

The Caribbean and the global financial crisis: Implications for domestic politics and foreign policy

Introduction

Largely the Caribbean consists of small-island states with open but fragile economies based on a limited number of commodities, and the region is therefore highly influenced by developments in the world economy. The global financial crisis is presenting serious economic challenges for the Caribbean in key areas such as international trade, offshore finance, tourist arrivals, and remittances. The paper provides an overview of the economic situation, as well as the national and regional responses to the crisis. It also considers what effects, if any, the worsening economic situation is having on democratic governance and political systems in the region. Finally, the foreign policy implications are assessed. Due to the large number of countries in the Caribbean, this paper is quite general in nature, but it highlights some of the key issues facing the region at present.

The economic position

In terms of overall GDP growth figures the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Cuba will grow by 3% in 2009, the Dominican Republic 1.5%, and Haiti 0.5%. For the Caribbean as a whole the rate of growth will only be 0.1%, with several countries such as Barbados and Jamaica entering recession. All these numbers are notably lower than recent GDP growth figures. The impact on the Caribbean economies of the financial crisis and the associated recession is being felt through several sectors including trade, offshore finance, tourism, and remittances.

- **Trade:** From 2003-07, the US was the main market for Caribbean exports (48.3% of total exports of goods), followed by the EU (19.8%) and Canada. Overall, the three markets combined were the destination of more than 70% of total exports in six out of the 11 countries where information was available. The US, EU and Canada are now in recession. Also, the international prices of aluminium, oil, bananas, sugar and rice, among other key Caribbean exports have fallen from their peak levels. So there are serious implications here for the Caribbean in terms of both trade balances and fiscal revenue. However, the reduction in oil prices since mid-2008 has benefited most Caribbean countries, who are oil importers. Although, those countries which have sizeable hydrocarbon sectors such as Belize, Suriname and, especially, Trinidad and

Tobago are suffering from significant declines in revenue. The reduction in world prices of food has also been considerable in recent months. However, domestic food inflation in Caribbean countries has not reduced, and in many cases has continued to rise.

- **Offshore finance:** The largest offshore sector is in the Cayman Islands, with over US\$1 trillion in assets, making it fifth in the world by some measures. The territory is also home to 80% of the world's hedge funds and is a key centre for captive insurance and mutual funds. Other important offshore centres are located in the British Virgin Islands, The Bahamas and Barbados. The financial crisis and the fall in government revenue have placed into sharp focus the role of offshore financial centres and their alleged role in tax avoidance. The G20, OECD and the new US administration are pushing for greater supervision of the sector. The economic implications of this for several countries in the region are potentially very significant.
- **Tourism:** The Caribbean is the most tourism-intensive region in the world. Countries that are most reliant on tourism are Anguilla, Antigua and Barbuda, and the Bahamas, while Guyana, Suriname and Trinidad and Tobago are least reliant. However, all countries are highly dependent on the weakening US, European and Canadian tourist market. These three sources accounted for shares as high as 95% in the Bahamas and Jamaica in 2008. The latest data from the Caribbean Tourism Organisation (CTO) for the first three, in some cases two months, of the year reveals that Anguilla registered the sharpest fall in tourist arrivals (-19%) followed by Antigua & Barbuda & St Lucia (both -14%). Cayman Islands and Montserrat reported declines of 11%. The statistics from the CTO also show sharp falls in arrivals by cruise ship passengers: down 29% in Jamaica, 26% in Puerto Rico and 20% in Cayman Islands. Of course such declines are having a corresponding detrimental impact on employment in the sector. Indeed at the turn of the year heavy job losses were already being reported, led by the Atlantis resort in The Bahamas, the country's largest private employer, which made redundant about 800 workers – some 10% of the resort's workforce.
- **Remittances:** They are a significant contributor to GDP, particularly in Guyana and Jamaica, with remittances totalling 23% and 16% of GDP, respectively. The rate of growth in remittances to the Caribbean during 2008 slowed considerably, and there is every expectation that remittances will diminish as the recession in the developed world deepens with the subsequent contraction in the demand for labour.

Banking and corporate sectors under pressure: CL Financial and Stanford Groups

As well as the broad economic challenges facing the Caribbean, the region has seen a number of local corporate failures which illustrate the parlous state of its financial sector. CL Financial was the largest privately held conglomerate in Trinidad and Tobago and one of the largest private corporations in the Caribbean with assets standing at roughly US\$100 billion. However, in order to stem “increasingly serious” liquidity pressures and “maintain the stability and integrity of the financial system” the Trinidad and Tobago government took control of the group’s most important assets, including CLICO (Colonial Life Insurance Company). However, this did cause an increase in government borrowing. Then, the group’s entire operations were frozen, and the governments of Belize, the Bahamas and Guyana took control of CLICO subsidiaries in their respective countries.

The Stanford Financial Group was a privately held international group controlled by Allen Stanford, until it was seized by US authorities in early 2009 after allegations of widespread fraud. The group was Antigua and Barbuda’s second largest employer after the government (employing about 5% of the population), and the largest single private investor. In response to the US action, the Antiguan government and the Eastern Caribbean Central Bank took control of Stanford’s Bank of Antigua, and in turn passed its operations to the newly created Eastern Caribbean Amalgamated Financial Company involving the Antiguan government and five indigenous banks from the OECS sub-region. Uncertainty remains, however, about the full extent of the losses in investments and jobs from the collapse of the Stanford Group.

Although action was taken by a number of Caribbean governments and institutions to mitigate the worst effects of the collapse of both the CL Financial Group & the Stanford Group, there were criticisms that not enough had been done at the regional level to address the situation. For example, former Prime Minister of Barbados Owen Arthur criticised the failure of regional leaders to adopt a regional response to the CLICO crisis and the failure of CARICOM governments to follow up on a commitment made in 2007 to have a regional financial services agreement in place by December 2008. Questions can also be asked about why regulators failed to spot the problems developing within both CLICO and the Stanford Group. In response CARICOM Heads of Government meeting in March 2009 agreed that the region’s regulatory framework needed strengthening, chiefly in the non-bank financial sector, along with more effective cross-border supervision of Pan-Caribbean companies. However, only time will tell if these pronouncements lead to more effective regulation and supervision.

Other regional and national responses to the crisis

The limits to regional cooperation highlighted by the CLICO & Stanford affairs are largely mirrored in CARICOM's response to the global financial crisis more generally. There have been calls for "urgent and comprehensive reform" of the international financial system so that it reflects "the interests of not only the developed, but more importantly the developing economies". There was also agreement to lobby the US and others to defend the region's offshore sector. However, CARICOM has done little to enact regional policy responses to the crisis. Unfortunately this is illustrative of the organisations wider malaise, particularly when one considers progress on the Caribbean Single Market and Economy (CSME). E.g. the Common External Tariff has not yet been fully implemented; strong opposition remains to giving up national decision-making authority to a regional institution; intra-Caribbean investment remains small; and labour mobility is still geographically constrained for all but a limited number of certified skilled workers. The financial crisis has strengthened the view of some governments that deeper regional integration is not appropriate at the present time, but conversely a stronger CARICOM could have played an important role in managing, at least some, of the negative impacts of the downturn.

Because of the weakness of CARICOM, national governments have been the main actors in trying to mitigate the worst effects of the global financial crisis. The form and extent of the measures and policies that are being implemented depend on several factors, such as the availability of resources, the levels of debt-to-GDP (many Caribbean countries are now the most indebted in the world); and the current account position. Generally, the policy measures adopted by governments can be classified into three broad groups: fiscal stimulus, sectoral policies, and social policies. For example, the Bahamas has implemented a stimulus programme that involves the fast-forwarding of key infrastructure projects; Jamaica has undertaken an aggressive marketing campaign in the US to attract not only locals but also Jamaican nationals living there; and Saint Lucia has raised from 15 to 44 the number of staple foods and health-related articles subject to price controls. Such measures are relatively limited in scope but with significant domestic and international constraints little more can be done.

The political dimension

In electoral terms the impact of the global financial crisis has not really been tested, largely because it has been a quiet period for elections in the region. Since the crisis began there has only been one election in the independent Caribbean – in Antigua and Barbuda. The

election was held in March 2009 just after the Stanford scandal broke, and the incumbent United Progressive Party (UUP) gained victory albeit with a reduced majority. It has been suggested that the UUP benefited from its more cautious stance towards Allen Stanford, as opposed to the Antigua Labour Party's more generous policies towards him when it was in government. Further, the UPP's response to the crisis found favour amongst many parts of the electorate. Looking ahead there is only one more election scheduled for 2009 in the independent Caribbean – in St Kitts and Nevis – so most governments will not have to face elections until 2010 or later, and by then the worst of the economic crisis might be over.

The country that has faced the greatest upheaval in terms of its political system since the crisis began is probably the non-sovereign Turks and Caicos Islands. Although events in the UK territory were not related directly to the economic situation they were certainly indicative of the excesses of the economic and financial systems that were in place prior to the crisis. The allegations included Crown land being sold for the personal benefit of TCI government members and their relatives and supporters, the improper distribution of contracts and development agreements, the illegal granting of Belongerships (a status which indicates freedom from any immigration restrictions and also confers rights normally associated with citizenship, including the right to vote) and the misuse of public funds. A Commission of Inquiry has recently reported that there was a high probability of “systemic corruption or of other serious dishonesty involving past and present elected Members of the Legislature...” The report also criticised the “systemic weaknesses in legislation, regulation and administration”, along with “clear signs of political amorality and immaturity and of general administrative incompetence...” The outcome will be the suspension of parts of the constitution for at least two years.

Away from electoral politics public anger against the effects of the global economic crisis has so far been relatively muted. However, Haiti and Guadeloupe have faced serious unrest. In Haiti, sharp increases in the cost of fuel and food in early 2008 destabilised the government and the relative political stability that had existed since the election of René Préval as president in 2006. In April 2008 there were several days of violent protests which left six people dead. In response the Senate approved a motion of no confidence in Prime Minister Jacques-Edouard Alexis on the basis that he had failed to meet the basic needs and demands of the population. Préval nominated Ericq Pierre, an Inter-American Development Bank official, for the post of prime minister but this was rejected by the Chamber of Deputies; so too the nomination of Robert Manuel, a close friend of the president. Préval's third nomination proved to be more acceptable to the parliament, and so economist Michele

Pierre-Louis became prime minister in August. Although pressures subsequently eased, the situation in Haiti remains grave. Preval warned in February that Haiti could return to a state of anarchy if the government fails to secure US\$100m to plug a budget gap, while in April the UN Security Council articulated concern over “a marked deterioration in the living standards of the vast majority of Haitians”.

Guadeloupe was badly shaken after a general strike was called in mid-January that was not resolved until early April. Workers demanded action over low wages and the high cost of living which is in part caused by the fact that the country relies almost exclusively on imports from France. Particular ire was directed at the “Beke” class, white descendents of colonial plantation owners, for allegedly exploiting their monopoly power in retail and construction in order to maintain high prices and their privileged lifestyles. During the strike one activist was shot dead by protestors and hundreds of extra police were deployed from mainland France. On 30 January, almost 20,000 people gathered in Pointe á Pitre, to form the largest demonstration in Guadeloupe’s history. Eventually an agreement was reached that gave workers an extra €200 per month salary. Despite its resolution, the strike highlighted long-standing tensions in relation to the political, economic and social systems that operate both within Guadeloupe and between Guadeloupe and mainland France. So for Guadeloupe and Haiti, there are specific reasons why civil unrest has come to the fore at this time.

The international dimension

From an international perspective the key relationships for the Caribbean – the EU, US, Canada, China, and Venezuela are so far largely unaffected by the global financial crisis. However, over the medium term it may well accelerate the re-ordering of relationships – a process which in fact has already begun. For example, the UK’s interest in the Caribbean has been declining for some time; the EU’s relationship with the region is becoming less particular; whilst Spain’s engagement has been increasing. The region has also benefited from a growing commitment on the part of China. There has been a series of high profile visits to the Caribbean, including by the Chinese vice president and vice premier. Also China released its first policy paper on Latin America and the Caribbean in November, and the countries of the Western Caribbean (Cuba, Jamaica and The Bahamas) are being given particular priority. Canada is also attempting to increase its engagement in the Caribbean, largely through a refocusing of its International Development Agency’s aid budget.

Perhaps the relationship that is most at risk because of the global financial crisis is with Venezuela through its Petrocaribe and ALBA (for Dominica) projects. Since the start of Petrocaribe Venezuela has become an important development partner for its members, with significant savings on the cost of oil, as well as associated loan facilities and funds for social development projects. These are vital to the survival of some CARICOM economies. Because of the practical and also symbolic importance of the programme Venezuela has so far maintained its key elements, despite the economic downturn. But the potential shadow over Petrocaribe in particular is perhaps not necessarily a bad thing for the Caribbean, as it reminds the region of the problems that come in dealing with Venezuela. Firstly, only Cuba and Jamaica have been receiving regular fuel shipments while other members are receiving shipments only sporadically. Secondly, Caribbean states are sinking deeper into long-term debt as a result of Petrocaribe. Thirdly, Venezuelan largess is not guaranteed. And fourthly, Venezuela's intervention in the Caribbean has damaged the coherence and integrity of CARICOM – e.g. Barbados and Trinidad and Tobago did not sign on to Petrocaribe while the other members of CARICOM did.

Conclusion

The global financial crisis will exacerbate some of the underlying problems inherent within Caribbean economies, such as their openness to international trade, their reliance on certain key exports, and their heavy indebtedness. Some pre-existing social problems, particularly in relation to poverty, restricted employment opportunities, and crime will surely worsen. But at present the implications for domestic politics and foreign policy appear relatively small. The political landscape remains, at least for the moment, generally benign, while democratic governance is not at risk, although Haiti remains a concern. The regional response to the economic downturn has been disappointing but it only highlights a broader malaise within the regional integration project. Meanwhile, foreign policy priorities within the Caribbean are changing but the impact of the global financial crisis is reinforcing pre-existing trends, rather than creating new ones.

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