The Implications of the Current Global Financial\Economic Crisis on Integration

"The Caribbean Experience"

Diedron Lewis [1]

Samantha C. Joseph[2]

Khellon Q. Roach[3]

Abstract

The current financial crisis has brought with it a number of challenges for global economies. The impact of the crisis on the survival of regional blocs has attracted much attention in international circles. More so, the interdependence and interconnectedness of global and regional economies have increased their vulnerability and exposure to the contagion effects of the present crisis. Caribbean countries are no different in this respect. The challenges coming out of the crisis have exacerbated the already difficult economic conditions within the region. Reduced exports, foreign reserves, government revenues, remittances and employment are some of the challenges facing regional economies.

In light of the crisis and its associated challenges, the Caribbean is now at a critical decision point with respect to its drive for deeper regional cooperation. The crisis threatens the core of the region's integration initiative and also provides opportunities to strengthen regional ties. This paper, therefore, examines whether the strategic responses of individual CARICOM member states facilitates or hinders deeper integration within the region. The paper posits that the sustainability of the region's integration initiative lies in the adoption of a pragmatic and coordinated regional response to the crisis.

Keywords: CARICOM, Global Financial Crisis, Integration

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[1] Diedron Lewis, Economist, Department of Economics, University of the West Indies, St. Augustine, Trinidad and Tobago

[2] Samantha Chris Joseph, Researcher/Economist, Department of Economics ,University of the West Indies, St. Augustine, Trinidad and Tobago

[3] Khellon Quacy Roach, Researcher/ International Relations Specialist, Institute of International Relations, University of the West Indies, St. Augustine, Trinidad and Tobago

1. Introduction

The current crisis started with the failure of the Subprime Mortgage Market in the USA. There were a number of key operating factors that contributed to the current financial meltdown; including the existence of a highly innovative and deregulated global financial system, rising assets prices and readily available credit. However, while many may attribute the main cause of the global financial crisis to the lack of appropriate and effective regulatory frameworks in developed countries, others have cited the ethical failings of high powered bankers and business persons in the US.

This was further compounded by the existence of an integrated and interconnected global community which reflected the vulnerability and openness of world economies to contagion risks and shocks (Raja 2008). Thus, the financial crisis, though having its origin in developed countries, has generated a global recession that has severe consequences for the prospects of economic growth and development in developing countries.[1] Moreover, Caribbean countries which are characterized by their high degree of openness and vulnerability are also exposed to the contagion effect of the global financial crisis which threatens their economic stability and vision for deeper integration.[2]

The current crisis has exposed the vulnerability of small states in the region reflected in a number of critical challenges these states face. Most notably, there has been a steady decline in tourism industry in the Bahamian and Antigua and Barbuda; a decline in exports of key commodities such as bauxite and alumina in Jamaica and Guyana and a decrease in remittances to Jamaica, Grenada and Guyana. These negative fallouts coupled with several others are contributing to increasing unemployment in the region and possibly even increasing the incidence of poverty in the Caribbean region. Never before, has our interconnectedness been more apparent as the virtues and dangers of globalization are now experienced in real time. This has not only been evident in the recent global financial crisis, but also by the recent outbreak of the H1N1 virus. These events have underscored that today's risks and crises know 'no' borders.

Therefore, while globalization offers the prospect of a more dynamic environment in which the Caribbean might be expected to prosper, there is also greater risk of exposure to negative exogenous shocks.[3] Notwithstanding this, regional institutions have seen a revival and deepening in response to the demands of globalization.[4] Thus, in parallel to globalization is the apparently paradoxical growth of regionalism, with countries seeking to establish regional economic blocs.[5] The Caribbean region is no different and therefore in response to the negative ills of an interdependent global economy, the Caribbean has often experimented with regional strategies designed to achieve sustainable growth and economic development via regional integration initiatives, the latest attempt being the CARICOM Single Market and Economy (CSME). The CSME seeks to broaden the region's economic space and global competitiveness.

It is against this backdrop, that this paper attempts to provide an overview of the "Caribbean Experience" with regional integration in an era of economic uncertainty brought about by the current global financial crisis. It could either become the best of times, or the worst of times for the integration experience of the Caribbean. This begs the question: Are CARICOM countries forging deeper ties for their mutual survival or is there fragmentation in the region in a time of financial uncertainty?

2. A Brief History of Integration Efforts in the Caribbean

The Caribbean has often experimented with regional strategies designed to achieve sustainable growth and economic development via regional integration. Established in 1958, the West Indies Federation can be seen as the earliest attempt at integration in the English speaking Caribbean. The Federation comprised some ten territories including Antigua and Barbuda, Barbados, Grenada, Dominica, Montserrat, Jamaica, the then St. Kitts and Nevis-Anguilla, St. Lucia, St. Vincent and Trinidad and Tobago. The British Caribbean Act of 1956 established the Federation and its main purpose was to establish a political union among its ten (10) members.[6] The West Indies Federation, was, however, short lived and ended in 1962. Sir Arthur Lewis, a Noble Laureate played a substantial role in trying to turn the ending of the federation into a new effort of Federation of the Eastern Caribbean, the so-called "Little Eight"[7]. However, this as well was short lived. The demise of the West Indies Federation was centered on human deficiencies: the particular personalities of the local actors and their private motivations, mistakes, mispitches, frailties and cynicisms about the process. [8]

The late Sir John Mordecai, Deputy Governor General of the Federation for the period of its existence explained that Caribbean leaders lacked a full understanding of the way in which the federation was to function and this resulted in a break down in discussions on contentions issues.

In spite of the demise of the Federation, the year of 1962 saw both Jamaica and Trinidad and Tobago attaining independence and thus subsequently obtaining the power to control their own domestic and external affairs. In announcing its intension to withdraw from the Federation, the Government of Trinidad and Tobago proposed the creation of a Caribbean Community consisting of both independent and non-independent territories. This move later resulted in a call to establish a Free Trade Area. By 1968, in recognition of the need for closer cooperation in order to achieve sustainable development and economic growth, the CARIFTA Agreement was formed.

In 1972, coming to the realization once again that further cooperation can potentially enhance the region's capacity to attain development, "the Caribbean leaders decided to transform CARIFTA into a Common Market and to establish the Caribbean Community (CARICOM) of which the Common Market would be an integral part".[9] The decision to establish the Caribbean Community was brought to being in 1973 at the Eight Heads of Government Conference in Georgetown, Guyana. The conference saw the drafting of the Georgetown Accord which contains the draft treaty known as the Treaty of Chaguaramas. The three pillars upon which the Caribbean Community had been premised include: economic integration; co-ordination of foreign policy; and functional cooperation in areas such as health, education and culture, and other areas related to human and social development. In recognition of the heightened challenges of security in the region, CARICOM Heads of Government agreed in 2007 that Security would be the fourth Pillar of the Community.[10] The Caribbean Community in an effort to respond to an array of social, economic and political issues established a number of institutions and organizations. [11]

The decision in 1989 to establish the Caribbean Single Market and Economy (CSME) was a move to deepen the integration movement to better respond to the challenges and opportunities presented by globalization. [12] The CSME is expected to improve the state of regional economies, encourage new capital investment, entrepreneurship and innovation. Other objectives include increasing production and product diversification, improving quality and standards and the development of the services sector. The CSME is based on five regimes that govern the Single Market:

(1) The Free Movement of Goods
(2) The Free Movement of Services
(3) The Free Movement of Persons
(4) The Free Movement of Capital
(5) The Right of Establishment

The Caribbean has not only made attempts at economic integration but has also experimented with the concept of monetary integration. The first attempt was made in the late 1940s with the British West Indian dollar and then again in 1977 CARICOM[13] established the CARICOM Multilateral Clearing Facility (CMCF). The CMCF was responsible for facilitating the settlement of eligible transaction on a multilateral basis; they also had to ensure that they promoted the use of participant's currencies in settling eligible transactions.[14]

However, in order for there to be monetary integration amongst CARICOM member states, certain criterions had to be established. The criterions for entry into the monetary union were presented in the 1992 report of the Central Bank Governors.[15] These criterions were called the "3-12-36-15" criteria and each member state had to ensure compliance with them. These criterions and their benchmarks are listed in **Table (1)** below.

Table (1) Convergence Criteria

Name of Criterion	**Benchmark**
Exchange rate	Stable rate for 36 months and for floating rates 1.5 band for 36 months
Import Cover	3 months imports of foreign exchange reserves for 12 months
Fiscal	A fiscal deficit which is no more than 3% of GDP
Inflation	Inflation rate must be within a 1.5% (- or +) of the median for the 3 countries with the lowest positive rate.
Debt Service	External debt should be no more than 15% of exports

Source: Kendall (2000).

The Caribbean Center for Monetary Studies was given the responsibility of monitoring these indicators to ensure that the member states were converging towards these criterions.[16] However, in 2000 the CARICOM Secretariat explained that CARICOM member states economic performance was not in keeping with the convergence criteria and hence these economies were unlikely to converge in a timely manner to create a monetary union in the region. The Caribbean region is yet to achieve monetary integration.

The notion of a Caribbean region without barriers, strengthened by its collective resources and opportunities, has been a shared vision that inspired the commitment of integrationists from the early days.[17] Now more than ever, the Caribbean region including CARICOM Heads of Government, the private sector and civil society has come to the realization that the CSME is the only practical and feasible option by which the region can realize sustainable development and economic empowerment. More so, world developments further crystallized the need to move with haste to put in place the instruments and institutions to realize this vision and facilitate economic development.[18]

3. Implications of the Current Global Financial \Economic Crisis on Economies

As a result of globalization the nations of the world have become interconnected and interdependent resulting in a world without borders and boundaries. Therefore, although the financial crisis originated in the United States of America, it has resulted in serious negative implications to developed and developing economies as well as free trade areas.

Developed Economies

The crisis has resulted in a major decline in the US's economy and the economies of its main trade partners Japan, Mexico and Germany. The US economy experienced consistent negative growth from the 2nd quarter of 2008 to the 2nd quarter of 2009 reaching a low of -6.4% in the 1st quarter of 2009, (US Department of Commerce 2009). Likewise, the UK has also experienced negative growth from late 2008 into 2009 reaching a low of -5.55% in 2nd quarter of 2009 (Trade Economics, Bloomberg 2009). Global Economic Prospects (2009) estimated world GDP growth to be 2.5% in 2008 and 0.9% in 2009. Unemployment also increased steadily in these economies reaching 10% and 8% respectively in November 2009.

The crisis also resulted in the collapse of top US companies, namely, American International Group (AIG), Lehman Brothers and General Motors. A number of companies were also forced to sell off their interest in foreign ventures, particularly those in Chinese firms. Bank of America sold its stake in China Construction Bank and Citigroup sold its interest in Nikko Economist (2009).

Developing Economies

The financial crisis is at a point where developing countries are also being affected (Lin 2008). For the most part, developing countries are experiencing a decline in various forms of capital flows including equity financing, bank lending and FDI (Andersen, Jones and Tarp 2008). Furthermore, countries most affected by the crisis are those already facing deteriorating economic conditions particularly with regards to their current account (Overseas Development Institute 2008).[19] Developing countries are expected to grow by 4.5% in 2010 compared to 7.9%

in 2007 (Global Economic Prospect 2009). More so, slower growth is projected for countries where economic progress has been accompanied by rapid and unsustainable credit growth (World Bank 2009).[20] The fall in aggregate demand in the industrialized countries has resulted in a fall in the demand for imports, especially of primary products from developing countries. At the same time, the fall in export demand in developing countries has been accompanied by a slowing down or even a ceasing of capital flows into local productive sectors.

Economic activity in Mexico fell by 8.2% in the first three months of 2009. In fact, projected growth for 2009 for a number of Latin American countries has been adjusted downwards; from 4.7% to 2% for Argentina, from 3.2% to 1.9% for Chile (Newman et al. 2008). A decline in economic activity will affect government's ability to maintain levels of revenue and expenditure and as a consequence investment spending in the social sector will be curtailed. As a result, the education and health sectors will be adversely affected, thus forcing countries into further deprivation.

Remittances and Official Development Assistance from developed countries to the developing world have also declined (World Bank 2008). Since remittances account for significant portions of national income in many developing countries, a reduction in the flow and size would be felt most by households who depend on remittance income to boost consumption (food, healthcare, education and housing) and investment (Lin 2008).

In spite of the many challenges that the current crisis poses, many developing countries are in a more favourable position to grapple with the challenges of the financial crisis compared to previous crises. This has been accredited to improvements in macroeconomic indicators such as the exchange rate, the level of foreign reserves and government debt.

Free Trade Areas

Apart from the impact on the socio-economic structure of individual countries, the crisis also has implications for deeper regional cooperation among FTAs. The evolution of regionalism in times of crisis is dependent on the individual and collective actions of members in a trade bloc (Lim 2009).[21] Therefore, an economic crisis of this nature can potentially threaten the integration process within regional blocs and at the same time, provide an opportunity for countries to further their integration initiative. For instance, in his reflection of the 1930's depression, James (2009) argued that the type of integration pursued favoured countries like Japan and Germany which were more resilient during the time of downturn. On the other hand, the East Asian response to the 1997-98 crisis culminated in deeper regional financial cooperation and the formation of a number of Regional Trade Agreements namely the ASEAN and the ASEAN Plus Three Group with China, Japan and South Korea (Ong 2008).

In response to the current crisis, many governments have introduced stimulus packages to regenerate their domestic economies. Some countries, including the G20, have also committed to engage in cooperative global and regional responses to address the challenges of the current crisis. In spite of this, many governments have pursued protectionist strategies to safeguard national interest. The US, for example, proposed a "Buy America' clause in its stimulus package which encouraged the use of American-produced materials in new infrastructure projects. In a similar fashion, China in June 2009 announced a "Buy China" policy which required government procurement to source goods and services from within the country unless not produced locally. In fact, the World Bank (2008) indicated that nine of the G-20 nations have already or are planning to impose anti-trade measures to protect local industries. East Asian countries have also adopted a similar policy posture. In Indonesia, a "Buy Indonesia" programme has been implemented. While the Malaysian government has imposed a 100% increase on foreign worker levy in an effort to encourage the employment of nationals.

Such actions have caused many to question the possibility of further integration within regional blocs. ASEAN Secretary General, Surin Pitsuwan, noted that the protectionist position taken by members would be a stumbling block to deeper integration, in particular, the formation of the ASEAN Economic Community by (AEC) 2015. In fact, the shift in the capabilities of the US, vis a vis, China, is resulting in a fragmented form of East Asian regionalism based on individual bilateral arrangements with China. Malaysia and Thailand, for example, have made notable progress in establishing stronger trade and economic relations with the Chinese economy. These policy responses have heightened fears of a weakened form of integration in the region. Ong (2009) described it as "an isolated region integrated in a shallow form with China as the centre".

The Latin American region has had mixed responses to its integration initiatives in light of the crisis. The MERCOSUR initiative has come under threat as member countries have been imposing trade restrictions against each other in an effort to protect domestic industries. On the other hand, the Latin American Pacific Arc (Latin American countries with Pacific shorelines)[22] has expressed its commitment to fully complete its integration process and seek out new markets in the Asian region. In fact, in spite of the current global economic environment, the group has made noted progress with respect to identifying potential intraregional investment projects in infrastructure and energy (Estrada 2009).

In a similar fashion, Zambian Vice President, George Kunda, noted that the financial crisis posed a serious challenge to further regional integration within the African continent and that greater support from member states was necessary for dealing with the impact of the crisis. He further added that the tripartite arrangement among the Common Market Eastern and Southern Africa (COMESA), the Eastern African Community (EAC) and the Southern African Developing Communities (SADC) was seen a pragmatic initiative to regenerate business activity in African economies. [23]

4. <u>The Caribbean Experience</u>

4.1 Impact of the Crisis on the Caribbean

The Caribbean is a very unique group of countries which consists of very small islands that are vulnerable and open to external shocks. This is as a result of a strong degree of trade openness which is evident in the high ratios of foreign trade to GDP that exist between the Caribbean and the US, UK and Canada. The countries of the Caribbean depend on very few commodities and rely heavily on the service industry. Developments in the industrialized economies impact the development of the Caribbean significantly. Therefore, though the global financial crisis was started by the industrial economies, the impact of the crisis on Caribbean economies, though not direct, has presented some serious economic challenges for the region in some key sectors; agricultural, tourism, mining and bauxite and finance. The crisis also had a significant effect on international trade, remittances and employment.[24]

The global financial crisis has had serious implications for the growth rates of individual countries in the Caribbean with some countries such as the Bahamas, Barbados, Jamaica, Grenada, St. Kitts and St. Lucia experiencing negative GDP growth in the year 2009. Growth in these countries was -3.9%, -3.5%, -1.0%, -1.5%, -5.2% and -2.5%, respectively. Also of note is the fact that many countries experienced a decline in growth rate in 2009. This is illustrated in **Table (2)** below.

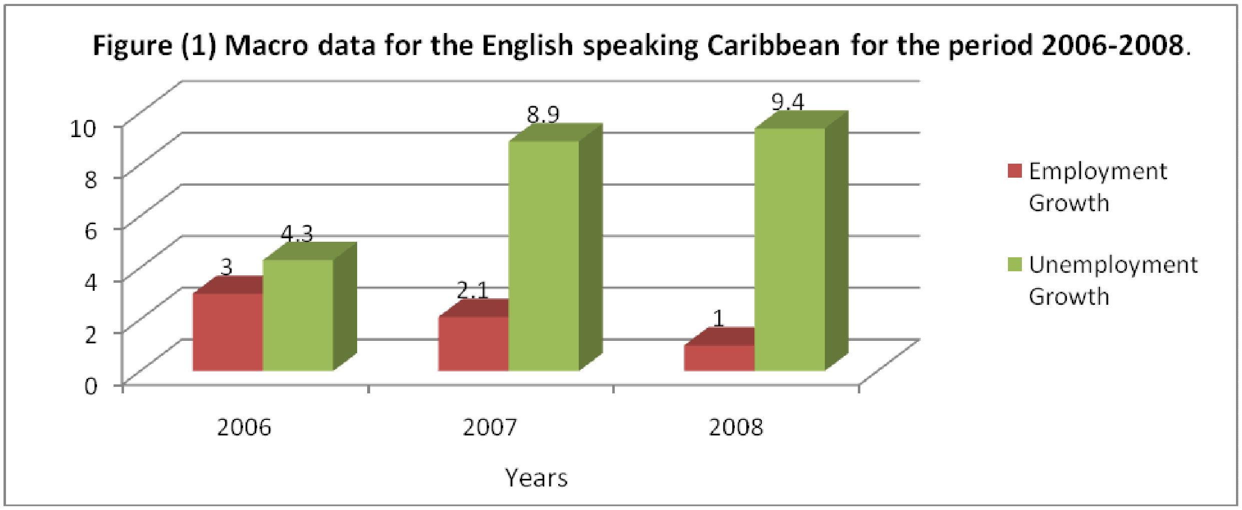
Table (2) Growth rates for individual Caribbean Countries for the period 2008-2009

Country	2008 Growth Rate (%)	2009 Growth Rate (%)
Antigua & Barbuda	2.2	3.3
The Bahamas	(1.5)	(3.9)
Barbados	0.5	(3.5)
Belize	3.3	3.0
British Virgin Islands	5.2	1.7
Dominica	3.2	1.5
Grenada	2.2	(1.5)
Guyana	3.1	3.0
Jamaica	(0.6)	(1.0)
St.Kitts and Nevis	2.5	(5.2)
St. Lucia	4.6	(2.5)
St. Vincent and the Grenadines	(0.5)	1.2
Trinidad and Tobago	3.5	1
Source- Caribbean Development Bank 2009		

Figure (1) below shows that employment growth for the english speaking Caribbean fell from 3% to 1% between 2006 and 2008 while unemployment growth increased significantly from 4.3% to 9.4% in the same period. [25]

With respect to inflation, for the first half of the 2008, most Caribbean countries experienced an increase in their rates. This was as a result of an increase in commodity prices especially food and energy prices. For T&T the inflation rate from January to November was 11.7%, where food prices rose on an average of 4.3% per month. Similarly, in Jamaica, the inflation rate as of

November 2008 reached 19.6%, which is 5.2 times greater than what it was in the previous year at the same time period. Other countries such as Barbados and Suriname had similar experiences with their inflation rates.[26]



Source: International Labour Organization (2009)

Given the dependence of the Caribbean on the more developed economies, the size of this external shock is expected to have long and lasting effect on the Caribbean region. The International Monetary Fund estimated the region's growth rate to decrease to -0.9% in 2009 from 1.7% in 2008, and 5.5% in 2007 (Downes 2009).

The financial crisis has led to a fall in the demand for oil which resulted in a fall in the price of oil. This in itself impacted negatively on smaller sectors which are directly linked to the oil industry. The energy sector accounts for a significant part of the construction industry in Trinidad and Tobago, therefore, a fall in revenue from the energy sector led to a fall in construction activities in Trinidad and Tobago.

The manufacturing sector was also affected by the financial crisis and is being affected by the fall in regional demand. This has had a multiplier effect on the Caribbean economy given that many people are employed in the manufacturing sector.[27]

Trade

The US is the main market for Caribbean exports, averaging (48.3%) of total exports. The Caribbean also trades with the EU as well as Canada. These three markets account for over 70% of total exports. However, with these economies in a recession, trade with the Caribbean would be adversely affected.[28]

Given that these markets have been impacted negatively by the crisis, it is expected that the demand for Caribbean exports have also declined. The fall in export demand was compounded by a simultaneous fall in the price of export commodities. These included oil, aluminum, sugar, bananas and rice to name a few, (Clegg 2009). The European's demand for the Caribbean commodities such as banana, rice and sugar has fallen as well as China's demand for commodities such as bauxite.[29] These factors would have hindered trading relations and the level of exports from the Caribbean. The fall in oil price negatively affected the revenue flows in Trinidad and Tobago, while oil importing countries in the Caribbean benefited from the fall in oil prices. The financial crisis has lead to a downturn in exports of goods and services thereby affecting the income of exporting economies. This in itself resulted in the worsening of trade balance for countries in the Caribbean.

Tourism

The Caribbean is largely dependent on the tourism sector, especially countries such as the Bahamas, Anguilla, Antigua and Barbuda, Barbados, Jamaica and St. Lucia. The main tourist markets for the Caribbean are the US, UK and Canada. The global financial crisis has depressed demand in these key markets and as such periods of high tourist arrivals in the Caribbean are now characterized by significantly low levels of bookings and occupancy rates. Despite reductions in the hotel room rates by over 60% for some countries, low occupancy rate still exist. Tourist arrivals declined significantly in most of the Caribbean economies. During the first quarter of 2009, the Bahamas, Antigua and Barbuda, Anguilla and St. Vincent and the Grenadines recorded double digit declines in the number of stay-over visitors compared to the previous year. This is depicted in **Table (3)** below.

Table (3) Tourist Arrivals for the year 2008 - 2009

Country	2008	2009	% change
Anguilla	68,282	30,716	-22.6
Antigua & Barbuda	265,841	192,597	-12.9
Bahamas	1,462,404	983,808	-13.8
Barbados	567,667	418,578	-10.8
Belize	245,027	180,608	-6.6
Dominica	78,481	52,717	-5.1
Grenada	123,770	87,580	-11.4
Guyana	132,776	104,907	5.7
Jamaica	1,767,271	1,523,787	4
St. Lucia	295,761	229,379	-8.2
St. Kitts & Nevis	106,408		
St. Vincent & the Grenadines	84,101	55,591	-8.8
Trinidad & Tobago	430,513	208,525	-4.9
Source: Caribbean Tourism Organization (2009)			

The Caribbean Tourism Organization (CTO) 2009 reported that Anguilla registered the sharpest fall in tourist arrivals (-22.6%) followed by the Bahamas and Antigua and Barbuda with (-13.8%) and (-

12.9) respectively. [30] CTO (2009) also recorded a sharp fall in the arrival of cruise ship passengers; down 29% in Jamaica.

Although the countries in the Caribbean are at present cutting prices and aggressively marketing tourism, there continues to be a dampening on tourist arrivals in the region. Also, tourists who visit have changed their spending patterns and are more guarded with their spending.
The decline in the tourism industry has also affected other closely linked industries such as the agriculture industry and the entertainment industry which includes restaurants, tours, sporting activities, night clubs and souvenir shops.

The fall in the tourism industry is having a negative impact on unemployment. Many people in the tourism industry have lost their jobs while other are being sent on rotation. In the Bahamas, the country's largest private employer has made10% of the resorts workforce redundant.[31]

Remittances

Remittances flowing to the Caribbean account for a significant percentage of world remittances. The top three recipient countries in the Caribbean are Jamaica, Haiti and Guyana. In the OECS the top three recipient countries are Grenada, St. Kitts and Nevis and St.Vincent. This is seen in **Table (4)** below.

Table (4) Formal remittances (current US$) for Caribbean Countries

Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Antigua and Barbuda	3	3	6	12	12	10	16	6	8.55	20.9	22	23	23.5	26
Barbados	53	60	69	76	87	102	118	109	113	109	140	140	140	168
Dominica	3	3	2	3	3	3	4	4	4	23.2	25	25.4	26	30
Guyana	2	15	15	15	20	27	22	51	99	153	201	218	278	278
Haiti	109	152	256	327	422	578	624	676	811	932	985	1063	1222	1300
Grenada	18	20	20	20	21	22	22	23	23	72.2	51.6	53.9	55.4	64
Belize	14	17	23	23	21	22	30	29	34	35	46.1	65.5	74.8	78.1
Jamaica	653	714	730	758	790	892	1058	1261	1399	1623	1784	1946	2144	2220
St. Kitts and Nevis	2	2	3	4	4	4	4	3	3	31.3	33.5	36.2	37.3	37.3
St. Lucia	2	2	2	3	3	3	2	2	2	28.7	29.5	30.3	31.1	31.1
St. Vincent and the Grenadines	2	2	2	3	3	3	3	4	3.42	25.5	26.5	29.7	30.5	30.5
T&T	32	28	30	45	54	38	41	79	87	86.9	92.4	91.2	109	109

Source: World Bank Development Indicators 2009

Remittances flowing into Jamaica increased from $US653 million to US$2,220 million for the period 1990 to 2008. Remittances are a significant contributor to GDP, particularly in Guyana and Jamaica, with remittances totaling 23% and 16% of GDP, respectively.

There has been a slowdown in remittance flows in the last quarter of 2008, which continued into 2009. As job markets all over weakened, the flows of officially recorded remittance to Latin America and the Caribbean dropped significantly in the earlier months of 2009. Jamaica has registered a sharp decline of 17% in remittances during the same period. [32] Overall, remittances flowing to the Caribbean have been estimated to fall by 10% to 20%. This is a significant fall especially for countries like Jamaica that depend~~s~~ heavily on remittance flows (Williams 2009).

A fall in remittances will lead to the deterioration of the balance of payments of countries in the Caribbean, especially those that are heavily dependent on these flows. Also, there will be a fall in foreign exchange reserves. A drop in remittances can have a multiplier effect on the Trinidad and Tobago region. There are many households that depend on remittance flows to maintain their current consumption which includes educational and health services. Therefore, a decline in remittances would mean that households which depend on remittances would have to alter their spending and consumption patterns.

Financial Sector

Initial reports reveal that the Caribbean Financial sector would not be significantly affected by the global financial meltdown. This was as a result of the fact that there were no subsidiaries of foreign owned banks in the Caribbean, particularly from the US and Europe, except for Citibank. In spite of this, the region financial sector was not spared from the contagion effect of the crisis.

The global financial crisis resulted in the depreciation of real estate assets of the CL Financial Group of Companies. The conglomerate's methanol company suffered a severe blow from when the price of methanol products fell significantly. This coupled with other factors resulted in liquidity problems which were accelerated by customers withdrawing their funds from the corporation's bank and other financial institutions. These negative implications to CL Financial, caused by the financial crisis, illustrated the parlous effects of the crisis. To avoid a total collapse of the regional financial sector, some CARICOM governments intervened with bailout packages for the company.

Similarly, the Stanford Financial Group was seized by US authorities in early 2009 due to fraud allegations. This had a drowning effect on countries such as Antigua and Barbuda, where at least 5% of the population was employed by Stanford Financial Group. The government, as well as banks from the Eastern Caribbean had to step in to mitigate the effects of the seizure. Also portfolio assets held by financial institutions, governments, firms and individuals in the US and Europe would have depreciated in value to a significant extent. Therefore millions of dollars would be lost.

The Aluminum Industry

The Global Financial Crisis posed a real threat to the survival and profitability of the aluminum industry as the global demand fell. In Jamaica, of the four alumina plants that exist, three were shut down for the period of 12 to 18 months. Davis (2009) postulated that more than 70% of the value added operation will be closed. This has resulted in a significant amount of workers losing their jobs while other plants retained a small number of their employees.[33] This has been compounded by a fall in the price of aluminum by over 40% in 2009 and has resulted in a fall in revenue flows for countries like Jamaica.

4.2 Impact of the Financial Crisis on Integration in the Caribbean

This section examines the impact of the crisis on key elements of CARICOM integration and focuses on issues such as funding, intra-regional labour mobility, macro economic convergence and monetary integration and trade. Ultimately, the ways in which these components of regional integration are affected by the financial crisis can influence the pace and direction of the regional integration process.

External Funding

External funding has been an indispensable ingredient driving the integration process of the Caribbean for over a decade. Funding is necessary as countries need to fulfill the institutional and technical capacity needed to complete the integration process. Financial assistance for integration initiatives in the Caribbean has been largely derived from development agencies such as the Canadian International Development Agency (CIDA), Inter-American Development Bank (IDB), the European Union (EU), United Nations System Development Assistance, United States International Development Agency (USAID), Department for International Development (DfID) and the World Bank (WB). With the onslaught of the financial crisis in September 2008, Official Development Assistance to developing countries from the developed world has been on the decline.

The European Union (EU) is the largest donor of development projects in the world and is also the largest external contributing development agency for the integration process in the Caribbean. Prior to the financial crisis the European Union's major support for integration in the Caribbean came under the 9th European Development Fund (9thEDF). The Caribbean Regional Indicative Programme which is the programme under the 9th EDF was intended to support the Caribbean region in achieving regional economic integration and repositioning the Caribbean into the world economy. Under the 9th EDF which is supposed to run from 2003 to 2008, the EU reserved a total of over ₤38.5 million under various project descriptions.

At present the European Union's major support for integration in the Caribbean comes under the 10th European Development Fund (10thEDF). Like the previous programme, this fund also seeks to strengthen regional economic integration\cooperation with priority given to capacity building. Under the 10th EDF which spans the period 2008 to 2013, the European Union has reserved ₤165 million **(See Table 5 below)** of which 85 to 90 % is reserved for focal area of regional cooperation and integration (₤140.5 to ₤148.5 million), and the remaining 10% to 15 % (₤16.5 to ₤24.75 million) for non-focal areas to address vulnerability and social issues.

Table 5: EU Financial support to CARICOM Integration under the 10th EDF

Name of Project	Description	Cost
Caribbean Regional Indicative Programme (10th EDF)	Economic Integration and Trade of the OECS	6,600,000
	CSME and CARICOM Integration	24,750,000
	Intra-CARIFORUM Economic and Social Cooperation	23,100,000
	CARIFORUM/DOM/OCT/EU/LAC Economic Cooperation and Trade	6,600,000
	EPA Implementation and accompanying measures	72,600,000
	Investing in Human Capital	9,900,000
	Crime and Security Cooperation	9,900,000
	Civil Society Participation	8,250,000
	Institutional Support/Programme Implementation	3,300,000
Total		**165,000,000**
Source: Delegation of the European Union to Guyana – Statistics were extracted from Donor Matrix detailing donor support to Guyana and CARICOM from various international donor agencies (2009)		

Based on the data presented in this sub-section, it is evident, that the financial crisis has not caused financial assistance granted by the EU for regional development and economic integration in the Caribbean to decrease. In fact, it can be noted that the financial assistance for integration initiatives in the region has increased considerably. This increase reflected a 325 % rise in financial assistance already approved by the respective authorities. It is also important to note that this increase does not include carry-overs and unspent balances from the 9th EDF.

Further, as stated previously, there are a number of other agencies that contribute to the development of the integration process in the Caribbean. Together, these agencies are currently contributing over ₤ 57 million to the enhancement of integration in the Caribbean region. (See **Table 6** below).

Table 6: Development Agencies Financial Support to Caribbean Integration (Ongoing)

Development Agency	Funding (Ongoing)
Canadian International Development Agency (CIDA)	40,590,000 (Ongoing)
Inter-American Development Bank (IDB)	7,496,082 (Ongoing)
United Nations System Development Assistance	4,303,000 (Ongoing)
Department for International Development (DfID)	5,000,000 (Ongoing)
World Bank	350,000 (Ongoing)
Total	**57,389,082 (Ongoing)**
Source: Delegation of the European Union to Guyana – Statistics were extracted from Donor Matrix detailing donor support to Guyana and CARICOM from various international donor agencies (2009)	

Therefore, evidence suggests that external financial support for integration initiatives in the Caribbean has not dwindled in times of financial uncertainty in the world system. In fact, it can be noted that funding has been increased significantly.

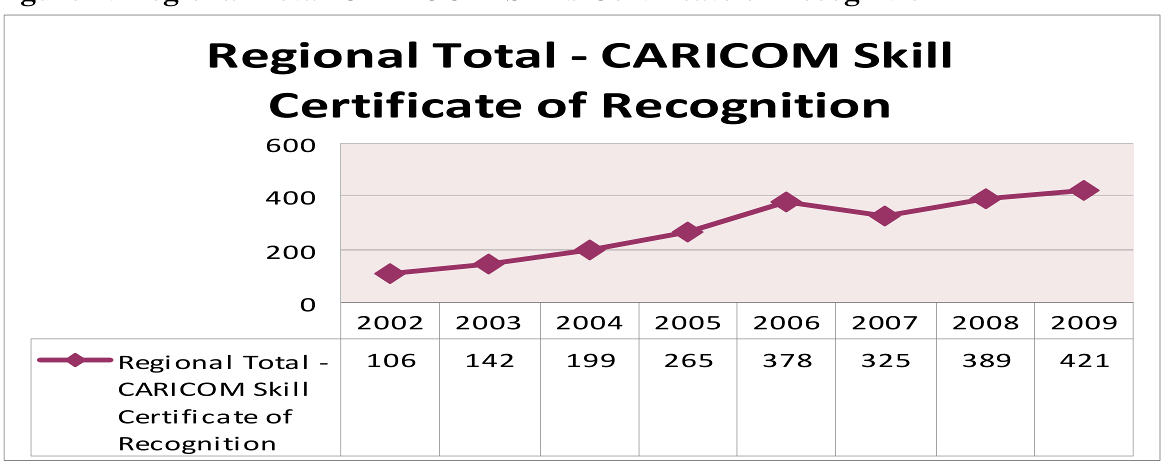
However, it is important to note that financial assistance reserved is not necessarily financial assistance disbursed. That is to say, that, although financial assistance under the 10th EDF has increased 325% over, it does not mean that this money is readily available to the CARICOM Secretariat. In fact, there are very stringent measures and policies in place with the disbursement of these funds. Therefore, the bureaucracy involved in accessing these funds can be seen as a major hindrance or impediment to CARICOM integration process.

Free Movement of CARICOM Nationals

The free movement of CARICOM nationals is one of the most important components of the CSME. The 'vision' of the revised treaty is to grant all CARICOM nationals the right to free movement of skills within the community and thus eliminate the need for work permits. The awarding of skill certificates within the various countries of the region can be used as a measure of legitimate labour mobility. However, the issuance of a CARICOM Skill Certificate may not necessarily be a true reflection of actual labour mobility but rather an indication of the likelihood of intra-regional movement.

To facilitate the free movement of persons, "CARICOM Skill Certificates of Recognition" are issued. The data suggest that the number of regional skill certificates issued from inception has increased consistently (with the exception of 2007) from 106 certificates in 2002 to 421 certificates in 2009 **(See Figure 2 below)**.

Figure 2: Regional Total-CARICOM Skills Certificate of Recognition

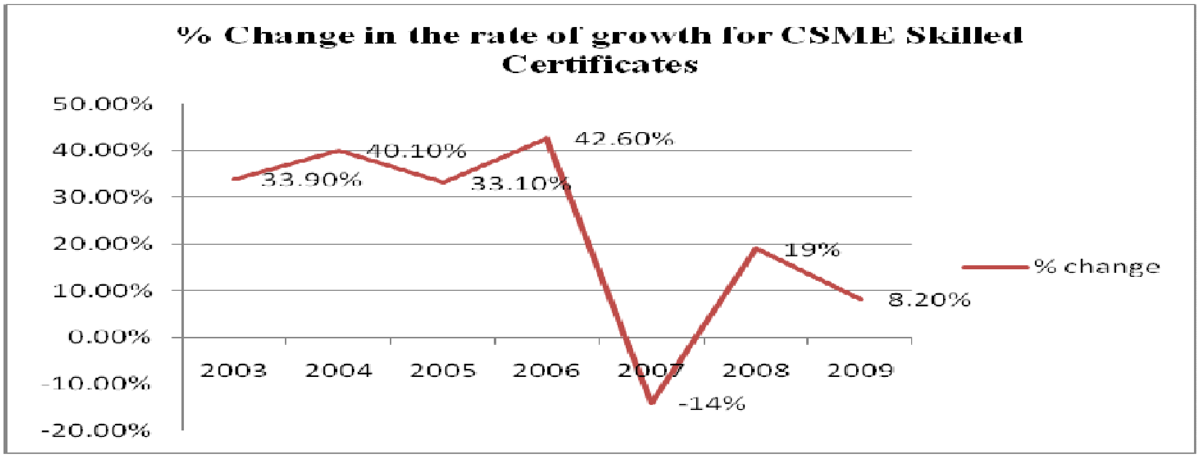


Source: Line Graph was tabulated by the authors utilizing – 'Regional Health Insurance Mechanism Feasibility Study' CARICOM Skills Certificate of Recognition December 2009

However, although there has been an increase in the number of certificates issued between 2002 and 2009, the rate of increase has in fact declined in a number of years. This rate of increase fell from 40.10% in 2004 to 33.10% in 2005. Most notably in 2006 the rate of increase fell from

42.60% to -14% in 2007. Finally, this rate of increase fell by more than 50% from 19% in 2008 to 8.2% in 2009. This trend suggests that CARICOM nationals are becoming less inclined to moving intra-regionally at this time. This is illustrated in **Figure 3** below.

Figure 3: % Change in the Rate of Growth for CSME Skill Certificates



Source: Line Graph was tabulated by the authors utilizing evidence from figure 2 above.

Moreover, an increase in the number of skill certificates issued does not necessarily mean that there is an increase in intra-regional mobility. That is to say, a person can acquire a skill certificate in their home country and not necessarily move to another member state to seek employment. Therefore, an increase in the number of skill certificates is not a true reflection of labour mobility taking place in the region.

Furthermore, at the Thirtieth Meeting of the Conference of Heads of Government in July 2009, CARICOM leaders accepted that given the economic and financial crisis, the full implementation of the free movement element of the CSME may be challenging for some member states. This concern was expressed primarily in light of rising competition for jobs in individual countries among nationals and non-nationals.

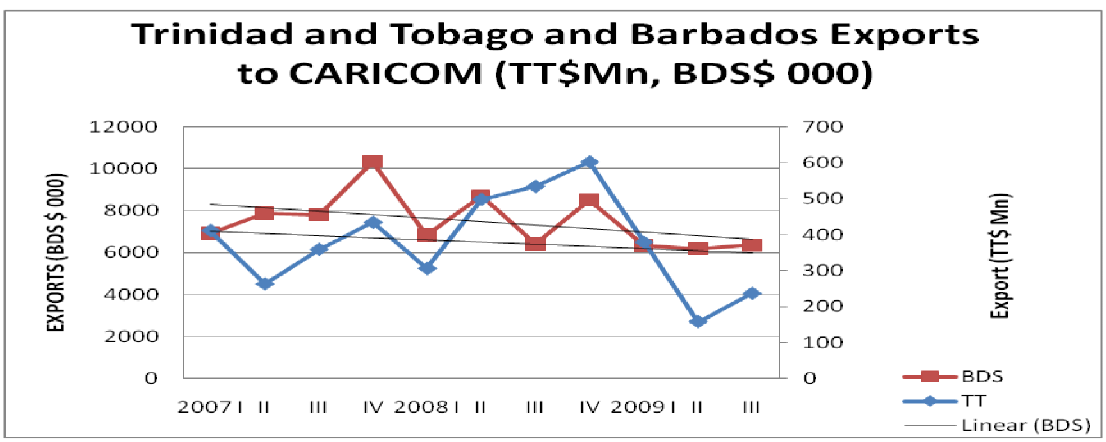
Other socio-economic challenges related to intra-regional migration include, limited access to health services, school placements and in some instances an increase in crime in member states. It can be argued that these issues have caused countries such as Barbados and Antigua and Barbuda to enforce restrictive immigration policies against other CARICOM members. However, in light of these intra-regional tensions there is the risky element of 'tit for tat'. That is to say, actions against Barbados by other CARICOM states for perceived inhumane actions will leave the entire Community poorer (Girvan 2009). This is because; CARICOM is the largest single market of Barbados manufactured exports and the second largest category of Barbados tourism. Therefore, reactionary measures will only affect CARICOM as a region negatively.

Intraregional Trade

While intra-regional trade has increased within CARICOM, the direction of trade favours mainly the More Developed Countries (MDCs) (Trinidad and Tobago, Barbados, Jamaica and Guyana). Between 2000 and 2007, intra-regional imports increased from over US$1.2 billion to over US$2.5 billion, an increase of over 100%. Likewise, intraregional exports increased from just under US$1.5 billion to approximately US$2.2 billion in the same period.[34] The main importers of CARICOM commodities are Jamaica and the OECS which accounted for 47% and 22% of intraregional imports in 2007 respectively. Meanwhile, the main exporting countries include Trinidad and Tobago, Barbados and Guyana, accounting for 78%, 8% and 7% of exports in 2007 respectively.

Between the 1st quarter of 2007 and the 3rd quarter of 2009, Barbados' and Trinidad and Tobago's exports to CARICOM have been on a general decline with periods of ebbs and flows. Exports fell sharply in Trinidad and Tobago by approximately 74% between the 4th quarter of 2008 and the 2nd quarter of 2009 **(See Figure 4 below)**. During the same period, exports fell by 27% for Barbados. These trends indicated a general fall in intra-regional trade since Trinidad and Tobago and Barbados are the main exporters within the region. In like manner, it can be expected that a fall in intra-regional exports will be accompanied with simultaneous reduction in imports. Overall, these trends indicate a general fall in trade within the CARICOM region.

Figure 4: Trinidad and Tobago and Barbados Exports to CARICOM (TT$Mn, BDS$ 000)



Source: Central Bank of Trinidad and Tobago: *Economic Bulletin* January 2010 Vol. XII no.1; and Central Bank of Barbados: *Economic and Financial Statistics January 2010*

Macroeconomic Convergence of CARICOM member states

The crisis has resulted in a worsening of macroeconomic variables among CARICOM countries, particularly for those already experiencing unfavorable economic circumstances. It also has the potential to further deter convergence in macroeconomic variables among member states as well as hinder the achievement of monetary integration. Convergence has been an elusive goal of the Community mainly because of the economic disparities and economic volatility in member states. The areas of macroeconomic convergence in CARICOM include exchange rate stability, reserve holdings, external debt, fiscal deficit and inflation. A list of the macroeconomic convergence criteria is presented in **Table 1.**

The Caribbean Centre for Money and Finance (CCMF), the agency responsible for monitoring these criteria, indicated that significant convergence has been achieved in inflation, fiscal deficit and import cover between 1991 and 2006. However, there has been greater divergence in the debt service criterion. Using an index of convergence[35], Codrington (2008) showed that between 2002 and 2006 there was a consistent trend towards convergence within the Community. The index increased from 52% to 78% during this period.

Preliminary data obtained from the CCMF also indicated that there has been further convergence in most of the convergence criteria between 2006 and 2008. The performance of import cover ratios has been varied within the region. Trinidad and Tobago (11.3 months), Suriname (6.6 months) and Belize (2.8 months) recorded increases in their import cover ratios between 2006 and 2008. For the other countries, not only did the import cover ratios fall but they fell below the 3 month target for the same period **(See Table 7 below).**

Table 7: Import Cover Ratio for the period 2006 - 2008

Countries	2006	2007	2008
Bahamas	2.0	1.7	2.0
Barbados	6.0	7.4	
Belize	1.8	2.3	2.8
EC Currency Union	2.7	2.6	2.5
Guyana	3.0	2.7	2.5
Jamaica	4.4	2.9	2.3
Suriname	3.9	4.8	6.6
Trinidad & Tobago	9.7	9.5	11.3
TARGET	3.0	3.0	3.0

Source: Caribbean Centre for Money and Finance

With regards to the exchange rate criterion, of the countries with floating exchange rates, Jamaica was the only one which experienced significant periodic fluctuations outside of the 1.5% band between 2006 and 2009 **(see Table 8 below).**

Table 8: Exchange Rate for Selected Caribbean Countries

	2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2
Guyana	0.004914	0.157248	0.088313	0.612745	-0.36541	-0.38142
Jamaica	-0.54791	1.059472	1.593514	10.71822	10.37654	0.281468
Suriname	0	0	0	0	0	0
Trinidad & Tobago	0	-1.73776	0.482315	0.64	0	0.158983
Upper Limit	1.5	1.5	1.5	1.5	1.5	1.5
Lower Limit	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5

Source: Caribbean Centre for Money and Finance

Debt service ratios have also been on the decline for all countries. However, The Eastern Caribbean Currency Union (ECCU) is the only territory which has a debt service ratio that exceeds the 15% of GDP target. The debt service ratio for the ECCU was 25.19% of GDP in 2008 **(See Table 9 below).**

Table 9: Debt Service Ratio for the period 2006 -2008

Countries	2006	2007	2008
Bahamas	32.8	35.9	2.9
Barbados	6.5	6.3	6.4
Belize	17.2	13.2	11.4
EC Currency Union	28.4	23.6	25.19
Guyana	3.8	2.8	2.7
Jamaica	9.4	12.4	
Suriname	5.4	4.2	
Trinidad & Tobago	2.8	2.0	0.9
TARGET	15.0	15.0	15.0

Source: Caribbean Centre for Money and Finance
Exchange Rate Stability

In 2008, only three countries met the fiscal criterion of 3% of GDP; Bahamas (2.6%), Belize (1.1%) and Trinidad and Tobago 7.7 %**(See Table 10 below).** Trinidad and Tobago was the only country to have a positive fiscal balance to GDP. While the others did not meet the criterion, a number of them were able reduce their fiscal deficit as a percentage of GDP between 2006 and 2008. Guyana, for example, reduced its fiscal deficit from 11.9% to 5.5% during this period. Also, the average fiscal deficit for the region fell from 2.5% to 2.3% between 2007 and 2008.

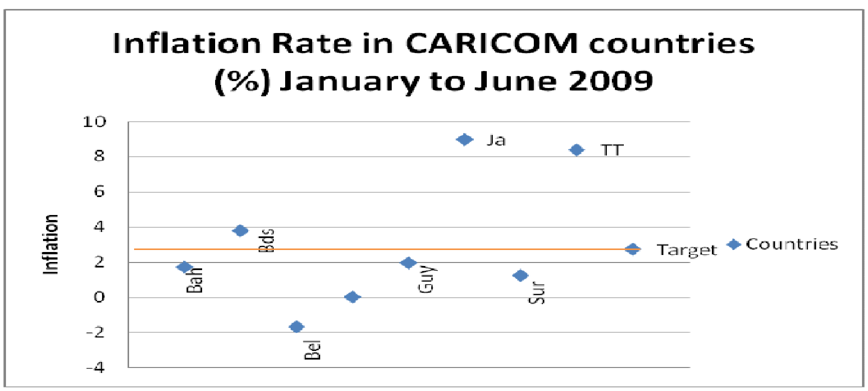
Table 10: Fiscal Deficit as Percentage of GDP for the period 2006 -2008

Countries	2006	2007	2008
Bahamas	(1.3)	(3)	(2.6)
Barbados	(1.5)	(2.5)	(5.9)
Belize	(1.9)	(1.2)	(1.1)
EC Currency Union	(4.9)	(3.9)	(3.5)
Guyana	(11.9)	(6.6)	(5.5)
Jamaica	(3.8)	(4.3)	(5.5)
Suriname	1.9	1	
Trinidad & Tobago	5.7	0.5	7.7
TARGET	(3)	(3)	(3)

Source: Caribbean Centre for Money and Finance

Inflation has been the most volatile indicator for the region. Between 2006 to the first half of 2009 the target rate for the region increased from 3.3% in 2006 to 7.9% in 2008 then to 2.73% by June 2009. Only 3 countries had inflation rates above the target; Jamaica (8.98%), Trinidad and Tobago (8.39%) and Barbados (3.78%). **(See Figure 3 below).**

Figure 3: Inflation Rate (%) in CARICOM countries - January to June 2009



Source: Caribbean Centre for Money and Finance

These indicators reveal that there has been significant convergence in debt service and exchange rate stability. Noteworthy convergence has been made in inflation stability and fiscal balances, while there has been divergence in import cover. Overall, a crude estimation of the Convergence Index has revealed that the economic crisis has coincided with further macroeconomic convergence within CARICOM. The calculated index was 80 for 2008 compared to 78 in 2006.[36]

While the convergence criteria and the convergence index point towards steady regional convergence, this trend may in fact not be as a result of concerted efforts by member states to achieve macro economic convergence. More so, given the delayed impact of the crisis on regional economies, it may very well be that the performance of the convergence criteria may not be reflected in the 2008 data. Furthermore, the poor economic performance evident in individual countries and the less than favourable outcomes projected for the immediate future can impede convergence trends and further stymie regional economic harmonization and the formation of a monetary union.

5. Was the Caribbean's Response to the Crisis Pro-Integration or Anti-Integration

The global financial crisis has had serious implications for Caribbean economies. This has been reflected in declining production levels, remittance flows, tourism, trade and the performance of other macro economic variables. As a result, responses were taken at the regional, sub regional and national level to help mitigate the effects of the financial crisis on regional economies. Some of these responses are identified in this section.

CARICOM's Response

CARICOM Heads of Government have met on a number of occasions to discuss the implications and regional response to the current global financial crisis and economic downturn. The first meeting was held in Antigua and Barbuda in November 2008 then in Belize in March 2009 and then in Trinidad and Tobago in May 2009 (CARICOM press release 182/2009). The Community has committed to pursuing a regional response to the global economic downturn aimed at minimizing the region's exposure to the impact of the crisis and increasing access to funding from International Financial Institutions (IFIs) to address the challenges facing the region (CARICOM press release 364/2008).

CARICOM Council for Finance and Planning (COFAP) has appointed a taskforce to examine the implications of the financial crisis and make appropriate recommendations that would enable the region to respond effectively to the crisis. The Community also participated in an ILO Tripartite Caribbean Conference where a plan aimed at addressing social and labour implications of the crisis on regional economies was drafted.[37] This plan was premised on the establishment of a united, internationally competitive and self-sufficient Caribbean region with a strong social structure and protection for vulnerable groups. Social protection and a people-centred response were seen as necessary to mitigate some of the consequences of the financial crisis such as rising poverty levels and crime. CARICOM is particularly concerned over the increased incidence of poverty resulting from the loss of jobs and income and the potential impact this may have on the level of crime.

The region is also actively pursuing counter-cyclical measures and exploring regulatory reform in the financial sector both at the national and Community levels (CARICOM press release 113/2009). Financial sector reform however, needs to be made in the context of the changes made in the international financial architecture. To this end, the Heads of Government have developed a Regional Regulatory Mechanism which seeks to strengthen cooperation among national regulatory agencies. The Community, in a similar regional front, established the College of Regulators to examine the assets and liabilities of CL Financial which threatened the financial stability of the region.[38] Like other developing economies, CARICOM has called for a restructuring of the global system of finance.

The OECS Response

The OECS as a sub-region has taken action collectively as well as on an individual country level basis to accommodate the needs of its member states. At the sub regional level, the proposed response focuses on developing stimulus packages, creating social safety nets and maintaining stability in the financial sector. [39] In fact, UNICEF Barbados, the OECS and UNIFEM Caribbean have collaborated to address problems of social and economic vulnerability. They have indicated that such intervention should be sensitive to the needs of single parents, low income households, children and women.

The Secretary General of the OECS, Dr. Ishmael highlighted that new relationships have been formed or are in the process of being formed at the regional level with Brazil, Venezuela, Austria, Turkey, Finland, Spain, Mexico, Cuba, France, the US Virgin Islands, the European Union, Puerto Rico and Trinidad and Tobago.

However, given the differing needs amongst the countries, each country has implemented individual policies to help mitigate the effect of the global financial crisis. These policies include: [40]

- The Government of Dominica is undertaking a revision of its social protection infrastructure, to improve the effectiveness of SP programmes. The Government has also undertaken a number of measures since mid 2008 including exemptions of redundancy payments and all pension incomes from income tax. High poverty levels amongst the indigenous Caribs remain a concern and generalized programmes have been implemented to address their needs.
- The Government of Grenada has already noted focused attention on an employment stimulus. Under a plan announced on April 2nd, a Road Improvement and Maintenance Programme, a Farm Labour Support Programme aimed at revitalizing the agricultural sector through the provision of labour for specially targeted farms and agricultural activities, a water supply project and the rehabilitation of many government buildings, is expected to create 3,382 jobs. Government has also committed to increasing the number of persons eligible for assistance under the Public Assistance Programme by 600 persons (from 4000 to 4600). The Government will also receive, from the World Bank, budget assistance including support to safety nets.
- The Government of Montserrat has indicated that some provisional steps to identify austerity measures are being implemented.
- The Government of Antigua and Barbuda is working on an Emergency Economic Plan to address the economic crisis. During a recently concluded Article IV mission with the IMF in April 2009, The Government noted that it would realign the fiscal agenda to better reflect the impact of the world economic crisis on the economy of Antigua and Barbuda. It was also indicated that Antigua and Barbuda would work along with the

other members of the Eastern Caribbean Currency Union (ECCU) and the Central Bank as part of a regional approach to meeting the global economic challenges.

However, in spite of country-level responses, (Douglas 2009) emphasized that:

> "*It is therefore critical that the small island states of the OECS combine our resources with a view to realizing the benefits of economies of scale and enhancing our bargaining power so that we may compete more effectively in the global market place. Similarly, a more tightly integrated OECS would be better equipped to take advantage of opportunities in the CARICOM Single Market and Economy (CSME),"*

More Developed Countries (MDC's) Response

Barbados

In response to the ramifications of the global financial crisis the Government of Barbados has implemented mechanisms aimed at 'Job Creation and Employment Protection'[41]:

- Expanded opportunities for job creation in the service sector by promoting Call Centres and Medical Transcription Services.
- An unemployment benefit fund of BDS$10 million has been established, which will target those unemployed persons who have contributed to the National Insurance Scheme (NIS)
- A Micro Enterprise Assistance Grant Programme has been established where operators of micro-enterprises can borrow up to BDS$5,000 sustain operations.
- In its 2009 Budget Statement, the Government announced a new facility for employers experiencing cash flow problems. They have an option to defer their one-year contribution to NIS and use that money as a loan. The loan is repayable over a five-year term at a 3% rate of interest. However, employers have to give a commitment to maintain current employment levels for the period of the facility.
- On the request of the Barbados Hotel and Tourism Association (BHTA), the Government has agreed to the creation of a BDS$15 million revolving fund known as the Tourism Industry Relief Fund (TIRF), which would assist the tourism-related enterprises to remain in business and maintain employment levels during the global economic recession
- The Government has introduced a programme of relief to employers and self-employed persons by providing waivers of interest and penalties on outstanding National Insurance, Income Tax, Land Tax and Valued Added Tax (VAT)
- The Government of Barbados has pledged support to CLICO Barbados to avoid or limit costs to policyholders – a significant portion of Barbadians and small companies hold insurance, retirement and pension plans with CLICO Barbados. The Government, since coming to power in January 2008, has made the issue of an affordable cost of living its priority mandate. Before the onset of this global financial crisis, the cost of living in Barbados increased by an average of 5.8 percent between 2005 and 2007 compared with

an average of 1.1 percent between 2002 and 200442. At a June 2008 Special Consultation on the Cost of Living, the Government noted that a thorough policy overhaul is being developed as part of a broader Medium Term Strategic Framework Plan which is being overseen by the Economic Affairs Division of the Ministry of Finance, Economic Affairs and Energy. The need for policies which emphasize, inter alia, facilitating the provision of essential public goods and services, was emphasized.

The identification of effective instruments and the development of policy scenarios to minimize urban and rural poverty in the light of the financial crisis and its long-term consequences for Barbados are expected to become priority issues for discussion and interaction between the Government and development partners.

Jamaica

In response to the global financial crisis, Jamaica has re-engaged multilateral lending agencies,[43] one of which is the International Monetary Fund (IMF). The executive board of the IMF has approved an arrangement with Jamaica in of approximately US$1.27 billion to support Jamaica in coping with the consequences of the global meltdown.[44] Other multilateral agencies that Jamaica is presently engaged with include the World Bank (WB), the Inter-American Development Bank (IDB) and the Caribbean Development Bank (CDB). This re-engagement is geared towards gaining access to longer term loans at lower interest rates as well as to support high priority projects aimed at strengthening financial management, controlling debt and streamlining revenue systems.[45]

Other policy measures for general economy relief and stimulus include[46]:

- A negotiated US$300 million lending facility from IDB
- Abolishment of Tax on dividend paid by non-listed companies
- Reduction of Transfer Tax from 6.5% to 5%
- Increase in Income Tax threshold from $200,304 to 220,272
- Job placement services arranged for laid off workers through a special programme at the Heart Trust / NTA
- Suspension of mortgage payments, extended mortgage period and reduce mortgage rates to assist persons experiencing disruption in income flow
- Adjusted regulation for classification of non-performing loans from 90 days to 180 days to permit independent mortgage providers to assist clients being affected by the difficult times.

Trinidad and Tobago

In an attempt to curtail the implications of the collapse of CL Financial, the Government of Trinidad and Tobago approved a sum of TT$5 billion to meet the statutory deficit of Clico.[47] Further, the Minister of Finance made the decision to decrease the budgetary allocations for ministries, departments and statutory authorities in response to the global financial crisis. The targeted areas include discretionary expenditure in promotion, publicity and printing, materials and supplies, goods and services and minor equipment.[48]

Additionally, some projects were also identified for downward adjustment[49]. These include:

- New projects other than those of an urgent or critical nature
- Projects for which there were no firm contractual obligations
- Ongoing projects for which the pace of implementation could be reduced without legal penalties
- Ongoing projects for which some components could be deferred

Despite these financial setbacks, Trinidad and Tobago has been able to weather the storm of the financial crisis thus far, which can be largely attributed to the high levels of reserves which were accumulated during the period of high energy and petrochemical prices predating the crisis and the large fiscal space available to the government because of its low debt to GDP ratio.[50] Regrettably, other Caribbean countries have been burdened with fiscal deficits and high debt burdens before the crisis and thus their positions have not afforded them the flexibility demonstrated by Trinidad and Tobago.

It is important to note that Trinidad and Tobago has maintained a constant posture towards regional integration and cooperation in the Caribbean. This was magnified in the Statement made by H.E. Marina Valere, the Permanent Representative of Trinidad and Tobago to the United Nations at the United Nations Conference on the World Financial and Economic crisis and its Impact on Development. Ambassador Valere stated:

> *"It is my Government's view that regional initiatives must also be embraced to address the worsening financial and economic situation. In this regard, towards the end of May 2009, a Group of Heads of Government of the Organization of the Eastern Caribbean States (OECS) met in Trinidad and Tobago to elaborate mechanisms for stronger, more effective and better coordinated responses to the global crisis………. It was also recognized that there is need for greater economic integration in the Caribbean to create the ……… The establishment of the Caribbean Single Market and Economy (CSME) is integral to achieving this developmental goal as it would give Caribbean manufacturers a potential of over 15 million persons"*[51]

This posture toward Caribbean regionalism has also been adopted by Ewart Williams; the Governor of the Central Bank of Trinidad and Tobago in his address entitled *"The Global Financial Crisis – Institutional Management and Regional Opportunities"*. Williams stated that:

> *"If there are any lessons that the last few months should forcefully bring to us, it should be that, in this new global environment**, deeper regional integration is absolutely critical** for the survival of the Caribbean economies. It is clearly a case of "**we swim together or we sink together"** – admittedly some faster than others"*[52]

In the Caribbean, there have been both national and regional responses to the global economic crisis. At the national level, governments have sought to maintain economic activity and employment in key productive sectors, increase household spending and protect the well being of the poor and other marginalized groups from further impoverishment. Similar responses have been echoed at the regional level as CARICOM tries to grapple with the fallout of the crisis and its impact on deeper regional integration. The crisis, however, can be seen as a set back to the full establishment of the CSME. This is compounded by the fact that prior to the crisis, the pace of integration was already slow as a number of targets were not met, including macroeconomic convergence and the achievement of monetary integration.

The crisis has struck the core of many Caribbean economies forcing individual governments to come up with timely and strategic responses to stabilize and regenerate their economies. Though the strategies adopted by governments were specific to individual country needs, there is little indication that they are necessarily antagonistic to further regional integration and the full establishment of the CSME. One may even argue that such interventions were not only pragmatic and necessary for economic recovery but also critical for refocusing economies towards strengthening regional ties.

Though the current crisis poses a threat to the stability of regional economies, it also presents an opportunity for intensifying cooperation and coordination among CARICOM member states. Furthermore, a unified response would ensure a more robust economic union in the long run.

6. <u>Geopolitical Fallouts</u>

Regional economies need to be mindful of the type of partnerships they pursue outside of CARICOM. Though these arrangements may be quite attractive, particularly in this time of recession, they may prove to be stumbling blocks to deeper regional integration. In fact, such ties with external parties may result in a weakened and fragmented form of integration within the region and ultimately the failure of the CSME. In this regard The Bolivarian Alternative for the Americas (ALBA) and Petrocaribe can be seen as potential hindrances to further regional integration in the Caribbean.

ALBA and Petrocaribe can be considered as two of the most notable developments to take place in the 21st century within the Western Hemisphere. However, one might ask the question: Will ALBA and Petrocaribe strengthen or weaken Caribbean unity in a time of financial squabble?

The global financial crisis has brought with it excessive debt, a decline in the flow of foreign exchange from the tourism sector and foreign investment. Thus, in a time of such economic and financial uncertainty, many CARICOM countries will be seeking to secure financial assistance and forge new relations with partners that can ensure the well being of their citizens.

ALBA “presents itself as an integration scheme that is an alternative to the US sponsored neoliberal model of economic integration based on trade and investment liberalization”.[53] There are a number of striking elements that may attract Caribbean countries to ALBA including, significant financial aid on concessionary terms, health and education benefits, and non-reciprocity trade arrangements.

ALBA also puts into practice 'Compensated Trade' which refers to direct product exchange. Dominica for example, is allowed to pay 40% of its Petrocaribe oil imports with exports of bananas.[54] In addition, ALBA also puts into practice 'Case-by-Case' Trade Agreements. This refers to trade agreements which allow for flexibility of commitment according to individual country circumstances. In addition to these attractive fundamentals, there is also the ALBA Bank, otherwise known as (BALBA). BALBA is committed to supporting sustainable economic and social development through the reduction of poverty and strengthening integration. In recognition of these commitments, Girvan (2009) noted that authorized capital amounted to $2 billion and subscribed capital amounted to $1 billion.[55] Already, three (3) out of fifteen (15) CARICOM countries are involved with ALBA, namely Dominica, Antigua and Barbuda and St. Vincent and the Grenadines. Therefore, the possibility exists, that with heightened financial turmoil, other CARICOM states may turn to ALBA which has the potential of making CARICOM states less interested in the CSME.

Petrocaribe is another initiative that has the potential to cause fragmentation within the Caribbean integration process as countries face greater financial challenges. Petrocaribe can be described as an initiative in which the government of Venezuela offers fuel supplies to several CARICOM states on conditions of preferential payment. Taking into account the extremely high prices of oil since 2008 on world markets, Petrocaribe's strategic role has been enhanced and has been seen as a mechanism for some Caribbean countries to access oil at relatively more attractive rates. Petrocaribe has in common many fundamentals with ALBA, including recompense for asymmetries, and poverty reduction strategies among others.

Petrocaribe has become the most important single source of concessional financing for the sixteen (16) beneficiary countries (Girvan 2008). Petrocaribe credits to Jamaica for the period 2005 to 2008 amounted to $471 million, compared to $58 million form the US for the same period. Twelve (12) out of fifteen (15) CARICOM members are already signatories of the Petro-friendly initiative. This means that more than half of CARICOM members are now part of Petrocaribe. This ratio can have serious implications on Caribbean unity, taking into consideration that Trinidad and Tobago is also an exporter of petroleum.

According to Girvan,

> *"ALBA and Petrocaribe are major new sources of balance of payments relief in the face of rising oil prices, of financial assistance for government budgets and for badly needed physical infrastructure, and of technical cooperation in the provision of social services and human resource development".*[56]

Thus, the likelihood of CARICOM countries seeking assistance from these initiatives is very realistic.

7. Policy Recommendations

In order for CARICOM and its member states to develop appropriate policy responses to the impact of the financial crisis on regional economies, there is, firstly, a need for more frequent and effective communication. This however cannot be achieved with the traditional semiannual meeting of CARICOM Heads of Government. The use of Information Communication Technologies (ICTs), in particular teleconferencing and videoconferencing, therefore, would facilitate faster communication among countries (Orane 2009). This would allow the region to be more responsive and flexible to new developments in the global arena. Another benefit of utilizing ICTs includes savings on costs associated with travelling and organizing regional meetings. Therefore, CARICOM leaders should invest in and utilize ICTs to communicate efficiently and effectively, especially during times of crisis.

At the national and regional levels, strategic responses need to take into consideration short, medium and longer term adaptive interventions. Furthermore, individual country responses to the crisis need to be coordinated and at the same time not conflict with regional commitments. Therefore, countries should avoid policies which are generally protectionist in nature and pursue strategies aimed at strengthening regional integration, in particular the Common Market and Economy. In this regard, areas for deeper regional cooperation include:

1. Finance- strengthening the regulatory framework of the region's financial sector so as to facilitate growth in intraregional capital flows. This is vital for increasing levels of production within the Community. Lessons from the East Asian crisis and the Chiang Mai Initiative can be reviewed in order to initiate deeper regional financial integration.
2. Production Integration- this refers to the rationalization and reorganization of production activities within the region with the intention of establishing greater forward and backward linkages among productive sectors as well as to intensify intra and inter-industry trade among member states. This therefore calls for more efficient allocation of resources and investment strategies.
3. Trade diversification- It is important for the region to diversify its export markets in order to survive in the long term (Benn 2009 and Old 2008). New trading partners. Market opportunities may exist in emerging economies such as China, India and Brazil. Securing new markets could ensure that the stable flow of extra-regional exports when traditional markets are in decline. This also has the ripple effect of sustaining productivity and employment levels and mitigating asymmetrical shocks which can potentially hinder further regional integration.

Additionally, proposed economic policy should support the processes of social development. Benn (2009), argued that previous structural adjustment policies imposed by the IMF and World Bank to address the economic decline in regional economies in the past had led to further decay in the social structure of many of the countries. Budget cuts in health, education, transfers and other social services were associated with increasing poverty and deprivation. Countries should therefore, be careful to adopt fiscal and monetary policies which have a built-in social agenda to firstly alleviate poverty and protects vulnerable and marginalized persons.

It is also important for regional economies to adopt a prudent and defensive posture and implement counter cyclical measures to combat the impact of the crisis (Olde 2008). The only concern with counter-cyclical policies is that many countries may find it difficult to raise revenue and increase expenditure in this current environment where credit is scarce and some countries constrained by high debt.[57] In spite of this, governments can target areas in the fiscal outlay where cutbacks would not have significant social and economic implication (Bourne 2009).

With regards to regional labour movement, it will be instructive for the region to adopt a system of managed migration as a complementary measure to the free movement initiative. Sanders (2009) explained the mechanics of the operation of a managed migration policy based on the labour needs of individual countries and that also respects the rights of workers and their families in destination countries. Girvan (2009) also shared a similar view, explaining that countries can implement 'a guest worker type scheme' that is aimed at filling labour market shortages. Managing the movement of labour would ensure that there is no unnecessary strain on individual country labour markets and at the same time it would also encourage more efficient allocation of human resources within the region. This will assist in improving regional productivity. Moreover, with a managed migration, countries would be less likely to impose restrictive migration policies to protect local interests, particularly in the face of a crisis.

The governments of the Caribbean need to also reconsider the notion of monetary integration in light of the financial crisis. Monetary integration would allow for an increase in trade, a reduction in the level of volatility in exchange rates, and would also facilitate more synchronized business cycles in the region, much more than what individual countries can do. There is also the possibility that monetary integration will further boost intra-regional trade and investment as well as lead to the emergence of newer and larger capital markets which would allow firms to compete in such an economic downturn. The asymmetric problem that existed in the 1990s was that some countries did not see themselves benefiting from a monetary union. However, this may no longer be the case, given that all the Caribbean countries have been negatively impacted by the financial crisis. In this vein, the governments of the Caribbean need to come together and reconsider the notion of a currency union in the Caribbean as it can help to stabilize the economy and regulate the financial sector in the future. However, the criteria for monetary integration needs to be reconsidered and the eligibility of the criteria which is set to allow governments to pursue sustainable fiscal and monetary policy.

Conclusion

The financial crisis has resulted in a decline in key economic activities in CARICOM countries. Sectors that have been most affected include tourism, aluminum and mineral extraction. However, it is still left to be seen how these indicators have responded in more recent times. With regards to other aspects of integration, the crisis has been associated with a slowing down in the rate of increase in regional labour mobility and a fall in intraregional trade. Although the crisis has adversely affected CARICOM countries and the process of regional integration, countries have shown noted resilience in stabilizing their economies at such a time.

Member states have all responded at the national level so as to safeguard their economies against the impact of the financial crisis. More so, government intervention has centered on job creation and the development of new productive sectors in order to stimulate economic activity. To this end, new opportunities have been created for the establishment and expansion of small and micro businesses. Special attention has been given to the protection of the poor and other vulnerable groups. Some countries have even accessed financing from the IMF to meet expenditure gaps in capital and social programmes. In addition, countries have also indicated the need to strengthen the regulatory framework of their financial sectors.

The policy postures adopted at the national level have also been echoed at the regional level. CARICOM has remained committed to implementing policies aimed at improving regional competitiveness and creating strategic safety nets to protect the poor and those disadvantaged by the crisis. The region has also called for further upgrading of the Community's financial architecture and greater cooperation in other regional initiatives.

The responses of individual countries and the region as a whole, for the most part, can be described as necessary, pragmatic and strategic. More so, the actions taken at the national level have been consistent with those at the regional level. Although regional economies have been able to stymie the full onslaught of the crisis, to some extent, the crisis has definitely presented an even greater challenge for these economies for achieving deeper integration. CARICOM member states must also be mindful to not adopt economic agreements with countries outside of the region that may compromise the thrust towards deeper integration within the Single Market and Economy.

End Notes

[1] See Sansoussi Bilal. "***EPAs: To be or not to be?"*** Paper presented at the Seminar on the "Future of Caribbean-European Union Relations: Defining a research agenda". Thursday 8th & Friday 9th October, 2009 p. 5

[2] Clegg, Peter (2009) *"**The Caribbean and the Global Financial Crisis: Implications for domestic politics and foreign policy"*** 1 May

[3] Robert Read (2004) ***"The Implications of Increasing Globalization and Regionalism for the Economic Growth of Small Island States"***. Elsevier Ltd. University of Lancaster, UK p372

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[6] CARICOM. "***A Brief History of CARICOM. Signing of the Treaty of Chaguaramas"*** p. 1

[7] See Vaughn Lewis. "***The Federation of the West Indies: Its life and end –A Comment"***. Paper prepared for a panel discussion sponsored by the Barbados historical and Archaeological Society at the Errol Barrow Centre, University of the West Indies, Cave Hill, Barbados, on November 25th, 2008. p. 1

[8] See Vaughn Lewis. "***The Federation of the West Indies: Its life and end –A Comment".*** Paper prepared for a panel discussion sponsored by the Barbados historical and Archaeological Society at the Errol Barrow Centre, University of the West Indies, Cave Hill, Barbados, on November 25th, 2008. p. 3

[9] Ibid p. 4

[10] Ibid p. 4-5

[11] These institutions include, The Caribbean Disaster Emergency Response (CDERA), Caribbean Meteorological Institute (CMI), Caribbean Meteorological Organization (CMO),Caribbean Environmental Health Institute (CEHI), Caribbean Agricultural Research and Development Institute (CARDI), Association of Caribbean Community Parliamentarians (ACCP), Caribbean Centre for Development Administration (CARICAD) and Caribbean Food and Nutrition Institute (CFNI)
[12] Ibid p. 6
[13] Lester Henry ***"Monetary Integration in Beautiful Places: Prospects for the Caribbean",*** Department of Economics, The University of the West Indies
[14] Ibid Pg. 2
[15] Ibid
[16] Patrick Kendall (2000) "***Exchange Rate Convergence in CARICOM***", Country Economist, Economics and Programming Department.
[17] CARICOM Secretariat. ***CARICOM Single Market and Economy. Free Movement and Competitiveness*** Foreword
[18] Ibid
[19] Overseas Development Institute (2008) "***The Global Financial crisis and Developing countries***" Background Notes
[20] World Bank (2009) "***Swimming against the Tide: How Developing Countries are Coping with the Global Crisis***" Paper prepared for G20 Finance Ministers and Central Bank Governors Meeting, Horsham, United Kingdom.
[21] Lim H, (2009) "***Expectation for East Asia Economic Integration***" Singapore Institute of International Affairs.
[22] The Latin America Pacific Arc was founded in 2007 and is made up of 11 member states: (Chile, Colombia, Cost Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama and Peru)
[23] Zambian Vice President, George Kunda, was addressing a meeting of the Eastern and Southern Africa and Indian Ocean region.
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[25] ILO Sub regional office for the Caribbean. The data did not include Haiti
[26] The International Labour Organization regional Office for Latin America and the Caribbean, The Economic and Labour Market Situation in the Context of the Global Crisis, pg. 42-46
[27] Eric Williams (2009) ***"The international financial crisis: Impact on the region and Trinidad and Tobago"*** Central Bank of Trinidad and Tobago.
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[34] CARICOM Secretariat
[35] The Index of Convergence is a weighted composite of the convergence criteria. The value of the index ranges from 0 to 100. A value close to 100 indicates significant convergence.
[36] The Convergence Index was calculated using four of the five criteria: Import Cover, Exchange Rate Stability, Debt Service Ratio and Inflation.
[37] The ILO Tripartite Caribbean Conference was held in April 2009 in Kingston Jamaica with the theme "Promoting Human Prosperity beyond the Global Financial Crisis: Seeking Sustainable Solutions through Social Dialogue".
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[42] Speech by the Prime Minister of Barbados, the Right Honorable David Thompson, at the Opening of the Special National Consultation on the Cost of Living. June 17th, 2008.
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[45] Benn, Dennis (2009) ***The Global Financial and Economic Crisis, Elements of a Strategic Response by the Caribbean***, 30 March
[46] The Private Sector Organization of Jamaica (PSO) – ***Government Stimulus Package in response to Global Financial Crisis*** http://www.psoj.org/?q=news/government-stimulus-package-response-global-financial-crisis (Accessed 03/02/2010)
[47] Ibid p.2
[48] Please note that discretionary expenditure listed was extracted from The Honourable Patrick Manning – Prime Minister of Trinidad and Tobago, Address to the Nation dated 25th November 2008 08:29:00
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[50] Valere, Marina Permanent Representative of Trinidad and Tobago to the United Nations (2009), Statement at the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development, New York, June 29
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[53] See Norman Girvan. ***ALBA, Petrocaribe and CARICOM. Issues in a new dynamic*.** p. 2 At www.normangirvan.info (accessed 26.05.09)
[54] Ibid p. 2
[55] Ibid p. 2
[56] See Norman Girvan. ***ALBA, Petrocaribe and CARICOM. Issues in a new dynamic*.** p. 2 At www.normangirvan.info (accessed 26.05.09) p.9
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