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TOPIC: The impact of the global economic crisis on developing countries. What lessons should
OECS governments take from this experience?

Over the past three years, several countries throughout the world have been forced to contend with one of the worst economic slumps since The Great Depression of the 1930s. This economic slump, which initially began in the United States (US) in 2008 due to the collapse of the housing market and a failure to adequately regulate Wall Street, quickly spread throughout the rest of the world as a major global crisis. The developing countries, in particular, were negatively impacted because of their ill preparedness to deal with an event of this duration and magnitude. The Organisation of the Eastern Caribbean States (OECS), because of its proximity and dependency on the US, was not left unscathed, as the economic crisis led to a near evaporation of remittances, a decline in tourism receipts, greater unemployment and an increase in the public debt of several countries throughout the sub-region.

According to a 2009-2010 economic survey by the Economic Commission of Latin America and the Caribbean (ECLAC), economic activity in the member states of the Eastern Caribbean Currency Union (ECCU) shrank by 7.3% in 2009, compared with growth of 1.9% in 2008. Undoubtedly, the crisis has exposed and reminded us of our vulnerabilities. Although the world is slowly crawling out of the pit of the "*Great Recession*", developing countries, such as those of the OECS, must heed the lessons of the past three years and take corrective action if they are to avert another crisis of this magnitude in the future.

One of the glaring weaknesses made clear by the crisis is our excessive reliance on the US for trade and economic development, particularly in the field of tourism. According to both the Caribbean Tourism Organization (CTO) and ECLAC, the US accounts for approximately 53% of Caribbean tourist arrivals. Indeed, most of our revenue is generated from this very important industry. Moreover, the states within the OECS, which were hardest hit by the recession were those that

depended excessively on tourism. In 2009, the Eastern Caribbean countries which recorded the sharpest contractions, according to ECLAC, were Anguilla (-24.4%), Antigua and Barbuda (-10.9%), St. Kitts and Nevis (-8.0%), Grenada (-7.7%) and Saint Lucia (-4.6%). This decline in economic activity was far more excessive than countries such as St. Vincent and the Grenadines (-2.8%) and Dominica (-0.8%) which rely far less on the tourism industry. From these statistics, it is not difficult to gather that *'whenever the US sneezes, we in the Caribbean and the OECS often catch a cold'*. The current reliance on traditional world powers, such as the USA and to a lesser extent the UK and Canada, as our major trading partners has made our economies very sensitive to any changes in their domestic economies. At the annual CARICOM summit held in Jamaica in 2010, Secretary-General Edwin Carrington, stated that, *"There has been a major negative effect on the tourism industry and in relation to remittances arising from the reduction in disposable income in the region's major markets."*

Going forward, if we are to mitigate the adverse economic effects of the recession on our tourism industry, the OECS must work diligently to reduce its reliance on the US and other traditional markets as its major means of conducting business. Indeed, we must *"diversify to satisfy"*. The recession has significantly altered the global economic landscape and there are new opportunities in business to be grasped in emerging territories. We must now set our eyes on China, India, Brazil and the United Arab Emirates (UAE) as possible options for expanding our business ventures. These countries have massive populations, a growing middle class and booming economies to help grow and sustain our tourism product and wider economic development. By expanding our relationships with these territories we would generate greater capital inflows and make our economies more immune to external economic shocks, as we will develop diverse sources of income.

The genesis of the economic crisis has also sounded the alarm for proper reform and regulation of the financial sector, particularly in respect to commercial banks and insurance companies. The unscrupulous practices by investors on Wall Street and in the CLICO/ British America fiasco demonstrate the inextricable link which such businesses have with the wider economy and that they therefore cannot be left to regulate themselves. There must be greater transparency and accountability by these institutions. A greater flow of information as it relates to the performance of parent companies (such as CL Financial Group) must become an integral part of this drive for reform. They must adopt improved disclosure standards which outline risk exposures and potential losses so that red flags can be raised in the very early stages to prevent impending financial disaster. Additionally, all financial institutions should be forced to implement a crisis management plan that protects consumer assets, in the event that there is some financial meltdown of their company. Such a plan must be submitted to the Eastern Caribbean Central Bank for approval and be made a condition for receiving a license to operate within the region. A greater level of financial discipline and oversight in this regard, will help to protect the consumers and citizens of the OECS and guard against any sudden economic catastrophe.

It is also imperative for regional governments to be more fiscally prudent and responsible! A major reason so many countries were ill prepared to deal with the effects of the recession was because they had accumulated such massive public debts, that it allowed them very little fiscal space to put in the necessary social safety nets to protect citizens. As it stands now, the debt to GDP ratios are extremely high in the OECS and in most, if not all cases, well above the benchmark of 60% set by the CBD. At the end of 2009, the debt to GDP ratio of St. Kitts and Nevis was 186.2% according to Prime Minister Denzil Douglas, as stated in his 2010 budget address. This fiscal situation is not

working for small island states such as St. Kitts and Nevis and must be corrected to avoid future economic crises.

One way of doing this is for Caribbean governments to prioritise spending, particularly on capital projects. Governments must clearly distinguish between what are legitimate public goods and what are private goods. Consumers must not be made to feel that all the services of government can be obtained free of cost or at significantly reduced rates e.g. electricity. Additionally, there is a seemingly entrenched practice of borrowing from commercial banks. Borrowing from such institutions to finance capital projects often carries high interest rates which add to a country's debt. However, the introduction of Public-Private Partnerships (PPP), whereby the private sector helps to share the cost of development, would help to fund necessary but expensive infrastructural projects without placing the sole financial burden on governments. The reduced public debt will in turn allow governments greater fiscal space to respond to future economic shocks.

Another major weakness highlighted by the recession was the limited areas for revenue generation available to governments to help sustain economic growth. Accordingly, aside from diversifying the traditional markets of doing business, the OECS must also develop new industries in order to heighten economic development. Tourism and offshore financial services can no longer be the only or major businesses in town.

In this vein, the OECS, with its abundance of solar, wind and geothermal energy resources, should seek to develop renewable energy. Nevis, for example, has recognized the rewards to be reaped

and has therefore *“taken the bull by the horns”* by investing in both wind and geothermal energy! Premier of Nevis, the Hon. Joseph Parry in a meeting with the Department of Information in November 2010, noted that, *“His administration had placed its bet on the development of geothermal energy as a means to diversify the island’s economy, as it meant more industries and the possibility of Nevis selling energy to other countries beyond its shores.”* It is also noteworthy, that with the present unrest in the Middle East and African countries such as Egypt and Libya, which are major suppliers of oil on the world market, the push for renewable energy becomes even more relevant, as this endeavor would also facilitate reduced fuel costs for the country and reduce dependence on foreign countries.

At a public lecture delivered at the University of the West Indies in 2009, Governor of the Eastern Caribbean Central Bank, Sir Dwight Venner stated that, *“The current global economic crisis has not only exposed but exacerbated the vulnerabilities of our small island states. The time is therefore not only right but propitious to seek integration.”* Via integration mechanisms, such as the recently established OECS Economic Union, our capacity to respond to external shocks would be improved, as risks will be spread amongst the various member states and if need be, it would be easier for them to bail out another member in difficulty. Initiatives were observed in the European Union recently, where the EU came to the aid of Greece with a bailout package to assist with its debt burden and economic challenges.

Undoubtedly, the global economic crisis has created much misfortune for the economies of OECS countries. Nonetheless, there are several lessons to be learnt and numerous policies which can be implemented to prevent such a crisis from re-occurring. It is the responsibility of our policy

makers, in consultation with our citizens, to make the necessary adjustments and thus improve the overall stability and resilience of our economies. In the words of Sir Dwight Venner, *“This crisis must not be wasted!”*