"The Caribbean Position in the International Financial Crisis"

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First, let me say what a pleasure it is for me to lead discussion with so distinguished a group of Caribbean media representatives on "The Caribbean position in the International Financial Crisis".

My pleasure in talking with you is diminished only by the gravity of the subject which inspires no delight at all.

Let me begin with the indisputable.

The economy of almost every Caricom country is now in recession.

The President of the Caribbean Development Bank recently observed that: "In seven of the thirteen Caricom countries, negative growth is projected for 2009 and in the other six cases, the growth rate, although positive, is projected to be slower in 2009 than in 2008".[2]

As examples, the IMF expects negative growth rates in the Bahamas (-4.5%), Barbados (-3.5%) and Jamaica (-2.6%).

Even this country, Trinidad and Tobago with its gas and oil resources that make it a stronger economy than others, is not expected to see

[2] Statement by Dr Compton Bourne O.E., President of the Caribbean Development Bank, at the 39th Meeting of the Board of Governors in the Turks and Caicos Islands, 27th May 2009

more than 1% growth this year.

The IMF has also said that member countries of the Eastern Caribbean Currency Union – essentially the members of the Organisation of Eastern Caribbean States (OECS) – will see a further contraction of their economies by 2½ percent in 2009 over the decline of 1.8% they experienced in 2008.[3]

There is no question that the financial crisis, which originated late last year in the United States of America and the United Kingdom particularly through poor regulation of the financial services sector, has adversely impacted the Caribbean.

There have been serious declines in revenues from the tourism industry - in some countries the decline has been as much as 30% year on year;

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[3] IMF Executive Board Concludes 2009 Discussion on Common Policies of Member Countries of the Eastern Caribbean Currency Union, Public Information Notice (PIN) No. 09/62, May 20, 2009

[4] "Global Financial and Economic Crisis and Implications for the Caribbean", Dr Maurice Odle, Economic Adviser to the Secretary-General of Caricom, Seminar for Middle-Level Caricom Diplomats, Guyana, 20th May 2009

[5] Op. cit., Note 2

[6] "Caribbean Economy: Hit by a triple whammy", Economist Intelligence Unit, May 13th 2009

[7] Op. Cit., Note 2

[8] Communiqué of the Commonwealth Heads of Government Conference, 23-25 November 2007, Uganda, see: http://www.thecommonwealth.org/shared_asp_files/GFSR.asp?NodeID=173045

[9] Communiqué of the G20 countries meeting in Washington, 15th November 2008

[10] Marlborough House Statement on Reform of International Institutions, Commonwealth Secretariat, London, 10 June 2008.

remittances from the Caribbean Diaspora have reduced; and many large scale construction projects have halted because of a tightening of credit facilities.

Commodity prices are also dropping on the international market, and the two largest economies, Jamaica and Trinidad and Tobago, are feeling the impact: alumina production has been halted in Jamaica and many downstream activities in Trinidad’s energy sector have been temporarily closed.

The human face of all this in the Caricom area has been a marked increase in unemployment - particularly for vulnerable groups such as single mothers and unskilled workers- and an increase in poverty levels. But the accustomed quality of life for every income group has declined.

For some people, there is also fear of loss of insurance annuities and long-term savings, and a fear of loss of insurance coverage.[4]

This latter fear has less to do with the global financial crisis than it has to do with the collapse of CL Financial Holdings, headquartered in Trinidad and Tobago, with an outreach across the majority of Caricom member states.

As the IMF has observed in relation to the members of the OECS, "Shocks emanating from the collapse of CL Financial Group have also increased the stress in the nonbank financial sector with knock-on effects to domestic banks".[5]

In this connection, we might not yet have seen the end to the impact of matters related to CLICO and British American in the Eastern Caribbean.

If these institutions are unable to meet their insurance coverage of mortgages and other lendings by domestic banks, further problems might develop.

It has now been clearly established that the failure to act on the problems surrounding CL Financial Holdings and its related companies, even though they had been recognised by regulators in Trinidad, resided in inadequate enforcement powers.

In some other Caricom countries, regulation was either non-existent or the machinery was so poor it was ineffective.

So, while the global financial crisis has impacted the area adversely, it was also hurt by events of a very domestic nature.

The harmful effects of both the global crisis and CL Financial Holdings served to exacerbate a difficult enough economic situation for most Caricom countries which are highly indebted and whose space for manoeuvrability was already severely constrained.

The Economist Intelligence Unit has observed that "with generally weak fiscal positions, most governments have few tools with which to stimulate domestic demand to offset the external downturn".

In this context, the EIU has predicted that "the effects of the crisis (are) likely to linger beyond the recovery in the US and the UK, their major trading and investment partners".[6]

The IMF also observes that public debt in OECS region overall which was 91 per cent of GDP at end-2008, will be 98% at end 2009.[7]

The picture for the wider Caricom area is no less gloomy.

In 2008, the IMF estimated public debt to be an average 85% of GDP.

In today's environment of extremely tight liquidity and fierce lending conditions, there is a grave threat to fiscal stability in the region as a whole.

This situation is unlikely to change in a hurry. As the Prime Minister of Jamaica, Bruce Golding, pointed out in a parliamentary debate on the Jamaica Budget on May 5th, “We delude ourselves if we think that after the recession has ended the world will return to what it was before. Banks are going to be more cautious in their lending, demanding more collateral and greater ability to repay, investors more contemplative in their investments. It is not going to be business as usual”.

Few would argue that Caricom governments have been swift to address the effects of the global crisis on their economies collectively.

It was not until January this year that Caricom Finance Ministers appointed a Task Force to study the impact of the crisis on the region and to recommend solutions, and it was only two weeks ago that another Task Force was established to investigate how Caricom countries might access some portion of the US$1.1 trillion that the G20 countries announced in April had been made available to the IMF.

Indeed, over the years, Caricom governments have been extremely tardy in deepening the economic integration arrangements which could have helped to cushion their countries from the worse effects of the present global financial crisis, and the pan-CARICOM effects of CLICO’s financial problems.

As far back as July 1989, CARICOM Heads of Government undertook to establish "in the shortest possible time" a Single Market and Economy. Nothing happened for seventeen long years until 2006 when the Single Market was haltingly launched under a Revised CARICOM Treaty.

But since 2006, the pace has been witheringly slow with the prospect of a single Economy receding into a far distance.

In this regard, the desire expressed by the governments of Trinidad and Tobago and three members of the OECS to move forward the Caribbean integration agenda is understandable.

These governments are considering the establishment of an Economic Union by 2011 and a form of political integration by 2013.

Given their stated commitment that nothing emanating from their initiative "shall undermine the Caricom single market or the economic cohesion established by the Revised Treaty of Chaguaramas", it is to be assumed that their objective is to act as a catalyst for other Caricom countries to accelerate the process of establishing the Single Market and Economy and addressing, in an effective way, the matter of governance of the community.

The global crisis has emphasized the lack of capacity of in the member countries of the OECS to go it alone. They also recognize that even an Economic Union of the OECS countries (which has been long in contemplation) will not by itself help them to compete in a globalised world in which large regional economic blocs such as the European Union, ASEAN and Mercosur are being strengthened.

The hope must be that Trinidad and Tobago, with its wealth in oil and gas, will help to provide them with more economies of scale, greater efficiencies in operations and a greater ability to interact and negotiate with external groups.

Whether this particular initiative comes to fruition or not, it emphasises the recognition that Caricom countries cannot go it alone.

Against this background, it is, of course, far more desirable for all CARICOM governments to bolster their economies and their capacity for dealing with the international community by completing the arrangements for implementing the Caribbean Single Market and for bargaining collectively with international financial institutions, countries and regions as urgently as possible.

We all know that there is a fear among some governments that the greater cohesive action that would be required of a Single Market and Economy would deprive them of individual sovereignty.

But, the European Union project has demonstrated the benefits to 27 nations - much larger than those in the Caribbean - of pooling their sovereignty in specifically agreed areas such as external trade arrangements while maintaining individual sovereignty in others.

The Caribbean has the creative capacity to devise machinery that is just as effective. What is required is the political will.

The question is will the will come before catastrophe.

I come now to an opportunity for the Caribbean which presents itself later this year when this country, Trinidad and Tobago, hosts the Commonwealth Heads of Government Conference.

The old cliché about the Commonwealth is perfectly true: if it did not exist, nations would try to create it because it does bring together in a common forum, speaking the same language, 53-leaders who represent every known faith, race of people and size of economy.

There could not be a better microcosm of the world and, therefore, no better forum for seeking solutions to the world's problems.

The Commonwealth has also been a champion of small states in the context of advancing their concerns about weightier issues in the international community.

In an almost prescient discussion at their Summit meeting in Uganda in November 2007, Heads of Government "expressed concern that the current architecture of international institutions, which was largely designed in the immediate aftermath of the Second World War does not reflect the challenges in the world of the 21st century" and that "this undermines the legitimacy, effectiveness and credibility of the whole international system".[8]

Almost a year later, leaders of 20 nations gathered in Washington on November 16th 2008 in the wake of financial meltdown that left the US, Britain, Germany and Spain in recession and most other countries in gave difficulty.

Invited to the meeting with the large developed countries were China, India, Brazil and Saudi Arabia. Amongst the things to which the G20 countries declared themselves committed was "advancing the reform of the Bretton Woods Institutions so that they can more adequately reflect changing economic weights in the world economy in order to increase their legitimacy and effectiveness. In this respect, emerging and developing economies, including the poorest countries, should have greater voice and representation".[9]

At the Uganda meeting, Commonwealth Heads established a small group of ten to “undertake advocacy and lobbying in support of wide-ranging reforms”.

Included in the ten were five leaders of small states – two from the Caribbean, Mr Manning and Guyana’s President Jagdeo - as well as the British Prime Minister.

The ten leaders met in June 2008 at the Secretariat’s headquarters in London and issued “The Marlborough House Declaration on Reform of International Institutions”. Amongst the things the Declaration said were:

- The majority of independent sovereign states today are politically subordinate and inadequately represented in these institutions. It is unacceptable, and indeed weakens these institutions that the greater part of the world community of states participates and benefits less than fully in them.
- Institutions must enjoy the legitimacy not only of their member states but also of the wider international community in order to command confidence and commitment.
- It is essential that all countries have equal voice and fair representation.[10]

These three points are a virtual manifesto for action by Caribbean states in trying to address the harmful effects of the global financial crisis on their economies.

Trinidad and Tobago's Prime Minister, Patrick Manning, will become the Chairman-in-Office of the 53-nation Commonwealth in November this year and he will hold that post for 2 years until the next summit.

As Chairman Mr Manning has a real opportunity to shape the direction of the Commonwealth.

The Commonwealth countries of CARICOM also have a chance, through Trinidad and Tobago's on-going Chairmanship, to ensure that issues of importance to them are not only discussed at the Summit but are advanced internationally right through to the end of 2011.

CARICOM governments and the CARICOM Secretariat should, with the concurrence of the Trinidad and Tobago government, establish a permanent team to help Mr Manning as Chairman to carve out an agenda for the Summit and to work with him over the next two years to make his Chairmanship-in-Office a success.

Among the things that the Commonwealth could do is to strengthen is advocacy role on behalf of small states, including resolving that the Commonwealth Chairman should have a seat at all future G20 meetings.

It is telling, for instance, that the World Bank became more firmly engaged in the problems facing small states after a Commonwealth Ministerial Committee comprising representatives of large and small countries placed them squarely before the President of the World Bank in 1998.

The Port-of-Spain Commonwealth Summit might also consider the appointment of a high-level group to interface with the IMF, the World Bank and the WTO on small states issues that include *inter alia*:

- making concessionary financing available to small states particularly to build infrastructure to facilitate business development and to purchase the machinery and equipment necessary to combat drug trafficking and arms smuggling both of which contribute to high rates of violent crime;

- writing-off debt or substantially rescheduling outstanding debt (including assistance with commercial debt);

- seeking a special status for them in the WTO that would address the unfairness of rules that treat them as if they were the same as large states; and

- advocacy that the adverse effects of global warming on small states should be factored into trade negotiations so that these small countries are compensated for the damage they are forced to endure and the costs of mitigation with which they have to contend.

With the erosion of preferential markets for sugar and bananas, it seems that small states will have to move increasingly to develop service industries.

Many of them have established traditional sun-and sea tourist industries, but all of them have to move beyond this to develop niche tourism markets and a range of other service industries such as medical tourism, offshore training schools for doctors and nurses who are badly needed in industrialised countries and who are being poached from developing states, call centres and so on.

The Commonwealth Secretariat should gear itself to provide the technical advice that these small countries need to develop the services sector.

At the same time, it should work with organisations such as the World Bank and the Commission of the European Union to deliver the financial support that the development of such services sectors will require.

Reform of the global financial architecture, changes in IMF and World Bank criteria to match loans and grants to real needs, fundamental change in their conditionalities, the expansion of the G20 to include a permanent representative voice of small states, the consequences of climate change including sea-level rise and a well-funded programme to help developing nations mitigate the effects of global warming while preserving their environment should all form part of the agenda for the Port-of-Spain Commonwealth Summit with well-researched and well-argued papers from the Caribbean.

I end this presentation with the recent words of a Caribbean Prime Minister not renowned as an advocate of deeper Caribbean integration – Bruce Golding of Jamaica.

Speaking at the Opening of the 12th Meeting of CARICOM Foreign Ministers last month, he declared: "If there was ever a time that we need the strength of a Community it is now". [11]

[11] The Barbados Advocate, Sunday May 10th 2009, "Jamaica's PM calls for united CARICOM", p.22

Mr Golding could not be more right.