



Financial Survival in Today's Economy

**Presented by: Julian W. Francis
Governor, Central Bank of the Bahamas**

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Ladies and Gentlemen, thank you for inviting me to participate in this week of activities; an exercise, I believe, of refocus and renewal for your profession.

I have been asked to speak on the topic “Financial Survival in Today’s Economy”.

While this is certainly an important and topical issue for the individual, I think that in many ways it is even more important, interesting and critical an issue for small countries such as ours. So, with your agreement, I would like to approach the discussion from that perspective, which will nevertheless point to some direct connections with the individual’s concerns.

I wish, if only not to sound so predictable, that in describing the broad economic/financial environment in which we are now living, that I could escape the word “globalization”; but I can’t, not without inconvenience. If you think about it, even five years ago we, in The Bahamas at least, hardly heard that word; and when speakers used it, they were careful to explain what they thought it meant. Today, it has become a relatively commonly understood feature of our lives, the many, many examples of which we literally cannot escape.

For the record, let’s agree that globalization is the increasing interdependence between markets, economies, financial systems, and the institutions necessary to

monitor and regulate these developments. This interdependence is forged by communications which increasingly makes it easy for people to become aware of, compare, and choose between goods produced in geographically distant places. The fact is that in some, maybe many instances, it is easier, if you have the necessary equipment and basic knowledge as to how to use it, to obtain information on products available five thousand miles away, that it might be obtaining information on an item in a store on Bay Street. And to an increasing degree, if you are willing to wait a few days or a few weeks, it is just as easy and often cheaper, to obtain exactly what you finally choose from almost wherever it happens to be available.

I could give you hundreds of examples of this new convenience at work, and assure you that it represents no special understanding of the medium term evolution of developments to say that we are seeing only the beginning of how our way of living will be influenced by this process.

There are many, far reaching implications to all of this; I shall attempt with the time available to suggest which may be paramount to The Bahamas and our economic survival. I have to admit, though, that there are many uncertainties implicit in the rapid and dramatic pace of change transforming the western world. It is entirely

possible that the world in twenty five years time could be considerably different from how we see it today or even how we expect it to look in five years from now.

How, then, does The Bahamas fit into this picture?

Let us begin with the fact that our economic existence has always been closely linked and interrelated with the outside. I hesitate to say dependant on the outside, because that is not necessarily true! Dependence would suggest – at the end of the day – a reliance on someone else’s generosity and good will. Whereas for the most part, like today, The Bahamas has always been able to pay it’s own way.

During earlier periods of our country’s formal economic arrangements this may have been possible through exports of marine, agricultural and mineral products, such as sponge, sisal and salt, combined with the very earliest beginnings of our tourism business, which was a super luxury, exclusive business, and very difficult sometimes to differentiate from the earliest foreign investments to The Bahamas such as were seen in The Berry Islands, at Cotton Bay in Eleuthera, at Lyford Cay, etc.

The Bahamas, then, as a micro economy – in terms of land area and population – has never, like so many other large countries, richly endowed with fertile land and highly valuable mineral resources, been self-sufficient, even if one defines self-

sufficiency in terms simply of the basic necessities required for survival itself. But when you consider the sense in which we usually mean self-sufficiency, i.e. the ability to produce internally a range of products and services sufficient for a basic standard of living, clearly, this has never been within the realm of possibilities of our country – and many others like ourselves.

The truth is that many countries around the world – some even rich in natural mineral resources, and therefore able to amass enormous financial wealth – have not been able to achieve basic self-sufficiency, because they lack the skills and the wherewithal to develop those resources for the use of their people.

Bahamians have always had to import from outside much of what they need to live.

During the period of global economic development when self sufficiency was accepted as synonymous with economic wealth and power, such necessary interrelatedness was just naturally considered as one of the indicators proof of economic weakness, and dependence at the very least, on the continuation of those conditions which made possible the easy accessibility of the many products which had to be acquired from abroad. Many wars have been fought to protect the trade in such vital goods, and more importantly, perhaps, to claim territories considered

necessary by some state to secure its need for some essential resource. The 1989 Gulf War was perhaps the most notable in recent times, but there are even today a number of unsettled territorial disputes which would perhaps be less important if some desired mineral, or vital strategic position were not at stake.

Globalization is changing the way that we see these issues. It is becoming more and more an accepted idea that not only is it not an indication of weakness that a country has to buy what it needs from another country, but that it is sensible and smart, and in a country's interest to do this. Globalization recognizes and provides the means—through the global market mechanism – for the realization of a rule as reliable as any natural law, i.e. that in the absence of unnatural barriers, those who are able to exploit comparative advantages over others, are those who should and will produce and sell the products or services which are the subject of that comparative advantage. The larger and more varied the free marketplace, the greater will be the opportunity for exploitation of comparative advantage, or, put another way, the more players operating in such a market, the more potential and tendency to see develop specialization by each participant in one or a few products and services, depending, of course, on comparative advantage.

This inescapable rule of the free marketplace brings us to the question as to what strategies should be adopted by countries in general, and I would suggest small, particularly vulnerable countries especially, in pursuing their development, or if one likes their survival. Unless a country in today's environment is able to formulate a viable development strategy, and to pursue that strategy effectively, it will at best manage an average existence, depriving its citizens of the advantages and progress of the dynamic, progressive modern lifestyle.

I imagine that this sounds like it requires very well studied choices and carefully planned entrée into the appropriate industries or areas of targeted economic activity for a country. In fact, much of the process of making these choices is quite natural, and becomes quite obvious for a country during the course of it's development, although there could be and sometimes are exceptions which may involve a country making an important strategic decision to pursue some new opportunity which presents itself.

The Bahamas many years ago determined that its natural environment and proximity to the Americas gave it a comparative advantage as an escape for wealthy persons from uncomfortable climates and other urban inconveniences. At about the same

time, clever professions realized that our part of the world, being far enough removed from the instability of a Europe which had undergone two major wars within thirty years, and being characterized also by the absence of income and wealth taxes, which had already become burdensome for the wealthy throughout Europe, would be an ideal haven for those seeking security from unfriendly political regimes, and from states in dire need of tax income to rebuild themselves. Another important comparative advantage: in the second case, over other possible alternatives which would have been available to the European wealthy class needing to protect their assts.

During the ensuing fifty-five years, The Bahamas has done a relatively good job at developing its attractiveness in providing both of these services – an attractiveness build principally on the scope and quality of service. And even though there have along this period been large numbers of competitors which have sought to win over these market niches, for a host of reasons, but also because The Bahamas had become increasingly good and competitive at what it does in these areas, our country has been able to thrive by pursuing specialization in these two industries.

The process by which numerous countries have entered this marketplace and sought to offer themselves as alternatives to The Bahamas and others in the provision of international leisure and financial services is globalization being realized. In both instances, consumers are offered a far broader variety and quality of product from which to choose, both being possible only through communications enhancements which have taken place over this period of time.

You might say then, and you would be perfectly right, that globalization came early to The Bahamas. Indeed, competing as we do in two of the world's three most competitive and fastest growing industries – the third being information technology and communications – The Bahamas adapted early to the cruel realities of the global marketplace. It is, in fact, this which itself represents one of the important comparative advantages which The Bahamas enjoys in international leisure and financial services. Having entered both industries early compared to most of its competitors, The Bahamas has been able to improve significantly on its “natural” comparative advantages, and it is these improvements which represent such a difficult challenge for those who have come after us.

The debate on diversification of the economy back towards those areas of activity in which The Bahamas could never enjoy comparative advantage is largely an emotional debate, and in any event would seem to be based on the idea that in order to assure ourselves the means to survive without the need to rely on others, we should pursue development in a number of vital activities, even if by so doing we forego the higher marginal profits which would be available through the exploitation of our comparative advantages.

To begin with, such a strategy, if it could be implemented in a free, private-sector driven economy, would certainly lead to less than optimal performance, and eventually would drive capital away, and more importantly assumes that the government has the power to direct private capital to invest in less than optimal sectors of the economy. It would not be very difficult for anyone who believes that this is a viable course of action, to study those countries, and there are numerous examples, who have tried to do this. One would see quickly that they have not succeeded.

What does a country like The Bahamas have to do to be sure that it will continue to survive and to be successful in this environment?

To begin with, it has to realize that it exists in an international environment, which requires that the country is well understood, communicates well and is well represented and its voice heard in vital international institutions.

Secondly, its people have to be well educated and trained and abreast the latest developments relating to those key areas in which it competes.

Thirdly, its public sector infrastructure has to be of world class standard, so that the private sector has the best opportunity to compete.

Finally, a country has to be productive and attentive to shifts in the demands of the market place, so that it adapts quickly to new realities.

Globalization is the absence of protectionism where bad decisions and choices are quickly punished by the market. Survival is the reward to those who are prepared.