

# CARIBBEAN UPDATE 2008



St. Georges in Grenada

## SHOWING RESILIENCE IN FACE OF GLOBAL ECONOMIC SLOWDOWN

BY CRAIG LEON

THE CARIBBEAN CONJURES IMAGES of discovered treasure. It's St. Lucian Nobel Laureate Sir Arthur Lewis transforming economic thought. It's Jacques Cousteau leading divers to the Belizean live coral reef of unworldly size and beauty. It's Australia's victory at the 2007 Cricket World Cup on manicured greens from Guyana to Grenada, intensified by the adrenalin rush of a West Indies v. England near tie at Kensington Oval. It's St. Patrick's week in Montserrat, or steel pans and festive pageantry of Carnival in Trinidad and Tobago. It's Jamaican reggae legend Bob Marley. It's hidden sandy coves in the Bahamas and majestic sunsets in Turks & Caicos, remote from slush and smog, where the only umbrella in mind is Barbadian Rihanna's 2008 Grammy hit.

Then come the economic analysts, the rating agencies, the international financial institutions who awaken us from dreamy reflection, forcing us to address the million-dollar question: Do the small Caribbean economies have the resilience and political strength to withstand a 2008 global downturn triggered by US subprime woes compounded by spiraling oil and food prices?

The past 12 months were marked by electoral campaigns, which yielded new political leadership. "The Caribbean is a region where institutions tend to be fairly strong and resilient to political change, where the transfer of power occurs in a fluid way without governance disruptions," notes Standard & Poor's managing director Jane Eddy. With the exception of Trinidad & Tobago, where Prime Minister Patrick Manning was re-elected, other governments passed the baton. In Barbados, David Thomson replaced the longstanding PM and Statesman Owen Arthur. In St. Lucia, Stephenson King defeated the ruling labor party led by Kenny Anthony. The Bahamas changed its party in power, with former PM Hubert Ingraham sworn back into office in May 2007. Jamaica's labor party led by Bruce Golding succeeded Portia Simpson-Miller in a close, yet calm, election.

In Belize, the Democratic United Party's Dean Barrow, who ran on an anti-corruption platform, defeated the incumbent while his party secured an overwhelming 25 of 31 seats in Parliament. "There will be continuity in terms of agriculture, agro-processing and tourism, but this government aims to rebuild relationships with the international financial institutions



**“Our proximity to the US and to the powerful Latin American consumer market is a positive and a formidable attraction for longer-term investors in various areas, including IT, tourism, financial services and manufacturing.”**

**Hon. Zhivargo Laing  
Ministry of Finance, the  
Bahamas**



**“While we are not immune [to external shocks], Caribbean economies in recent years have become more diversified and less dependent on the US.”**

**Dr. Marion Williams  
Central Bank of Barbados**

(IFIs) and establish credibility on a platform of prudent fiscal management, with poverty-reduction as the long-term goal,” asserts Yvonne Hyde, chief executive of Belize’s Ministry of Economic Development. A January 2008 report on Belize by Standard & Poor’s highlights “strong performance of the real economy on the back of the expanding tourism sector, promising developments in the oil sector, and successful economic diversification.”

According to the IMF, growth in the Caribbean is anticipated at 4.4 percent in 2008 and 3.8 percent in 2009, over which time inflation should decline slightly, from 6.6 percent to 6.1 percent. One newcomer to the economic growth scene is Guyana, a country the size of Britain with a population of only 1 million, whose 5 percent growth in 2006 and 2007 will be sustained in 2008. “This robust performance is broad-based,” notes Guyana’s Finance Minister, Ashni Singh, “with continued resilience in traditional sectors such as rice, sugar, and bauxite mining. But we are also seeing significant investments in emerging sectors, such as extreme adventure and eco-tourism, nontraditional agriculture and aquaculture.” The maritime boundary dispute with Suriname was resolved in 2007, which facilitates oil exploration. Other energy prospects include hydropower potential at Amalia Falls and ethanol production.

### **Growth of Tourism**

According to projections by the World Travel & Tourism Council, tourism to the Caribbean is expected to grow 2.3 percent in 2008, with the highest increments coming from Tobago at 8.4 percent, St. Kitts & Nevis at 5.6 percent and St. Lucia at 5.1 percent. The weaker US dollar, which is the de facto Caribbean currency, has boosted tourism. “We’re seeing a lot of European tourists in St. Lucia and Barbados, taking advantage of the favorable exchange rate,” notes Larry Howai, CEO of First Citizens of Trinidad.

Grenada, which was ravaged by Hurricane Ivan in 2004, has nearly completed reconstruction, and the economy boomeranged from a GDP decline of 3.5 percent in 2006 to 2.5 percent growth in 2007. Among the investments coming to Grenada is Port Louis, a waterfront development that aspires to become a West Indian answer to St. Tropez. Nick Maris, chairman of Camper & Nicholsons, which is investing \$36 million in a yacht marina, comments, “I’ve lived through a few recessions, some of which seemed like the end of civilization. None were. Compared to many Med-

iterranean countries, Caribbean governments of all political complexions are responsive, understanding of investors’ needs and relatively free from burdensome bureaucracy.” The company has further expansion plans.

While the Caribbean was dealt a relatively benign hurricane season in 2007, Wesley Hughes, director general of the Planning Institute of Jamaica, comments, “A natural event in itself is not a disaster, it’s how you respond. With Hurricane Dean, we were preemptive and instituted an organized response system, so that 80 percent or 90 percent of those who lost power had it back within 2 weeks. Back when Hurricane Gilbert hit in 1988, we lacked the meteorological knowledge that it was coming. Now we’ve built resistance into the system to cope.”

The Caribbean also continues to build defense systems to weather international shocks. “While we are not immune,” admits Marion Williams, governor of the Central Bank of Barbados, “Caribbean economies in recent years have become more diversified and less dependent on the US.” Barbados, best known for award-winning golf courses, its strength as an international business center and its rum, is expanding IT and services to capitalize on a highly educated work force. According to the World Bank, secondary school enrollment in Barbados was 95.1 percent in 2004, higher than the US average of 89.7 percent and the UK’s 94.9 percent. Barbados is beginning offshore oil prospecting with Trinidad and Tobago and has embarked on a bio-fuel project with Brazil based on sugarcane. The Inter-American Development Bank (IADB) has cited Barbados’ value-added tax regime as the most efficient in the hemisphere.

### **Burgeoning Financial Services**

The Bahamas continues to diversify its economy while sharpening its edge in financial services. “There is a range of new financial services legislation introduced in recent times, geared toward trusts, alternative investments, private equity funds and foundations,” says Wendy Warren, CEO of the Bahamas Financial Services Board. “The overriding focus is to meet clients where they are with regulatory reforms that support doing business here. But behind cutting-edge legislation is a mature jurisdiction recognized for meeting stringent international requirements.”

“By and large, our proximity to the US and to the powerful Latin American consumer market is a  
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# Caribbean Development Bank Roundtable

## Global Imbalances & Caribbean Development

On March 26, the senior management of the CDB met with analysts and financial specialists to discuss how Caribbean economies are likely to handle a global financial crisis at a time when they are trying to adjust to challenges posed by the dynamic trading environment. Participants also looked at CDB's role in longer-term regional structural adjustment.

*Participants from the CDB included:*

**Dr. Compton Bourne, O.E.,**  
President

**P. Desmond Brunton**  
Vice President (Operations)

**Dr. Wm Warren Smith**  
Director of Finance  
and Planning

**Alan Slusher**  
Director of Economics

**Dr. Sharon Marshall**  
Information Officer

*Joining the CDB were:*

**Wendell Mottley**  
Managing Director,  
Credit Suisse

**Wayne Dass**  
CEO, CariCRIS

**David Dulal-Whiteway**  
Managing Director,  
Republic Bank Ltd.

**Dennis Evans**  
Managing Director, Citibank  
(Trinidad & Tobago) Ltd.

**Eric-Vincent Guichard**  
Managing Director and  
Chief Investment Officer,  
Gravitas Capital Advisors

**Craig Leon**  
of *Institutional Investor*  
served as moderator.



**Compton Bourne**  
President, Caribbean  
Development Bank

THE PAST YEAR HAS BEEN ONE OF THE MOST TURBULENT PERIODS IN FINANCIAL markets in years. The credit crunch, precipitated by the subprime mortgage debacle, has manifested, inter alia, in widening spreads and increasing attention to risk management, with implications for access to and the cost of financial resources for the CDB's borrowing member countries (BMCs) – either directly or through the CDB, a regional development bank rated AAA by S&P and Moody's.

**Moderator:** How are Caribbean economies likely to be affected should the US enter into a recession?

**Compton Bourne, CDB:** The Caribbean is not part of the problem, but may feel the consequences. Job losses and wealth effects associated with changes in capital and financial asset markets will impact Caribbean economies mostly where tourism is the main element of their development strategy. Danger signs are perhaps stronger from the UK due to contraction in the residential asset market and significant personal debt overhang.

Yet the tourism industry has shown itself to be fairly resilient. So far, flights are still quite full to the Caribbean and short-term downturns will not necessarily persist in the medium-term. There are possible consequences to other sectors as well such as financial services, insofar as the Caribbean is linked to US and global financial markets.

**Wendell Mottley, Credit Suisse:** We are witnessing a major structural change in the US economy, a transition from a structure-based credit finance model back to more traditional funding. A deep, deep adjustment on the current account balance is manifested in the reluctance of foreign investors to support US financial assets, which corresponds with a drop in the value of the dollar. This transition implies a long period of balance sheet repair of the financial system, weaker growth resulting from the ensuing credit crunch and an accommodating stance by US monetary authorities for quite some time. As economists at Credit Suisse say, we're not looking at thin crust but deep-dish pizza as the trajectory of this recession and recovery.

## Caribbean Development Bank Roundtable



• **David Dulal-Whiteway**  
Managing Director, Republic Bank Ltd.

**David Dulal-Whiteway, Republic Bank:** Surpluses now are coming out of the Far East, the Middle East, Russia, and out of some Latin American countries. We, as a region, have focused too much on the US, but now we must try to build linkages with these new areas to attract capital to bankable projects in the Caribbean.

**Bourne:** The CDB is successful in mobilizing funds in difficult financial markets because of its position at the upper end of the quality spectrum. We are looking to expand that role, looking beyond traditional markets to emerging countries along with various financial partners to mobilize funds and make resources accessible and cheaper and of longer tenure to our member countries. In addition to addressing some of the fiscal problems of countries to help them cope in the short-term, we aim to provide resources for significant projects that are likely to make a difference in economic performance.

**Eric-Vincent Guichard, Gravitas Capital:** With aggregate stock in the world estimated at \$51 trillion and global liquidity at about \$170 trillion, clearly there is an excess of liquidity looking for a home. On the currency issue, though the dollar has tanked, the purchasing power of other currencies has appreciated. If you've been to Park Avenue in New York, you see a lot of Europeans buying high-end products fairly cheaply. It is those individuals, those tourists, who could replace Americans visiting the

Caribbean, muting the impact of a US correction on tourism.

**Alan Slusher, CDB:** Closer to home is the business of translating capital flows from abroad into actual projects and programs in Caribbean countries, which is complicated by variance in institutional capacities and in the quality of public sector infrastructure across the region. Updated regulatory arrangements are required to translate capital flows into sustainable activities. This constitutes a big challenge for some of our smaller countries, and underlines the importance of regional integration.

**Dennis Evans, Citibank:** With oil at over \$100 a barrel, a new phenomenon is the transferring of wealth to petrol-producing countries, which hopefully can be tapped by Trinidad & Tobago and could also benefit the Caribbean to weather the overall effects of a US recession. Now more than ever is the time for regional economies to put their houses in order. Well-rated sovereigns are still able to borrow freely from the International capital markets but we are already seeing spreads widen for corporates with the stalling of some heavily levered Corporate deals. A good boon for Trinidad & Tobago and the Caribbean, to help insulate against any future uncertainty of the international capital markets, is the regional capital markets. It still amazes me that even during the Asian crisis, we had no difficulty raising \$200 million locally for a regional sovereign, and well known corporates also have good access to this market.

**Moderator:** How can regional capital markets be deepened, and what purpose do local ratings serve?

**Wayne Dass, CariCRIS:** Global scale ratings of Caribbean risk entities tend to be concentrated around one (BBB) level, as entities here are being compared with entities right across the globe. We need to recognize that within the Caribbean itself, there can be significant differences in the relative creditworthiness of entities, both sovereigns & corporates. The CariCRIS regional and national scale ratings bear recognition of this and say that there is a fertile level of granularity to distinguish between

the creditworthiness of corporate and sovereign issuers in the region. If more entities were to get rated on these scales and tap local markets instead of traditional funding sources, capital market activity would pick up, making the Caribbean a lot more resilient in times of trouble. Fortunately, the English-speaking Caribbean banks have been insulated from problems with structured products and have been performing as good as ever thus far.

**Guichard:** Local credit ratings provide more transparency and therefore increase demand for local corporate bonds. The key is to create incentives for acquiring ratings. This is where regulators, Central Banks, and Securities and Exchange Commissions and other fiduciaries, should work together to set investment guidelines that require the use of local credit ratings as a key decision making criterion for making domestic investments.

**Wm Warren Smith, CDB:** The CDB is helping to prepare countries with low population levels and very small economies to get an international rating. This process introduces a certain amount of discipline in the management of the economy, because now they are on display. It is not a cheap proposition, but the rating can mean a lot to them in terms of access and pricing. Capital market development is obviously very important for the region, but the



• **Dennis Evans**  
Managing Director, Citibank  
(Trinidad & Tobago) Ltd.





• **Wendell Mottley**  
Managing Director, Credit Suisse

immediate challenge is refinancing risk. The problem is really one of rate and spread. Spreads for Jamaican US dollar bonds have increased by about 154 bps from June 2007 to March 2008. Even for supra-nationals like the CDB, spreads have increased by 40 bps. The CDB can capitalize on new financing opportunities opening even if traditional areas of finance are experiencing difficulties. Our small size is advantageous in that we're not looking for very large blocks of resources. We can move between the raindrops.

**Evans:** Fortunately, higher spreads are countered by 5-year US Treasuries way down to 2.5 percent and 3 month Libor at 2.6 percent. You can use derivatives to lock into these low rates. On the issue of regional capital markets, I think the CDB could help deepen them by facilitating legislation that eliminates the need to register bond issues in each and every jurisdiction.

**Bourne:** In the CARICOM environment, there is an effort to establish uniform legislation on financial transactions across member countries. Progress has been made to link the stock markets in Barbados, Trinidad and Tobago, and Jamaica, though this does not yet extend to the Eastern Caribbean Securities Exchange. Our central banks as the prime regulatory institutions need to go beyond traditional roles of inspecting depository institutions to foster development of capital and

credit markets, building in provisions for transparency in the issuance and purchase of equities and securities.

**Moderator:** How are high commodity prices affecting the Caribbean?

**Desmond Brunton, CDB:** The whole issue of higher commodity prices must be viewed in the context of increasing rural poverty and the need for the region to re-focus on agricultural and rural development. Fiscal difficulties may preclude the traditional response because of an inability to support subsidies, but this may actually help ensure that market prices play their intended role of stimulating production. There are two ways in which the CDB can and is providing assistance to our borrowing member countries. One is assisting governments to address fiscal and debt sustainability problems by helping to create the fiscal space to generate policies supportive of productive sectors. Second is by ensuring on a regional basis that there are consistent fiscal and trade policies designed to overcome barriers in terms of both financial and labor flows. To be competitive, the private sector needs cost-effective pricing, and this demands regional agreements that allow free movement of capital and labor.

**Slusher:** Caribbean governments have tried to insulate the public from price increases, which eat into government revenues while wiping out any incentive for domestic producers to capitalize on earning opportunities. As fuel prices rise, governments have been decreasing the tax rate so that the pump price, and therefore fuel use patterns, are unchanged. A reasonable alternative might be to consider making direct transfers to the poorest of the population.

**Bourne:** Apart from oil, which drives up costs in the petroleum-importing countries and contributes to higher-than-average growth rates in Trinidad, one of the major effects is on the agricultural sector. High feedstock costs have pushed up the price of agricultural imports, and this drives up the domestic cost of living. One response is to improve regional production and distribution capacity, though this is

only a partial solution since there is no indication of food self-sufficiency, though the region can do a lot better than it currently does. Second is to develop local feedstock. During stagflation in the late-70s, attention turned to substitutes for imported grain, but the moment prices fell, people forgot about cultivating feedstock regionally. This requires sustained attention. A third aspect is diversifying one's sources of commodities. Brazil is perhaps the biggest low-cost producer of grain and feedstock, but we need to develop proper trading channels.

**Smith:** Escalating food and commodity prices have a pervasive and compounding macro-economic impact, causing domestic inflation and external account deficits, which in turn affect domestic interest rates and the fiscal position of governments exposed to domestic interest rates. If we are going to seriously address regional food security, we need to attend to the agricultural sector, which has been perennially neglected as we became fascinated with possibilities in financial services, in tourism - which consumes vast amounts of food, and a number of other industries. The CDB and other international financial institutions can play a role in fostering a technological transformation of agriculture in the Caribbean, almost a "Green Revolution" as it took place in Asia several decades ago.

**Dulal-Whiteway:** Agriculture must be



• **P. Desmond Brunton**  
Vice-President (Operations)  
Caribbean Development Bank

## Caribbean Development Bank Roundtable



• **Alan Slusher**  
Director of Economics  
Caribbean Development Bank

a bad word right now from a business perspective. I cannot tell you the last time I saw a financing proposal for the sector. What's required is a different mind-set, not just somebody with an acre who produces tomatoes, but entrepreneurs coming in at a larger scale and mechanizing for cost-efficiency and labor issues. We also need to get away from the old regime of lending against government guarantees, regardless of the viability of the business model, because there are profits to be made from agriculture.

**Bourne:** When I look at Japanese or Chinese agriculture, I am struck by how much is done on small holdings with minimal mechanization. If you are producing sugarcane for export, obviously scale matters. But for domestic supply, most critical are appropriate technology and a means to move produce from the farmgate to households or hotels. Distribution and transportation are eminently bankable areas. There is need now for a focused approach to linkages in the agricultural sector and to address complementary requirements of the entire food chain, including inter-regional shipping.

**Moderator:** Just how necessary is regional integration?

**Brunton:** In the final analysis, the only way we can achieve international competitiveness is by some form of integration. That's a no-brainer. But

even when we integrate as a region, six million people, in the English-speaking Caribbean, is still very small. We should also recognize some structural advantages of being small, which, for example, apply to our own institution. If the World Bank with 15,000 people is like a 747, the CDB is more like a Lear Jet, able to turn on a dime. Policy changes can get through society quickly in the Caribbean because of size. I think we tend to emphasize the island differences, when in fact similarities and cultural ties are quite strong.

**Slusher:** The CDB has been in the business of promoting regional integration, not just economic, but also from the social dimension, the foreign relations dimension, the security dimension, in terms of functional cooperation. The latter requires institutional strengthening, such that should countries eventually get together in a political way, their administrative structures will be in sync.

**Evans:** From a capital markets perspective, it is advantageous to have a bigger base for larger and more efficient transactions than any single economy can currently handle, not just in terms of debt but equity. Having a free flow of capital would be a big benefit. The CDB should be commended for its innovation in bringing new mechanisms, which have been well received by the market.

**Dulal-Whiteway:** One problem we face is that we don't have a single currency in the Caribbean; the proxy is the US dollar. The CDB is the only institution within this region with an AAA rating, and therefore can serve as a provider of long-term dollar funding at more competitive rates than the commercial banks.

**Moderator:** What else can the private sector do to gain efficiency, given the reality of small economies?

**Evans:** It is precisely our small size that provides the unique opportunity to leapfrog from antiquated systems to first world, cutting edge technology that makes us highly efficient. The private sector feels it is efficient, but we can learn a lot through imitation, adapting and replicating strategies



• **Eric-Vincent Guichard**  
Managing Director and Chief Investment  
Officer, Gravitas Capital Advisors

that work well elsewhere, such as in Singapore.

**Guichard:** There is no better place to source expertise in enterprise capacity building than from the private sector. To raise competitiveness relative to the rest of the world, the key is building public-private sector partnership models. Some of the big countries in the region have designed their own competitive strategies, like Trinidad positioning itself as a financial center competing with the likes of Qatar, while Jamaica or Guyana could build their agricultural sectors to compete with the likes of Brazil. I would suggest not a monolithic approach, but a



• **Wayne Dass**  
CEO, CariCRIS

game plan where roles are defined and policies are aligned with benchmarks within pre-established time frames. The CDB is in a unique position to sponsor that kind of dialogue that would lead to a coherent, cohesive regional policy.

**Bourne:** In the economic world, only the strong ones survive. While this particular juncture poses severe challenges to the region, if we deal with them in terms of short-term adjustments, in five years we'll be in the same kind of boat. As a strategic imperative, we must develop enterprise capacity in the region to compete anywhere. This requires making our public sector more efficient both in the delivery of various economic services and utilities and in terms of reduced transaction costs for enterprises and citizens. Otherwise we might weather this storm, only to be blown down by the next.

**Slusher:** We must not lose sight of the focus on development of every individual and their income-earning capacities. That means not encouraging an increase in income concentration already taking place, that we don't fracture the social cohesion through inequitable distribution. If we look around, there is an unraveling of the social fabric at the edges. We need an agreement on objectives and the means to meet these objectives, with the people's participation along the way.

**Moderator:** How is the CDB positioned to assist its borrowing member countries to meet these challenges and to exploit opportunities?

**Evans:** Much more than any other financial institution, the CDB can influence good governance.

**Smith:** One of the biggest constraints to transforming ourselves in the region is our general inefficiency and the implications that has on transaction costs for the producing sectors and therefore on our international competitiveness. The CDB tends to be known for lending to projects and programs, but one way in which we can really have an impact in difficult times is to ramp up technical assistance, both in volume and quality. Often its grants can be



• **Wm Warren Smith**  
Director of Finance and Planning  
Caribbean Development Bank

relatively small in size, but the payoff can be tremendous. In these times especially, our countries are reaching out more for advice in dealing with challenges they face.

**Brunton:** Greater technical assistance implies the need for us to access resources. This is where our Special Development Fund, which is replenished every four years, becomes critical. We also need to coordinate aid flows into the region. We have a number of bilateral and multilateral donors providing resources, sometimes in an uncoordinated fashion. The CDB has a role to ensure optimizing the benefit of these resources. Another underrated value is CDB's fiscal and sectoral policy advice to member governments through our country strategy missions in which both our economics and projects departments sit with officials, sometimes at the highest level. This has tremendous future payoffs in terms of the efficiency with which they manage their fiscal and other aspects of the macroeconomic environment. Also key is development of products that speak to the real concerns of our member countries. We have, for example, introduced an interest-subsidization fund, which subsidizes the interest rate of our ordinary capital resources for specific countries and which is critical to debt sustainability. We need to develop more of these products at both the

sectoral and program levels so that our responses are consistent with regional needs.

**Mottley:** That's where the rubber meets the road. In the Caribbean, remittances have leveled off, and construction of second homes by wealthy Americas has tanked. Governments have to find novel ways to raise money, to tighten their fiscal administration, and I would imagine that technical advice from the CDB in this time of crisis is desperately needed, particularly among the smaller member countries. Capacity building and reaching nearer to the clients are key to effect change and to enable the private sector to move forward.

**Bourne:** At an anniversary conference of the Bank many years ago, I was asked to suggest the role of the CDB in the next decade. I said policy mediation. The CDB is well positioned to influence the policies of major donor countries and to help our member countries understand the thinking of the donor countries. We are well placed because of our intimate knowledge of Caribbean societies and economies. We should not lose sight of the fact that a global slowdown will manifest in reduced living standards for individuals. A lot of the work the Bank has done relates to poverty assessments, analyzing what safety nets are in place and where those should be strengthened to mitigate damaging effects on those least able to bear it. ●



• **Sharon Marshall**  
Information Officer, Caribbean Development Bank





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**Dr. Wesley Hughes**  
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**Jane Eddy**  
**Standard & Poor’s**

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positive and a formidable attraction for longer-term investors in various areas, including IT, tourism, financial services and manufacturing,” asserts Zhivargo Laing, Minister of State in the Ministry of Finance of the Bahamas. Despite challenging international market conditions, in April 2008, First Caribbean and RBC Capital Markets jointly led a \$300 million, 30-year bond for A-rated Bahamas, the first Caribbean sovereign issue for the year. This oversubscribed issue was placed with both regional and international investors.

Remittances to the Caricom countries in 2007 exceeded US\$2.6 billion (75 percent to Jamaica), and despite the large number of Jamaicans in the US construction business, 2008 inflows have shown no signs of decline. “Jamaica always outperforms in terms of remittances,” acknowledges Eddy. “Perhaps they switched to other industries, and there is evidence that more Caribbean nationals are working in Europe, where the euro is more valuable and job prospects are good.” Nevertheless, more important to regional governments is bringing skilled nationals home. “The social policy and investment infrastructure has to create an environment to attract skilled Jamaicans back to Jamaica to invest and to live,” insists Hughes.

In Jamaica, the third-largest English-speaking country in the hemisphere after the US and Canada, the growing IT sector is helping to diversify the economy, while rising global commodity prices are stimulating investment in the bauxite and mining sector. Tourism is poised to benefit from completion of the Norman Manley airport and the north coast road, while Spanish hotel chains are attracting tourists directly. In April 2008, IADB president Luis Moreno signed a \$30 million agreement with Jamaican Finance Minister Audley Shaw “to reduce the cost of doing business and establish a sustainable framework for public-private dialogue.” Jamaica has embarked on a biomass project and is building an LNG facility in concert with Venezuela to reduce oil dependency.

Oil and natural gas powerhouse Trinidad and Tobago enjoyed its 14th consecutive year of growth in 2007, at 5.5 percent. “Foreign direct investment in the energy sector continues to diversify both upstream and downstream,” notes Keith Rowley, Minister of Trade and Industry. Says Howai of First Citizens: “The national focus now is on capacity building – in IT and telecom infrastructure – and on thoroughly modernizing

the legal and regulatory framework required to become a leading international financial center.”

### **Foreign Bank Inroads**

In March 2008, in what a vocal minority felt was akin to selling the crown jewels, Royal Bank TT was acquired by the Royal Bank of Canada (RBC) for US\$2.2 billion, signaling the return of Canada’s largest bank after having left more than two decades ago. Shares of RBC will be listed on the local stock exchange. “Caribbean exchanges are countercyclical, stagnant during the US runup and up a bit now while the US market has been down,” observes David Dulal-Whiteway, managing director of Republic Bank. “While regional shares are still not very liquid,” he admits, “one way of buying into an economy is to buy shares of banks.”

While much effort has been made to integrate the Caribbean countries, obstacles remain. “We talk about integration,” says Wesley Hughes of Jamaica’s planning institute, “but each economy doesn’t necessarily respond to what is happening in the rest of the region. Similar production systems limit regional trade, and we’re competing in tourism services.”

Yet few would disagree that much can be gained by integrating institutionally. “We have no choice if we want to improve our competitive prospects,” says Barbados’ Williams. “There are certain trade-offs, such as national autonomy and regional authority, and we have to work on that. If we adopt a single currency, for example, we wouldn’t need a central bank in each country, but rather branches for regulation, supervision, currency issuance and redemptions.”

A big challenge that remains, with trade liberalization and elimination of barriers, is determining where the region fits in the supply value chain. “The economic partnership arrangement developed with the European Union consolidates favorable aspects of Caribbean exports,” notes Compton Bourne, president of the Caribbean Development Bank. “Most of the region’s business sectors have moved away from a protectionist stand, seeking larger markets abroad rather than defending the local market. There will be asymmetries in relationships, which sometimes will work to our advantage, sometimes not. But there is good will towards the Caribbean.” Trinidad’s finance minister Karen Nunez-Tesheira seems to agree: “Globalization is a reality,” she says, which “we have to embrace and make sure it works for us.” ●