



D-3 Enterprises Ltd (Insurance Agency)

OPPORTUNITIES FOR THE CARIBBEAN PROVIDED BY **THE GLOBAL RECESSION** *(A MINOR PERSPECTIVE)*

The topic in question connotes an exercise in deep macro economic analysis and the application of all sorts of fiscal and monetary matrices, summations and scientific conclusions.

Unfortunately or fortunately (depends on how one looks at it), I will be giving only a cursory explanation/description, while focusing on four primary areas: namely socio-economic, institutional, trade and political. I will seek to explain how this current economic reality can be beneficial, if we dare to look for the inherent opportunities.

The present global recession also referred to as a financial meltdown, economic downturn, financial crisis and mini-depression, in my humble judgment, was ultimately defined by the collapse of Lehman Brothers, Fannie Mae and Freddie Mac, by massive job losses in the USA, Japan and European countries, in their auto and manufacturing industries, along with liquidity shortage in the financial sectors on these countries.

The main reasons for and causes of this recession can be summed up in a few factors in my estimation: GREED and DEREGULATION and or lack of necessary policing of the most fundamental engine of capitalism – The Financial System. (Further elaboration will remove me from the purpose of this paper so I shall leave that for another time).

That being said however, it is very important to note that the crash or near crash (there is still controversy on whether the financial markets crashed) of the financial markets in the USA, Asia, and Europe, created a financial tsunami in the Caribbean sub-Region. Secondly, the Region as a whole was not responsible for the “meltdown”. It is a case where the patient was going into cardiac arrest and the doctor prescribed salt tablets: Signs of the recession and financial mismanagement were evident since 2006, yet more deregulation of key economic levers, particularly, the financial services, were ordered.

Did we in the Region see the potential seismic financial disaster, or were we too caught up with the “let the good lime roll” panorama or bacchanal. The fact that just about all

key economic drivers – tourism, manufacture, construction and finance were and are negatively impacted, clearly suggests that our leaders and political managers were caught up in the economic frenzy of the boom time – and I dare say, some more than others.

The reality is we are where we are – and not necessarily, where we would like to be.

So, what have we learnt? Where do we go from this point? What do we do? What can and/or should we do to mitigate the impact of another global recession or financial meltdown generated by factors and forces outside our control?

Fundamental to these questions is the reason for this article:

Opportunities for the Caribbean provided by the Global Recession

By identifying and effectively exploiting the gain from this recession, we will be better positioned to mitigate critical social and economic impacts to our people and Region.

What are the opportunities?

Socio-Economically

Countries like Anguilla, The BVI, Antigua-Barbuda, St. Lucia, and St. Kitts-Nevis must focus on efforts to diversify their economies and not be heavily reliant on tourism. This is a very fickle or fragile industry. It is based on the concept that one catches more fish during calm seas. The reality is tourists are people who are sensitive to socio-political changes in a booked destination. The internet and cell phone enable travelers to make instant changes in travel plans to a booked destination. Major cancellations or dropped bookings can result in a significant fall off in Governments' projected revenues and by extension, a decline in Governments' services and infrastructure development.

The Region is known for its great sunshine (great weather), hospitable people – resources that can be employed to develop an industry that is more sustainable than the traditional tourism.

For example, nursing homes and long term care facilities, medical tourism and returnee/retiree communities. These are more sustainable industries, which will not be susceptible to flight, or cancellations as the traditional transitory traveler. Fiscal management will be more predictable given certainty of jobs or employment. I am in no way suggesting that we move away from our traditional tourism; I am suggesting, and strongly so, that we need to supplement it with a more sustainable aspect of the “people” industry, thereby mitigating economic impacts when bookings are cancelled or when low bookings are realized due to various causes outside of the control of our countries.

In several of the territories, there is a Ministry of Economic Affairs or Division of Economic Affairs. I propose that it be changed to the Division of Socio-Economic Affairs and given a new or an enhanced mandate in light of the global economic realities. The purpose of this division will be to constantly take the “socio-economic temperature” of the global economy, especially those global dynamics that are likely to have macro impacts on the economies of the Region. The areas that must be constantly monitored should include changes in oil prices, changes in technology, travel patterns, changes in trade regulations, financial regulations, food prices, implications of conflict or potential conflict in certain sensitive geographical areas, fiscal and monetary policy changes in key industrial economies, spread of disease and religious radicalism. Quick and timely analysis will result in the implementation of pertinent recommendations by the private and public sector, thereby mitigating any negative and adverse impact on our economies and on our societies in general. If such a proactive approach were employed, the Caribbean Region and in particular the sub-Region, would more than likely be in a better position in managing the recession, particularly the liquidity crisis associated with it.

Political

When people have a common “cause”, “enemy”, they usually get together to deal with the matter at hand. The recession is affecting everyone in the sub-Region in particular and the Region in general. Heads of Government have met in different islands to “put heads together” to deal with the crisis. Tele-conferences of various sorts were called and position papers and recommendations made with time tables for implementation.

I note special reference to the eight (8)-point plan, highly endorsed by the Central Bank. I commend the efforts, but have serious concern and reservations on the plan to reduce insurance companies to only six (6). I see this as regressive and a missed opportunity. It must be noted that (at least to my knowledge) that no foreign insurance company operating in the Region was declared insolvent. In fact, only regional insurers ran into financial difficulties, for example, British American. The opportunity I see therefore is for the political leaders to encourage insurance companies to establish shop in the Region, thereby adding to the economic mix of the Region. Critical to the viability and success of a regional or sub-Regional insurance industry is meaningful enabling legislation and regulations. This industry should be developed to serve the 9 billion people market and not only the 20 million market of the Region. **We must see things from a global perspective even if we have to globalize our approach; but we must never be insular in our thinking. We must seek to be “a part of” and not “a part from”.**

Institutions

The financial institutions of the Region have weathered the recessionary storm thus far. I have no doubt that they will continue to. I can safely say that these institutions have demonstrated collective and effective partnership at a time when it was most needed. The opportunity is to cement these relationships through participatory lending (syndication of loans) in the sub-Region. Some people are of the view that this relationship can be best realized or concretized by an amalgamation of the institutions. This of course will result in savings through the realization of economies of scales in certain areas – such as systems or operational platforms and technical support. I firmly believe though, that this recessionary crisis has also provided an opportunity for us to seek a deeper understanding of the intricacies associated with what I call the “sociology of difference”. Note that I did not say “psychology” which suggests a mental fit and therefore void of reality.

Believe it or not, there are certain social strata, class or people who are prepared to see and to have ownership of institutions as indigenous to that island or people - hence the “sociology of difference”. Until this difference or reality is embraced and an effective and justifiable alternative with enhanced gratification is reasonably pronounced and promulgated, resistance to the idea of amalgamation will persist. I dare say though, the crisis has made bankers more conscientious and savvy: they have rethought and redressed their approach to lending and banking in general. Key indicators such as liquidity ratio, assets to liability ratio are referenced and conformed to, and investment policies and guidelines have been revisited and restructured. In general, the banking sector will be more buoyant as the borrowing and saving public will be more educated and made more aware of the importance of banking and their role as savers and investors.

Trade

The balance of trade between the Caribbean and the rest of the world, particularly the USA is greatly skewed in favor of the USA. This means that a significant amount of our financial capital flows out of the Region. The Caribbean Single Market and Economy (CSME) seek to address this capital drainage. Hopefully the recession, and in particular the liquidity crunch, will help bring into focus, the need for intra- Regional trade. This will call for a drastic change in attitudes and an interest in Caribbean made products. This I believe can be achieved and the timing is “ripe”. The Regional organizations, such as the OECS Secretariat in St. Lucia and the CARICOM Secretariat in Guyana, must recalibrate, re-focus and rethink the approach to intra-Regional trade. I suggest that any redress to Regional trade must be incentive driven for all stake holders – those in transportation, marketing, production, importation and consumption. These incentives must be specific and immediate. For example, the exporting country should give the importing country a percentage of all monies spent on their exports – a trade bonus if you wish. Everyone must be involved. People must see the relationship

between jobs, income and trade: the more we are able to trade amongst ourselves, the more jobs are created and more financial capital stays in the Region; this will allow for the creation of more indigenous and sustainable development.

The current trade regimes in the Region provides no meaningful incentive for intra-regional trade, instead it encourages extra-Regional trade, which continues to retard the growth of Regional economies and or make them super dependent on external support and sustenance.

In conclusion, I trust I have done justice to the topic by giving some insight as to the causes of the recession, its impact on the Regional economies, financial institutions, politics and trade. Equally, I have shown how opportunities abound in the various areas because of the recession. It is up to all of us, led by the political managers, to embrace the opportunities and safeguard our Region and its peoples.

Presented by: Clement V. Ruan, Managing Director, D-3 Enterprises Ltd. (Insurance Agency)

