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**REPORT OF THE MEETING ON THE  
DEVELOPMENT OF THE SERVICES SECTOR IN THE CARIBBEAN**

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## **REPORT OF THE MEETING ON THE DEVELOPMENT OF THE SERVICES SECTOR IN THE CARIBBEAN**

The Economic Commission for Latin America and the Caribbean (ECLAC) convened a meeting on the development of the services sector, on 2-3 September 2002 in Port of Spain, Trinidad and Tobago. The meeting was inspired by the recognition that services contributed substantially to growth and foreign exchange earnings for the subregion, and that the liberalisation process would change the whole landscape of the sector with implications for the subregion.

### **Agenda item 1: Welcome and opening remarks**

The meeting opened with Dr. McBain, the coordinator, welcoming participants and wishing them fruitful and engaging sessions that might redound to the benefit of the subregion. The Director of the ECLAC Subregional Headquarters for the Caribbean, Dr. Len Ishmael, also welcomed participants in her opening remarks. She noted that ECLAC's interest in the services sector has been longstanding, harping back to the 1980s. Moreover, she stressed that the General Agreement on Trade in Services (GATS) had led to heightened awareness of the need to exploit the potential for trade in services. In spite of the importance of the services sector in a number of Caribbean economies, very little empirical work had been undertaken on the sector's contribution to growth, employment and foreign exchange receipts as well as on how policy could contribute to the development of the sector. Liberalisation of trade in services was expected to gain momentum in the future. However, many Caribbean countries were questioning their participation in the Free Trade Area of the Americas (FTAA), which was likely to galvanise the liberalisation process. Therefore, the different services, research and other agencies needed to conduct studies to point out the costs and benefits to the subregion of joining the FTAA.

### **Agenda item 2: Procedural matters**

The meeting coordinator outlined briefly the role of the working groups and asked participants to introduce themselves and indicate the organizations and institutions that they represented.

### **Agenda item 3: Adoption of agenda and organization of work**

The agenda was modified by the inclusion of liberalisation issues in each substantive topic area, rather than as a separate subhead. Also, cultural and entertainment services were included for discussion, given their potential in the subregion.

**Agenda item 4:  
Introduction and presentation of ECLAC paper on  
“The Development of the Services Sector in the Caribbean”**

Dr. McBain then made a presentation on *“The development of the services sector in the Caribbean”*. She underscored the importance of the growth of the services sector in the global economy. Services accounted for roughly 80% and 65 %, respectively, of the GDP of the United States and the European Union (EU). Dr. McBain then dealt with definitional issues, noting that services were intangible, could not be stored, and were consumed as produced, and that trade in services differed from trade in goods. With respect to trade in services, the four modes of delivery were explained briefly:

- cross-border supply;
- movement of the consumer to the source of supply;
- commercial presence; and
- movement of natural persons

An analysis of the contribution of the services sector to GDP in the 1990s indicated that it was highest in Barbados (80%) and lowest in Guyana (28%). In between the extremes, Saint Lucia and Trinidad and Tobago had contributions of 71% and 57%, respectively. Services were also a major driver of employment, accounting for 81% of employment in the Bahamas and 55% in Saint Lucia. Moreover, regression results suggested that services employment was positively correlated with per capita income.

Dr. McBain asserted that trade in services, particularly tourism services, was an important contributor of foreign exchange for the subregion. The positive net services balance in a number of countries served to offset the deficit on the trade in goods. Caribbean countries were essentially net importers of transportation services, but net exporters of tourism and financial services. The balances on transportation and commercial services grew increasingly negative during the 1990s.

She addressed a number of data issues relating to the data deficit in the area of services. She advocated the harmonisation of methodology and classification systems for the production of data on services. Detailed data on the services industry, including employment by skills categories and wage levels, were also required. Further, given their significance, “other services” needed to be disaggregated in the balance of payments in order to establish the contribution of the component services. Dr. McBain noted that the development of the services sector could be enhanced by focusing on clusters of service industries, such as finance and telecommunications, rather than on discrete areas of services.

**Agenda item 5:  
Issues of data collection and compilation**

Participants highlighted the importance of conceptual issues relating to the measurement of services indicators. They stressed the need for clear concepts and definitions to prevent ambiguity in the collection and processing of data. Issues pertaining to the method of collection

(for example, survey instruments), treatment of non-response, statistical standards and communication of survey findings should be clearly dealt with.

There meeting discussed the classification issue. One of the questions raised was whether data of relevance were being collected. Caribbean countries needed to collect data on which services were produced, what was consumed and what was exported. Countries in the subregion, except Guyana and Suriname, collected data based on the Balance of Payments Manual 5 (BPM5). Importantly, one participant underscored the need to better measure the production of services based on the System of National Accounts (SNA) standard and then assess trade in services based on BPM5. It was further noted that countries needed to move from the 16 classification in BPM5 to the Extended Balance of Payments System (EBOPS). Trinidad and Tobago, for instance, had been using BPM5, but was currently in the field using EBOPS. The meeting was informed that the Caribbean Community (CARICOM) was beginning to train statistical functionaries in the different concepts used in classification. Adherence to the need for confidentiality required the aggregation of data to protect individual producers thereby limiting the scope for analysis of the data.

One participant wondered whether the focus was on trade negotiations as against the classification and development of services. This was deemed important since the data requirements would differ based on the focus. The meeting clarified that the overall focus was on development within which trade negotiations played a critical role. Data were therefore needed not only to measure the contribution of services to growth in production and trade, but also to inform negotiations on liberalisation of trade in services.

Data gathering should rely on private sector sources as well as on central statistical offices. It was noted that Caribbean statistical agencies had failed to collect new data and to analyse the data collected. It was recommended that their analytical capability should be resuscitated. Related to this was the need for an information architecture providing, for example, data on barriers to investment, the information technology (IT) activity of firms and databases on standards as well as on intraregional trade in services. It was suggested that CARICOM should develop an "Information Protocol" to regulate the collection, processing and dissemination of information in the subregion. A recommendation was also made for the Caribbean to develop a regional flow of funds database to facilitate studies on investment and proper input-output tables to facilitate studies on inter-sectoral linkages.

Participants lamented the inordinate focus on large and medium-size enterprises to the detriment of small and micro enterprises. Data on small-scale enterprises could be collected through financial agencies such as National Development Foundations (NDFs). In addition, there was need for the development of an information technology database for micro and small enterprises. In order to secure better response to data-gathering exercises, participants emphasised the need for an education strategy to encourage businesses to respond. The education approach should, however, be complemented by legal sanctions to ensure compliance.

Another area of difficulty observed was the lack of dialogue between the end users and producers of data. This inhibited the development of the social capital of trust and aggravated

problems of confidentiality. Participants also highlighted the need for metadata on institutional factors and regulations.

The meeting emphasised the need for changes in behaviour and outlook, in particular the need to change the mentality of business leaders who tended to be interested in making money rather than in providing statistics. In that regard, a participant noted that businessmen needed to be made fully aware of the importance of economic information. This, it was proposed, might motivate them to provide better responses to surveys and questionnaires. However, participants were asked to consider the burden on respondents of responding to surveys from many sources. It was also suggested that participation in the trade negotiations could enhance data collection.

The discussions were followed by the second part of Dr. McBain's presentation on the "*Liberalisation of Services*". She noted that binding commitments had been made under the GATS to open specific areas of the services sector. Most of those commitments had been made in the tourism, financial, business and communication services. The least commitments had been made in education, distribution and health services. The modes of delivery of trade in services were reiterated for ease of reference. It was noted that most commitments had been made for market access through Mode 2 or the movement of consumers to the country of the supplier. The least commitments had been made in respect of Mode 4, the movement of the supplier to the country of the consumer.

Dr. McBain focused the presentation on four areas of services: financial, telecommunications, distribution and education services. In the area of financial services, a number of observations were made. The market structure of the financial services subsector was characterised by competition, which had increased following liberalisation of the capital and foreign exchange markets in a number of Caribbean countries. This had, in turn, led to cross-border mergers and acquisitions. Commitments under GATS had been made only on market access for insurance services. Fewer restrictions had been placed on market access through cross-border trade, movement of the consumer and establishment of commercial presence (Modes 1-3).

Differences were observed between developed and developing countries in terms of the pattern of commitments. Developed countries made more commitments to access through Modes 1 and 2 than through Mode 3, whereas developing countries made more commitments to access through Mode 3. There was a congruence of interest between developing countries and developed countries. Developed countries wanted to expand their commercial presence in the services sectors of developing countries. Caribbean countries tended to favour liberalisation through Mode 3 because of their interest in attracting foreign investment. All countries, in particular the developed countries, tended to significantly restrict market access through the movement of natural persons (Mode 4).

A number of questions were raised in the presentation for consideration in the discussions that followed. These included: the implications of liberalisation and technological innovation for the structure of the financial sector; and the impact of restructuring and regulation of the financial sector for the export of financial services.

The meeting was informed that the telecommunications subsector in Caribbean countries had a market structure characterised by a monopoly of fixed-network operators. No commitments had, therefore, been made to provide market access to basic telecommunications services. However, commitments had been made regarding market access for value-added services such as facsimile, Internet and fixed-satellite services.

In distribution services there existed the need for a clear understanding of the extent of liberalisation in franchising, wholesale and retail trade and other areas. The specific restrictions and regulations in these areas should be grappled with. Further, the meeting noted the need to study the implications of full liberalisation of the distribution sector, as well as the adequacy of regulations in the sector.

With respect to the education sector, governments provided free or subsidised education at different levels. However, market access existed in some categories of the sector, for example, tertiary and specialised services through Modes 1, 2 and 4.

#### **Agenda item 6: Clusters and linkages - Financial services**

Dr. Shelton Nicholls of the Caribbean Centre for Monetary Studies (CCMS) presented a paper on "*The implications of the FTAA agreement for financial services*". Dr. Nicholls proposed that the FTAA was a modern free trade agreement that entailed liberalisation of investment and mobility of labour, capital and information and knowledge in addition to the liberalisation of trade in goods and services. The preparatory phase of the FTAA had taken place between 1994 and 1998. That phase focused on institutional mechanisms for the agreement, including ministerial meetings and working groups. It also established the design for the work programme of the different units. In the negotiations phase, expected to run from 1998 to 2005, focus had been on the Trade Negotiating Committee, the nine negotiating groups on areas ranging from market access to dispute settlement and the establishment of non-negotiating special committees on smaller economies, civil society and electronic commerce.

Dr. Nicholls pointed out that the objective of the negotiation on services was to establish disciplines that would progressively liberalise trade in services and create a free trade area within a certain and transparent framework. In light of this, the negotiations covered broad issues including most favoured nation treatment (MFN), national treatment and safeguards.

A number of crucial issues were open for debate and discussion, including the scope of the services chapter; whether it should include cross-border supply as well as commercial presence; and how the services provisions would apply to the sub-national levels of government. The timing for additional disciplines for telecommunications and financial services and the structure of market access commitments, that is, whether through a negative list or a positive list approach would also have to be considered. It was noted that the United States was in favour of a negative list approach that could lock in commitments, whereas other countries favoured a positive list approach.

Some outstanding core issues still had to be decided. They included the definition of financial services that should apply, for example, whether the financial service classifications should be based on the Central Product Classification (CPC) or the BPM5. Under CPC (used by the GATS), financial services comprised all insurance, insurance-related services, as well as banking and other financial services. However in BPM5, financial services referred to financial intermediation services, except insurance services, investment banking and pension services. Present classification locked countries into the status quo whereas the emergence of new financial providers pointed to the need for changes in classification.

An area for serious consideration was the modality that the Caribbean should adopt for negotiations (positive listing or negative listing). CARICOM recently concluded a trade agreement with the Dominican Republic based on a negative listing approach, but the GATS process favoured the less stringent positive listing approach. The modality was critical since it would determine the extent of liberalisation of trade in financial services. This had implications for the survival of firms in the sector in the subregion.

Dr. Nicholls also addressed some core issues for the subregion. Among them were the potential implications of the FTAA agreement for financial services in CARICOM. He proposed that the FTAA was likely to lead to increased competition through new financial products, pricing pressures and loss of market power for regional producers. The FTAA was also likely to lead to profit repatriation and the outflow of capital from the subregion. In addition, the agreement would increase the need for an enhanced information system, changes in the regulatory environment and corporate governance.

Most important for financial services was the notion of clusters. There had been little or no research in this area. It was important to know, for example, how changes in the telecommunications market affected the export of financial services. Equally important were the effects of changes in regulations on the financial services sector as well as on financial services exports.

Mr. Berkeley Greenidge of PricewaterhouseCoopers, Barbados, made a presentation on *“The evolution of international financial services in the Eastern Caribbean subregion”*. He noted that growth in the Eastern Caribbean had been driven for a long time by agriculture, particularly bananas and sugar. However, there had been a significant decline in the banana sector in the mid-1980s (16% fall in export receipts since 1990). The sector had been buffeted by adverse weather conditions, especially hurricanes, declining prices, high production costs, high debt, challenges to preferential market access and poor management practices. The weakness in agriculture had pointed to the need to diversify the economies, but there had been few options. Limited natural resources had precluded the development of mining. Tourism had suffered from inadequate infrastructure, limited investment and lack of airlift services, while manufacturing had been faced with high costs, low productivity and logistical problems. Moreover, in spite of substantial aid from the United States Agency for International Development (USAID) and the EU to facilitate agricultural diversification, actual diversification had been slow and limited. In fact, aid funding had often been perceived as recurrent revenue to be used for current expenses.

In light of the limited alternative options, offshore financial centres (OFCs) were viewed as a good idea for the Organisation of Eastern Caribbean States (OECS) subregion. OFCs had been established in the Caribbean prior to and after the 1990s. Antigua and Barbuda, the Bahamas, Barbados, Bermuda, the British Virgin Islands (BVI) and the Cayman Islands had established OFCs between the 1960s and 1980s. OFCs had been adopted more recently in the OECS countries, except Antigua and Barbuda and the BVI. It was important to note, however, that Jersey and the Isle of Man had established centres as early as in the 1960s. This meant that Caribbean countries were entering an essentially mature market. Overseas centres, such as Jersey, had well-developed services, specialised centres and high value-added services in the top tier of the client market. High quality services were in short supply in many Caribbean jurisdictions. However, there had been some areas of specialisation among jurisdictions with the BVI focusing on International Business Companies (IBCs) and the Bahamas and the Cayman Islands on trust services.

Eastern Caribbean jurisdictions had adopted a competition strategy based on: ease of incorporation, low-cost incorporation and maintenance and minimal corporate requirements. Partly as a result of that strategy, the Eastern Caribbean jurisdictions had been attacked on three fronts. The Organization for Economic Cooperation and Development (OECD) claimed that they posed a threat to the financial stability of international financial markets, engaged in harmful tax practices and suffered from lax consumer protection or regulatory issues. In the wake of the attacks, the Financial Action Task Force (FATF) had blacklisted a number of jurisdictions in the subregion for non-cooperation with FATF standards. It had been argued, though, that the OECD/FATF Financial Stability Forum (FSF) had ignored similar problems in the traditional OFCs.

The subregion had undertaken significant legal reforms to address deficiencies noted by the FATF. Jurisdictions had also updated money laundering legislation and supporting guidelines and had established a Reporting Authority and a Financial Intelligence Unit. Importantly, centres had made provision for significant fines, terms of imprisonment and liability for directors and officers of companies. Further, international cooperation in matters of criminal justice had been strengthened. Crucially, marketing functions had been separated from regulatory functions to prevent conflict of interest and to improve transparency. In the OECS, the Eastern Caribbean Central Bank (ECCB) had assumed regulatory functions over offshore banks, bringing to bear its experience in regulating commercial banks.

In assessing the way forward, Mr. Greenidge noted that there would continue to be strong economic and legal justifications for international financial services. Globalisation and trade liberalisation would provide added impetus to the development of the subsector. However, to optimise benefits from the sector, the subregion needed to adopt a unified approach in negotiations, address deficiencies in its jurisdictions and commit itself to ongoing improvements in its centres.

A number of issues were raised in the discussions. Important among them were conceptual issues pertaining to the range and domain of the financial services sector, the strategic contribution of financial services to growth and development and its long-run growth potential in the subregion. In addition, the human resource requirements of the sector should be assessed, as

should the regulatory and incentive framework. The meeting proposed that the subregion should deal with issues relating to “the management of service continuation” in the event of disasters, for instance. This could be done through plans to transfer services to other jurisdictions to ensure their continuation in the event of disasters in one country. Further, participants recommended that the law faculties in the subregion admit more students, especially those combining law with business and accounting. Also, regulation across the subregion should be standardised to create a uniform framework.

The meeting proposed that the subregion use what jurisdictional leverage it had to make laws that fostered its development. It recognized the need to regulate intervention in the subregion from foreign entities. With respect to diversification into other activities, it was suggested that infrastructure parks be developed to provide incubators for high-tech industries.

In summary, the main areas for research and analysis were outlined as follows:

- (i) Output of the offshore sector;
- (ii) Cost-benefit analysis of the sector;
- (iii) Regulation and the harnessing of resources (combining law and economics);
- (iv) The impact of the United States Patriot Act;
- (v) Human capital development; and
- (vi) Strategic alliances.

**Agenda item 7:  
Clusters and linkages - Telecommunications**

This agenda item began with a presentation by Mr. Roderick Sanatan of the Centre for International Services, University of the West Indies (UWI), Cave Hill Campus, Barbados. Mr. Sanatan began by outlining some of the critical areas of telecommunications of interest to the subregion. They included the capacity to negotiate the transfer of technologies, encryption procedures and policies for technology transfer. He noted that there was a mismatch between indicators of human development and the subregion’s application of technology.

With reference to the connectivity strategy, Mr. Sanatan noted that the subregion needed to get out of basic telecommunications, which were no longer critical. Telecommunications had become linked to information and were now referred to as information and communication technology (ICT). The focus should, therefore, be on enhanced services such as converted systems that could deliver voice transmission. He noted that there was no high-end mobile category in the Caribbean. In the Eastern Caribbean, however, licences between the OECS and the French Départements d’Outre-mer (DOMs) offered the opportunity for the OECS to access high-end services. Moreover, in spite of much talk of accessing that platform there was no broad band access in the subregion.

It was instructive for the subregion that Guatemala sold its spectrum as intellectual property. That was important since spectrum was finite in nature. The subregion needed to outsource cheaper and more modern systems from Asia to obtain the best value for money. In the area of electronic commerce, Mr Sanatan noted that access to networks was an area that had

not yet been defined, and was likely to fall between Mode 1 and Mode 2 of the GATS. There was also a need to localise domestic e-commerce.

Mr. Sanatan stated that information technology had already been used for external settlement arrangements for credit cards and that domestic utilities could make better use of the technology for enhancing efficiency. There was a need, however, to balance 'hard issues' relating to technical efficiency with human resource development considerations. Of crucial importance was the threat to social cohesion that could result from the displacement of workers by the technology. Furthermore, human resource needs should focus on the high-end of the market. Only Jamaica had any creditable high-end activity, but its telecommunications sector suffered from an exodus of skilled labour to the United States. In a concrete way, the free zones in the subregion could utilise high-end information technology to facilitate their long-run transformation by adding greater value in production.

The meeting proposed that the statistical tracking of ICT be refined. However, information should focus not only on hardcore data, but also on regulations and institutional issues. Mr. Sanatan suggested that a multisectoral approach had been needed to regulate the system. The subregion needed to focus on autonomous liberalisation instead of binding commitments to maintain flexibility in negotiations. It was pointed out that capital from the EU, for example, under the Cotonou Agreement could be used to build learning centres in the subregion.

In the ensuing discussions, Dr. Nicholls enquired as to the role of the International Telecommunications Union (ITU). He also asked about the status of wireless technology, that is, Code Division Multiplexing (CDM) or the Global System for Mobile Communication (GSM) standard and the ability to roam. Mr. Sanatan, in response, noted that the ITU was not too important in the current environment, as it was now subordinated to the World Trade Organization (WTO). However, the ITU remained important in rule and domain setting. He observed that roaming equipment was available but remained quite expensive. In the future, the subregion was likely to operate more on the GSM standard because of European tourism. It was recommended that the subregion should implement clear certification standards to ensure conformity of equipment with local platforms. Another important consideration was interoperability, which was the achievement of compatibility of technology across the subregion.

Participants expressed concern about CARICOM's policy on hardware requirements to facilitate software development and exports. There was also agreement on the need for information on the pricing structure in the ICT sector. In that respect, it was noted that Guyana had a United States system and benefited from lower prices, but service delivery was affected by poor infrastructure. Further, the fact that local calls were subsidised by international calls in the subregion led to the possible need for tariff rebalancing. However, that might be problematic given the political implications of such action.

On the institutional front it was recommended that dispute settlement machinery be established to deal with disputes between parties. Regulation in the sector should be within a development framework. In addition, human resource development should focus on keeping up with the skills demand and other changes in the industry.

Finally, the research agenda in the area of telecommunications should focus on negotiations and the technical demands of the network economy, regulation and human resource development. In the area of regulation, the meeting stressed the need for cross-cutting regulation between financial services and ICT.

### **Agenda item 8: Education services**

Ms. Asha Kambon, Social Affairs Officer, ECLAC Subregional Headquarters for the Caribbean, made a presentation on the educational services subsector. Educational services constituted the following categories: primary (including pre-school), secondary, higher (tertiary), adult education and new education services, which comprised educational testing services, student exchange programme services and "study abroad" facilitation services.

The education sector acted as a catalyst for growth and social development by providing the human resource needs for these processes. Education increased employability and thus reduced levels of unemployment and poverty. It also enhanced human and social capital thereby reducing inequality and social exclusion. It fostered greater social cohesion leading to sustainable development. The presentation also identified the means through which international trade in the education services could be measured and illustrated the importance of that subsector of education to United States international trade.

The emerging culture of internationalization and the burgeoning of a knowledge-based world economy were identified as drivers of growth in the sector. Those factors were also enhanced by the liberalization policies undertaken by many countries in the subregion including commercial presence and "offshore" provisioning along with virtual universities or e-learning institutions.

She also identified the following as some of the key issues that needed to be addressed in the context of the development of the educational services subsector:

- The implications of trade-oriented approaches to education services, that is, the impact on the ethics and culture of education to the society;
- The measures that should be put in place to better manage the ICT sector in its role of enhancing distance learning and to identify the beneficial target groups;
- The implications for the public provisioning of education services;
- The risks/benefits of commercialization and privatization of the education subsector to small island developing States;
- The impact of the external provision of educational services on the content and quality of education;
- The mechanisms for quality assurance and who will monitor them and benefit;
- The intellectual property rights of learning material; and
- The utilization of the foreign exchange earned by trade in educational services.

## Discussion

In the ensuing discussion, participants discussed the issue of the modes of supply and categorization of educational services. The meeting was informed that the national CSOs in the subregion could follow the United Nations Central Product Classification (CPC) system to categorize the different components of services including educational services. However, it was pointed out that in Trinidad and Tobago the definition of public and private institutions differed from what was stated in the GATS agreement, for example. Furthermore, there was also a difference between education and training. Those different interpretations, therefore, had to be harmonized in order for the CSOs in the subregion to classify the data by international standards and for the national datasets in the Caribbean to be comparable. The private and public definition dilemma was exacerbated further when one considered the marketing of educational services worldwide. For example, some countries might view public institutions as lesser institutions whereas in the Caribbean some of the best institutions were those in the public domain.

The meeting also discussed the concern that countries in this subregion seemed to be receivers and not providers of educational services. It was noted that the present tertiary level system was not as organized as it should be and lacked administrative flexibility. Also, in order to be external providers of educational services, tertiary level institutions needed to upgrade their physical infrastructure to host virtual education and distance learning programmes. Furthermore, the subregion was not prepared to address response issues, copyright and intellectual property rights. Its library system, especially Internet libraries, did not have the capacity to support such programmes.

Participants suggested that the subregion should decide on which aspects of the market it could compete in effectively as providers of international educational services. Providers needed to look at the areas where they had a competitive advantage in education services, for example, teaching and nursing, and produce such trained personnel to export abroad. However, the meeting was cautioned about the social and ethical ramifications of such an issue and whether nursing and teaching were not competitive because of the subsidies provided to them by government.

The meeting was asked to consider whether the subregion was looking for market access through Mode 4 supply of services, that is, presence of natural persons, scholars and researchers working abroad. It was revealed that at the GATS/WTO negotiations, the Caribbean subregion had no position in this area while the developed countries had perused the Caribbean countries' schedules and were asking for specific commitments from them. Thus, for the subregion to negotiate effectively it would have to decide on the areas of importance both in the short and long term and what would be the target areas and sectors beyond CARICOM.

Another area of discussion was the issue of entry of foreign suppliers into the subregion. Some participants cautioned on placing restrictions on foreign education suppliers. They, however, recommended that guidelines be established and enforced to ensure quality.

Participants raised the issue of standardization of training and education since it was felt that it would enable the subregion to harness the potential advantages and linkages from the

presence of foreign suppliers through offshore schools, for example. Offshore schools had been increasing in the subregion and provided an opportunity for increased foreign exchange earnings as well as an outlet for further training for the local students who were allowed to attend. It was important for the indigenous institutions to have discussions to identify possible areas of collaboration.

The meeting discussed the need to establish greater communication and linkages between the educational institutions and the private sector. This stemmed from the fact that in many instances, graduates from the educational institutions when hired by the private sector had to undergo rigorous on-the-job training. It was felt that if both parties collaborated then the synergies that would result would provide graduates more geared for the working world.

The issue of the vulnerability of Small Island Developing States (SIDS) was brought to the fore. ECLAC informed the meeting that it was working on developing a social vulnerability index and educational issues would be taken into account in the compilation of this index.

### **Agenda item 9: E-commerce issues**

The discussions surrounding the topic of e-commerce raised a number of key issues. The first centred on the fact that although Caribbean people had access to the Internet and as such made purchases from foreign companies, very few purchases were made from local companies that sold over the Internet. One of the constraints on this type of trade in the subregion was the fact that there were few secure e-commerce sites. While it was noted that the Internet provided the opportunity for the producer to sell his product at a cheaper cost, the marketing costs associated with this activity remained high.

It was felt that the future of e-commerce in the subregion might not be centred on goods but rather services such as data entry and call centres, which had been expanding and doing well. However, the concern was raised that they provided mainly low-end technology jobs. Countries, therefore, should be wary of this trend and ensure that opportunities were provided for high-end jobs for their citizens.

Participants discussed the difficulties associated with financing Internet operations because they were considered as intangible assets by banks and thus the first line of security was the cash flow. However, those problems did not exist in the developed countries and thus Internet based businesses developed much faster. There was a call for more venture capital in this area in the subregion.

It was brought to the attention of the meeting that Caribbean Export had provided a forum where interested persons could access Caribbean suppliers through a common medium. This mechanism, therefore, gave companies a portal to conduct their business. In looking at the issue of measuring trade in services it was felt that this medium could also assist in obtaining necessary data.

The point was raised that people in the Caribbean subregion were now adapting themselves to the new culture of e-commerce. As such, businesses needed to become very innovative in order to change the culture in the Caribbean environment. Institutions needed to provide the CSOs with information about e-commerce although it was envisaged that privacy issues could present a problem.

### **Agenda Item 10: Working groups**

The meeting broke into two working groups. The first looked at regulatory issues, while the second addressed human resource development. The groups were asked to consider these main themes in light of the following: the contribution of the financial, ICT, entertainment and distribution sectors to growth and development; data adequacy; developments in the international economic environment - new technologies and new trading rules and disciplines; and the impact of liberalization.

### **Agenda item 11: Presentation of working groups**

#### Presentation of Working Group 1 - Regulation

On the issue of data adequacy in the entertainment industry, the working group stated that this industry was person-based and as such did not lend itself to the traditional data collecting exercises. Furthermore, survey responses from entertainers tended to be low since they were often of the view that the results would be used for tax purposes. In the household budgetary survey, data on these sectors in the informal industry were gleaned from the expenditure side of those industries. This problem applied to a number of other services such as general medical practitioners and hairdressers. It was, therefore, recommended that there was a role for the regulatory bodies in ensuring better responses in collecting data. For example, the Copyright Organization of Trinidad and Tobago (COTT) had set up a sophisticated method to track the royalties due to entertainers and thus they could also perform the additional task of data collector. The group also stressed the importance of convergence of best practices for development in the subregion.

With respect to the developments in the international economic environment and the role of new technologies, it was noted that while new technologies reduced transaction costs they also provided an avenue through which individuals could forego regulations, as occurred with Napster during the late 1990s. Thus from the consumer point of view there was a dynamic relationship between the new technologies and the new trading rules and disciplines. From the producer side, new technologies allowed them to access distribution networks worldwide.

It was noted that under the GATS the distribution sector was not fully liberalized but was still relatively open. There were a number of Transnational Companies (TNCs) entering the countries, however, there was no specific legislation governing how they entered. There was,

therefore, an opportunity for regulations to be established to create and monitor standards and regulate distribution regimes.

The group concluded that regulations for development and growth should be flexible and facilitatory and, importantly, should have a long-term vision. Too often regulations were static and, therefore, tended to constrain the development of enterprises as the business environment changed.

### *Discussion*

A private sector representative, commenting on the issue of limited regulation of distribution, informed the meeting that international franchise holders based locally were subject to heavy restrictions since they had to adhere to the parent company's policies and also comply with local regulations. That was in order to maintain brand loyalty and to ensure their brands' integrity. The meeting agreed that the relationship between regulation and economic development in small States was a good area for further research. It was felt that education on the importance of regulations was very important. Once businesses understood the role of regulations they were more likely to be adhered to.

#### Presentation of Working Group 2 - Human resource development

The group reported that it looked at human resource development in the context of its contribution to sustainable human development. It suggested that training in the specific area of ICT was lacking and that steps should be taken to address this at the national levels. The group reported that there was a greater need for thinkers as opposed to administrators bearing in mind the fact that we were operating in a knowledge-based society. It was recommended that policy makers needed to utilize reporting of bodies such as the United Nations Educational, Scientific and Cultural Organization (UNESCO) since they produced a whole range of useful information.

The working group stated that data should be collected on the skill needs in the Caribbean. At present, there was such a programme set up by the Ministry of Labour in Trinidad and Tobago but it was not effectively utilized. This needed to be addressed as it would reduce the guess-work in the matching of skills demand and supply.

Participants highlighted the need to enhance the negotiating skills, particularly of educators. It was also suggested that a pool of skilled people be set up that could be used to facilitate the negotiations. The meeting was informed that the International Trade Negotiations Unit (ITNU) of the Trinidad & Tobago Chamber of Commerce was set up to facilitate this process.

The group endorsed the recommendation for a subregional skills inventory to match the skills in the subregion. Funds were needed to foster innovation and entrepreneurship. It was felt that the private sector could play a significant role in that regard. There was also need for more facilities and infrastructure in schools at all levels. Attention should also be paid to standardisation of accreditation in the subregion. It was noted that this was already being addressed by CARICOM in the Single Market and Economy (CSME). It was recommended that

the development of IT capabilities over the last five to six years should be studied, as should the relationship between tax incentives and skills development in the subregion. That would allow for an assessment of the effectiveness of specific policy measures.

### ***Discussion***

Participants commented on the extent to which the subregion possessed a body of people to identify talent and to create a cluster of innovators who could come up with new ideas and to cross fertilize these ideas.

### **Summary and conclusion**

Dr. Helen McBain thanked participants for their attendance and stated that many excellent ideas for the future development of the service sector in the subregion had come out of the meeting. She reiterated the need for researchers and other stakeholders to strengthen collaboration in order to reduce duplication and to better serve the subregion. Dr. McBain expressed the hope that participants would continue to collaborate with ECLAC in implementing the research agenda.

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