

Exports and Economic Growth in Barbados

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The performance of exports and of tourism over the next several years will determine whether Barbadians maintain the standards of living we have now attained. The vital importance of foreign exchange has impressed itself on the national consciousness. It has been stressed repeatedly that Barbadians depend on imports for most of the amenities of life. We either import directly consumption goods such as rice and motor cars, or we import the ingredients for producing final goods such as shirts, paints and chickens. Fluctuations in the value of the US dollar have heightened awareness of the impact of foreign exchange. We have seen how variation in the price of foreign exchange may take goods beyond the reach of some consumers in a rather short time. Moreover, we have vivid examples near at hand to illustrate what happens to lifestyles when foreign exchange is inadequate.

Some important sources from which Barbados has earned foreign exchange have slipped away. It began in the early 1980s with export losses on the regional market. Jamaica was forced by its own economic circumstances to devalue its currency, Guyana went bankrupt of foreign exchange and the Government of Trinidad and Tobago closed off that market. Significant losses of extra-regional exports have followed, largely because of changes in overseas markets which cut away demand for the output of Barbadian manufacturing plants. In seeking to repair these losses Barbados finds itself at a disadvantage relative to

other Caribbean nations in many of the activities which have hitherto made up the bulk of non-traditional exports. Ten years ago wages in comparable jobs were not greatly different in Barbados and in Jamaica, the Dominican Republic, Guyana, Costa Rica or Mexico. However, while the Barbadian economy has grown and even prospered in the intervening years, our neighbours have all experienced great hardship and loss of many comforts of life. Workers in these countries are prepared to offer labour services in return for lower material returns than they would have accepted a decade ago. Quite suddenly most of our neighbours are offering manufacturers labour costs which Barbados cannot match.

Tourism has partly made up for declining exports, but it has been necessary to borrow to close the foreign exchange gap. Foreign borrowing is entirely legitimate, one means by which independent nations improve their control over their citizens' economic destinies. Dependent states and satellites must endure the vagaries of overseas markets with little to cushion the need for immediate accommodation. A virtue of economic independence is the ability to borrow judiciously to tide the country over temporary misfortune or to allow some breathing space to make adjustments as market circumstances change. By borrowing government smooths out economic ups and downs and provides a more confident environment for firms and households to make plans. However, steps must immediately be taken to relieve the need for further borrowing and to create the capacity to repay.

The focus of this address is the contribution that manufacturing may make to a new surge in export sales. We begin by sketching the magnitude of the overall foreign exchange requirements for the next five years, for which the nation is looking to tourism, manufacturing, agriculture and export services. We comment on the prospects for each sector in order to put the challenge to manufacturers in context.

The immediate task is to restore foreign exchange earnings to their peak 1984 level in real terms. That requires about \$100 million more than Barbados is expected to realise from foreign sales in 1987, plus 5 - 10% for cumulative price increases since 1984. Tourist receipts for 1987 are expected to be nearly \$100 million higher than in 1984, but net exports of manufacturers are down by perhaps \$80 million and sugar receipts are likely to be over \$10 million lower. Meanwhile consumer imports are running almost \$100 million above the 1984 total and debt service charges are likely to be \$120 million higher.

Beyond this repair work additional foreign exchange is needed to finance the continued growth in economic well being and to supply the consumption needs of the currently unemployed as new job opportunities are found for them. Extra foreign exchange is needed to provide the means of servicing the rather sharp accumulation of foreign debt which has been a continuing feature of the 1980s. Much of the burden of earning additional foreign exchange falls to the manufacturing sector.

Tourism unquestionably has the most immediate potential for expansion of foreign earnings but we should not depend on dramatic gains in this area. Barbados' tourism suffers acutely from the regional competition mentioned earlier and this country still has considerable distance to cover in burnishing our reputation for quality in tourism. Moreover, monoculture is to be avoided if small nations are to develop a capability for flexible economic response. Barbados already shows signs of remission from the economic diversification achieved in the late 1970s.

The export of technical and professional services is another area to which we should look for future earnings, and incentives for exploiting this source should be provided. However, to date Barbados has had only sporadic successes in the supply of construction services and management consultancy to the Caribbean and in providing electronic data entry and processing. We have not yet established a dependable foothold in this area, and it will be some years before earnings can make an important contribution to the supply of foreign exchange.

As a major export activity non-sugar agriculture is a doubtful starter. All the likely candidates face intense competition from lower cost sources, and the technical and agronomic problems of many are not yet resolved. The economics of full scale production of an alternative agricultural export have not been fully worked out, to take account of capital costs, harvesting, transportation, irrigation and so forth.

Sugar may have better potential than the doomsayers allow, particularly if rum and special sugars are marketed imaginatively, and if best use is made of by products. Because we know sugar so well we stand a good chance of devising more cost-efficient farm organisation to keep us ahead of the competition.

None of these activities can fill the manufac sector's role as the second source of foreign exchange and a major provider of new jobs. If manufacturing does not regain and improve on its former stature the unemployed will remain jobless and foreign exchange receipts will fall short of the economy's needs. We should expect to see changes in the mix of activites which make up the manufacturing sector. Our competitors now have too great an advantage in labour-intensive industry where Barbados was on equal footing in the 1960s and 1970s. Some selected possibilities may remain in activities with which we are familiar, but we need to search out lines of production where Barbados has some advantage which makes Barbadian products competitive despite the higher labour cost.

Manufacturing Activities

Communications services is an area where Barbadian suppliers may be competitive, if we can maintain standards of speed and accuracy which are markedly in excess of our typical competitors'. For firms in publishing, data entry

and telecommunications, costs depend very heavily on the time taken to complete the task, so that workers who are swift and accurate may command a high wage. Because they are quite well educated Barbadian workers may outperform their overseas competitors, provided that they are put to work in an effectively designed and managed environment. However, the Barbadian advantage is by no means conclusively established; we will have the proof only if we witness a substantial expansion in these lines of activity. Moreover, as others improve their own standards of performance the quality differentials can be expected to erode. Communications services will also be stymied if international data transmission cannot be supplied at competitive prices. We should not ignore the influence of private satellite transmission on the market for this service; once we are satisfied that international rates are being depressed we must take steps to ensure that Barbados does not price itself out of what may be the most promising market for extra-regional sales.

Medical supplies were identified by consultants to the IDC some years ago as an expanding field which offered opportunities for Barbadian exports. So far we have made no progress in creating a niche for local manufacture of pharmaceuticals, special clothing and hospital supplies. We hope that Barbados may prove an attractive location

for Puerto Rican exporters wishing to put down plants with duty-free access to Europe under the Lomé convention. At the moment that is not something one can place a dollar figure on. Furthermore, every one of Barbados' Caricom partners is a potential candidate for such activity.

Barbados' recent experience with the export of electronic components should not necessarily be taken as evidence that we have no future in this activity. However, we do need to be much better informed about changes in the processes, markets and technologies of the products we sell. The process of realignment of manufacturing activities with which we are now confronted may well become a recurring feature of the sector. From time to time firms may have to change their product lines as technological changes cut down the demand for the things they sell, and some firms may go out of business altogether. Barbados should provide itself with sufficient knowledge of products and markets that our policy making institutions can anticipate change and can identify new products and processes for which Barbados' educated labour force is suited. If the country manages to resuscitate the electronics sector we will have demonstrated the capability to deal with what is bound to be a continuing feature of export activity - the demise of some lines of activity, because of technical changes, improved performance by our competitors or changes in the market demand for particular items.

The prospects for garment manufacturers are really quite unpromising. Very few of the things Barbadian firms make can be sold in any overseas market at prices to compare with similar items from our competitors. I suppose there must be some garments that Barbados can market successfully; garment manufacturing survives even in rich countries like Japan and the US. What these items might be I have no idea. I have the uneasy feeling that there are very few of us who understand the garment industry well enough to begin to pick out possible activities where Barbados might out-perform other producers. In the business section of the Sunday New York Times of a few weeks ago there was an article on a New York garment manufacturer who had found a profitable niche in the supply of quality goods to large retailers to be sold under the retailers' own brand names. Do we have the expertise to search out similar opportunities? Barbados is hoping to attract Far Eastern manufacturers whose expansion is contained by US quotas, but I fear we may lose this business to our neighbours. We need not give up on clothing exports, but we may need greater expertise about the industry and how its products are produced and disposed of, in order to select items and ways of producing them so as to reach markets with an attractive product at the right price.

One cannot be optimistic about the prospects for furniture exports, despite the evidence of a buoyant North American market for some of the things Barbadian firms can produce. Over the past year I have accumulated anecdotal

evidence on the supply of major furniture systems by local manufacturers at several institutions. I have not come across a single instance when a complete order was delivered on time. I sincerely hope that some one in this audience will be able to provide an example to the contrary. What is more, agreed specifications were varied in an embarrassing number of cases. If we cannot deliver complete, exact orders in Bridgetown on schedule, I see no hope that we will deliver in Miami on schedule. However, there are firms making the goods we want to sell who do deliver on schedule, from plants in the US and elsewhere. Unless we learn to live up to their standards we have no hope of successful export.

Rum sales have been going well, even though the demand for spirits in North America is on the decline. Barbados' small size is to its benefit in this instance; it will never supply enough to weaken overall market prices, and we produce a level of output suitable for specialised market segments. We also have the advantage that Barbados understands the rum business better than it does electronics, data processing or clothing.

The Immediate Prospects

We have known for some time that restructuring of the manufacturing sector would be necessary. The growth recorded in the 1970s was based largely on the Caricom market, which has since contracted, and where countries with devalued currencies

now out-compete Barbadian manufacturers. Manufacturing was based on clothing, assembly and relatively low-skilled labour intensive processes, and with our improved life styles we have outgrown them. We would have preferred to engineer the transformation of manufacturing without a decline in exports, replacing Caricom buyers with North American, and exports with low skill content by exports with higher skill content. Unfortunately we have lost much of the old manufacturing base before we had the opportunity to identify and invest in alternatives more suited to Barbados' present condition. We now have to move with deliberate speed to establish these alternatives.

The outturn for 1987 will be determined by the plant that is already in place. Much of it will remain under-utilised because it cannot meet the requirements of export markets. We cannot replace the exports of Intel, Playtex and other major firms which have closed or contracted by reactivating existing capacity. The ability to revive manufacturing exports depends on the extent of investment in new processes and new lines of activity, thoughtfully chosen against a background of a competitive and changing North American market. I understand that we do have some investment committed in activities which are directed to the extra-regional market. However, as yet they represent only the beginning of what is needed, and they do not bear comparison with what is happening in some other Caribbean nations. We need to achieve a considerable acceleration in investments in communications, while in other areas we are yet to see any new investment for extra-regional exports.

Encouraging New Investment

I am hoping that local enterprises of some size will devote more money and managerial time to a determined search for attractive export ventures. Some of the ingenuity which goes into the exploitation of local market opportunity must be directed to capturing the attention of foreigners. I trust this is not a forlorn hope. Barbadian firms of any substance have over the years devoted only a small portion of their investment towards exports, and almost nothing to extra-regional exports. However, their management might reflect whether a focus on the domestic market is not a recipe for decline. If we cannot put exports on a sound footing foreign exchange deficiencies will force real incomes to contract. If that decline were merely of a temporary nature, wholesalers, retailers and producers for the domestic market might well survive it. However, without increased foreign exchange, the fall will continue, eventually shrinking the sales potential offered by the home market. It is in the interests of large local firms to get exports going, because failure of the export sector will ultimately lead to diminished markets for existing domestically-oriented business. There are some encouraging signs: firms have stumped up money for tourism promotion and there is apparent interest in small venture capital institutions. However, so far we have no concrete provisions to channel risk money into export manufacturing.

Existing manufacturing firms must set out to attain the highest international standards of quality, reliability and timeliness. By and large, only the firms that can meet the overseas competition head on have good chances of survival and growth. Incidentally, that is as true for sales on the local market as it is of sales destined abroad. The Barbadian customer is looking for quality and style, just like the overseas buyer. Manufacturers who can lure the local customer with an attractive product, rather than try in vain to compel him to buy local, will thereby begin to acquire the knowledge that will qualify them to export. Some will say that this is the impossible dream. I wonder why. Aren't the firms that set the standards run by men and women much like ourselves? In any event, if we cannot attain international standards will not our manufacturing wither away and die?

The recovery of manufacturing exports will not be achieved without financial support. The fastest way to growth is the rehabilitation of existing manufacturing which shows commitment and ability to meet the new export challenge. Some of these firms may be saddled with debts acquired because of the collapse of the regional market and they may require financial restructuring in order to pursue a new strategy. Firms must qualify for relief on the basis of a sceptical and dispassionate assessment of their proposals and prospects. The Barbados Development Bank is the logical institution to carry out this function; it should be provided with the expertise, financial resources and organizational independence to do the job.

We must put in place organisations which may provide venture capital for manufacturing concerns. They are essential for the development of those novel activities where Barbados has so far not managed to get into the market. The venture capital concept is becoming more familiar, and interest is heightening. Venture capital may already be available for agriculture (through the US sponsored HIAMP/project), but the proposals now being prepared by the Central Bank seem to be the closest we have come to providing venture capital for manufacturing. Unfortunately, the reality is still some distance down the road.

We must ensure that the IDC and the EPC are equipped with the expertise needed to undertake their functions effectively. We enhance tremendously our prospects of enticing foreign investment to our shores if the investor's first discussions are with people who demonstrate sound knowledge of his business. When local manufacturers make their first timorous venture into export markets the EPC should be able to put knowledgeable, influential guides at their disposal to help them get familiar with the market's peculiar requirements. Professor Ali Mazrui, in an episode of his stunning series 'The Africans' aired on CBC-TV on March 24 observed that 'equity among citizens depends on who owns what; equality among nations depends on who knows what'. If we aspire economic performance that equals our modern lifestyles we must have knowledgeable direction in the public sector and in

private firms and we must be keyed in to the most current developments in the field.

Finally, I endorse Dr. Basil Springer's call for the identification of a 'Mr. Industry'. Mr. Industry would probably be a prominent professional or business figure who commands the respect of manufacturers and officials and who can be persuaded to spend 3-5 years in quasi-government employ to get some momentum into the manufacturing sector. He would not necessarily run any organization, though he might operate out of the office of one of the existing development institutions. His function would be information centre, co-ordinator and catalyst for action. He would help all the support systems for manufacturing work more effectively and his agenda would depend on where he perceived weaknesses. Any manufacturer would have access to him on any problem; he would refer him to the service that is designed to meet his needs and would follow up to see that the enquiry gets results. He would be sufficiently enterprising and well respected to twist arms gently but effectively in pursuit of definitive action.

The transformation of the manufacturing sector which will make for a sound base of exports is still to get fully underway. There are no simple solutions, no miracle export activities waiting to be discovered, no easy markets waiting to

be exploited. Exporting is a difficult enterprise; once you get past all the unfamiliar customs, regulations and ways of doing business you may find that you need to fend off attacks from producers whom you have displaced. As Barbados becomes more affluent competitive production becomes more difficult. As you grow richer you need to get smarter. If manufacturers invest knowledgeably and with creative commitment to export markets, there is every reason to expect a new phase of industrial growth. The country is depending upon it, for foreign exchange, employment and continued prosperity.