therefore to be tabled and properly evaluated, taking into account, in a sensitive manner, the interests of all concerned.

This issue will be one of the principal matters that will engage us at this consultation.

The second area of great significance has to do with building a stronger export culture in Barbados, and tempering the effects of trade and financial liberalisation as factors causing economic instability in our society.

An evaluation of our recent macro economic performance indicates that the economy after exceeding our sustainable growth target in 2004 is now more on a path to grow at a rate which we can sustain.

However, too much of the growth is being generated by the sectors which consume rather than earn foreign exchange. In addition, there has been a surge in domestic demand, driven in large measure by a major expansion in domestic credit which has resulted in a surge in imports and an external current account deficit of unprecedented and unsustainable proportions.

As I indicated in my Presentation to Parliament last December, the correction of this deficit on the current account of our Balance of Payments will be the principal matter that will exercise the focus of our economic policies.

The Central Bank has already started to tightened credit conditions, and the

tightening will continue as our circumstances warrant.

New fiscal measures have also been introduced to raise dedicated funding for export marketing and development. Next Tuesday, Parliament will consider legislation to create a specialised institution dedicated to the promotion and development of our International Business and Financial Sector.

Barbados must address the deficit in our external accounts by new policies to develop our export sectors and to earn foreign exchange. A paper has been commissioned and will be presented to enable us to reach a consensus as to how best to proceed in this most vital endeavour.

We now live in the age of Trade and Economic Liberalisation.

We are now better in a position to judge how trade and financial liberalisation have been affecting the Barbados economy and what measures must be introduced to temper their effects on the economy.

Again, specifically commissioned papers on this subject will be presented at this Consultation and hopefully will lead to policy proposals that will find their way into the policy programme of Government in the near future.

All indicators now suggest that energy prices will remain at their incredibly high levels, and will constitute a major macro economic force that can destabilize our economy unless appropriate adjustments are made.

Already the inflation rate is trending upward, driven by the force of energy price changes in large measure.

I do not accept that the Government or the country in general should passively accept the adverse consequences of rising energy prices. There is much that can and must be done to introduce and institutionalize more energy efficient and conservation practices across the entire economy and society. Our plans for energy production have significantly to be adjusted. In addition, new energy policies have to be formulated to affect how energy prices are set.

The Central Bank will present a Paper at this Consultation addressing itself to the effect of rising energy prices in the economy. The Ministry of Energy will also make a presentation, forwarding new proposals for energy conservation, development and pricing.

This should begin the consultation that should enable us to evolve a new national energy policy and programme to form a major part of the Economic Policies that will be presented to Parliament later this year.

The matters that engage us at this Consultation will form the core of the economic programme and policies that will be presented to Parliament later this year.

The format for these Consultations has been adjusted to allow for the presentation of commissioned papers in working groups so that the matters can be properly focused.

I however do not accept that our discussion of these economic matters should end here.

The Government will welcome further discussion and engagement on these matters in the popular media and in the wider community. Members of the Cabinet and leading public officials will be expected to participate fully in such discussions.

Like any other country, Barbados has economic challenges that must be faced, and to be sure, we will face and fix them.

We all wish to live in a successful society.

The Government and the Social Partners are bonded not just by a Protocol that is a collection of words, but by a spirit to do what is in the best

interests of the country.

It will not always make us popular, nor will see eye to eye on everything.

But we must be committed to staying engaged on the things that will make the difference.

This year's National Consultation can make all of the difference on matters that are critical to enhancing our competitiveness in a changing and challenging world.

I am therefore happy to commit the Government to full participation in the Consultation and look forward later in the year to have economic policies that reflect a national consensus presented to Parliament.

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