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Global imbalances and Caribbean development

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## Global imbalances and Caribbean development

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As a former finance minister, and now head of Caribbean operations at a United States-based financial institution, Trinidadian Wendell Mottley is perhaps well placed to speak with authority on the economic problems of the Caribbean, particularly in light of a possible recession in the United States.

"We are not looking at a shallow piece pizza, but a deep dish pizza," Mottley told a round-table discussion examining the turbulent periods in the global financial markets in recent months, occasioned by the financial crunch in Washington and the domino effect it is having on the economies of the Caribbean. "We are witnessing a time of deep transition in the US economy," said Mottley, who is now employed with Credit Suisse First Boston. But on the other hand, Citigroup's David Evans sees a glimmer of hope on the horizon. He argues that the situation in the global market represents an opportunity for smaller countries "to put their house in order while we go through the storm." His views have found support from Wayne Dass of the regional rating agency, CariCris, who added that the global situation also allows Caribbean states to secure regional rather than global ratings "that bring you against the entire world." Dass believes such ratings would allow for more regional companies coming into the capital market, since as Evans pointed out "what has worked for us is a deep capital market."

Dass wants the countries of the sub-regional Organisation of Eastern Caribbean States (OECS) to get rated "so they could understand the importance of ratings." Caribbean and international financial experts were brought to Trinidad on Wednesday at the behest of the Barbados-based Caribbean Development Bank

(CDB) and the US-based International Investor Magazine to examine the "storm" and how best the region's leading financial institution could position itself to assist its borrowing member countries to meet "the challenges and exploiting the opportunities generated by the dynamic global environment."

In a statement issued ahead of the round-table discussion, the CDB acknowledged that the past nine months had been one of the most "turbulent periods in financial markets in years" and that the credit crunch, precipitated by the sub-prime mortgage debacle has resulted in widening spreads and increasing attention to risk management with implications for access to and the cost of financial resources for member states.

The CDB has also warned, "Caribbean economies are likely to suffer downturns at a time when they are trying to adjust to the challenges posed by the dynamic trading environment" and that prices for other commodities such as wheat, soybean and corn are also rising with implications for such issues as food security in the Caribbean. "The financial crisis would only add to the difficulties faced by the borrowing member countries," said the bank as the experts examined the situation under the theme "Global Imbalances and Caribbean Development". "In the economic world, the strong survive the weak does not. If the region simply deals with these (issues) in the short term, five years from now we will be in the same boat," CDB President Professor Compton Bourne told the forum.

Bourne said the region is already experiencing a down turn in tourism, job losses and the experts have acknowledged that the Caribbean would need to turn their attention to other markets than the traditional ones in order to minimise the fall out occasioned by the high global oil prices, the decline in the value of the US dollar and the likelihood of a severe contraction in the US economy. "The surpluses of the world are coming out of the Far East, China, Russia and Japan," David Dulal-Whiteway, managing director of Republic Bank, one of Trinidad & Tobago's leading financial institutions, said.

Dulal-Whiteway has also noted, "we have not build linkages with those places", even as financial adviser, Eric-Vincent Guichard of the US-based Gravitas Capital Advisors, observed that the flows from these countries could be attracted "in order to allow the region to hedge against the vagaries of the US economy". "The US troubles have not been transferable to other regions like India," he said, pointing out that this is due mainly to the tremendous growth in the middle class.

Evans said the capital market provides a "strong base" to ensure the flow of cash into the region and that the CDB could help facilitate its growth by helping to bring about harmonised legislation within the islands. Bourne said the financial institution is aware of the efforts by regional governments to establish uniform legislation as it relates to financial transactions.

But even as the experts were urging the development of the capital market as one of the strategies to overcome the global

imbalances, CDB's director of finance and planning Dr. Warren Smith warned of the risks associated with re-financing these "medium term" measures. "The problem really is one of spread," he said noting that Jamaica for instance faces a significant spread on a US dollar bond over the period June last year to March this year. "The spread is a fairly substantial shift," said Smith.

Mottley says that in comparison to Latin America, the Caribbean is further hampered by the fact that most of the region's debt breakdown shows it has a 55 per cent rating in the "B" category, with only a modest six per cent in the "A" category.

The increase in oil prices on the global market has also had an effect on the Caribbean's development, particularly in the agricultural sector with the experts agreeing "there is need to change our mode of production. Dulaal Whiteway noted, for example, that while regional states have acknowledged the importance of the agricultural sector, his financial institution can't recall when last it received proposals for projects, hinting maybe that is because "our policy in agriculture is inimical to production." Bourne said there is no indication that the region will become self-sufficient in food supply he nonetheless argues for the introduction of appropriate technology as well as adequate transportation to bring the product all the way along the food chain. "It is not sufficient to invest in agricultural commodities, you have to have a means to have that commodity from the farm to the hotels etc," Bourne said with other experts noting "we speak a lot about the movement of people but not enough to deal with the movement of agricultural products.

Smith warns that as food prices rise they will affect domestic inflation and government policies as well as domestic interest rates. "If we are going to seriously address food security in the region we have to look very seriously at the agricultural sector," which smith argues has remained "backward" and incapable of addressing the needs of the local populations and tourism sector. "What is necessary in the Caribbean is what amounts to the need for a green revolution in agriculture," he argued using the successful Asian model. "Commodity prices provide the basis and impetus for us to take up that challenge seriously," he said with Mottley warning that the Caribbean can't afford to be "laid back in its adjustments" as it relates to the commodity movements. "The underlying reality is the structural shift and the Caribbean has very little time to respond," he added.

**Source:** Mr Wendell Mottley, former Finance Minister of Trinidad, **Port-of-Spain, Trinidad (CMC), 31 March 2008**