June 2016

Staying Connected
For the Alumni of the:
- ECCB Savings and Investments Course
- ECCB Entrepreneurship Course
- ECCB Small Business Workshops

YOUR FINANCES ...... YOUR FUTURE

Visit us at www.eccb-centralbank.org
In construction, best practices usually dictate that a building be designed with more than one exit, that the exits are unobstructed and that those using the exits are able to do so safely. Additionally, the exit routes must be clearly marked and illuminated.

If we were to apply this to the UK’s impending exit from the European Union one may conclude that the design of the exit route from the EU falls short of International maintenance and safety standards for exit routes.

Firstly, what appears to be afforded is a single exit route. Secondly, Parliament can obstruct the UK’s exit. Thirdly, the UK may be bruised as it seeks to use the single exit route afforded to it to leave and fourthly, there appears to be an obvious lack of illumination in relation to the exit path. This gap has created mass confusion regarding the route to take to exit and the implications of exiting.

So is it possible to go back to the drawing board and redesign a safer exit route from the EU or is it too late? Some may hold firm on the basis that any design adjustments should have been contemplated prior to the signing of the Lisbon Treaty in December 2007 which was entered into force on December 2009.

While one cannot change the past, this may afford a good opportunity to shape the future in a more thoughtful and reflective manner based on wisdom acquired from past events and or shortcomings.

However, we are speaking about a highly emotionally charged issue and emotions seldom provide a good basis for rational decision making. So my money is not on a reassessment of the UK’s exit route from the EU.

Notwithstanding that the bell may have already tolled for the UK, for those on the outside looking in, this may be a good time to start jotting down the lessons to be learnt, applicable not only to negotiations and policy making in relation to a country, but also in relation to personal and business negotiations and contracts.

Clearly one lesson to take is that it is not a wise move to wait until uncertainty knocks to start thinking about a win-win exit route from a contract or arrangement. It is best that we seek to integrate a win-win exit in the planning and coding phases of agreements so that post-signature all parties will be well informed and illuminated on the exit options, routes and pathways.

Additionally, no exit is worth its salt unless tested. Hence the need for virtual exit drills. Such drills would have provided much needed clarity to the impending Brexit. Enough said. This is where I take my exit. SLW
On the heels of the Brexit vote, Thursday 23 June 2016, Your Financial News (YFN) spoke with Kevin Hope, Economist, ECCB, on his views of the UK’s impending departure from the European Union. The following edited transcript features excerpts from the interview.

**YFN: What are the three most important take-aways from Brexit?**

**Kevin Hope:** (1) For us in the ECCU and as technicians and policy advisors it is important for us to truly appreciate our inter-linkages with the wider economy directly to the UK, and equally understand the UKs relations with other countries to which we will be exposed. Once we have a greater appreciation of our trade and investment linkages then we will be in a better position to inform our policy response.

(2) We must continue and intensify the drive in the region for more real time data and dialogue. We are getting there but we probably need to engage each other more, collaborate at the institutional level and get our voices heard. We need to engage in panel discussions and engage the public via the mass media so that they can be better informed.

(3) It is also important for us to have discussions on how we factor in uncertainty in our policy making, not just assume that conditions and relationships will continue. The new normal is that we live in an age of uncertainty and conditions and relationships may not last forever. I am not saying that persons should just go and opt out of relationships but we must consider what sort of measures we need to put in place to account for these possible changes so that the damage is not that great if these changes were to be realised.

**YFN: You spoke about the provisions that policy makers should put in place considering that conditions and or relationships may not last forever. Should one view an exit strategy in a positive light and not just in a negative light? Can we redefine the meaning of exit? Does it have to be absolute in its definition or is there a possibility to redefine what exit means to allow for flexibility to deal with uncertainties that characterise this era of globalisation so that one or more parties can make temporary short term or medium term shifts.**

**Kevin Hope:** The perception is that when we use the term exit it is finite. However, if we want to look at it in a more granular fashion, exit can be looked at as a time out, a pause, to regroup to rejuvenate.

**YFN: From a policy point of view, how do we shape policies that redefine accepted definitions of terms of engagement e.g. exit, without offending those who are heavily vested in the traditional terms of engagement?**
Kevin Hope: It is going to be difficult. At the end of the day whatever the decision there will always be different sides of the spectrum where one is either better off or worse off.

However, while we are seeing implications in the financial markets and their estimations of the potential impact of Brexit globally have been largely negative, from a country perspective it could be a situation where the UK is reinventing itself or is seeking to reinvent itself.

YFN: Not to trivialise policy making but can we draw lessons from entertainment, where one or more members of a group go off on a solo mission for a period of time and then return to the group and the group accommodates the ins and outs movements? Can we look at this level of flexibility to give us new thinking in relation to shaping policies where absolutes (you have to be on the left side or the right; you have to be in or out, you have to leave or stay) are no longer workable. Can the UK say, ‘I want to leave the EU, but I want to stay in relation to certain areas?’

Kevin Hope: What I have taken from this is one’s strength to negotiate. The UK is the second largest economy in Europe in terms of GDP and the third most populated. Their position to negotiate is a strong one. In that respect their power to opt out and still derive benefits of membership is what is being explored in some quarters.

YFN: Certainly the UK’s power will be tested given that the EU agreement specifies that there must be freedom of movement of people, freedom of movement of goods, and freedom of movement of capital if a country is desirous of accessing EU markets.

If we have to look at globalisation and the region’s negotiating framework, what do we in the OECS in terms of negotiations have to get a better understanding of in order to ensure that we are solid?

Kevin Hope: I think before we go to the negotiating table we have to be clear on what are our areas of strengths or more importantly what is our value to the parties with whom we are negotiating.

I think in relation to our strengths we have high human capital in the region and the diaspora; and we are located in close proximity to the US, one of the world’s major trading partners. We also have strength in numbers in CARICOM in terms of our ability to negotiate as a bloc. Additionally, this one is personal but I would want to believe that we live in the better part of the world in terms of law and order and minimal to no threat of terrorism. We just have to liaise with our counterparts in other parts of the world and they will say that we have a gold mine evident by our Citizenship By Investment (CBI) inflows.

YFN: How does Brexit impact the local OECS business person who may not be directly involved in trade with the UK? Is the message that if the business is not directly involved in the tourism industry then there is nothing to worry about or is there a greater contagion effect that factors into the equation?

Kevin Hope: Let’s assume it is a business involved in the service sector. Even though a service oriented business may not be directly involved in tourism, because tourism drives our
economies, *(a number of our countries are tourism dependent)* any implications of Brexit on the UK, Europe or the United States in terms of a recession is likely to impact the flow of stay over tourists arrivals in particular, to our shores and because of the linkages between tourism and the other economic sectors – banking, consulting, etc. there will be contagion effect on those other sectors.

A similar impact would be felt if the business is involved in the trade of goods depending on where the target market is situated. If the business is targeting particular households or enterprises in some of these advanced countries, any recessionary outcome or uncertainty as a result of Brexit which could cause investors to delay or postpone investments can have implications for the volume of goods traded or the service the business provides.

**YFN:** Are there any benefits to households in the region in a weaker pound?

**Kevin Hope:** Now is the best time for us to plan our travel plans to the UK in light of a weaker pound. On the other hand there is the risk to those households that rely on remittances from the UK. In the face of a weaker pound, households will receive less when they convert the pound sterling to local currency.

**YFN:** Would the prospect of a lower corporate tax increase London’s competitiveness and provide a good reason for businesses to locate or remain in the UK?

**Kevin Hope:** The jury is still out. This can make London more attractive but a number of businesses are not just targeting the 65 million plus persons in the UK but also the 500 million plus persons in Europe. Some large companies have already signalled their intent to move. If it is going to be an issue of mobility of labour and access to the other twenty seven (27) members of the EU then it might be best for businesses to locate within Europe where one has a base of access. It is a trade-off. On one hand it was a good move by the Chancellor to attempt to retain businesses by having a lower corporate tax regime. The outcome would be dependent on the degree of negotiations vis a vis the exit of the UK out of Europe. Is it going to be a smooth one where certain benefits can be negotiated and maintained? Or, would it be a confrontational one which would heighten uncertainty and potentially usher in the recession that is predicted by a number of agencies?

**YFN:** Given that markets don’t like uncertainty is the two year maximum time frame enshrined in the exit clause too long? Even though we can appreciate the legal and other issues that have to be unravelled and these cannot happen overnight. Does this time frame feed more into the uncertainty and heighten the likelihood of a recession the longer this exit takes to be implemented?

**Kevin Hope:** Given the complexity within EU relationships, I think two years is a necessarily evil. Something that is of importance to recognise is that based on the UK’s construct this exit decision must pass through the legislature. The legislature may deem that it is not in the best interest of the UK. While some may see this as political suicide, the leaders may consider that they are there to exercise wisdom and that an exit from the EU is not in the best interest of the UK. Our leaders have to make decisions in the best
interest of the country not just based on proportionality of popular sentiment.

YFN: This talk can take us to another discussion on democracy and whether parliament is there to carry out the will of the people or exercise its own will. However, your point touches on the issue of leadership, what are the lessons in leadership here?

Kevin Hope: A lesson for leadership as it relates to the referendum is that we need leaders. Institutions and policy makers must do more work at the grass roots level and have a litmus test for the sentiments on the ground. I think when we do our own evaluation we must ask ourselves ‘how can we engage the public more to get an appreciation of their perceptions and their feelings?’

There were a series of publications by the Treasury Department and others explaining the economic implications and consequences of Brexit. However, while the ‘stay group’ was explaining the economic consequences, what is manifesting itself is that the decision to leave was more fuelled by fear, immigration, protection of borders and taking back sovereignty from Europe. While open borders and ceding a measure of sovereignty is part and parcel of what is required for membership, the majority was not recognising the benefits derived from the EU. Uncertainty is something even in our field of economics and research as we deepen our country policy briefs that we have to start paying more attention to.

YFN: Scotland’s potential exit from the UK. How would this impact the markets?

Kevin Hope: That can set in place even greater uncertainty.

YFN: Usually when something happens too often it becomes the norm. In the region if uncertainty is the norm, is it time to have a crisis normalising policy where we expect crises and shape our policies with the expectation that crises will come. I am not just talking about a crisis mitigation framework but rather a crisis mitigation, intervention and management policy framework to enable us to do well even in crises.

Kevin Hope: I think we have some experience with that. In our region we have been facing crises since we have known ourselves. We are constantly facing hurricanes and other weather related shocks and to a large extent we have been moving in the direction of setting up disaster risk management policies. As a consequence, we now recognise the greater need for insurance for our fiscal savings so that we can generate funds to enable us to respond in these times of crises and not just depend on donor agencies. I think in that respect, while it is a reaction and what we would like to see are more proactive responses, we are making inroads.

In light of the financial and economic uncertainty that we have been facing since 2009 with the global financial crisis, as policy advisors and governments, we need to take into account how much is within our control to enable us to set up insurance plans. In other words, what are our contingency plans? We have had the experience in the region of banking sector fragility and it is well recognised that we need to take into account contingent liability management plans for those crises that we can anticipate, those within our line of sight that we see as likely, and identify mitigation, intervention
and management provisions. Instead of spending, for example, the full one hundred dollars we earn in revenue, let us try to be efficient and operate on ninety dollars and then that ten dollars, year on year, go into a contingency fund to assist us in riding out the duration of future crises. Definitely the new economic environment requires us to be proactive and to start making provisions for contingent liability risk.

**YFN:** Do you think that the UK private sector needed to publicly articulate their views more on Brexit? What role does the private sector have in educating the public in matters like these?

**Kevin Hope:** The private sector has a key role. They are the ones who are on the ground employing the populace, and transacting in goods and services. The dialogue has to be one where there is both public and private sector dialogue and both have to be part of the process of educating the public. It is a sort of shared responsibility.

If we do a scan across the OECS, in some countries, there is great advocacy by the private sector through various agencies like the Chambers of Industry and Commerce and the OECS Business Council. However, there is a need for strengthening on-going public private dialogue so that it is not just ad hoc or in response to a crisis or at budget time or when there is consultation to pass a law.

Equally the private sector must have clear policy positions on subject matters so that there can be an expectation by the people. Through such engagement everyone can be empowered.

We also need to look into the demographics of the private sector. There are a series of small and medium enterprises and they are also working tooth and nail. How can they be empowered and encouraged to become part of a cooperative or a group and have a voice?

**YFN:** Against the backdrop of the demise of the West Indies Federation (1958-1961) preceded by the exit of Jamaica, and the subsequent declaration by Premier Eric Williams of Trinidad and Tobago, that “1 from 10 leaves 0”, what lessons do we need to learn from the conflict between the EU and the UK so that that we in the ECCU, OECS, CARICOM do not take a similar trajectory?

**Kevin Hope:** We need to take a front seat view and immerse ourselves in the causes of the partisan issues which surrounded Brexit. If I use the marriage analogy with Brexit, there is a clear need for a formal mediation framework to address conflict resolution. How do we mediate when we have conflicting interests?

We need to build trust. How do we build trust within our economic union and strengthen it in terms of our exchanges and reciprocity? Our ability to achieve this will strengthen the Union and deepen the integration process.

**YFN:** I do not think that we have been able to answer the key question of the OECS masses ‘what is in it for me?’ as it relates to the economic union.

**Kevin Hope:** This is why we need to communicate and engage the masses more often and on a continuous basis so that they experience and feel a part of the Union. Reducing the inefficiencies in travel and finding ways for us to become more integrated require hard decisions that we must take. CPL Cricket, West Indies Cricket, carnival and other festivals...
throughout the region are all low hanging fruits that we can use to deepen the integration movement. We now have to go and design the formula to leverage these low hanging fruits to create a larger integration platform in order to share and impart that oneness.

It must be noted that the collapse of The West Indies Federation afforded us in the OECS the opportunity to deepen our integration. While it may be baby steps we are taking to complete the union, we are getting there. Similarly, the UK’s exit may present the EU with a greater opportunity to strengthen their union - find new leaders, build more trust, etc. As economists, while our training focuses us on the financial and economic implications of Brexit, this may present a geo-political opportunity to create a stronger European Union, just without the UK.

**YFN:** It was great talking with you Kevin. We end where we started. Friends change, partners change. The only constant is change.

### Initial impact of Brexit?

<table>
<thead>
<tr>
<th>Sector</th>
<th>% exported to EU</th>
<th>Trade deficit/ Surplus with EU (£bn)</th>
<th>Potential barriers to EU markets</th>
<th>Risk of disruption</th>
<th>Chances of similar EU access</th>
<th>Possible conditions attached</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cars</td>
<td>35.0</td>
<td>-13.95</td>
<td>10% tariff</td>
<td>High</td>
<td>High</td>
<td>Basic standards</td>
</tr>
<tr>
<td>Chemicals</td>
<td>56.6</td>
<td>-7.82</td>
<td>4.6% tariff</td>
<td>High</td>
<td>Medium to high</td>
<td>Adhering to EU's regulatory standards</td>
</tr>
<tr>
<td>Aerospace</td>
<td>44.6</td>
<td>2.56</td>
<td>Zero tariffs</td>
<td>High</td>
<td>High</td>
<td>Basic standards</td>
</tr>
<tr>
<td>Machinery</td>
<td>30.7</td>
<td>-5.47</td>
<td>1.7% to 4.5% tariffs</td>
<td>Medium</td>
<td>High</td>
<td>Basic standards</td>
</tr>
<tr>
<td>Food, Beverages &amp; Tobacco</td>
<td>60.5</td>
<td>-16.56</td>
<td>Average tariffs over 20% and higher</td>
<td>High</td>
<td>Medium to high</td>
<td>Keep external tariff with rules on foreign content</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial services</td>
<td>41.4</td>
<td>16.06</td>
<td>Various EU market access regulations</td>
<td>High</td>
<td>Low</td>
<td>Equivalent regulation; possibly still with patchy access</td>
</tr>
<tr>
<td>Insurance</td>
<td>18.4</td>
<td>3.85</td>
<td>Various EU market access regulations</td>
<td>Medium</td>
<td>Medium</td>
<td>Equivalent regulation; possibly still with patchy access</td>
</tr>
<tr>
<td>Professional services</td>
<td>29.8</td>
<td>-1.92</td>
<td>Primarily national market access regulations</td>
<td>Medium</td>
<td>Medium</td>
<td>Mutual recognition, free movement of professionals</td>
</tr>
</tbody>
</table>

*Source:* openscience.org.uk