REPORT OF THE AD HOC GROUP OF EXPERTS' MEETING

ON

TRADE FINANCE, TRANSNATIONAL BANKS AND EXTERNAL FINANCE,

17-19 MAY 1988

AT

THE CENTRAL BANK OF BARBADOS

BRIDGETOWN, BARBADOS
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ANNEX I - ADDRESSES BY THE HONOURABLE MR. CLIFTON NEBLETT

AND

THE GOVERNOR OF THE CENTRAL BANK OF BARBADOS - DR. KURLEIGH KING

ANNEX II - LISTS OF PARTICIPANTS

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REPORT OF AD HOC GROUP OF EXPERTS' MEETING ON
TRADE FINANCE, TRANSNATIONAL BANKS AND
EXTERNAL FINANCE

INTRODUCTION

1. This report summarizes the presentations and discussions of an Ad Hoc
Group of Experts' Meeting on Trade Finance, Transnational Banks and
External Finance, held at the Central Bank of Barbados, Bridgetown,

2. The technical meeting was convened by the United Nations Economic
Commission for Latin America, Subregional Headquarters for the Caribbean
(ECLAC), and the United Nations Centre on Transnational Corporations
(UNCTC). The Central Bank of Barbados hosted it.

Opening Session

3. The featured address was given by the Parliamentary Secretary, Mr.
Clifton Neblett, Ministry of Finance. Other addresses were given by Dr.
Kurleigh King, Governor, Central Bank of Barbados; Mr. Rolf Stefanson,
Resident Co-ordinator, UNDP, Barbados; Ms. Edith Ward, Senior Transnational
Corporations Officer, UNCTC, New York. Mr. E.G. Goodin, Independent
Consultant, was elected Chairman of the meeting by acclamation. The texts
of the addresses of the Parliamentary Secretary and the Governor of the
Central Bank are contained in Annex I of this report.

Purpose of the meeting

4. The purpose of the experts' meeting was to undertake a thorough review
of trade finance mechanisms in the English-speaking Caribbean and to
analyse the role of transnational banks and external finance in the region.
At a time when governments were anxious to expand trade, it was essential
that their policies with respect to financial instruments for such
expansion be re-examined. It was also felt that the significance of
international financial issues to the region's growth prospects needed to
be assessed. The review and analysis undertaken by the group of experts
was a technical one and at the conclusion of it, the following report,
including a set of recommendations, was addressed to Caribbean governments
through the Caribbean Development and Co-operation Committee (CDCC).
Participants

5. Participants were invited in their personal capacities as experts in the field of manufacturing, trade, finance and banking.

6. A list of participants is given in Annex II.

Structure of the meeting

7. The programme of the meeting is given in Annex III and the list of documents in Annex IV.
Introductory remarks

8. In his opening remarks, Mr. St. George Joiner of ECLAC, Port of Spain, welcomed the Governor of the Central Bank of Barbados, Dr. Kurleigh King, Ms. Edith Ward of UNCTC, Mr. Rolf Stefanson, Resident Co-ordinator of the United Nations Development Programme (UNDP), Barbados, the experts and observers. He then introduced the experts. He indicated that a number of papers would be presented for discussion and that the experts would be required to make concrete recommendations for consideration by Caribbean governments through the intermediary of the Caribbean Development and Cooperation Committee (CDCC). Mr. Joiner then thanked the Government of Barbados and staff of the Central Bank of Barbados for collaborating closely with ECLAC in organizing the meeting and to the UNCTC for their financial and technical support. He then introduced Mr. Ernest G. Gooding as Chairman of the meeting.

9. The Chairman introduced the first speaker, Dr. Kurleigh King, Governor of the Central Bank of Barbados. Dr. King welcomed the experts to the meeting. ECLAC, he said, had prepared a valuable study for consideration by the experts and he added that the meeting was being held at a time when there was need for the effective operation of trade finance mechanisms in the region.

10. Dr. King noted that both the public and private sector bodies were in constant search for ways to provide higher levels of trade finance in the region. He indicated that the proposed Caribbean Export Bank could provide an excellent opportunity for the commercial banking sector to participate in a regional finance body to promote trade both regionally and extraregionally.

11. He said that the time had come for such a regional facility to be established. The facility would provide financial assistance to manufacturers and exporters in the region. On a related topic, Dr. King further noted that it was also time to put in place a mechanism to check serious breaches of the terms and conditions of the CARICOM Treaty. Any mechanisms thus created would make recommendations about actions which
could be taken against countries which unilaterally impose trade restrictions. He stated that the removal of trade and exchange control restrictions and the gradual return to free trade was welcomed by manufacturers of the region.

12. The full text of Dr. King's address is reproduced in Annex I.

13. The next speaker was Ms. Edith Ward, Senior Transnational Corporations Officer, United Nations Centre on Transnational Corporations. In her opening remarks, Ms. Ward extended her gratitude to the Central Bank of Barbados for their hospitality and to ECLAC for arranging the meeting. She indicated that her presence at the meeting would offer her an opportunity to learn about the trade financing problems in the region at first hand and about attempts that were being made to find solutions to them.

14. She stated that the Centre had been engaged in providing advisory information and training services to developing countries, including various types of advisory and technical assistance to governments in areas related to transnational corporations (TNCs) and transnational banks (TNBs). She highlighted some specific areas where the services of the Centre were used for workshops, training services and consultative missions.

15. Ms. Ward added that the Centre also had been engaged in providing a range of information services to both governmental and non-governmental institutions on transnational corporations and transnational banks. One programme provided assistance to governmental organizations that dealt with TNCs and TNBs in setting up information systems for them and in collecting information that would assist them in improving their operations.

16. Mr. Rolf Stefanson, Resident Co-ordinator, UNDP, Barbados, read a statement on behalf of ECLAC. He extended his appreciation to the Government of Barbados, the Central Bank of Barbados and the UNCTC for their invaluable assistance during the preparations for the meeting.

17. He referred to ECLAC'S work programme on international trade and finance, the activities undertaken to date and those proposed for the next two years.

18. In turning to the meeting itself, Mr. Stefanson gave an outline of the factors which led to it being convened. He then gave a synopsis of the report on trade finance and highlighted the main areas for consideration.
19. In concluding the statement, Mr. Stefanson expressed the hope that the recommendations in both the Stone and Smikle reports would be thoroughly scrutinized. He observed that participants would need to discuss the applicability and viability of a range of trade finance mechanisms for the region. He said that recommendations coming out of the meeting would be conveyed to Caribbean governments through the Caribbean Development and Cooperation Committee for further direction.

20. The featured address was given by the Parliamentary Secretary, Ministry of Finance, Mr. Clifton Neblett. In his presentation, he complimented ECLAC for organizing such a meeting at a time when trade finance was essential. The meeting he felt would assist the Caribbean region articulate its regional interest in the global debate on trade finance.

21. Mr. Neblett then reviewed the significance of trade finance to the region. He underlined the importance of the banking system, saying that its development in the region was predicated on the need to finance exports from the islands to the metropolitan countries and imports from those countries to the various islands. Sugar, bauxite, aluminum, petroleum, cocoa, bananas and spices were the major exports that had to be financed. Present day financing needs were for raw material imports, manufacturing and exporting of finished goods.

22. The speaker dwelt on the difficulties that Caribbean countries experience in seeking finance for their trade. He noted that the Inter-American Development Bank and the Latin American Export Bank (BLADEX) had been sources of funding to many trade finance institutions in the region. In addition, bilateral lines of credit had been established with North American and European trading partners. Whilst this kind of officially supported activity was welcomed, Mr. Neblett noted that more had to be done by the commercial banks.

23. He outlined a number of problems which had impeded regional trade finance. He stated that lack of export financing had seriously affected regional exporters and indicated that there was a dire need to identify new products, new entrepreneurs and increased sources of equity. He pointed to the importance of doing market research to seek new markets and to secure them for Caribbean exporters. The statement of the Parliamentary Secretary
Survey of Trade Finance

24. The first working session of the meeting considered the reports of Messrs. Smikle and Stone.

25. Mr. Smikle presented a paper entitled "A Study of Capital Markets and Caribbean Trade". In his presentation, he gave an overview of the present trade situation in the region, referring to various tables in the study. He observed that while there had been a dependency on trade in the economies of the region, the main problems continued to be one of financing gaps in the trade deficits. Added to that, he continued, was the dramatic decline in intraregional trade, the decrease in capital inflows, and the urgent need to diversify production in the region.

26. In spite of the above problems, Mr. Smikle said that the region possessed certain advantages for expanding regional trade. He observed that given the aggregate size of regional markets and the preferential treatment enjoyed by way of CARICOM's trade agreements, exporters were offered an opportunity for significant market expansion. An additional advantage was the relative ease, within CARICOM, for the settlement of trading accounts. Mr. Smikle observed that regional exporters could cover overheads by trading in the regional markets and with resources thus saved could then gain an advantage in extraregional markets.

27. On capital markets in the Caribbean, Mr. Smikle indicated that at present, there was a range of both public and private financial institutions in the region. He observed that capital market development in the Caribbean was financed largely from loans. There was little or no equity involvement. He added that stock market activity was a recent development. However, the stock markets, as mobilizers of capital, remained limited since only a few shares were listed and a number of factors inhibited their successful operation. He noted that the development of a vibrant capital market was inhibited in part by a general lack of expertise by financial managers. He added that the taxation and investment policies of regional governments were also deterrents to investments and equity participation.

28. Mr. Smikle said that the commercial banks were the dominant mobilizers of savings. However, they tended to restrict lending to consumer goods at
high interest rates. Financial establishments such as insurance companies, pension funds and related institutions, though significant mobilizers of savings, were however not involved in financing trade. They tended to invest in risk-free ventures.

29. He observed that there was a diversity of trade financing facilities in the region. In addition to the banks, the use of lines of credit had become an important instrument. He also stated that merchant banks had become involved in trade financing.

30. In outlining his findings and conclusion, Mr. Smikle noted that more equity participation by financial institutions in export development should be encouraged.

31. In concluding his presentation, Mr. Smikle made a number of recommendations which he felt could assist in the development of a capital market in the region. Among them was the need to develop an incentive package which would encourage equity participation. He added that there should be ongoing regional education programme for financial managers. He recommended that member states review their taxation policies to foster the development of their domestic capital markets. He suggested that a survey be undertaken in order to determine a list of products which offered a comparative advantage to producers. Finally, he expressed the need for the interfacing of relevant financial institutions in order to ensure that trade information was readily available to users in the region.

32. The second paper entitled "A Survey of Trade Finance in the English-speaking Caribbean Countries" was presented by Mr. Jack I. Stone. Mr. Stone first gave a brief overview of the role of intraregional and extraregional trade in the economies of the countries of the region, noting their wide diversity in population, area, income level, resource endowments, and growth rates. He noted the large differences among these countries as to:

   a) relative dependence on imports in general (particularly high in the OECS countries), and dependence on petroleum imports (especially high for Guyana and Jamaica);

   b) relative importance of merchandise exports (especially high for St. Vincent and the Grenadines and Guyana) and of tourism (highest for Antigua and the Bahamas);
c) relative importance of official foreign assistance flows, both concessional and non-concessional (highest for Grenada and Dominica, followed by Jamaica and Belize);
d) debt burden (especially high for Guyana and Jamaica);
e) changes in the purchasing power of exports (generally down in the 80’s, but up sharply for Barbados);
f) degree of inflation and exchange rate adjustment in the 1980s (greatest for Guyana and Jamaica, followed by Trinidad); and
g) relative importance of intraregional trade.

33. In this last category, he pointed out that the share of exports was especially high for OECS countries, while that for imports was highest for Guyana. He noted that Trinidad and Tobago ran a cumulative surplus of more than US$700 million with the rest of the region during 1980-1985, while all other countries of the region, except Belize, ran cumulative intraregional deficits.

34. Mr. Stone indicated that Part I of his paper dealt with the major institutions involved in trade finance in the Caribbean region. The review he undertook covered, inter alia, the main policies and problems. Officially supported export credits from OECD countries remained an important source for financing of the imports of Caribbean countries. However, he added, the volume of such support could have been declining in the face of operating losses incurred by the main OECD export credit agencies during the 1980s, and the resulting tightening of their standards. Consequently, it had become more difficult and costly to obtain such finance for some of the countries of the region with difficult balance-of-payments problems. At the same time, the more credit-worthy ones were able to finance their imports through private channels, with less frequent need for support from official OECD export credit agencies.

35. As to the financing of exports from Caribbean countries, Mr. Stone noted that in Jamaica, Barbados and Trinidad there were governmental institutions which provided credits, guarantees, or insurance, usually through the commercial banking system, aimed at facilitating exports. He further noted that a limited system of export finance support had begun for the OECS countries and that efforts were being made to improve the scheme. The consultant said that exporters had complained about the high collateral
requirements for finance and the large spread between the cost of funds to the commercial banks and the cost of borrowing. Also, they had spoken about the passing on of foreign exchange risks to them, about difficulties in obtaining pre-shipment finance or long-term post-shipment finance, and the lack of long-term finance for expanding export production facilities or for financing new export projects.

36. Mr. Stone believed that the countries of the region lacked true development banking facilities in support of export expansion. Such facilities could provide long-term finance, take the necessary risks for projects without encumbering the existing working capital of exporters, and pass on available low-cost funds as an incentive to exporters with good projects. The Caribbean countries, he said, needed to review all their development policies to ensure a high priority for export expansion. In particular, there was a need to uncover and strengthen potential indigenous entrepreneurship directed towards exports, provide venture capital in its support, improve existing management, and overcome the present under-capitalization of indigenous businesses with export potential.

37. Mr. Stone discussed Part II of his report in which he considered special mechanisms for trade finance, including the possibilities of using alternative or innovative techniques and policies which might, in some cases, benefit the region. These mechanisms included:

a) various forms of countertrade (such as pure barter counterpurchase, advance purchase, offset arrangements, buy-back agreements, bilateral clearing agreements, switch trade, and industrial co-operation agreements);

b) reviving intra-Caribbean trade through new intraregional payments or currency arrangements;

c) alleviating the burden of existing debt through debt-for-equity or similar swaps;

d) tapping long-term capital sources through external bond financing (including possible innovations such as index-linked or commodity-linked bonds).

38. On the issue of long-term capital sources, Mr. Stone advised on the use of interest or currency swap arrangements to hedge against risks and combining such swaps with export credits to achieve lower effective
borrowing rates. He also advocated accessing major pools of capital in the region or capital under the control of residents of the region. Such sources might be effectively mobilized for regional development in general and for venture capital in particular. He said that would involve, *inter alia*, mobilizing the resources of existing local trading companies and taking steps towards integrating the capital markets of the region. The consultant further stated that measures should be designed to attract, for regional development, some of the considerable local capital resources in the Bahamas such as those in the National Insurance Fund. Policies should be put in place to retract the vast amount of capital flight, during the past decade, from some of the countries of the region. As an example, he suggested that US$ denominated bearer bonds could be issued by these countries.

39. Additional mechanisms for trade finance were considered by Mr. Stone. He proposed improved international compensatory finance arrangements which he said could cushion the impact of shortfalls in foreign exchange earnings of countries in the region. He described the use of back-to-back letters of credit, transferable letters of credit and other devices which should permit easier pre-shipment financing by replacing the need for collateral. Forfaiting, he said, was also an efficient and increasingly popular way to provide a form of fixed rate supplier credit to capital goods exporters. Finally, Mr. Stone spoke about private export credit insurance which, he added, might be an attractive alternative in some instances to officially supported insurance.

40. Immediately following the presentation of the two papers on trade finance, the Chairman invited participants to give an update on the trade financing facilities in their countries.

41. Mr. J. Reeves gave a brief review on Barbados, indicating that declining regional exports had affected the local manufacturing sector. However, the causes of the decline were being addressed. He stated that financial measures such as credit insurance and the introduction of pre and post-shipment guarantee schemes were being considered to effect a positive turn around in the export sector.

42. He noted that discussions had been held with the banking sector to reactivate the discount facility as a means of stimulating trade. He
further stated that the establishment of the Caribbean Export Bank would assist in that goal. He called for the removal of artificial barriers to trade and suggested that a body be set up to handle complaints on trade matters. He pointed out that there was the need for a substantial amount of market research and financial support to encourage the private sector to increase exports.

43. He expressed the view that state companies should not operate trading companies since the private sector was better able to run such operations profitably. However, the private sector could collaborate with government on some ventures.

44. Finally, Mr. Reeves pointed out that there was an urgent need for an export strategy to be put in place by Caribbean governments to ensure that the benefits from any planned programme of financing could be secured.

45. Mr. Phillip Williams expressed the view that any expansion of exports must be implemented in the manufacturing sector together with adequate follow-up activities. He gave a brief description of the role of the Barbados Export Promotion Corporation and its successes to date. He stated that many businesses were dependent on development finance, especially on finance negotiated with multilateral financial institutions. He suggested that there was need to diversify the indigenous base of the manufacturing sector.

46. The participant then raised the question of the provision of grants to businesses for projects that had an extraregional market potential. He identified three problems. Firstly, manufacturers had to get their new businesses off the ground; finance had to be provided for profitable ongoing businesses and improvements to current pre and post-shipment finance schemes had to be instituted.

47. Mr. Williams gave an overview of the benefits of development banking to the manufacturing sector and stated that there was the need to improve the financing facilities offered by these banks.

48. On countertrade, he noted that it had a role to play in countries with foreign exchange problems and a large resource base. Barbados, he felt, did not have the need for countertrade at the level of government enterprises. If any countertrade were to take place, it would be strictly between commercial enterprises.
49. In his remarks, Mr. Jasper Scotland outlined the problems and prospects of the Caribbean Development Bank. He indicated that, although the main thrust of the bank was in the area of loan financing, some form of equity financing was also available. He highlighted factors which had affected trade financing in the region. He gave a brief account of the developments that led to the setting up of the proposed Caribbean Export Bank (CXB) noting that the Caribbean ministers of finance recognized the need for private sector involvement in such a venture. He informed the meeting of recent developments with respect to the commencement of operations of the CXB.

50. In conclusion, he observed that too much attention had been given to the supply side of financing and little importance attributed to other factors, including sociological ones, on the demand side.

51. Mr. Verley Harrison in his contribution referred to the issue of reinsurance. Jamaica was unable to arrange cover through Lloyds of London because of the cost. Local insurance companies, whose exposures were reinsured to about eighty per cent, were not interested. Mr. Harrison felt that the CXB could play a role in providing reinsurance cover for export credit institutions in the region.

52. On performance and bid bonds, he indicated that BLADEX had been helpful in arranging for their issue. However, there had not been any takers. Referring to the section in Stone's paper on Jamaica, Mr. Harrison said that the description and analyses contained in it were accurate. The various schemes of the EX-IM Bank were still in operation.

53. He expressed the view that financiers were cautious in investing in export insurance financing schemes because of the risky nature of such schemes and because most of the goods traded were either of small volume and non-traditional or they were traded by quotas. Because of that, the tendency in Jamaica had been to concentrate on providing finance for imports, he added. Mr. Harrison concluded his remarks by proposing that, since the CARICOM market was saturated, about 25 companies in the region should be selected and financed primarily to allow them to compete in the extraregional market.

54. Mr. Alfred Gopaulsingh gave a brief outline of the functions of International Industrial Merchant Bank of Trinidad and Tobago. He stated
that although adequate use was presently made of a wide range of financial instruments that the bank offered, some effort would have to be exerted to expand those instruments, particularly for the export trade. He informed the meeting that his bank provided the necessary advisory services, including preparation of feasibility studies, for the development of projects in the manufacturing sector. He pointed out that a revolving credit facility existed, enabling the bank to offer pre and post-shipment financing.

55. Mr. Gopaulsingh expressed the view that since insurance companies and pension funds were the largest providers of medium to long-term capital, it was necessary to attract funds from them in order to support the growth of export-oriented projects. Mr. Gopaulsingh recommended that active consideration be given to modifying existing legislation to permit the investment of funds by insurance companies to qualify for the statutory reserve of insurance companies. In addition, he suggested that CARICOM countries could introduce common laws with respect to financial instruments so as to enhance the establishment of regional funds to support the development of export-based projects.

56. Ms. Cecilia Quashie noted that Grenada traded mainly in primary commodities. Added to that trade was some manufacturing together with tourism. Since 1984, the Eastern Caribbean Central Bank had made provision for an export guarantee scheme, though not for pre-shipment financing. However, little or no use had been made of it. She noted that failure to attract insurance for domestic exports had resulted in some difficulty in providing export finance for manufacturers.

57. Mr. Clive Teelucksingh expressed the view that it was in the interest of countries experiencing foreign exchange problems to give priority to the allocation of foreign exchange for the import of raw materials to be used in the manufacturing sector. He indicated that the Export Credit Insurance Company Limited of Trinidad and Tobago provided insurance coverage and post-shipment financing for exporters. The Development Finance Company of that same country provided long-term finance for development projects.

58. Mr. Clement Duncan said that Guyana's exporters and manufacturers had been suffering for some time now from foreign exchange shortages. The participant further observed that, with greater collaboration between
government and the private sector, the foreign exchange problem could be eased. He noted that in spite of calls to provide foreign exchange for the expansion of its export base and to rehabilitate a number of export-oriented industries, Guyana still had a severe liquidity problem. He added that some primary products were now subjected to countertrade arrangements as a means of obtaining finance. At present, a foreign exchange retention scheme had been introduced as an incentive to exporters.

59. The participant observed that from the manufacturer's point of view, resource was not a problem. Guyana was richly endowed. However, the population/physical resources ratio was such that the country needed additional manpower to exploit that endowment. The government had therefore invited Caribbean and extraregional entrepreneurs to come and invest in the country. As a further incentive to manufacturers, the Government had made provisions for them to net off 50 per cent of their export earnings for the purpose of income tax reporting. In addition, Government had recognized the need to maintain essential infrastructure which would permit the process of industrialization to take place.

60. Ms. Darlene Harris expanded on the views of Mr. Duncan indicating that special mechanisms had been put in place to maximize the benefits that could be derived from the Guyana Government's industrialization policy. She also referred to the operations of the foreign exchange scheme saying that it was instrumental in facilitating the importation of inputs for manufacturing. On countertrade, she said that government's policy was to use countertrade as a means of financing inputs for exports and the importation of essential items.

61. Ms. Carlene Francis noted that the Bahamas' export drive was hampered in part by the high cost structure of that economy. She added that, while recognizing the continued dominance of the tourist industry, the government continued to encourage economic diversification in an attempt to widen the Bahamas' industrial and agricultural base. In addition, all efforts were being made to attract foreign investment. She indicated that the large pool of National Insurance Board (NIB) funds provided substantial opportunities for the development of local industries.

62. Mr. Clark Gomes-Casseres said that the Netherlands Antilles had no export guarantee schemes. However, government was looking into the matter.
The main pillars of the economy were oil refining, tourism, off-shore banking and the manufacturing of soap, detergents, paper products and alcohol. He noted that there was no stock exchange or development bank in the Netherlands Antilles. Government revenues had fallen significantly since the pull out of Shell and the cancellation of a tax treaty with the United States. The retrenchment of civil servants had begun. He further informed the meeting of a programme of economic diversification that was underway in the island grouping.

63. The above remarks were followed by discussions on the two papers presented earlier. The Chairman reviewed the main areas of trade finance raised by the previous speakers. He listed them as the use of equity funds, reinsurance, the need to develop acceptable types of export promotion, the functions of multinational enterprises in the development process, the need to mobilize regional resources, the review of legislation to encourage investment, the special problems of the OECS and the question of collateral for commercial bank borrowings.

64. In the discussion that followed, participants made observations on the Stone and Smikle reports.

65. On international trading agreements and arrangements such as GSP, CBI, Lome III and CARIBCAN, views were mixed. Some experts believed that the above agreements/arrangements were limited. They were not sufficiently biased in favour of providing credit for non-traditional exports. Examples were given of the difficulties experienced by a number of Caribbean companies in penetrating the U.S. market. Criticisms were made of the 807 agreement. It was felt that the problem of foreign exchange, central to the region's development of its export sectors, was not resolved in that agreement. Other major trading agreements did not permit lines of credit to be specifically allocated to export industries. The experts who were of the above view felt that some serious lobbying was necessary to ensure that efforts to enter markets in the industrial countries were not frustrated by protectionist barriers.

66. Another view was expressed by some experts, i.e. that the region had not been making full use of the above agreements. The main reasons were domestic. Some countries in the region did not have the financial and/or technical skills to take advantage of the trading schemes. One expert
suggested that 25 firms with strong export potential needed to be selected and assisted so that they could exploit the benefits of the agreements/arrangements. Another said that joint venture operations and serious marketing intelligence could help Caribbean exporters move into the North American market. A suggestion was made for the creation of a pool of foreign exchange resources to be used by the manufacturing sector. That proposal underscored the general theme of a regional approach to the region's trading problems.

67. The experts then discussed the question of regional sources of funds for export finance and development. It was noted that the Central Banks played a major role in providing export credit and insurance. The commercial banks, however, provided mainly finance for imports and for the distributive trades. Note was taken of the decrease in percentage and volume terms of commercial bank lending to agriculture, manufacturing and tourism over the last 15 years. Correspondingly, there had been increases in allocations for personal and consumer loans. The reason for that was lack of confidence.

68. One expert said that commercial banks could not take depositor's funds at short term and lend to manufacturers at long term. He further stated that production costs in the region were too high, fuelled in part by union wage demands. Banking spreads were also very high. The economies in the region were too controlled. In some countries, that control was exercised by the Central Bank. The participant called for the creation of venture capital in the region and the enactment of legislation to encourage sole proprietorship. Although attempts in the past to establish business advisory services in commercial banks had not succeeded, renewed efforts could be made in that direction. The use of off-shore banking resources as venture capital was discussed. It was felt that some resources could be used with specific guarantees as regards repatriation of funds.

69. On the stock market, several views were expressed about their function and relevance to the region's financing needs. It was observed that the two established ones in Jamaica and Trinidado and Tobago were not doing well. That was due to the limited number of shares traded, low deposit interest rates, taxation rates on corporate earnings and dividends and the marketing of the exchanges as mobilizers of capital. One expert
observed that the stock markets in the region were really secondary financial markets since initial investment was generally raised outside them. Another pointed out that mechanisms must be devised to enact legislation in respect of the brokerage system as a means of injecting confidence in investors. That would have the effect of widening the number of traders in the stock markets.

70. The experts then focused on back-to-back letters of credit and transferable letters of credit. The discussion on these two subjects was lengthy. What emerged was the general belief that commercial banks in the region did not use them. Their use was dependent on the confidence that banks had in the exporter. Manufacturers would have to have had excellent track records before the banks could advance such forms of financing. A strong view prevailed on the need for commercial banks to re-examine their policies with respect to back-to-back letters of credit and transferable letters of credit. It was felt that they should be used as normal trade finance tools in as much as their worth had been proven in the experience of other developing countries like South Korea.

71. The group spent some time discussing forfaiting. One expert felt that the practice was wide spread elsewhere and that policy makers in the region needed to look at it and take advantage of the sources of trade financing that it provided. Another was of the view that commercial banks were worried about forfaiting because of competition. Manufacturers could now look to another source of financing other than commercial banks. However, for forfaiting to operate effectively, governments would need to liberalize their foreign exchange regimes. Exchange controls in the region were characterised as anachronistic and would have to be overhauled.

72. Discussion on the above subject led the experts to consider foreign exchange policies in the Caribbean, the use of foreign exchange retention schemes, and the operations of regional payments arrangements. It was the view of most experts that the Caribbean exporter bore much of the foreign exchange risk in his/her drive for export growth. Governments would now have to bear that risk if the exporters were to concentrate on financing product development, market intelligence and market penetration. Exchange rates in the region were mostly over-valued and the controls administered by central banks and government ministries of trade, commerce and industry
were too rigid. The policies of governments vis-à-vis IMF requirements with respect to exchange rate surveillance was examined. There was no consensus on this as views differed on the need to balance trade finance requirements against efficient exchange rate management policies.

73. Many experts felt that the practice in Guyana of a foreign exchange retention scheme would have to be examined by other Caribbean countries. The scheme was explained in detail by two experts from that country and a proposal was put forward that it be part of the recommendations of the meeting.

74. The issue of regional payments arrangements was not adequately examined because of lack of time. A number of experts reported on the manner in which payments were settled, usually on a monthly basis, between their countries and their major regional trading partners. Brief references were made to the now defunct CARICOM Multilateral Clearing Facility (CMCF).

Transnational Banks and External Finance

75. In his presentation on Transnational Banks and External Finance: Implications for Developing Countries, Mr. Basseer traced the evolution and development of transnational banking from the 19th century. Some of the problems then, defaulting and bankruptcy, were similar to those being experienced presently.

76. He said that it was necessary to put the operations of TNBs in perspective in the light of unprecedented changes in the size and pattern of global transactions. A changed scenario occurred on account of the revolution in information technology, progressive deregulation of major financial markets, securitization and the rapid spread of financial instruments. The results were reduction in the cost of capital and improvement in the allocational efficiency of capital. However, these benefits, Mr. Basseer added, were enjoyed almost exclusively by the developed countries as most developing countries were mostly excluded from participating in the changes. These same countries were denied access to international financial markets to secure new credits.

77. Mr. Basseer then spoke about the relationship between transnational banks (TNBs) and transnational corporations (TNCs). Six factors were noted in respect of the expansion of TNBs since the 1950's. These were expansion...
in international trade, growth in non-banking transnational corporations (TNCs), development of the eurodollar market, appreciation of currencies of home countries of TNCs, the quantum leap in oil prices, the consequent surge in "petrodollars" and its availability, and financial innovations of the 1980's.

78. Because of time constraints, Mr. Basseer was unable to review the financing of trade in the developing countries. He then considered a number of policy implications for these developing countries. Their governments, he noted, should gear their financial markets to best serve indigenous capital formation and long-term economic development. They must also set up institutions that could accelerate the development of modern financial technology. They should consider setting up joint venture banks with TNCs and should institutionalize training by establishing financial training centres that could serve both the TNCs employees and host-country nationals. Host country governments' monetary authorities could introduce indicative guidelines on the proportion of total credits extended to high-priority activities such as agro-business, manufacturing and the export trade.

79. In their external relationship with TNCs, Mr. Basseer advised that governments in developing countries form debtor clubs and negotiate better terms with TNCs. These governments could set up their own TNCs and tap foreign resources to advance local financial technology. The need for regional integration of trade, capital and monetary markets was also emphasized by Mr. Basseer.

80. General discussions followed Mr. Basseer's presentation. It was felt that transnational banks had no obligation to transfer financial technology or other kinds of know-how to developing countries. However, that situation could not be allowed to continue. Developing countries were urged to develop their negotiating skills and techniques in a manner that would ensure local transfer of technology to local counterparts. One way in which that could be achieved was acceptance of local counterparts to work alongside foreign experts and for them to have equal access to information relating to joint ventures.

81. The role of the UNCTC in the area of advisory services was explained to the group. Such services could be made available to developing
countries on request.

82. Views were expressed to the effect that developing countries in the region should strive to get some TNBs and TNCs to establish genuine subsidiaries in Caribbean countries so that the benefits from the real value-added on final products in downstream industries would remain in the region. Such action would eliminate the need to export raw materials for processing abroad.

83. The liberalization of TNBs financing policies was raised. It was felt that change would assist entrepreneurs in getting their products off the ground. It would also assist their sales effort.

84. The final presentation was by Mr. A. Coppin on the use of foreign trade credits in Barbados for the period 1978-1986. His paper was a joint effort by three staff economists from the Research Department of the Central Bank of Barbados. The paper reviewed the determinants of trade credits, presenting alternative theories in the literature. It then examined the trend in trade credit usage in Barbados and finally it looked at the sectoral distribution of that credit.

85. In the first section of the paper, Mr. Coppin considered four theories which he characterized as a simple institutional theory, a transaction theory, an asset theory and a financial market theory. A model was constructed and, through regression analysis, some results were obtained. These were that export trade credits supplied by Barbadian firms seemed positively related to exports, to business firms liquidity, to balances held with the CMCF and to some critical interest rate differential.

86. On the trend in trade credit usage in Barbados, Mr. Coppin established that net trade credits had accounted for an average of 28% of all foreign capital inflows between 1978 and 1986. Since the mid 1970s, trade credits had become more important for Barbadian firms. However, net trade credit flows which had expanded at a yearly average of 158% between 1977-1979 had contracted by 19% per annum in the next five years. Mr. Coppin then indicated that trade credits for both exports and imports grew steadily until 1984 but contracted in the next two years.

87. Turning to the sectoral distribution of trade credits, Mr. Coppin noted that on the imports side, the manufacturing and distribution sectors accounted for over 80% of total outstanding trade credits for the period
1978-1986. The share of the public utilities sector reflected expansion in electricity and telephone services. The small share of the tourist sector reflected the fact that most of its purchases were made locally from the distributive sector. On the exports side, the manufacturing sector again dominated, followed by the distributive sector and tourism.

88. The discussion following Mr. Coppin's presentation was brief. It focused on commercial bank portfolios of foreign trade credits, regulations with respect to repatriation of export earnings by Barbadian firms, the treatment of the foreign trade credit requirements of enclave industries and the sectoral distribution of trade credits. The paper was considered a useful case study that would help focus on some of the recommendations of the Ad hoc Group.
RECOMMENDATIONS

The Ad hoc group focused on several issues over the three days, out of which the following recommendations were made:

1. The group believes that the international community should continue to support the efforts of countries in the region to overcome the effects of the acute economic instabilities of the past decade. They should also assist these countries to maintain or re-establish strong development processes in order to overcome poverty and to attain self-sustaining and independent growth. Continued or augmented support, particularly concessional assistance is especially needed for the poorer countries of the region.

2. Some concessional assistance should also be made available to the Caribbean Export Bank to enable it, (as a supplement to its resources from equity participation and private entities) to provide appropriate and selective subsidies to export development in the region, particularly for weaker countries and institutions and to provide a grant programme for technical assistance and export promotion.

3. The group recognises that the heavy debt burden and/or the balance-of-payments difficulties of some of the countries of the region are major deterrents to the achievement of regional prosperity and to the revival of healthy and growing intraregional trade. The group recommends that domestic policies and efforts to overcome balance-of-payments difficulties should, where feasible, include strategies for the revival of intraregional trade.

4. The group notes the need for more permanent solutions to the major problems of indebtedness of a few key countries in the region. Solving these problems is important for the re-establishment of stability and growth in the entire region. In this regard, the group urges that rescheduling exercises provide for longer, more adequate re-payment periods and lower, more sustainable interest rates. More permanent solutions, such as debt-for-equity arrangements, could make a significant contribution to regional prosperity and prospects and governments are urged to pursue them.
The full support of the international community to such efforts will be vital.

5. The group urges a change in attitude and the removal of restrictive conditions presently imposed by export credit institutions in the OECD countries in the area of insurance coverage of critical imports to some of the countries of the Caribbean. There is therefore a need for stronger lobbying and an improvement in the form and substance of the representations made to these agencies. More and continuous dialogue between and among Caribbean manufacturers and between the existing export credit institutions is needed. This should include the dissemination of timely and valuable information that could be the basis of common strategies among regional governments.

6. The group recognises the usefulness of the proposed Caribbean Export Bank (CXB) for which wide enabling powers were contemplated to provide forms of trade finance assistance to member countries and to assist in the promotion of non-traditional exports. The group urges governments to expedite its implementation.

7. Banking in its present form in all the countries is not sufficiently geared to supporting export trade and the group therefore suggests that, through the appropriate authority in each state, commercial banks be urged to have greater involvement in the financing of non-traditional export activity. This could inter alia involve the introduction of a wider range of mechanisms such as back-to-back and transferable letters of credit, forfaiting, factoring and swap arrangements which are now relatively under-utilized in the Caribbean. The commercial banks should also be urged to provide longer-term finance for manufacturing, reduced collateral requirements and narrowing interest rates spreads wherever feasible. In the above context, the group calls for a more widespread process of dialogue among all trade financing and trade promotion institutions in the region.

8. The group notes the usefulness of foreign exchange retention schemes as an incentive to manufacturers and exporters who are earners of foreign exchange in countries which were experiencing balance-of-payments difficulties and urges governments to consider their usefulness.

9. With respect to countertrade, the group observes that this method of
trading has been criticized as being inefficient and lending to a misallocation of resources. However, the group believes that countertrade might itself sometimes be used as a means of correcting distortions brought about by unsuitable (over-valued) exchange rates, in that the deals could permit selective devaluation on a case by case basis through the informal discounts on exports. The group notes the usefulness of countertrade as a means of earning much needed foreign exchange for those countries with severe balance-of-payment difficulties. Nonetheless, the group notes that countries may have to pay a high price for countertrade transactions due to deep discounts normally involved in concluding deals.

10. The group recognizes that one of the constraints to the start-up of new ventures aimed at the export market is the lack of funds on sufficiently soft terms. In order to reduce the element of risk and to tap the large pool of able management personnel already working in the region, governments are urged to develop programmes which would reduce the risks for the emerging indigenous entrepreneur. Such programmes could be partly financed by grant funds and be made available for carefully chosen export projects aimed ultimately at selling in the extraregional market.

11. Export opportunities offered under ACP-EEC (Lome III) the Caribbean Basin Initiative (CBI) and CARIBCAN were welcomed. However, the group believes that greater benefits can be derived if these schemes, particularly CBI, had a more relevant product coverage which included the major regional exports. The group is of the view that governments in the region should work increasingly for the removal of trade barriers, particularly on exports that can make a significant contribution to the growth and development of Caribbean economies. The group further expresses some concern about the restrictiveness of area origin criteria. Manufacturing in the region needs to be more aggressive in identifying and pursuing opportunities under the schemes referred to above.

12. The group recognizes that there are cultural, sociological and economic problems and barriers limiting the full and effective use of investment and savings opportunities in the region. The group feels that a wider involvement of the public is desirable in each state and that such involvement should be achieved through the implementation of appropriate educational/information programmes.
13. The group further recognizes that a regional capital market would assist in mobilizing the resources of the region and in enhancing industrial development. Such a market will promote the mobilization and allocation of regional funds, enhance the financing of export projects and assist in the generation of foreign exchange surpluses.

The group considers the above as long-term objectives and urges governments to work towards a phased implementation, the first stage of which could be the establishing of a market for trading in commercial paper.

These initiatives will also have, as an ultimate goal, the mobilization of funds from financial institutions in the region such as insurance companies and transnational corporations and will facilitate the return of resources to the region. Such funds could increase the pool of resources available for equity investment.

14. The group recognizes the importance of technology transfer through transnational banks and the contribution that the assistance of the advisory services of the United Nations Centre on Transnational Corporations could make in the structuring of agreements to achieve this end. The group urges Caribbean governments to avail themselves of these services.

15. The group notes the need to develop expertise in modern financial technology within the Caribbean and therefore urges governments to take steps to arrange for the training of local personnel through the inter-institutional exchange of staff. The establishment of a register of transnational banking institutions operating in the region which could provide training services should also be undertaken.

16. The group is aware that from time to time disputes have arisen over the interpretation of specific provisions of the CARICOM treaty. The group understands that steps are being taken to resolve these matters and calls upon governments that are members of CARICOM to ensure that the agreed review process will be used as a means for speedily resolving disputes as and when they arise.

17. The group urges governments of the region to increase their research and development at the institutional level, and to assist the private sector in their market research initiatives through various incentives
including grants and the establishment of project data banks to be made available to all.

18. International trading companies have facilitated the growth of export trade in the developed countries, and the group is convinced that the establishment of such companies in the region would facilitate the growth of extraregional trade. Governments are therefore urged to support their establishment.
Annex I

ADDRESSES BY
HONOURABLE MR. CLIFTON NIBLETT
PARLIAMENTARY SECRETARY, PRIME MINISTER'S OFFICE
AND
THE GOVERNOR OF THE CENTRAL BANK OF BARBADOS
DR. KURLEIGH KING
TO
AD HOC GROUP OF EXPERTS' MEETING ON
TRADE FINANCE, TRANATIONAL BANKS
AND
EXTERNAL FINANCE
ON
TUESDAY, 17 MAY 1988
AT
THE CENTRAL BANK OF BARBADOS
BRIDGETOWN, BARBADOS
MR. CHAIRMAN, LADIES AND GENTLEMEN:

FIRSTLY LET ME CONGRATULATE ECLAC ON HAVING THE FORESIGHT TO HOLD A CONFERENCE ON TRADE FINANCE AT A TIME WHEN THE EXPORT TRADE OF MOST CARIBBEAN COUNTRIES WITH THE REST OF THE WORLD IS LOCKED IN A STRUGGLE FOR SURVIVAL. THE DEVELOPED COUNTRIES HAVE BEEN SLOW IN CEDING TO DEVELOPING COUNTRIES THOSE AREAS OF MANUFACTURING IN WHICH THEY CAN COMPETE. AT THE SAME TIME, BECAUSE OF GLOBAL DIFFICULTIES, TRADE FINANCE IS NOW TAKING ON A PREEMINENCE FOR BILATERALISM AND AN INCREASING TENDENCY FOR COUNTRIES TO LOOK FOR THE "QUID PRO QUO" IN SUCH ARRANGEMENTS. MEANWHILE, GATT IS SEEKING TO DISCOURAGE SUBSIDIES TO PRODUCTION, PARTICULARLY IN AGRICULTURE.

IN ORDER TO CONTRIBUTE MEANINGFULLY TO THE DEBATE ON TRADE FINANCE AND IN ORDER FOR DEVELOPING COUNTRIES TO ARTICULATE THEIR NATIONAL AND REGIONAL INTERESTS, WE IN THE CARIBBEAN MUST KEEP OURSELVES FULLY INFORMED ON THESE ISSUES. WE MUST BE SUFFICIENTLY WELL-INFORMED SO THAT INTERNATIONAL PRESSURES DO NOT FIND US AGREEING TO PROPOSALS WHICH WE HAVE NOT CARFULLY STUDIED. THEREFORE WELCOME THIS WORKSHOP ON TRADE FINANCE.

THE MAJOR MANUFACTURING SUBSECTORS OF THE BARBADIAN ECONOMY, PRINCIPALLY CLOTHING AND ELECTRONICS, HAVE BEEN HARD HIT DURING THE LAST THREE YEARS. OUR EXPERIENCE IN THE AREA OF EXPORTS HAS NOT BEEN GOOD IN RECENT TIMES. AT DECEMBER 1987 EXPORTS OF GOODS AND SERVICES FROM BARBADOS HAD FALLEN 11.4% BELOW PEAK LEVELS OF 1984. EXPORT OF GOODS HAD FALLEN $369 MILLION AND IMPORTS $289 MILLION. THE USE OF TRADE FINANCE FACILITIES DECLINED COMMENSURATELY. NEVERTHELESS THE PROVISION OF ADEQUATE FINANCE FOR TRADE ON REASONABLE TERMS IS IMPORTANT DESPITE THE FALL IN THE VALUE OF OUR EXPORTS. EACH EXPORTER WHO FAILS TO EXPORT HIS GOODS BECAUSE OF FINANCING DIFFICULTIES, REPRESENTS FOREIGN EXCHANGE FORGONE FOR THE BARBADIAN ECONOMY, A SITUATION WHICH WE CAN ILL-AFFORD.

IMPORTANCE OF TRADE FINANCE

THE GROWTH AND DEVELOPMENT OF THE BANKING SYSTEM IN THE CARIBBEAN WAS PREDICATED ON THE NEED TO FINANCE TRADE FROM THE REGION TO THE WORLD AND TO IMPORT NECESSARY ITEMS FOR CONSUMPTION. BANKS ESTABLISHED IN THE CARIBBEAN IN THOSE EARLY YEARS WERE THEREFORE TRADE ORIENTED. IN JAMAICA, THE IMPETUS FOR EXPORT FINANCE CAME PRINCIPALLY FROM THE NEED TO FINANCE THE SUGAR TRADE, IN JAMAICA, BAUXITE AND ALUMINIUM, IN TRINIDAD, PETROLUM
AND COCOA, AND IN THE EAST CARIBBEAN ISLANDS PRINCIPALLY BANANAS AND SPICES. OVER THE YEARS, THE FINANCING OF TRADE IN THESE COMMODITIES HAS FOR THE MOST PART BEEN CONSOLIDATED AND HANDLED BY A SINGLE BODY WHICH OBTAINS TRADE FINANCE FOR THE INDUSTRY EITHER THROUGH THE COMMERCIAL BANKING SYSTEM OR THROUGH GOVERNMENT ESTABLISHED BANKS.

WITH THE DEVELOPMENT OF A CADRE OF DOMESTIC MANUFACTURERS IN THE REGION, A NEW DIMENSION, NAMELY FINANCE FOR MANUFACTURING, WAS ADDED TO OUR FINANCING NEEDS. NEW FINANCE WAS REQUIRED FOR RAW MATERIAL IMPORTS. FINANCE WAS REQUIRED FOR WORKING CAPITAL, AS WELL AS FOR LONGER TERM CAPITAL AND EVENTUALLY FOR THE EXPORT OF THE FINISHED PRODUCT. WHILE FOREIGN INVESTORS SET UP AND MANAGED SUCCESSFUL ENCLAVE OPERATIONS IN BARBADOS, THEIR PRESENCE DID NOT TEST THE INGENUITY, RESOURCEFULNESS AND CREATIVITY OF EITHER OUR BANKING SYSTEMS OR OUR TRADE FINANCE INSTITUTIONS. THEY WERE VERTICALLY INTEGRATED, AND MANY OF THEM DID NOT REQUIRE TRADE FINANCE SINCE THEY WERE SHIPPING VIRTUALLY TO THEMSELVES.

IT WAS PRINCIPALLY OUR LOCAL COMPANIES MANUFACTURING FOR EXPORT WHICH DEPENDED MOST-HEAVILY ON DOMESTIC SOURCES OF TRADE FINANCE. IN ORDER TO ENHANCE THE COMPETITIVENESS OF EXPORTED PRODUCTS, PAYMENT TERMS BECOME CRITICAL, PARTICULARLY FOR THE MARGINAL FIRM WHOSE BASIC PRICE AND PERHAPS QUALITY MIGHT NOT BE VERY MUCH BETTER THAN THAT OF HIS COMPETITOR. IN THIS SITUATION, THE EXPORTER NEEDS TO OFFER THE BEST TERMS POSSIBLE IN ORDER TO SECURE HIS ORDERS, YET HE DESPERATELY NEEDS FUNDS TO MEET HIS NEXT PRODUCTION ORDER.

THE MAJOR SOURCES OF TRADE FINANCE CONTINUES TO BE OUR COMMERCIAL BANKS. HOWEVER THEIR PORTFOLIOS TEND LARGELY TO BE GEARED TOWARDS THE FINANCE OF THE IMPORT TRADE. THIS IS INDEED ESSENTIAL AND MANY COMMERCIAL BANKS HAVE BECOME QUITE EXPERT IN THE CONVENTIONAL ISSUE OF LETTERS OF CREDIT AND DOCUMENTARY CREDITS. FOR THE MOST PART THEREFORE, IMPORT FINANCE HAS ALWAYS BEEN AVAILABLE BUT TRADITIONALLY OUR GREATEST DIFFICULTY IN TRADE FINANCE IN THE CARIBBEAN, AND BARBADOS IS NO EXCEPTION, HAS BEEN IN THE AREA OF EXPORT FINANCE.

THE IMPORTANCE OF AN APPROPRIATE MECHANISM FOR FINANCING TRADE HAS BEEN A MAJOR CONCERN OF SUCCESSIVE GOVERNMENTS OF THE CARIBBEAN AS THEY HAVE ATTEMPTED TO FOSTER THE DEVELOPMENT OF A VIBRANT EXPORT TRADE WITHIN THE REGION. FOR THE MOST PART, THE GOVERNMENTS OF THE REGION CAME TO THE
ASSISTANCE OF EXPORTERS BY SETTING UP EXPORT CREDIT AND GUARANTEE SCHEMES SO THAT THESE CRITICAL SERVICES MIGHT BE PROVIDED TO THEIR COUNTRY'S IMPORTANT FOREIGN EXCHANGE EARNERS.


THE PROVISION OF TRADE FINANCE SERVICES AND MORE PARTICULARLY OF FINANCE GUARANTEES HAVE TRADITIONALLY RAISED SEVERAL QUESTIONS. WHEN IS THE LEVEL OF SUPPORT ADEQUATE? AT WHAT POINT DOES THE LEVEL OF SUPPORT REDUCE THE EXPORTERS' COMMITMENT TO PROVIDE A HIGH QUALITY PRODUCT IN A TIMELY FASHION AND AS PER AGREED SPECIFICATIONS? HOW DO WE ENCOURAGE COMMERCIAL BANKS TO PARTICIPATE MORE READILY IN EXPORT CREDIT INSURANCE SCHEMES? WHAT LEVELS OF EXPOSURE ARE REASONABLE FOR A COMMERCIAL BANK TO TAKE? UNDER WHAT CONDITIONS IS DIRECT FINANCING A FEASIBLE OPTION? TO WHAT EXTENT IS THE RISK OF ENSURING REASONABLE CARE UNDERMINED WHEN 100% FINANCING IS OFFERED? SHOULD FACILITIES BE AMENDED OR ADJUSTED ROUTINELY TO ACCOMMODATE THE LIQUIDITY IN THE BANKING SYSTEM? THESE ARE SOME OF THE QUESTIONS WHICH TRADE FINANCE INSTITUTIONS THE WORLD OVER HAVE HAD TO ANSWER. IN THE CARIBBEAN, THERE ARE SPECIAL CONSIDERATIONS RELATING TO THE STRUCTURE OF OUR BANKING SYSTEM, THE URGENCY OF THE EXPORT NEED AND THE FINANCIAL STANDING OF OUR MANUFACTURERS WHICH HAVE TO BE ADDRESSED. MORE RECENTLY, IN SOME CASES, THE SHORTAGES OF FOREIGN EXCHANGE IN THE IMPORTING COUNTRY HAS POSED OTHER PROBLEMS. IN YOUR DELIBERATIONS TODAY I AM SURE YOU WILL BE KEENLY AWARE OF THE URGENCY OF THE NEED TO FIND ANSWERS TO SOME OF THESE QUESTIONS.

DIFFICULTIES OF OBTAINING TRADE FINANCE

BARBADOS AND THE REST OF THE CARIBBEAN HAVE ALWAYS BEEN KEEN TO TAP NEW SOURCES OF EXTERNAL FINANCE TO FUND ITS EXPORT TRADE. THE INTER-AMERICAN DEVELOPMENT BANK AND THE LATIN AMERICAN EXPORT BANK (BALDEX) HAVE BEEN SOURCES OF FUNDING TO MANY TRADE FINANCE INSTITUTIONS IN THE REGION. IN ADDITION, THE DEVELOPMENT OF BILATERAL LINES OF CREDIT WITH OUR TRADING PARTNERS PARTICULARLY IN LATIN AMERICA, NORTH AMERICA AND TO A LESSER
EXTENT EUROPE, HAVE BEEN VERY WELCOME.

VERY OFTEN HOWEVER, COMMERCIAL LINES OF CREDIT ARE OFFERED ON A RECIPROCAL TRADE BASIS SO THAT THE UTILIZATION OF FACILITIES MAY WELL REST ON OUR ABILITY TO DIVERT SOURCES OF SUPPLY OF IMPORTED GOODS TO THOSE COUNTRIES WHICH ALSO PROVIDE CREDIT. IN A DECENTRALIZED ECONOMY WITHOUT MARKETING BOARDS RESPONSIBLE FOR OMNIBUS ORDERING OF ITEMS, THIS CAN SOMETIMES BE DIFFICULT TO ACHIEVE. IN SOME CASES THEREFORE, SUCH CREDIT LINES MAY REMAIN UNDER-UTILIZED.

THOSE COUNTRIES IN THE REGION WHO HAVE EXPERIENCED MORE SEVERE BALANCE OF PAYMENTS DIFFICULTIES HAVE DEVELOPED PARTICULAR SKILLS IN NEGOTIATING BILATERAL LINES OF CREDIT. WHERE SUCH LINES ARE ON A "QUID PRO QUO" BASIS, IT REQUIRE ANALYSIS OF THE COUNTRY'S TRADING PATTERNS SO THAT THOSE COUNTRIES WITH WHOM THERE IS A REASONABLE BALANCED TWO-WAY TRADE CAN BE IDENTIFIED AS THE PRIME CANDIDATES FOR THE ESTABLISHMENT OF LINES OF CREDIT. THOSE OF US IN THE CARIBBEAN WHO ARE NOT IN THE SAME DIRE BALANCE OF PAYMENTS SITUATION MUST NOT HOWEVER WAIT UNTIL THEN TO COURT THE GOOD OFFERS OF THESE 'BANKS' AND INTERNATIONAL INSTITUTIONS. TRADE FINANCE INSTITUTIONS IN THE CARIBBEAN MUST BE ALWAYS ALERT TO ALL POSSIBILITIES.

THE ESTABLISHMENT OF EXPORT FINANCE INSTITUTIONS IN THE REGION HAS PUSHED US INTO PROGRAMMED THINKING THAT EXPORT FINANCE IS THE REALM OF OFFICIALLY SUPPORTED INSTITUTIONS. THIS SHOULD NOT BE THE REALITY. WHILE GOVERNMENTS AND SEMI-GOVERNMENT INSTITUTIONS HAVE FULLY SUPPORTED THE ESTABLISHMENT OF EXPORT FINANCE INSTITUTIONS, THE ORIGIN OF TRADE FINANCE WAS IN OUR PRIVATE BANKING SYSTEM. IN THIS REGARD I URGE OUR BANKING SYSTEM TO DO MORE TO UPGRADE ITS USE OF FINANCING TECHNIQUES. WHILE LETTERS OF CREDIT ARE A FAMILIAR TECHNIQUE, BANKS MAY WISH TO ADVISE THEIR CUSTOMERS IN THE USE OF OTHER VARIATIONS SUCH AS BACK-TO-BACK AND TRANSFERABLE CREDITS AND OTHER FORMS OF FINANCING AS A MEANS OF FUNDING AND AS A MEANS OF USING DOCUMENTS AS SECURITY FOR OBTAINING CASH TO FUND OPERATIONS.

WHILE MANY COMMERCIAL BANKS ARE PREPARED TO DISCOUNT PAPER THAT HAS BEEN ACCEPTED BY REPUTABLE FIRMS, PARTICULARLY WHEN ACCOMPANIED BY CONFIRMED CREDITS, GREATER USE NEEDS TO BE MADE OF THIS DISCOUNTING TECHNIQUE. PERHAPS A SECONDARY MARKET COULD BE DEVELOPED IN THIS TYPE OF PAPER. THERE ARE MANY EXPORTERS WHO WILL BE PREPARED TO OPT FOR CASH AT A
DISCOUNT IF IT MEANS OBTAINING FUNDS IN TIME TO PURCHASE MATERIALS FOR THE
NEXT ROUND OF PRODUCTION.

I HAVE OBSERVED THAT YOUR DELIBERATIONS ARE LIKELY TO COVER THE TOPIC
OF COUNTERTRADE. WE IN BARBADOS HAVE NOT YET VENTURED INTO THE AREA OF
COUNTERTRADE BUT WE NOTE WITH INTEREST THE EXPERIENCE OF OTHERS IN THIS
FIELD. IT IS IMPORTANT THAT GROUPS SUCH AS YOURS EXPLORE THE PROS AND CONS
OF THESE ARRANGEMENTS PARTICULARLY SINCE THIS TECHNIQUE IS BEING
INCREASINGLY USED. ALREADY SPECIAL CIRCUMSTANCES OF AN OVERHANG OF DEBT
BETWEEN TRINIDAD AND GUYANA HAS LED TO COUNTERTRADE ARRANGEMENTS BETWEEN
THOSE COUNTRIES IN PETROLEUM AND RICE. INDEED, AS EARLY AS 1982, GUYANA,
FACED WITH HIGH LEVELS OF INDEBTEDNESS, FOREIGN EXCHANGE SCARCITY AND
EXPERIENCING DIFFICULTIES IN OBTAINING TRADE CREDITS, RESORTED TO
COUNTERTRADE ARRANGEMENTS WITH THE SOVIET UNION AND EASTERN BLOC
COUNTRIES, TO EXCHANGE RICE, TIMBER, BAUXITE AND ALCOHOL IN RETURN FOR
FERTILIZERS, PHARMACEUTICALS AND EQUIPMENT. SIMILARLY, JAMAICA HAS TRADED
ITS BAUXITE FOR DAIRY PRODUCTS, GRAINS, CEREALS AND MOTOR VEHICLES.

QUESTIONS ARISE AS TO WHETHER WE SHOULD TREAT THESE AS ISOLATED CASES
OF COUNTERTRADE. SHOULD COUNTERTRADE BE USED AS A LAST RESORT ONLY WHEN
THERE IS FALLING DEMAND FOR TRADITIONAL GOODS? UNDER WHAT CONDITIONS IS
THERE OTHERWISE MUTUAL BENEFIT TO THE PARTIES CONCERNED? IN THE LAST FIVE
YEARS COUNTERTRADE, COUNTERPURCHASE AND BUY-BACK ARRANGEMENTS HAVE BEEN
INCREASINGLY USED BY DEVELOPING COUNTRIES. IN SOME CASES IT HAS WORKED
SATISFACTOIRLY. SOME COUNTRIES HAVE FOUND THEM TOO RESTRICTIVE AND OTHERS
HAVE BEEN LANDED WITH UNSALEABLE PRODUCTS. YET THE PRACTICE CONTINUES TO
GROW. THERE MUST THEREFORE BE ADVANTAGES. GREATER VENTILATION OF THIS
METHOD OF TRADING IS THEREFORE PARTICULARLY USEFUL AT THIS TIME.

I TURN NOW TO THE FUTURE OF EXTERNAL FINANCING OF TRADE THROUGH OUR
TRADITIONAL INSTITUTIONS OR THROUGH GOVERNMENT SUPPORTED INSTITUTIONS. I
HAVE MENTIONED THAT INCREASINGLY OUR CORRESPONDENT BANKS IN THE DEVELOPED
WORLD ARE INCLINED TO TIE THEIR LINES OF CREDIT TO THE PROVISION OF TRADE
AND SERVICES AND TO THE BUSINESS RELATED TO SUCH TRADE. FOREIGN COMMERCIAL
BANKS ARE MOVING MORE AND MORE TOWARDS FEE INCOME TO SUPPLEMENT THE LESS
CERTAIN INTEREST INCOME PARTICULARLY WHERE A LARGE PERCENTAGE OF THEIR LOAN
PORTFOLIOS ARE NOT PERFORMING. THIS SUGGESTS THAT THE ROLE OF THE EXPORT
IMPORT BANK AND OF TRADE FINANCE INSTITUTIONS AS VEHICLES FOR THE
NEGOTIATING OF SUCH CREDITS IS LIKELY TO BECOME INCREASINGLY IMPORTANT PARTICULARLY WHERE FOREIGN COMMERCIAL BANKS PERCEIVE THAT SUCH LINES OF CREDIT CAN BRING ADDITIONAL BUSINESS IN THE FORM OF FEES RELATED TO THE PREPARATION OF CONFIRMING OF TRADE DOCUMENTS.

I AM PLEASED TO NOTE THAT THE ROLE OF INTERNATIONAL BANKS IN THE FINANCING OF TRADE IS ON YOUR AGENDA. COMMERCIAL BANKS WITH CONSIDERABLE CONTACTS ABROAD ARE WELL PLACED TO ASSIST IN BRINGING NEW FINANCING TECHNIQUES TO THE DOMESTIC MARKET. IN THE ABSENCE OF MERCHANT BANKS IN BARBADOS (THEY EXIST IN TRINIDAD AND JAMAICA) THERE MAY BE NEED FOR OUR BANKING SYSTEM TO PERFORM A WIDER ROLE THAN IS PRESENTLY PERFORMED NOT ONLY IN THE DELIVERY OF TRADE FINANCE BUT PERHAPS BY PROVIDING TRADE ADVISORY SERVICES AS WELL. KNOWLEDGE OF APPROPRIATE METHODS OF PAYMENTS, TERMS OF PAYMENT AND REQUIRED DOCUMENTATION ARE ESSENTIAL PIECES OF INFORMATION WITH WHICH THE EXPORTER MUST BE MADE FULLY AWARE. I CALL NOT ONLY ON OUR COMMERCIAL BANKS BUT ON ALL INSTITUTIONS INVOLVED IN PROVIDING SERVICES TO EXPORTERS TO EXAMINE NEW AND IMPROVED WAYS OF ASSISTING THIS SECTOR.

FINALLY, I WISH TO LOOK AT THE FINANCING OF TRADE IN ITS WIDEST CONTEXT, FOR THE FINANCING OF TRADE IS THE ULTIMATE STAGE IN THE CYCLE OF PRODUCTION AND SALE. MANY CARIBBEAN COUNTRIES REQUIRE TRADE FINANCE, BUT THEY REQUIRE ALSO A GREAT DEAL MORE. WE NEED TO IDENTIFY NEW PRODUCTS, NEW ENTREPRENEURS, AND INDEED SOURCES OF EQUITY CAPITAL. WE MUST ALSO FIND WAYS OF IDENTIFYING MARKETS FOR OUR PRODUCTS, MEANS OF GETTING OUR PRODUCTS INTO THOSE MARKETS AT THE RIGHT TIME, IN SALEABLE CONDITION AND IN A MANNER ACCESSIBLE TO THE WHOLESALER AND TO THE ULTIMATE CONSUMER. THE WHEELS OF EXPORT MARKETING AND THAT OF TRADE FINANCE ARE CLOSELY LINKED IN THIS REGARD.

WITHOUT ATTEMPTING TO SUGGEST ADDITIONAL AREAS FOR YOUR ALREADY FULL AGENDA, I WISH TO NOTE THAT THIS STAGE OF THE CYCLE OF PRODUCTION AND SALE DESERVES SOME URGENT CONSIDERATION AND PERHAPS IN FUTURE DELIBERATIONS, YOU MAY WISH TO CONSIDER IT.

MR. CHAIRMAN, LADIES AND GENTLEMEN, I AM PLEASED TO HAVE HAD THIS OPPORTUNITY TO SHARE MY THOUGHTS WITH YOU. I WISH YOU SUCCESS IN YOUR DELIBERATIONS AS YOU EMBARK ON THE STUDY OF A TOPIC SO CRITICAL TO THE FUTURE OF EXPORT MANUFACTURING IN THE CARIBBEAN. I THANK YOU.
MR. CHAIRMAN, HONOURABLE PARLIAMENTARY SECRETARY, REPRESENTATIVES OF THE UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN, PARTICIPANTS, LADIES AND GENTLEMEN.

IT GIVES ME GREAT PLEASURE TO WELCOME YOU TO BARBADOS AND TO THE CENTRAL BANK FOR THIS MEETING OF THE AD HOC GROUP OF EXPERTS ON TRADE FINANCE, TRANSNATIONAL BANKS AND EXTERNAL FINANCE.

FOR TWO YEARS OR MORE THE UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA HAS BEEN GATHERING THE RELEVANT ECONOMIC AND STATISTICAL DATA WITH A VIEW TO CONDUCTING AN IN-DEPTH ANALYSIS OF THE TRADE FINANCE REQUIREMENTS IN THE REGION. THE DOCUMENTS WHICH THE COMMISSION HAS PREPARED AND CIRCULATED WILL BE OF INESTIMABLE VALUE TO THE EXPERTS IN THEIR DELIBERATIONS OVER THE NEXT THREE DAYS. UNLIKE SO MANY OTHERS WHICH HAVE BEEN UNDERTAKEN FROM TIME TO TIME, YOURS PROVIDES A FOLLOW-UP FORUM IN WHICH THE PRIVATE SECTOR AND OTHER INTERESTED PARTIES AND INSTITUTIONS HAVE AN OPPORTUNITY TO MAKE MEANINGFUL INPUTS INTO ANY RECOMMENDATIONS YOU MAY FORWARD TO THE VARIOUS GOVERNMENTS OF THE REGION.

YOUR MEETING COMES AT AN APPROPRIATE TIME. AS YOU KNOW THERE HAS BEEN A CONSTANT SEARCH BY BOTH PRIVATE AND PUBLIC SECTOR BODIES FOR WAYS TO PROVIDE HIGHER LEVELS OF TRADE FINANCE IN THE REGION. EXPORT MANUFACTURERS, IN SPITE OF ECONOMIC DIFFICULTIES WITHIN THE REGION, HAVE BEEN LOOKING FOR NEW WAYS TO EXTEND CREDIT TO THEIR OVERSEAS CUSTOMERS AND AT THE SAME TIME MEET ANY CONSEQUENTIAL CASH FLOW SHORTAGES. MOST EXPORT MANUFACTURERS ARE NOT IN A POSITION TO EXTEND SUPPLIER'S CREDIT ON THEIR OWN AND THUS HAVE TO RELY ON THE COMMERCIAL BANKS TO DISCOUNT THEIR EXPORT BILLS. VERY OFTEN THIS APPROACH REQUIRES EXPORTERS TO FINANCE THEIR SUPPLIER'S CREDIT OUT OF THEIR REGULAR CREDIT LINES WITH COMMERCIAL BANKS THEREBY REDUCING THE VOLUME OF MANUFACTURED GOODS THAT CAN BE PRODUCED AT ANY GIVEN TIME. NO DOUBT, EXPORTERS WOULD WELCOME SOME FORM OF NON-RECOUPABLE FINANCING TO ASSIST THEM IN FINDING A SOLUTION TO THEIR CASH FLOW PROBLEMS. YOU WILL NO DOUBT GIVE SOME CONSIDERATION TO THIS MATTER DURING YOUR DISCUSSIONS.

SINCE THE COLLAPSE OF THE C.M.C.F. IN 1983, THERE HAVE BEEN SEVERAL REQUESTS FOR EITHER THE REACTIVATION OF THAT MECHANISM OR THE ESTABLISHMENT OF A SUITABLE ALTERNATIVE. THE SEARCH IS CONTINUING AND IT IS HOPED THAT
THE PROPOSED CARIBBEAN EXPORT BANK WILL BEAR SOME FRUIT IN THAT DIRECTION. MY UNDERSTANDING IS THAT THE CARIBBEAN EXPORT BANK WILL BE A CORPORATE BODY OFFERING A BROAD RANGE OF SERVICES WELL BEYOND THOSE PROVIDED BY THE C.M.C.F. IT WILL PROVIDE FOR PARTICIPATION BY BOTH THE PRIVATE AND PUBLIC SECTORS. THIS IS AN EXCELLENT OPPORTUNITY FOR THE COMMERCIAL BANKING SECTOR TO PARTICIPATE IN A TRULY REGIONAL TRADE FINANCE BODY FOR THE PROMOTION OF TRADE REGIONALLY AND EXTRA-REGIONALLY. IN ADDITION, IT IS ALSO AN OPPORTUNITY FOR THE INTERNATIONAL FINANCIAL INSTITUTIONS TO BREAK NEW GROUND AND ASSIST THE REGION IN THE ESTABLISHMENT OF AN ENTITY THAT COULD STIMULATE INTRA-REGIONAL TRADE AND PAVE THE WAY FOR EXPORTERS TO PURSUE AGGRESSIVELY ENTRY INTO EXTRA-REGIONAL MARKETS WHICH HAVE BEEN MADE ACCESSIBLE UNDER THE CARIBBEAN BASIN INITIATIVE, CARICOM AND LOME (ACP/EEC).

NOT ALL OF OUR EXPORT MANUFACTURERS WILL BE ABLE TO PRODUCE FOR THE EXTRA-REGIONAL MARKETS. SOME OF THEM, BECAUSE OF THEIR SMALL SIZE, WILL HAVE TO BEGIN THEIR EXPORT THRUST IN THE REGIONAL MARKET. LARGER, MORE EFFICIENT MANUFACTURERS SHOULD THEREFORE BE ENCOURAGED TO EXPLOIT THE EXTRA-REGIONAL MARKETS WHILE THE SMALL MANUFACTURERS SHOULD CONCENTRATE THEIR EFFORTS INITIALLY ON THE REGIONAL MARKET. THE REGIONAL MARKET WILL NEVERTHELESS BE OF IMPORTANCE TO BOTH GROUPS OF MANUFACTURERS: TO THE LARGER MANUFACTURERS BECAUSE IT WOULD BE THE BASE FOR THE ABSORPTION OF A SIGNIFICANT PORTION OF OVERHEAD COSTS, AND TO THE SMALL MANUFACTURERS BECAUSE IT WOULD BE THE MAINSTAY OF THEIR EXPORT THRUST.

THE FLUCTUATING FORTUNES OF INTRA-REGIONAL TRADE IN THE LAST THE (10) YEARS HAVE LEFT MANY SCARS. ALTHOUGH STATISTICS ALONE WILL NOT TELL THE ENTIRE STORY LET ME DRAW TO YOUR ATTENTION AT LEAST ONE ILLUSTRATION - THE CASE OF BARBADOS.

IN 1980 BARBADOS' IMPORTS FROM CARICOM WERE VALUED AT $189.5 MILLION WHILE ITS DOMESTIC EXPORTS WERE VALUED AT $85.8 MILLION. BY THE END OF 1983 BARBADOS' DOMESTIC EXPORTS TO CARICOM HAD Risen TO $120.5 MILLION WHILE IMPORTS FROM THE SAME SOURCE TOTALLED $152.8 MILLION. HOWEVER, BY THE END OF 1987, BARBADOS' DOMESTIC EXPORTS HAD PROGRESSIVELY SLUMPED TO $53.3 MILLION, WHILE IMPORTS FROM THAT SOURCE TOTALLED $146.1 MILLION.

IT MAY BE ARGUED IN SOME QUARTERS THAT THERE HAS BEEN NO SIGNIFICANT CHANGE IN BARBADOS' NET TRADING POSITION WITH CARICOM DURING THE ABOVE
MENTIONED PERIOD. HOWEVER, THE DECLINE IN TRADE FROM $120.5 MILLION IN 1983 TO $53.3 MILLION IN 1987 IS INDICATIVE OF THE SERIOUS PROBLEMS WHICH HAVE BESET CARICOM TRADE AND WHICH HAVE LEFT MANY EXPORTERS IN BARBADOS IN FINANCIAL RUIN, THROWN SEVERAL THOUSANDS OUT OF WORK, AND LEFT A HIGH PERCENTAGE OF IDLE EXPORT MANUFACTURING CAPACITY. IN ADDITION, BARBADOS HAS SO FAR BEEN UNABLE TO RECOVER $115.0 MILLION OF THE CREDIT EXTENDED TO THE CARICOM MULTILATERAL CLEARING FACILITY.

SURELY, ONE CAN ASK THE QUESTION: WAS IT NECESSARY TO GO THIS ROUTE? THE ANSWER TO THIS QUESTION IN MY OPINION IS "NO". HOWEVER, IT WILL BE NECESSARY TO PUT IN PLACE APPROPRIATE MACHINERY TO AVOID REOCURRENCE OF THE PITFALLS OF THE PAST EIGHT YEARS. THE BALANCE OF PAYMENTS DIFFICULTIES WHICH COUNTRIES IN THE REGION ENCOUNTER FROM TIME TO TIME ARE NOT UNKNOWN OR UNHEARD OF. THE SOLUTIONS TO THESE PROBLEMS CAN OFTEN BE FOUND IN THE CONSULTATIVE PROCESS BETWEEN THE PRIVATE AND PUBLIC SECTORS IN THE REGION. THERE IS NO REASON WHY AN APPROPRIATE REGIONAL BODY COULD NOT BE ESTABLISHED TO PROVIDE ASSISTANCE TO COUNTRIES WHICH ARE TEMPORARILY EXPERIENCING SHORTAGES OF FOREIGN EXCHANGE. A PACKAGE OF CREDITS BY BOTH THE PRIVATE AND PUBLIC SECTORS COULD PROVIDE ENOUGH RELIEF TO KEEP REGIONAL TRADE ON A STEADY COURSE AND PERMIT ALL CONCERNED TO BENEFIT FROM THE CONTINUOUS FLOW OF JOBS AND SERVICES. THIS MEETING MAY WISH TO EXAMINE IN SOME DETAIL THE WAYS IN WHICH THE HARSH AND SOMETIMES INSENSITIVE POLICIES OF INTERNATIONAL FINANCIAL INSTITUTIONS COULD BE REPLACED BY MORE MEANINGFUL PACKAGES OF CREDIT FACILITIES THAT WOULD NOT IMPAIR REGIONAL TRADE.

THE ESTABLISHMENT OF A PERMANENT BODY WITHIN CARICOM TO INVESTIGATE COMPLAINTS BY EXPORT MANUFACTURERS, GOVERNMENTS AND OTHER REPRESENTATIVE BODIES, OF BREACHES IN THE TERMS AND CONDITIONS OF THE CARICOM TREATY WOULD BE INSTRUMENTAL IN REMOVING MUCH OF THE SUSPICION WHICH NOW CLOUDS THE TRADE IN SEVERAL ITEMS. IN ADDITION, ANY PERMANENT BODY TO OVERSEE TRADE IN THE REGION SHOULD HAVE THE POWER TO MAKE RECOMMENDATIONS AS TO WHAT ACTION SHOULD BE TAKEN AGAINST ANY ONE COUNTRY WHICH UNILATERALLY IMPOSES TRADE RESTRICTIONS WITHOUT PRIOR CONSULTATION WITH ITS CARICOM COUNTERPARTS. AGAIN, THIS IS ANOTHER MATTER WITH WHICH YOU MAY WISH TO EXERCISE YOUR MINDS DURING THE NEXT FEW DAYS.

BARBADOS IS CURRENTLY LOOKING FORWARD TO A GRADUAL RETURN TO FREE
TRADE IN THE REGION AND HAS RECENTLY TAKEN STEPS TO ENCOURAGE THIS BY REMOVING THE STAMP DUTY ON CARICOM IMPORTS. THE REMOVAL OF TRADE RESTRICTIONS AND EXCHANGE CONTROL RESTRICTIONS BY OTHER CARICOM PARTNERS SHOULD GIVE A SIGNIFICANT BOOST TO REGIONAL TRADE. THERE WILL BE INCREASED COMPETITION AMONG EXPORT MANUFACTURERS IN THE REGION. THIS IN TURN SHOULD LEAD TO A WIDER VARIETY OF MANUFACTURED GOODS AND AN IMPROVEMENT IN THE QUALITY OF GOODS MANUFACTURED. THE INTRODUCTION OF NEW TECHNOLOGY WILL INEVITABLY OCCUR AND BRING A HIGHER LEVEL OF SKILLS TO EMPLOYEES.

IT WOULD BE IMPOSSIBLE TO CONSIDER THE SUBJECT OF TRADE FINANCE WITHOUT PAYING SOME ATTENTION TO THE ROLE OF COMMERCIAL BANKS IN THIS REGARD. MANY OF THE COMMERCIAL BANKS IN THE REGION WERE ESTABLISHED AS BRANCHES OF OVERSEAS BANKS IN EUROPE AND NORTH AMERICA. THEIR PURPOSE WAS PRIMARILY TO FINANCE IMPORTS FROM THE METROPOLITAN COUNTRIES. HOWEVER, THE EMERGENCE OF THE DOMESTIC AND EXPORT MANUFACTURING SECTORS IN SEVERAL COUNTRIES WITHIN RECENT YEARS HAVE FORCED THESE BRANCHES TO PAY MORE ATTENTION TO MANUFACTURING FOR DOMESTIC CONSUMPTION AS WELL AS FOR EXPORTS. THE INITIAL SUCCESS OF THE MANUFACTURING SECTOR INSPIRED MANY BANKS TO PROVIDE FUNDS FOR PROJECTS WHICH THEY WOULD HITHERTO HAVE DECLINED TO TAKE INTO THEIR PORTFOLIO. IMPLICITLY, THE COMMERCIAL BANKS RECOGNISED THAT THERE WERE SIGNIFICANTLY HIGHER RETURNS IN THE MANUFACTURING SECTOR, ESPECIALLY ON THE EXPORT SIDE, PROVIDED THE ADDITIONAL RISKS INVOLVED WERE ADEQUATELY COVERED.


REGION WERE UNDER SEVERE STRAIN. NEVERTHELESS, IT WAS UNDER THESE CIRCUMSTANCES THAT COMMERCIAL BANKS WERE ENCOURAGED TO FOSTER THE GROWTH OF INTRAREGIONAL TRADE IN ORDER TO STRENGTHEN THE REGIONAL ECONOMIES. THE STRONG PERFORMANCE OF THE ECONOMY OF TRINIDAD AND TOBAGO LED MANY EXPORT MANUFACTURERS TO CONCENTRATE THEIR EFFORTS IN THAT MARKET AND ESTABLISH THE THRESHOLD NECESSARY FOR SUCCESS IN THE EXPORT MARKET. ALTHOUGH HESITANT AT FIRST, THE COMMERCIAL BANKS GAVE CRITICAL SUPPORT TO THE EXPANSION OF INTRAREGIONAL TRADE.


THE COMMERCIAL BANKS INDICATED THEIR WILLINGNESS TO SUPPORT INTRAREGIONAL TRADE PROVIDED THE FUNDS ADVANCED BY THEM COULD BE GUARANTEED BY A THIRD PARTY AS SOME OF THE EXPORT MANUFACTURERS WERE FINANCIALLY WEAK. IT WAS ABOUT THIS TIME THAT WE SAW THE EMERGENCE OF EXPORT GUARANTEE AND/OR CREDIT INSURANCE SCHEMES IN THE REGION. JAMAICA WAS THE FIRST TO ESTABLISH SUCH A SCHEME, FOLLOWED LATER BY TRINIDAD AND TOBAGO, AND BARBADOS, AND IN MORE RECENT YEARS THE ORGANIZATION OF EASTERN CARIBBEAN STATES.

THERE IS NO DOUBT THAT IN THE CASE OF BARBADOS THE IMPLEMENTATION OF THE EXPORT CREDIT INSURANCE AND GUARANTEE SCHEME IN 1978 BY THE CENTRAL BANK OF BARBADOS WAS LARGELY RESPONSIBLE FOR THE SIGNIFICANT GROWTH IN BARBADIAN EXPORTS TO CARICOM BETWEEN 1978 AND 1983. THE COMMERCIAL BANKS IN BARBADOS USED THE SCHEME RATHER SELECTIVELY AND IN MANY INSTANCES REQUIRED EXPORTERS TO PROVIDE ADDITIONAL SECURITY FOR THEIR LOANS. ALTHOUGH THERE WAS A BROAD MEASURE OF SUPPORT BY COMMERCIAL BANKS FOR THE SCHEME, THERE WAS ALMOST ALWAYS AN ATTEMPT TO TREAT THE INSURANCE AND GUARANTEE FACILITIES AS PART OF THE OVERALL SECURITY TO BE PROVIDED BY EXPORTERS FOR EXPORT ADVANCES. OFFICERS IN SOME COMMERCIAL BANKS, ALTHOUGH RECOGNISING THAT SIMILAR SCHEMES EXISTED IN THE METROPOLITAN COUNTRIES, EITHER FAILED TO CONVINCE THEIR HEAD OFFICES OF THE VALUE OF THE SCHEME IN
THE LOCAL SETTING, OR CHOSE TO ATTACH AN UNREALISTICALLY HIGH RISK TO THE
OPERATION OF THE SCHEME IN BARBADOS. IT IS UNFORTUNATE THAT THERE ARE
STILL PERSONS IN THE COMMERCIAL BANKING SECTOR WHO DO NOT KNOW HOW TO
ASSESS RISKS OTHER THAN THOSE ASSOCIATED WITH IMPORTING GOODS FROM ABROAD
FOR SALE LOCALLY. THE VIEW IS OFTEN EXPRESSED THAT COMMERCIAL BANKS ARE
NOT IN THE BUSINESS OF DEVELOPMENT BANKING. THIS IS CERTAINLY TRUE, BUT
COMMERCIAL BANKS IN BARBADOS OPERATE IN A DEVELOPING COUNTRY AND AS SUCH
MUST BE PREPARED TO FOSTER THE DEVELOPMENT AND GROWTH OF A VIBRANT BUSINESS
COMMUNITY AT ALL LEVELS. COMMERCIAL BANKING IN BARBADOS TODAY IS MORE THAN
JUST LENDING MONEY AND RECEIVING INTEREST. IN THE MATTER OF TRADE FINANCE
IT HAS TO DO WITH MAKING AVAILABLE TO CLIENTS THE APPROPRIATE INSTRUMENTS
FROM WHICH THEY CAN CHOOSE TO FINANCE THEIR OPERATIONS AT MINIMUM COST.
THE MAINTENANCE OF CREDIT INFORMATION FILES ON EXPORTERS AND THEIR OVERSEAS
BUYERS IS A PREREQUISITE FOR EXPORT FINANCING. IN ORDER TO FINANCE AND
SERVICE ADEQUATELY SOME OF THE SOPHISTICATED PROJECTS WHICH THEIR CLIENTS
UNDERTAKE, COMMERCIAL BANKS, IF THEY HAVE NOT DONE SO, SHOULD SERIOUSLY
CONSIDER POOLING THEIR RESOURCES TO DEVELOP A COMPETENT RESEARCH AND
PROJECT DEVELOPMENT UNIT. SUCH A UNIT COULD PERFORM VERY USEFUL SERVICES
FOR A WIDE CROSS-SECTION OF CLIENTS. ALTERNATIVELY, THE REGIONAL OR HEAD
OFFICES OF THE LOCAL COMMERCIAL BANKS MIGHT CONSIDER MAINTAINING A BUSINESS
DEVELOPMENT UNIT AT REGIONAL OR HEAD OFFICES WHICH WOULD BE RESPONSIBLE FOR
RESEARCH AND PROJECT DEVELOPMENT IN SEVERAL COUNTRIES IN THE REGION. SUCH
A UNIT WOULD, HOWEVER, BE REQUIRED TO VISIT THE LOCAL BRANCHES AND CLIENT
OPERATIONS AND HAVE A THOROUGH KNOWLEDGE OF THE CLIENTS' OPERATIONS.
DECISION-MAKING POWERS WOULD NOT RESIDE IN THIS UNIT BUT RATHER WITH THOSE
WHO CARRY OVERALL EXECUTIVE RESPONSIBILITY. A NEW APPROACH TO TRADE FINANCE
IS NEEDED AND IT WOULD BE BETTER FOR LOCAL COMMERCIAL BANKS TO DEVELOP
THEIR OWN RATHER THAN HAVE THE EXPORT BUSINESS COMMUNITY LOOK ELSEWHERE FOR
ONE.

CURRENT PROSPECTS FOR IMPROVEMENT OF INTRAREGIONAL TRADE LOOK
PROMISING. HOWEVER, IT WILL BE NECESSARY TO PUT IN PLACE APPROPRIATE TRADE
FINANCE MECHANISMS TO FACILITATE THE EXPANSION OF TRADE. THE PRIVATE
SECTOR, INCLUDING THE COMMERCIAL BANKING SECTOR, MIGHT WISH TO GIVE
CONSIDERATION TO THE ESTABLISHMENT OF ANY OF THE FOLLOWING AS A MEANS OF
SUPPORTING BOTH INTRAREGIONAL AND EXTRAREGIONAL TRADE;
(1) Finance companies which deal in acceptances, discounts, and factoring.

(2) Trading companies which not only provide marketing services but also have access to import and export lines of credit.

(3) Merchant banks which can provide a full range of commercial services to clients on a global scale.

Should the private sector fail to provide the appropriate framework, it is not unlikely that government might be inclined to meet the need by establishing state trading corporations supported by national commercial banks. Experience has shown that unless state trading corporations and/or national commercial banks are capably managed, they are likely to create more problems than they will solve.

In our efforts to expand intraregional trade, some attention should also be paid to trade with our Latin American neighbours. There are in place already several regional institutions which could facilitate the expansion of trade and provide the appropriate financial support. One such organisation is BLADEX (Banco Latino Americano de Exportaciones) which provides finance and lines of credit for trading among countries in Latin America and the Caribbean. Closer affiliation with this organisation could be instrumental in building a lasting bridge for the expansion of trade with Latin American countries.

The debt crisis in Latin America should not be considered a deterrent to the expansion of trade between Latin America and the Caribbean, provided the appropriate safeguards are put in place. A survey of the short and/or medium-term capital markets will reveal that there are adequate funds to support the expansion of trade and development on a global scale. The financial problems of the Caribbean are but a tiny fraction of those experienced elsewhere. The high level of political stability in the Caribbean must be considered as a major factor by those contemplating investment in the region. Very few transnational banks or corporations operating in the Caribbean have ever lost vast sums of investments without any hope of recovery. Given the current short-term, medium-term, and long-term needs of the Caribbean, the transnational banks in the Caribbean should use their world-wide experience to develop the capital and money markets of the Caribbean. In order to expedite this process governments in
THE REGION MAY HAVE TO GIVE SERIOUS CONSIDERATION TO A PACKAGE OF INVESTMENT INCENTIVES WHICH WOULD ENCOURAGE 'ON SHORE' FINANCIAL CENTRES. YOU MAY WISH TO GIVE THIS MATTER FURTHER CONSIDERATION DURING THE COURSE OF YOUR MEETING.

THE COUNTRIES OF THE CARIBBEAN HAVE ALWAYS HAD TO LOOK TO EXTERNAL SOURCES FOR FINANCING OF THEIR CAPITAL DEVELOPMENT PROGRAMMES. THE PRIMARY SOURCES OF THIS FINANCE HAS BEEN THE TRANSNATIONAL BANKS AND THE INTERNATIONAL LENDING AGENCIES. THE TRANSNATIONAL BANKS ARE OFTEN PARTICIPANTS IN THE DEBT FLOATED IN THE INTERNATIONAL FINANCIAL MARKETS. THUS, EVEN THOUGH SOME TRANSNATIONAL BANKS MAY NOT HAVE A PHYSICAL PRESENCE IN THE CARIBBEAN, THEY ARE PREPARED TO PARTICIPATE IN SOVEREIGN DEBT ISSUES, AND IN SOME CASES, IN PRIVATE DEBT ISSUES WHICH MAY CARRY GOVERNMENT GUARANTEES.

THE INTERNATIONAL LENDING AGENCIES CONTINUE TO MAKE VERY VALUABLE CONTRIBUTION TOWARDS THE FINANCING OF DEVELOPMENT PROGRAMMES IN THE REGION. THE AREA IN WHICH THEIR CONTRIBUTION IS MOST VITAL IS THAT OF DEBT SERVICE. INVARIA BLY THESE AGENCIES PROVIDE LONG PAYBACK PERIODS AND LOW RATES OF INTEREST THEREBY EASING THE STRAIN ON THE FISCAL POSITION OF MANY COUNTRIES IN THE REGION. UNFORTUNATELY, IT WOULD APPEAR THAT THESE CONCESSIONS WILL NOT BE AVAILABLE TO THE CARIBBEAN MUCH LONGER SINCE SOME INTERNATIONAL LENDING AGENCIES HAVE ADOPTED POLICIES BASED ON PER CAPITA INCOME CRITERIA WHICH WILL DISQUALIFY A NUMBER OF COUNTRIES IN THE REGION FROM OBTAINING SOFT RATE LOANS. PERHAPS IT MIGHT BE OF INTEREST TO THE EXPERTS HERE TO DECIDE WHETHER THE CARIBBEAN COUNTRIES HAVE PERFORMED SO WELL THAT THEY SHOULD BE DEPRIVED OF FACILITIES WHICH THEY COULD HARDLY AFFORD TO LOSE.

A SOURCE OF EXTERNAL FINANCE OF WHICH MENTION SHOULD BE MADE IS THAT OF BILATERAL AND/OR MULTILATERAL AID. AID IS SELDOM GIVEN WITHOUT SOME FORM OF STRINGS ATTACHED. IN THE CASE OF THE CARIBBEAN THERE SEEMS TO BE A TREND TOWARDS GRANTING AID IN THE FORM OF TECHNICAL ASSISTANCE RATHER THAN FOR THE PURCHASE OF GOODS FROM THE DONOR COUNTRY. THIS IS A GOOD SIGN AND AUGURS WELL FOR THE FUTURE, ESPECIALLY IF IT IS ACCOMPANIED BY CONDITIONS THAT PROVIDE FOR THE EXPANSION OF TRADE BETWEEN THE RECIPIENT AND DONOR COUNTRIES.

MR. CHAIRMAN, THE ISSUES TO BE DISCUSSED AT THIS MEETING ARE BY NO MEANS SIMPLE AND STRAIGHT FORWARD. THEY WILL REQUIRE CONSIDERABLE THOUGHT
AND ANALYSIS; HOWEVER, I AM CONFIDENT THAT THE EXPERTS WILL CAREFULLY WEIGH
THE PROS AND CONS AND ARRIVE AT CONCLUSIONS WHICH WILL BE IN THE BEST
INTEREST OF THE REGION AS A WHOLE. THE RECOMMENDATIONS WHICH YOU MAKE
SHOULD BE CONVINCING ENOUGH TO INSPIRE ALL THOSE WHO SEE THE CARIBBEAN AS
A REGION WITH POTENTIAL TO MAKE DECISIONS WHICH WILL LEAD TO ITS
EVERLASTING PROSPERITY.

LADIES AND GENTLEMEN, I WISH YOUR DELIBERATIONS EVERY SUCCESS AND
INVITE YOU TO SAMPLE OUR BARBADIAN HOSPITALITY IN WHATEVER WAY YOU CAN.
PERHAPS YOU MAY BE PERSUADED TO COME BACK AND YOU MAY EVEN PERSUADE OTHERS
TO COME TO OUR SHORES TO INVEST AND MAKE A CONTRIBUTION TO THE WELFARE OF
THIS COUNTRY AND THE REGION AS A WHOLE.
Annex II
LIST OF PARTICIPANTS

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<td>1. BASSER, Potkin</td>
<td>Fairleigh Dickinson University Rutherford, New Jersey, N.Y. U.S.A.</td>
<td>U.S.A.</td>
<td>Professor of International Finance</td>
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<td>2. DUNCAN, Clement</td>
<td>Guyana Manufacturing and Industrial Agency (GYMIDA) 237 Camp Street Georgetown, Guyana</td>
<td>Guyana</td>
<td>Executive Director</td>
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<td>3. FRANCIS, Carlene</td>
<td>Research Department The Central Bank of the Bahamas P.O. Box N 4622 Nassau, Bahamas</td>
<td>Bahamas</td>
<td>Director of Research</td>
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<td>4. GOODIN, E.C.</td>
<td>14 Courtney Drive Kingston 10 Jamaica</td>
<td>Jamaica</td>
<td>Independent Consultant</td>
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<td>5. GOMES-CASSERES, Clark</td>
<td>Korroupeko No. 39C Breedstraat Willemstad Curacao Netherlands Antilles</td>
<td>Holland (Curacao)</td>
<td>Executive Director</td>
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<td>6. GOPAULSINGH, Alfred</td>
<td>International Industrial Merchant Bank of Trinidad and Tobago Ltd., 45 Abercromby Street Port of Spain Trinidad &amp; Tobago.</td>
<td>Trinidad &amp; Tobago</td>
<td>Chief Executive Officer</td>
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<td>HARRIS, Darlene</td>
<td>Department of International Economic Co-operation</td>
<td>Guyana</td>
<td>Economic Adviser to the President</td>
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<td>Credit Insurance and Guarantee Department</td>
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<td>Independent Consultant</td>
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<td>STONE, Jack</td>
<td>2001 Vista Lane</td>
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| 14. TEELUCKSINGH, GliVe | Trinidad & Tobago Manufacturers' Association (TTMA)  
155-157 Tragerete Road  
Port of Spain  
Trinidad & Tobago | Trinidad & Tobago       | General Manager    |
| 15. THOMAS, B.A.     | Barclays Bank  
Caribbean Head Office  
Bridgetown  
Barbados     | Barbados               | Corporate/  
Marketing Manager |
| 16. WILLIAMS, Phillip | Barbados Export Promotion Corporation  
Pelican Industrial Park  
St. Michael  
Barbados. | Barbados               | Executive Director |
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<td>2. JOINER, St. George</td>
<td>United Nations Economic Commission for Latin America and the Caribbean UNECLAC P.O. Box 1113 Port of Spain Trinidad &amp; Tobago</td>
<td>The Gambia</td>
<td>Economic Affairs Officer (International Trade and Finance)</td>
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<td>Jamaica</td>
<td>Bi-lingual Secretary</td>
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Annex III

AGENDA

Ad hoc Group of Experts' Meeting on Trade Finance,
Transnational Banks and External Finance
(Barbados, 17-19 May 1988)

TUESDAY, 17 MAY 1988

8.00 - 9.00 a.m. Registration ECLAC
9.00 - 9.15 a.m. Introduction ECLAC
9.15 - 10.30 a.m. OPENING

Address by Dr. K. King, Governor, Central Bank of Barbados
Address by Representative of UNCTC, New York
Address by Rolf Stefanson, Resident Co-ordinator, UNDP, Barbados
Featured Address by the Parliamentary Secretary, the Honourable Clifton Neblett

10.30 - 10.45 a.m. COFFEE BREAK

Session I

10.45 - 12.00 a.m. Administrative matters ECLAC
Introduction of documents ECLAC
Survey of Trade Finance Experts/Observers

12.00 - 1.30 p.m. LUNCH

Session III

1.30 - 4.30 p.m. Survey of Trade Finance Experts/Observers
WEDNESDAY, 18 MAY 1988

Session III
8.30 - 10.30 a.m. COFFEE BREAK

Session IV
10.45 - 12.00 a.m. Introduction of documents
Transnational Banks and External Finance
 Experts/Observers
12.00 - 1.30 p.m. LUNCH

Session V
1.30 - 4.00 p.m. Transnational Banks and External Finance
 Experts/Observers
6.30 - 8.30 p.m. OFFICIAL RECEPTION

THURSDAY, 19 MAY 1988

Session VI
8.30 - 10.30 a.m. Transnational Banks and External Finance
 Experts/Observers
10.30 - 10.45 a.m. COFFEE BREAK

Session VII
10.45 - 12.00 a.m. Concluding remarks/observations
 Experts/Observers
12.00 - 1.00 p.m. LUNCH
Session VIII

3.00 - 5.00 p.m. Adoption of report, including Experts/Observers recommendations

5.00 - 5.15 p.m. CLOSING
Annex IV

TITLES OF DOCUMENTS

LC/CAR/L.244 (Sem.1/1) A Study of Capital Markets and Caribbean Trade by Conrad Smikle, Consultant (UNECLAC).


Transnational Banks and External Finance: Implications for Developing Countries by Potkin Basseer, Consultant (UNCTC).

ST/ETC/SER.A/7 Foreign Direct Investment, the Service Sector and International Banking: UNCTC, New York.


Bibliography on Issues Related to Trade Finance and Transnational Banks, Central Bank of Barbados.