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CARIBBEAN: OECS struggles with economic challenges

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Abstract

Economic challenges and political weakness.

The six independent countries of the Organisation of Eastern Caribbean States (OECS) and Barbados are still struggling to overcome the impacts of the global financial crisis. Each country is suffering from anaemic levels of economic growth, high unemployment, and substantial levels of debt. Some have turned to the IMF for help, while others, particularly Barbados, are attempting to enact their own austerity programmes.

Full Text

SUBJECT: Economic challenges and political weakness.

SIGNIFICANCE: The six independent countries of the Organisation of Eastern Caribbean States (OECS) and Barbados are still struggling to overcome the impacts of the global financial crisis. Each country is suffering from anaemic levels of economic growth, high unemployment, and substantial levels of debt. Some have turned to the IMF for help, while others, particularly Barbados, are attempting to enact their own austerity programmes.

ANALYSIS: Impacts.

The OECS countries have a long road to travel before they can strengthen their economic fundamentals.

A return to growth clearly help, but new thinking is also needed among the political class.

There is unhappiness at the lack of new leadership at a time of considerable economic uncertainty.

The GDP of the OECS states fell by an average of 0.4% in 2012; for Barbados the figure was 0.2%. Indeed, since 2009, the OECS economy has contracted by 7.6%, and the Barbados economy by 3.1%. According to the UN Economic Commission for Latin America and the Caribbean, some growth will be seen across the region in 2013 -- perhaps 1.4%, but this masks significant variations in performance (see LATIN AMERICA: Slow growth raises political challenges - July 29, 2013):

Saint Lucia, and Saint Kitts and Nevis are expected to see GDP growth of around 2.5%;

Grenada, and Saint Vincent and the Grenadines will barely reach 1.0%; and

Barbados will be lower still -- the economy contracted by 0.6% in the first six months of this year.

Overall, growth has been hit by the sluggish performance of tourism, manufacturing, construction and agriculture.

Debt and deficits.

One consequence has been rising unemployment -- estimated to be near 30% in Grenada. Another has been crime, including against tourists. Barbados opposition leader Mia Mottley recently called rising crime against tourists "almost an act of economic terrorism".

A third outcome has been rising debt and high fiscal deficits:

In 2012, for example, Dominica had a deficit equivalent to 12.0% of GDP, while the figure for Barbados was 7.3%.

In terms of total government public debt as a percentage of GDP, Saint Kitts has a figure of 131%; Antigua and Grenada 90%, and the remaining countries all above 70%.

Several countries with IMF assistance are slowly narrowing their fiscal deficits, but others, such as Grenada, are in more immediate difficulty:

Grenada defaulted on bonds due in 2024 in March, and is negotiating a debt restructuring programme. Also in March, the World Bank announced that no new loans would be given unless overdue payments were made.

In Barbados the government is undertaking a national economic consultation to see what measures should be taken to reduce the fiscal deficit. The Central Bank said recently that "the required adjustment is considerable, but not sufficient to cause major social disruption".

The situation in Grenada and weakness elsewhere is causing grave concern -- K Dwight Venner, governor of the Eastern Caribbean Central Bank warned the region is "now at a tipping point" and of the need "for significant adjustments to our current policies and modes of doing business".

Routes out of recession.

The strengthening of the US economy will help the Eastern Caribbean, as will continued support from Venezuela and China. Also, it is hoped that the construction of international airports in Dominica and Saint Vincent will give significant boosts to their tourism industries (see CARIBBEAN: Tourism shows signs of sustained recovery - March 17, 2011), while Barbados is hopeful that the present oil exploration will discover significant reserves within their maritime boundary. The country is also focusing strongly on improving its competitiveness.

'Citizen by investment schemes' have also become popular, offering citizenship to foreign nationals if they invest in the country. Dominica and Saint Kitts already use such schemes, but this year Antigua and Grenada have introduced them:

In the case of Antigua, full citizenship is available for an investment of at least 400,000 dollars in an approved real-estate project; a one-off payment of 250,000 dollars into the National Development Fund Investment, or a 1.5 million dollar investment in a government-approved business. Chinese, Arab and Indian investors are being targeted.

In Grenada, a similar scheme now exists, but with a residency requirement inserted after criticisms of a past programme.

Indeed, such programmes remain controversial: Saint Kitts decided to exclude Iranian and Afghan nationals from its scheme, while Saint Vincent Prime Minister Ralph Gonsalves has made it clear that he will not introduce similar arrangements.

All these developments are positive, but do not mean that the long-standing welfare model can continue. Strong political leadership and new ideas are required, but the political situation in the Eastern Caribbean does not instill confidence.

Political divisions.

February elections in Barbados saw an unexpected, albeit very narrow, victory for the incumbent Democratic Labour Party. Since the election the party has committed itself to do better in dealing with the country's economic problems, but the slim majority in parliament will make decisive policy-making difficult. Indeed, in late October the opposition called for the resignation of Finance Minister Chris Sinckler, claiming he was out of his depth.

Elsewhere political tensions are growing. In Dominica the recent appointment of Charles Savarin as president was boycotted by the opposition, and armed police encircled parliament during the vote. Savarin had given up the post of national security minister days earlier, and the opposition claimed this was clearly a political appointment and the new president did not have the confidence of the whole country.

In Saint Kitts and Nevis, the Labour Party (SKNLP) government led by Denzil Douglas has been severely weakened after two ministers left in January and supported a motion of no confidence. However, the new minority government blocked its consideration, leading to a boycott of the parliament by the opposition and the two ex-ministers. Government business continues but the political process is clearly being harmed. Due to the weak position of the Douglas administration an early general election is likely.

Ossification of leadership?.

One reason for the internal split in the SKNLP, and a more general problem for politics in the region, is the length of leaders' incumbency. Douglas has been in power for 18 years, while Baldwin Spencer, prime minister of Antigua, has been in power for nine, and Gonsalves for 13. Grenadian Prime Minister Keith Mitchell has led the New National Party for 24 years. Further, some of the major opposition leaders, such as Lester Bird in Antigua, have been politically active for several decades.

One new and perhaps more radical voice is Allen Chastanet, a prominent businessman, who was recently elected as leader of the opposition in Saint Lucia. Yet in several countries there is a feeling that a degree of political ossification has taken hold, leading to voter disengagement.

CONCLUSION: The straitjacket of low growth and high indebtedness is putting at risk past hard fought development gains. There is hope that large-scale projects, such as the international airports in Dominica and Saint Vincent and the Grenadines, and oil exploration off the coast of Barbados, will help propel the

economies forward. Yet political weakness and infighting will continue to hamper the response to the crisis.

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