

**THE STRATEGIC IMPORTANCE OF BUILDING A STRONGER
U.S.-CARIBBEAN PARTNERSHIP**

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The views expressed in this testimony are personal and not those of the University of the West Indies. I will focus on the importance of CARICOM-US economic relations and the priorities for action in the post-global financial crisis era.

The relationship between the United States (US) and the member states of the Caribbean Community (CARICOM) is a multi-dimensional and of fundamental importance because the U.S. is the largest economic partner of the Caribbean and the Caribbean is the third border of the U.S. I focus on the economic aspects because the economic development of the Caribbean is inextricably linked to other important issues such as democracy, governance, national security, transnational crime and narcotics trafficking. All of these issues are of vital interest to the United States and the Caribbean. The purpose of this testimony is to assist Congress to reexamine and refresh U.S. policy towards the CARICOM countries.

CONTEXT

The Caribbean has experienced an economic slowdown since the onset of the global financial crisis which erupted in late 2008. The rate of economic growth in 2014 was 1.2 percent and the rate of unemployment in 2013 was almost 14 percent. The crisis was precipitated by a combination of long-term structural and institutional factors compounded by cyclical short-term factors such as commodity prices, in particular oil prices. Rates of growth in the Caribbean have varied among the countries but have been low and fluctuating. In an effort to promote and sustain economic growth governments have pursued fiscal policies which have contributed to a build-up of external debt. The U.S. as a global superpower and largest economic partner of the Caribbean in trade, investment and tourism can play an important role in assisting the Caribbean to achieve sustainable economic development. There are several issues which require urgent attention to facilitate the economic recovery of the Caribbean.

1. DEBT

The Caribbean countries continue to be among the most indebted in the world. The debt is now a major impediment to economic growth because it has deprived Caribbean governments of the ability to use fiscal policy to promote growth. The situation is now at a point where a major policy initiative has to be mounted to significantly reduce the debt if sustainable economic growth is to be resumed.

Conventional wisdom in the economics profession is that when the debt stock is over 75 percent of Gross Domestic Product (GDP) the debtor country cannot grow its way out of debt. Jamaica leads with a debt/GDP ratio of 130.5 % in 2014, followed by Barbados at 108.5%, Grenada at 99.1 %, Antigua at 96.4 %, the Bahamas at 82.4%, St. Vincent at 79.4%, St. Lucia at 78.4%, St. Kitts at 78.0%, Belize at 77.3% and Dominica at 74.1%. Debt servicing increased in 2014 to 23 percent of fiscal revenue and required 26.9 percent of current fiscal expenditure with Barbados leading with 35.3 percent.

The reduction of the debt will ease the liquidity constraints, solvency risk and allow governments to increase public investment in infrastructure, education and health. The debt burden has to be reduced by a strategy combining (a) a restructuring of multilateral, (b) reduction of bilateral debt by debt swaps for climate mitigation, environment, education and cancellation and (c) conversion of commercial debt into multilateral debt.

Debt reduction needs to be supported by the creation of a macroeconomic stabilization fund which would increase resilience through export promotion, improved fiscal management and debt management. The objective being to prevent the build-up of debt to levels which stifle economic growth.

2. INTERNATIONAL FINANCIAL INTERMEDIATION

De-risking and correspondent banking relations is a global problem to which the Caribbean is disproportionately vulnerable because of the prominence of foreign owned banks in the domestic financial systems and the heavy reliance on correspondent banking relations for international financial intermediation. Adverse impacts include choking international investment flows, trade financing, transfers of remittances, debt servicing, transfers of profits and royalties. Some U.S. banks have already restricted or withdrawn some of these services from the Caribbean. Combatting money laundering and terrorist financing is a goal shared by Caribbean governments and suitable arrangements have to be put in place to ensure that this can be attained while allowing normalcy in international business.

3. SECURITY

The small states of the Caribbean in recent years have been threatened by transnational crime related primarily to narcotics trafficking and have benefitted from U.S. cooperation and assistance. More such support and cooperation will be necessary because global terrorism, money laundering, human trafficking and cyber-crime are international in scope and character. The cost of security is already an additional expense on all forms of economic activity and could affect vital economic sectors, in particular tourism.

4. TRADE

Trade between CARICOM countries and the United States has been conducted under special trade arrangements. The Caribbean Basin Economic Recovery Act (CBERA) (revised 1990) and the Caribbean Basin Trade Partnership Act (2000) which enhances CBERA, provide unilateral duty free market access for nearly all goods from beneficiary countries. The 2006 Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE) enhances the current access for certain apparel enjoyed by Haiti under CBTPA.

While CARICOM Heads of Government have decided not to negotiate a CARICOM-United States Free Trade Agreement at this time there are other ways to enhance the arrangements governing U.S.-CARICOM trade. Approximately 130 products that do not currently benefit from duty free treatment either under CBERA or the US GSP have been granted tariff elimination under CAFTA.

All CARICOM countries except Suriname are CBERA beneficiaries. However, not all CARICOM beneficiaries are eligible for the additional preferences provided under CBTPA. Only Barbados, Belize, Guyana, Haiti, Jamaica, Saint Lucia, and Trinidad and Tobago have been designated as fully eligible to receive the enhanced benefits of the CBTPA.

CBERA benefits are limited to merchandise trade, which accounts for a diminishing share of total regional exports. With the exception of Belize, Guyana, Suriname and Trinidad and Tobago services exports account for the lion share of total exports of individual countries. Therefore, one clear objective in any future trade arrangement should be to provide opportunities to harness and grow the services trade between the U.S. and CARICOM. Integrated value chains in health, education and business services processing could benefit employment and international competitiveness in both the U.S. and the Caribbean.

5. CLIMATE CHANGE

The small island developing states of the Caribbean are among the most vulnerable to climate change. The region has suffered perennial natural disasters which have caused damage the equivalent of several percent of GDP, requiring massive reconstruction of infrastructure and rehabilitation to the built environment. Climate change, evident in the form of global warming and sea level rise, will require mitigation measures particularly because Caribbean countries are coastal societies i.e. population, economic activity and infrastructure are concentrated on a narrow strip of the coast.

There is a need for more financial resources for disaster relief and disaster risk reduction projects to accelerate the recovery of economic activity after a natural disaster with emphasis on infrastructure projects and to enhance climate adaption and mitigation. These resources should be complementary to other initiatives in the region such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

6. ENERGY

While the price of oil and gas is lower than in past years there is no guarantee that they will not increase. Most of the Caribbean countries are almost completely dependent on imported fossil fuels and cannot assume financial relief such as that provided by the Petro Caribe. The dependence on imported energy has to be substantially altered by a shift to alternative energy sources such as solar, wind and thermal.

CLOSING REMARK

A democratic, peaceful and prosperous Caribbean Basin is in the interest of the United States of America. Economic development is a critical component of the foundation of stable democratic societies and the best long-term defense against threats to national security. The growth of trade, tourism and investment between CARICOM and the US can contribute to the economic development of the CARICOM countries thereby strengthening a partnership based on shared economic and political ideals. The proposals I have outlined can promote the expansion and diversification of trade and investment between the United States and the CARICOM region to the benefit of both parties. The effectiveness of the proposals could be multiplied significantly if they were coherently integrated components of a single, comprehensive new template for U.S. policy towards the Caribbean.