The Diversification Challenge for Caribbean Economies

- To become wealthier, countries want to use their resources in the most efficient manner.
- Examples: USA, UK, France, Germany, Japan, BRIC.

- After all, a diverse economy has long been thought to play a key role in getting a sustainable economy.

- In this presentation I’ll try to answer the next four important questions.

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4. What is the meaning of Economic Diversification for the Caribbean Economy?

1. What is a Diversified Economy?

- Several definitions for a Diversified Economy.

Some definitions

- The financial-dictionary says that **'Diversification is an investment strategy in which you <u>spread your investment dollars among different sectors, industries, and securities</u> within a number of asset classes'.**

- The Economist Harry Markowitz says that **Diversification, is 'not putting all your eggs in one basket'.** This famous phrase means that diversification is to <u>create a portfolio that includes multiple investments in order to reduce risk</u>.

- **Professor Le- Yin Zhang** of the University College London noted in her presentation (2003) that Economic diversification is the **process whereby a growing range of economic outputs are produced.** She said that it can be the **diversification of <u>markets for exports</u> or <u>of income sources.</u>**

- So in simple terms, '*Economic diversification is when a country has incomes from many different sources that are not directly related to each other. It can be the production of various (export) products or the export of one or a few products to various countries'*.

2. Advantages and disadvantages of a Diversified Economy ?

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f. External trade helps reduce economic volatility (especially when a country also has a diversified export market).

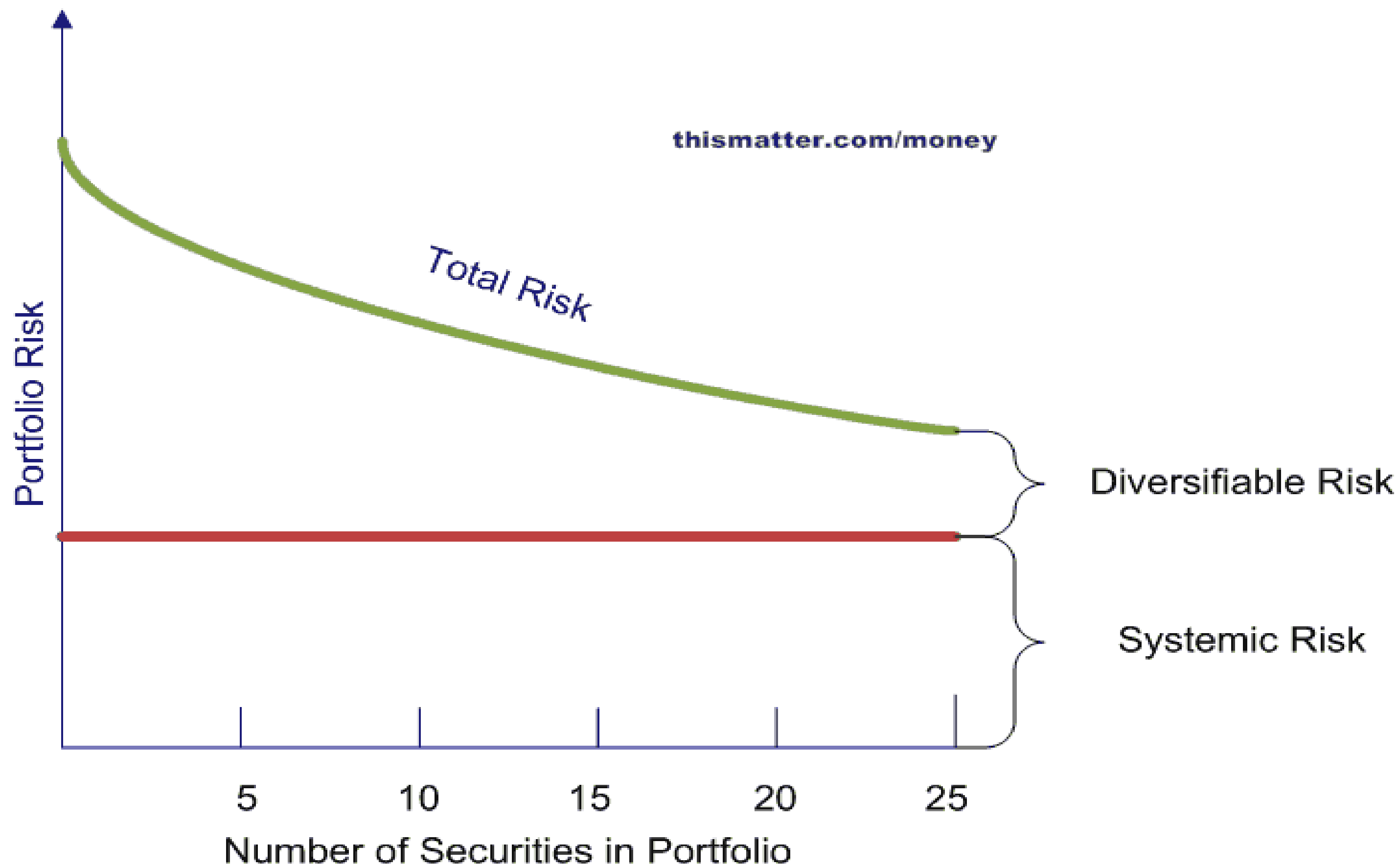
Disadvantages

- A strong, growing, sustainable economy is the goal of every nation in the world, so all countries should strive to develop a Diversified Economy.

  <u>But </u>the question is <u>how much should they diversify?</u>

Graph 1: Overview of risks on over diversification

Source: HTTP://LASTBULL.COM/DISADVANTAGES-OF-OVER-DIVERSIFICATION/



Two kinds of risks:

1. Systematic Risk.
2. Diversifiable Risk.

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- First that risk can be reduced to a certain extend with diversification, but can not nullify.
- Second, it shows us that there is really no advantage of extending your portfolio to more than a certain number of securities in the portfolio.

- Means:

  By concentrating more on diversification, a country can lose the opportunity of putting its efforts and investment on winning sectors, industries, markets and securities.

- Warren Buffett once said that

'wide diversification is only required when investors do not understand what they are doing'.

3. Economy of Suriname, diversified but still NOT diversified?

- Suriname's economy is being dominated by the exports of alumina, oil, and gold.

Other export products include

rice	organic fruit
bananas	organic vegetable
shrimp and fish	exotic flowers
lumber	pot plants
timber	tropic fruit juices
BBQ Sauce/Marinades	rum
margarines	souvenirs
water	jewelries
detergent and cleanser	eco tourism
closet paper	call centers etc.

- But still gold, alumina and oil accounts for approximately 30%, 40%, and 10%, respectively, of Suriname's exports (total mineral sector accounts for 80%).

- Despite this economic diversification, the country's economy remains dependent on its mineral resources.

- Things are changing now:
- *A few decades back, the economy of Suriname was only dependent on bauxite.*

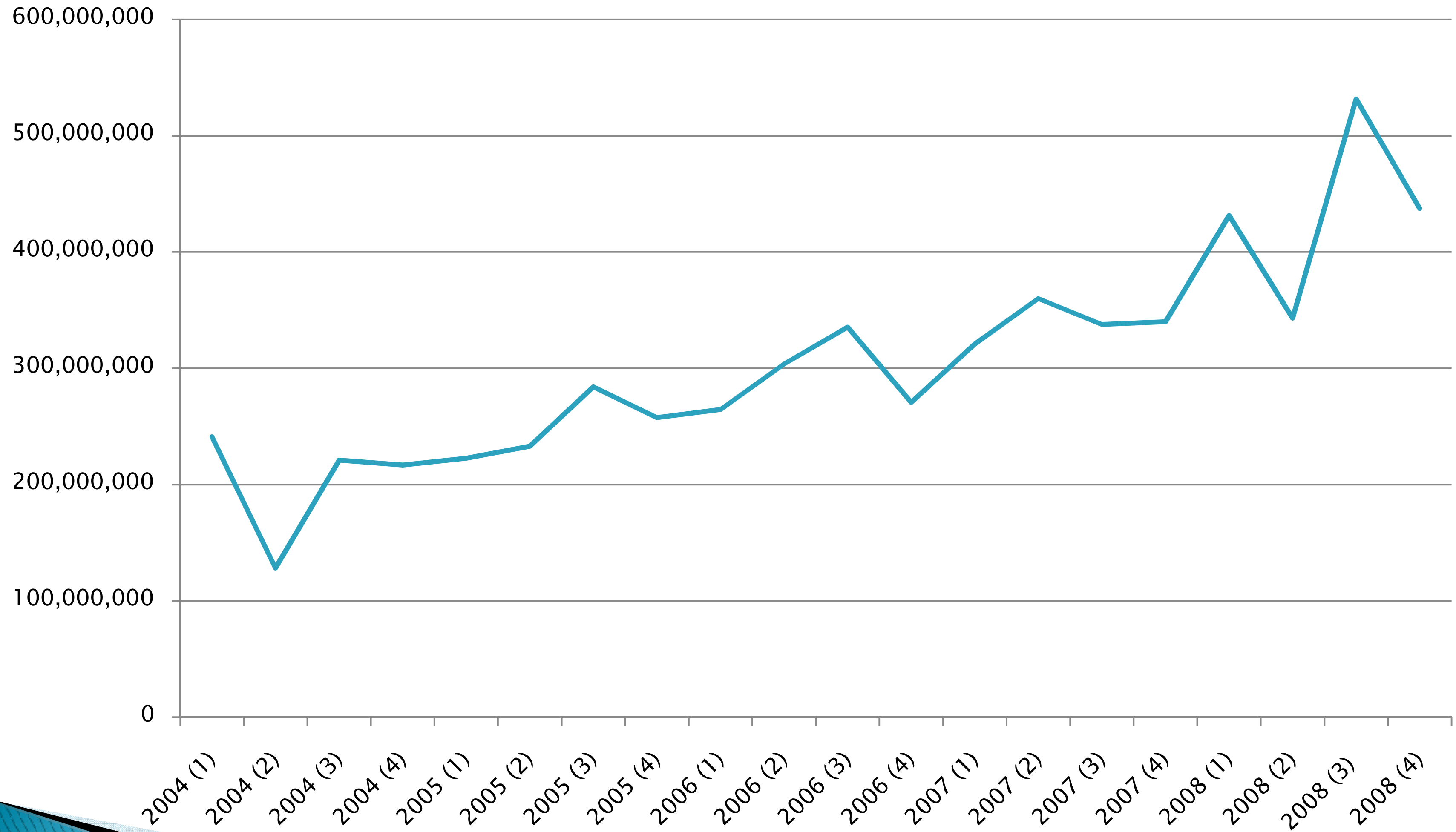
- *Entrepreneurs are now aware of the possibilities to do business with other countries in the Caribbean, Europe, China, India or the USA.*

- Real GDP growth slowed to 1½ percent in 2009, as the worldwide slump in aluminum demand has led to a sharp contraction in the local bauxite/alumina sector. But the gold sector flourished and still flourishes as never before.

- Maybe it is this economic diversification why Suriname is not that much affected by the Global Financial crisis?

Graph 2: The development of exports in Suriname in US$

Source: General Bureau of Statistics (*ABS*) *Suriname*, 2009



- Suriname has a reasonable diversified economy, but why still a developing country?

(According to the World Bank, we are on the 17^{th} place on a ranking of potentially richest countries in the world).

So what's the problem then with the economy of Suriname?

- A high economic concentration?
- The informal sector?
- No clear diversification strategies and mechanisms?
- Unstructured export policy?
- Stakeholders do not encourage the movement of labor and capital into productive economic sectors
- Don't policymakers know that the key to building a strong, sustainable economy is building a diversified economy?
- Or is there something else? (,......????)

- Working together with more developed countries in the Caribbean (Trinidad and Tobago, Barbados?) who have more experience in diversifying there economy should be a step forward.

4. What is the meaning of Economic Diversification for the Caribbean Economy?

- *Most Caribbean countries suffer from a lack of output and export diversification.*

  (Trinidad has one of the most diversified and advanced production structures in the Caribbean region).

- The economy of the most other countries in the Caribbean, is dependent on service exports (tourism) which tend to be considerably less volatile than goods exports.

  (Maybe that's why, despite of the global financial crisis, export earnings are quite stable in the Caribbean).

- But still, in less good times, people would rather stay at home than spend money on expensive foreign holidays.

  This may adversely affect the economies which are only dependent on earnings from service exports.

The Caribbean region can achieve a diversified economic structure of production by:

- *Developing new products and services.*
- *Attracting foreign direct investment and*
- *Seeking for more export markets for the same product.*

CSM&E opens several doors to achieve all this.

The basic conditions are present

- CARICOM members Suriname and Guyana have a great potential on mineral and non mineral sources.
- The other members have the appropriate knowledge skills.

- CARICOM members can accumulate in sufficient quantities the appropriate knowledge skills, to achieve a diversified economic structure of production

- The global financial crisis must be an incentive for the Caribbean countries to work together to strengthen their economies.

- Economic diversification will help the Caribbean economy to survive changes in the world economy, such as recession, new trade laws and treaties, and new technologies.

- Helping each other will make these countries only stronger to survive the competition from strong economies like America, Europe and especially the BRIC (Brazil, Russia, India and China)