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| What will happen to the region’s economy? |

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| In the space of a few months the bursting of the private housing market bubble in the United States has produced a world-wide credit crunch, financial crisis and economic recession, all of staggering proportions. Overall, economic conditions in the rich industrial economies are perhaps the worst they have been there since the Great Depression of the 1930s. Declines in their economic growth accompanied with increases in joblessness have occurred for most of the calendar year 2008. The financial fallout, after September 2008, has been immense. Several prestigious investment banks, mutual funds, regular commercial depository banks and other financial institutions have been severely threatened, or worse, with massive financial losses. These include the world’s largest insurance company, the American Insurance Group (AIG); one of the world’s oldest and most reputable financial firms, Lehmann Bros; and some of the largest banks in the US, like Bank of America, Citigroup and Washington Mutual Bank (WAMU).  **Recap** In last week’s Sunday column I had bemoaned the fact that the leadership elites of Caricom member states do not seem to be treating these momentous events with the urgency of purpose they demand.  Yet so far I have been able to identify at least four major channels through which these global events are negatively impacting the region. These are 1) declines in both exports of goods and services; 2) reduced flows of remittances; 3) shrinking opportunities for temporary work overseas for Caricom workers; and 4) significant declines in the myriad forms of investment flows to the region.  (These include overseas development assistance, private direct investment, portfolio flows, as well as investments promoted by the Caricom diaspora in North America and Europe). To these we might add that there is a decline in domestic investment and the channels which provide social provisioning and safety net protection to Caricom citizens who fall on hard times. In today’s column I shall conclude this discussion of the channels though which the global events are negatively impacting the region as well as my overall evaluation of these economic reverses, which started last September (2008).  **Further linkages: Exchange rate** Added to those listed above, a crucial linkage between the region’s economy and that of the rest of the world is created by the exchange rate regime adopted by the region. All Caricom economies are presently tied to the global payments mechanism through their link to the United States dollar. National governments and their central banks operate a fixed exchange rate tied to the US dollar and backed by reserves kept mainly in US dollar denominated securities. All Caricom countries are also members of the International Monetary Fund (IMF), whose responsibility it is to provide regulatory oversight and monitoring of the global exchange rate mechanism, except for the Organisation of Eastern Caribbean States (OECS), which operates a unitary exchange rate mechanism under the Eastern Caribbean Central Bank. This apart, each individual Caricom member state is directly and solely responsible for its exchange rate mechanism. The exchange rate for local currency to the US dollar varies by country. Some countries have kept their rates steady for years (Bahamas and Barbados) while others have seen significant depreciation of their exchange rates to the US dollar (Guyana and Jamaica). As the crisis has unfolded the US dollar rate has varied against other currencies, particularly the European Union’s euro, the British pound, Japanese yen, Chinese yuan and the Canadian dollar. Similar variations occur in the region, as member states seek to maintain a fixed exchange rate to the US dollar. Such induced exchange rate instability is a major source for channelling global economic effects onto Caricom member states. The main consideration so far has been the effects brought on though the euro-US dollar relation.  **Timing: The EPA** This consideration leads us directly to the related issue of the timing of the global crises in relation to the commencement of the Economic Partnership Agreement, which was only signed late October (2008). The region’s primary trading partner for both goods and services is the United States. Despite this, its first modern comprehensive external trade and financial agreement is with the European Union. The timing of this agreement from the region’s standpoint, could hardly have been worse! Ultimately, economic reverses in the rest of the world will take their toll on the region’s poorest and weakest. This puts enormous pressure on the region’s social welfare provisioning and safety net systems. In the past these have not performed very well so there must be great concern that events do not lead to worsening inequalities.  **Global agenda** Finally, many of the major issues on the agenda of international development reform have a direct bearing on the economic prospects for Caricom. At this stage I would emphasize three of these, for my fear is that these concerns will be placed on the back-burner if the economic recession deepens in the rich industrial countries. The first of these is rising food prices. For the first half of 2008 this was a major concern, as with high oil prices food supplies were being diverted to biofuels. The events in the last quarter of 2008 have overtaken this as a priority. However, the region is a net-food importer, so that a stable and permanent resolution of the issues of exceptionally high food prices will have to be attended to sooner rather than later. Secondly, climate change threatens to wreak havoc on development outcomes worldwide. It is expected that the poor countries, because of a lack of resources, will suffer most from these developments. Caricom, comprised of island and below sea-level coastal states face dire physical effects if climate change were to intensify. The third issue, which relates to poverty, nutrition, homelessness and economic marginalization is encapsulated in the Millennium Development Goals (MDGs). The achievement of these MDGs depends on the rich industrial economies keeping their commitments to provide development support. With economic recession on the advance in the rich industrial countries, these commitments are unlikely to be honoured. Failure to do so, however, limits the economic prospects for all developing countries, including Caricom. There are of course, several other major global development commitments, which will be placed in jeopardy. The conclusion that the economic fallout on Caricom is likely to get worse is therefore plausible. |