



**SPEECH**

**BY**

**THE PRIME MINISTER**

**OF BARBADOS**

***THE HON DAVID THOMPSON MP***

**TO THE CARIBBEAN COUNCIL, CANNING HOUSE**

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***CARIBBEAN RESPONSE TO THE GLOBAL ECONOMIC CRISIS***

- ❖ Mr. Chairman and Vice-President of Canning House, The Right Honorable Lord Garel-Jones;
- ❖ Members of the Caribbean Council
- ❖ His Excellency High Commissioner for Barbados to the United Kingdom Mr. Anthony Arthur
- ❖ Ladies and Gentlemen
- ❖ Fellow Barbadians

Thank you for the honour to speak to such a distinguished audience at this important event in such a challenging period in world affairs.

A time when economies around the world are struggling to cope with a global economic phenomenon that bears many characteristics of the Great Depression of the 1930s – and is much worse. It is our biggest economic challenge in 80 years!

When I took office as Prime Minister of Barbados, just over one year ago, I was aware that it would have been a challenge to lead a small developing nation in this global economic environment.

I hardly knew or expected that less than ten months into my term in office, I would be confronted with a challenge that surpassed my wildest expectations.

Periodic downturns in the world economy are normally associated with business cycles. These cycles are said to be natural phenomena and sometimes very predictable.

Unlike the usual business cycles, however, the current global economic challenge founded in human greed, amplified by modern technology, has acquired a complexity beyond our comprehension.

Those who predicted it were deemed conspiracy theorists and publicity seekers! No one believed them.

Although its genesis was originally in the housing sector of the United States of America, it quickly mushroomed. At one point it was being said that the Caribbean, Latin America and Canada would not be significantly affected.

But due to the integration of the world's financial systems, the inter-relationships between economic sectors and the interconnection of the world's economies, it cascaded into the real economy, across the national borders of other developed countries and into the developing world.

This is a genuine global recession with post-modern features. There are two distinct features which it emphasizes:

- (1) The speed at which it spread and
- (2) The global interconnectedness of our economies.

Both of these have serious implications for small developing nations.

Its pervasiveness and unruly character provide tangible evidence that the current international financial system is not designed to promote sustainable economic growth.

For how can small states which are disproportionately dependent on the smooth functioning of global trade and finance, plan and develop their economies in such an environment?

**Without economic growth and stability across the world, sustainability everywhere is threatened.**

In this regard, the financial implosion is not the occasion for rich countries to abandon the commitments which have been made to the poorest countries of the world.

Basically, what I am saying is that promises made in the Millennium Declaration, the Monterrey Consensus, the 2005 Global Summit, and the Doha Declaration to help developing countries, it would be unwise and devastating for them to be no longer pursued by the developed countries in the world.

While most of the debate on the impact of this financial challenge has been focused on developed countries, it is only recently that the debate sought to include the impact on emerging economies.

There is no doubt that the worsening global economic climate will have long lasting implications for small developing states, a fact that was recently alluded to by the World Bank.

As individual Governments around the world try to contain this crisis, leading economic indicators still show that the world economy is shrinking. In fact, it is predicted that in 2009, the global economy will shrink for the first time since World War II and by as much as 15%.

It is true that interest rates are being reduced around the world and Governments are injecting large sums of money into economies under the guise of stimulus plans.

Yet, stock markets continue to be volatile, world trade continues to plunge towards its largest decline in eighty years and investment and consumption continue to contract on a global scale. The glimmers of hope are merely glimmers and get no brighter as the clock ticks.

As you may recall, most emerging economies, including those in the Caribbean were recently impacted by the food and fuel shocks of 2008 which had threatened the economic gains that they had made over the previous two decades.

Despite the fact that the shocks of rising food and oil prices have receded, their negative impact on small economies still lingers.

I have no doubt, that at this time, the greatest challenge that most of these countries face is not the immediate financial impact of the current global crisis, but instead, the prolonged economic, political and social destabilization that may be associated with it.

The further vulnerability of emerging economies issues from a steady decline in commodity prices on the international market which may have severe consequences for their terms of trade with the rest of the world.

This is further compounded by liquidity tightness in the financial markets and a decline in investment flows, including remittances from overseas nationals.

Additionally, it is anticipated that there will be a steady decline in every major economic sub-sector including tourism, agriculture, mining and manufacturing. This is all being driven by continuous contraction in world demand.

There are negative implications also for the balance of payment positions and economic growth potential of all Caribbean countries.

The reality hit home in the Caribbean when, a few weeks ago, CL Financial, one of the largest privately-held Pan-Caribbean corporations and one of the largest private sector conglomerates in Trinidad and Tobago, with assets valuing some 25 percent of that country's GDP, collapsed. Shock waves of uneasiness and speculation throughout the financial systems in the Caribbean have occurred as a result.

The problem then spread to other countries in the region where CL Financial had corporate interests – Clico International Life in Barbados and British American Insurance in Bahamas each with Branch operations throughout the Eastern Caribbean.

The problem mushroomed, affecting their non-financial operations. However, regional Governments were quick to respond in order to prevent the decimation of the Caribbean financial systems which would have compounded the impact of the current global economic crisis.

Last Wednesday, a meeting of OECS, Barbadian and Trinidadian officials – including some Heads of Government - agreed to a Regional Financial Stabilisation Fund into which Trinidad and Tobago will inject US\$ 50 million, Barbados US\$ 5 million and the OECS territories US\$25 million to assist with the liquidity of British American.

Shortly after the CLICO crisis, news broke on a decision by the authorities of the Eastern Caribbean Central Bank to take control of the Stanford International Bank in Antigua. This was to prevent the collapse of the institution when bank depositors were turned away after a rush.

The action taken by the Eastern Caribbean authorities has been replicated by authorities in some neighboring countries in Latin America in their domestic financial systems.

Notwithstanding what could have become a local financial crisis in relation to the CLICO and Stanford collapses, the unprecedented magnitude of the current economic crisis continues to occupy the minds of Caribbean Governments and as would be expected, there is fear and uncertainty surrounding the scope and impact on our economies.

Economists across the globe suggest that the worst is yet to come.

Notwithstanding the fact that our countries face financial contagion, they are also faced with rising borrowing costs on the international financial market.

This is happening at a time when sources for financial intermediation in the world market for developing countries seem to be slowly disappearing.

This has the potential to deprive or slow the access of developing countries, including those in the Caribbean, to funding for high priority development projects in health, education and infrastructure.

Barbados has been fortunate so far, to be able to maintain a relatively strong macroeconomic infrastructure, having enjoyed seven years of positive growth, a manageable fiscal deficit, a relatively low external debt ratio and a relatively sound financial system.

This however does not make the Barbados economy any less vulnerable or any less threatened from the global economic crisis than any other emerging economy.

By way of response to a crisis that was not of our making, the first point that must be made is that since this crisis is steeped in complexity, it requires a complex solution. There will be no quick fixes.

Appropriate action must start at the local level. Developing countries like ours in the Caribbean must put in place a protective framework of policies at both the national and regional levels that include a mixture of economic, social and regulatory policy measures that promote and maintain economic growth and social development and foster an environment of good corporate governance.

We must protect jobs, pensions, investors and depositors and encourage the uninhibited dissemination of market information.

A critical focus of new government expenditure plans should be investment in the environment, green technologies and infrastructure that will support economic growth and efforts to tackle climate change.

Continued investment in education is also critical. We in Barbados intend encouraging more young people to go on to the tertiary level and making it more relevant to our developmental needs.

We also plan to keep the real economy robust and put in place appropriate policies to fuel demand where possible. Managing the unfolding global economic crisis is more about social partnership and changing the way that the partners do business than about public administration or strategic planning by Government.

It is imperative for Government, private sector and trade unions to establish a partnership to drive the response-process forward. Once again we in Barbados are lucky to have a working Social Partnership that has the capacity to resolve industrial challenges without resort to violent confrontation.

From a regional perspective, I believe that the current global economic conditions provide an opportunity for Caribbean people to undertake reform of both public and business administration, to raise standards, to build public confidence and to achieve the efficient and cost-effective production and delivery of goods and services to the public.

Such actions are necessary if countries in the region are to effectively confront this crisis and emerge as competitive players in the new economy.

Governments' macro-economic measures should be designed to prevent any sharp fall in economic activity; and as difficult as this is caution should be taken to ensure that fiscal policy does not compromise current levels of employment.

Special attention must be paid to protecting the supply of the essential social services, especially health care and education. Expenditure should target projects and programmes that aid job creation and stimulate the economy, while at the same time taking care not to engage in activities that compromise the external current account.

In light of the movement towards the creation of a Single Market and Economy (CSME) in the Caribbean region, the environment is right for increased cross border, intra-industry and inter-industry networking.

This should be encouraged for the purpose of realizing economies of scale, reducing the cost of doing business in the region and becoming more competitive as a region in the international market.

Producers must engage in joint venture operations, especially in the area of research and development.

By all means, R&D should be seen as a priority and should be done in a quest to find new cost reducing and environmentally friendly technologies; to find new and original projects and new processes; and to attain levels of comparative and international advantages that they never enjoyed before.

In our effort to create and maintain an enabling industrial environment, trade unions must also play their role by preserving a stable industrial climate. Notwithstanding the need for them to adopt a new role and join with the private sector and Government.

They must remain cognizant of the need not to be overly aggressive in their demands for wage increases. Steep wage increases have often been associated with layoffs as businesses attempt to rationalize their investment shortly after having to face an increased wage bill.

Furthermore, chances are that businesses would be more aggressive in their layoffs if faced with a rising wage bill coupled with slackening demand. This is the challenge we face in this crisis.

I believe that an appropriately designed monitoring and regulatory system is absolutely necessary.

Such a system must be efficient and effective and one that would not work to restrict investment nor appear to be anti-business.

It must include business standards that promote integrity, reliability and transparency with respect to corporate managers in order to ensure good corporate governance. Regulations that require businesses to adhere to strict accounting or reporting rules must be put in place.

Countries in the region must therefore ensure that an efficient and effective monitoring and regulatory regime is in place to allow for the supervision of the banking and non banking financial sectors.

So far, Barbados has been able to maintain efficient and effective supervision of the banking sector through the Central Bank. We have also been striving to maintain a relatively effective and efficient supervisory system for the non-banking financial sector.

Despite this the Government, however, is presently moving to strengthen the present system by merging the various offices that supervise and regulate credit unions, insurance, securities and other non banking financial activities to create what will be called a Financial Services Commission that is parallel to the Central Bank which supervises the banking sector.

A monitoring and regulatory system of a financial sector may not be effective if it becomes too country specific. Provision must be made to allow for a free exchange of information between countries in the region.

This is why it is prudent to suggest that regional cooperation in the area of financial market supervision and regulation be strengthened and wherever possible, financial market supervision be approached from a regional prospective.

While I do not expect the Caribbean region to adopt a single currency in the short-term, there is certainly more we can do to improve regional liquidity such as strengthening a network of central bank swap lines.

This would have been particularly useful this year in the light of the recent difficulties of one of our largest, cross-border financial institutions, the Trinidad and Tobago based CLICO.

It is of vital importance for there to be some measure of collaboration between policy makers in the developed world, where the crisis originated and those in the developing world on these issues.

This approach should provide the platform for the design of a strong monitoring and regulatory framework at the international level. This framework should provide the machinery that would allow for the monitoring of early warning signals in the global financial system and prevent or minimize the chances of the circumstances which gave rise to this crisis ever recurring again.

While the efforts of policy makers in the major economies will no doubt eventually resuscitate their economies, in the short and medium terms their responses are likely to impact negatively on us in the developing world.

It was necessary for Governments in the developed countries to introduce stimulus packages involving the injection of substantial amounts of fiscal resources to boost their economies.

But these efforts may serve to limit contributions from the developed world to the developing world. However, for these economic stimulus policies to be effective in promoting sustainable growth in developed countries, it will be necessary for them to inject funds into the developing world for the purpose of infrastructural and business development.

It is my view, that in the short to medium term, this will help boost growth in these developing countries and in the long term, increase demand in the developing countries for goods produced in developed countries.

**In the end there needs to be a substantial increase in resources available to developing countries to pursue pro-growth policies.**

Pro-cyclical policies in developing countries will not only threaten employment and welfare in developing countries, but in a highly integrated regional and global economy it could neutralize part of the stimulus packages of developed economies.

**In this regard, we welcome the recent initiative to substantially expand the resources of the IMF to the tune of US \$1trn and to improve its governance.**

However, we observe that Eastern Europe has been the region that has so far benefited most from these resources and we hope that all regions will enjoy the same degree of support.

I also advise that short-term, emergency initiatives to deal with the crisis should be designed, at best, with the intention of supporting demand both nationally and internationally, and at worse, to do no harm to the poorest countries.

**And therefore, we express caution against such initiatives as national-buying programmes that conflict with the spirit and letter of international trade rules; state-aid to local industries delivered in a manner that disadvantages international competition; taxation policies that effectively tax the**

exports of other countries such as tourism in distant shores; or forms of financial protectionism dressed up as codes and standards, but applied in ad hoc and discriminatory ways.

In an effort to avoid a return to **protectionism** we urge the early completion of the Doha round.

However, we also note that there are a number of measures that have already been agreed in multi-lateral trade negotiations that could be implemented ahead of the more general agreement on Doha.

These include the implementation of duty-free, quota-free market access for products originated from LDCs and small developing countries. We would also like to reiterate that there should be no retreat from the agreement reached at the WTO's Hong Kong Ministerial session in 2005 which provided for the elimination of all forms of developed country export subsidies before 2013.

We also recognize that most jurisdictions in our region have a long-standing commitment to tax information agreements, with Barbados being one of the leaders in this regard. We support efforts to broaden the application of these agreements and to deepen their reciprocity.

We find it odd that European countries which have been taken by their own Commission to the European Court of Justice for failure to enforce international money laundering rules, should be threatening "shame lists" for the small developing countries that they would never put themselves on.

And therefore we want a level playing field.

Over the past few days, I have flown from Barbados, where we have carefully kept out dubious Russian money, and arrived in London where the same vigilance is less apparent.

The world must also recognize that small countries have a legitimate interest in the responsible, transparent, yet competitive export of international services.

Longer-term reform of the international system must have as its primary goals the protection of vulnerable consumers, the flow of international capital that is not subject to sudden stops and reversals, a better allocation of financial risks to places with a capacity for those risks and financial inclusiveness within and between countries.

The achievement of these goals will require greater international co-ordination of financial regulation by more representative global institutions, such as the newly constituted Financial Stability Board as well as enhanced policy space for national regulators to respond to local economic and financial circumstances.

We welcome the switch in global governance from G7 to G20 and the call for more merit-based appointments to international bodies.

The Caribbean with three Nobel Prize winners and countless other world-renown experts would benefit from that. G20 is a body that is more representative in our view of the new world economy.

However, we note that while some small European countries are represented on G20, no small developing country is.

We therefore feel apprehensive about the natural justice of this group setting standards and being judge of those standards, that they expect the other 172, smaller countries of the world to follow or to be described as uncooperative. Democratic governance at the international level has improved but the problem has not been solved.

In conclusion I reiterate that the Caribbean is a resilient region and we are currently responding vigorously and imaginatively to the global economic crisis.

However, even though we are acutely aware of the global dimensions of this challenge, we are not sitting around waiting for hand-outs!

We expect our citizens to put their shoulder to the wheel and to reach out to and collaborate with our regional neighbours. At the same time we expect the leading industrial nations of the world to play their part in creating a more level playing field for sustainable economic recovery and growth.

**Again, I appreciate the opportunity, Mr. Chairman, to be here to address you and I hope to have the answers to your questions!**