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| How are the global economic reverses channelled to Caricom economies? |

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| **Catching cold!** As the saying goes: when the rich developed economies sneeze, the rest of the world catches a cold, or worse, pneumonia. If we include the burgeoning emerging market economies among the group of developed countries, this saying would be even more apt today!  The bursting of the private housing bubble in the US has led to a staggering credit crunch and financial crisis worldwide, culminating in arguably, the most severe economic recession, since the Great Depression (1930s). More than the 1930s, today’s global economy has become tightly integrated and no country is isolated from the economic reverses of late 2008. No one has anticipated either the speed, coverage, or depth of these economic reverses.  **Initial surprise** After the initial surprise, Caricom leaders from all walks of life have been, by and large, behaving as if recent events are apart from their immediate concerns. Like the proverbial ostrich, leaders pretend that the knock-off consequences on Caricom’s economy and society will be fleeting and ephemeral. This is indeed a discouraging state of affairs as the turmoil below the surface of Caricom’s economy and society goes unrecognised and unattended. In last week’s column I began to explore the economic channels through which these economic reverses are likely to impact the region. As we saw, the severity of the impact will in large measure be determined by the shape of the economic growth curve in the developed economies for the coming period. That is, whether a V-shaped, U-shaped or elongated L emerges as the shape of the economic growth curve. Given this consideration, we explored in previous weeks five different channels.  **Channels** To recap, we can expect firstly, those Caricom member states that are net-commodity exporters to be severely disadvantaged by declines in demand and/or prices for their exports. Trinidad and Tobago is the region’s main commodity exporter (natural gas, petroleum and their related products). The catastrophic declines in oil and natural gas prices are unmistakeable. Secondly, those Caricom member states that are not heavily dependent on commodity exports, are heavily dependent on the export of services, mainly tourism and travel.  These economies are also expected to face serious reversals in their export earnings as economic recession in their main markets advances and their travel and tourism expenditures decline. Thirdly, accompanying this decline in export earnings for both commodities and services, it can be projected that there will be a decline in the value of remittances sent back to the region as a result of recessionary conditions in North America and Europe, where the overwhelming majority of the region’s diaspora lives.  Added to this will be a decline in earnings from the region’s ‘guest workers’ who participate in the organised import of temporary labour into North America (mainly for agricultural work). The fifth channel through which the adverse global events will be channelled is the portfolio holdings of Caricom firms. In the world’s leading financial markets, two negative occurrences stand out. One is the decline, accompanied with exceptional volatility, in security prices. No major financial market has been immune. Secondly, as this has occurred, scandals, near-scandals, and the collapse of revered financial firms have littered the financial landscape of the developed economies.   Unfortunately, there has been no reporting on the impact of these developments on Caricom firms. It would be safe to say, however, that the principal holders of such overseas securities in the region would have been negatively impacted. Certainly firms holding trust and pension funds, insurance companies and other related financial institutions, wealthy individuals and those holding the proceeds of organised crime would have been among the main victims of the financial fallout.  **Investment flows: A special case** A sixth channel through which these adverse effects will be felt is investment in the region.  This takes a myriad of forms:  First, what is called ‘official assistance’ (aid in the form of grants and/or loans and technical assistance) will be curtailed.  Already several of the G8 leaders, including President-elect Barack Obama have indicated that with the budgetary pressures facing their economies, it would be necessary to cut back on commitments for official development assistance.  It is hoped that the international financial institutions (IFIs) will take up some of the slack caused by reduced government aid. A second type of investment flow that will be affected is direct investment in the region. This will come about partly because of the economic recession in the rich developed economies, and also as a result of proposed policy changes governing investment outflows from the rich countries. Thus President-elect Barack Obama has already expressed grave concern over abuses via investment out-sourcing and overseas tax-havens. If attended to, both these measures would have adverse effects on Caricom whose off-shore financial centres are major beneficiaries of present policies. A third variety of investment, which will be affected, is the flow of investment funds from the diaspora back home.  Many professional firms, services outlets, retail establishments, are financed by the diaspora. Such inflows are predicted to diminish as the recession in the rich developed countries intensifies. Yet another type of investment which will be affected is securities holdings in regional firms. This will run the gamut from trade credit and commercial paper to equities and band holdings issued by Caricom firms. Again, the available data do not make it possible to provide reliable estimates of the value of funds likely to be affected. In conclusion, the general effect of declining export demand, prices, investment inflows, remittances and so on will be adverse to the region’s business climate or outlook. Doing business will seem more risky. The sales environment, and thus profit expectations for both home produced goods and services and exported items will be weak.  This could have a significant cumulative effect on the spread of recessionary conditions in the region. Such an environment will put pressure on the welfare and safety net provisions offered in the region. Next week I shall continue the discussion from this point. |