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ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN

# FOCUS

Newsletter of the Caribbean Development and Cooperation Committee (CDCC)

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ISSUE 2 / APRIL - JUNE 2008



The Economic Commission for Latin America and the Caribbean (ECLAC) is one of five regional commissions of the United Nations Economic and Social Council (ECOSOC). It was created in 1948 to support Latin American governments in the economic and social development of that region. Subsequently, in 1966, the Commission (ECLA, at that time) established the Subregional Headquarters for the Caribbean in Port of Spain to serve all countries of the insular Caribbean, as well as Belize, Guyana and Suriname, making it the largest United Nations body in the subregion.

At its sixteenth session in 1975, the Commission agreed to create the Caribbean Development and Cooperation Committee (CDCC) as a permanent subsidiary body, which would function within the ECLA structure to promote development cooperation among Caribbean countries. Secretariat services to the CDCC would be provided by the Subregional Headquarters for the Caribbean. Nine years later, the Commission's widened role was officially acknowledged when the Economic Commission for Latin America (ECLA) modified its title to the Economic Commission for Latin America and the Caribbean (ECLAC).

Key Areas of Activity

The ECLAC Subregional Headquarters for the Caribbean (ECLAC/CDCC secretariat) functions as a subregional think-tank and facilitates increased contact and cooperation among its membership. Complementing the ECLAC/CDCC work programme framework, are the broader directives issued by the United Nations General Assembly when in session, which constitute the Organization's mandate. At present, the overarching articulation of this mandate is the Millennium Declaration, which outlines the Millennium Development Goals.

Towards meeting these objectives, the secretariat conducts research; provides technical advice to governments, upon request; organizes intergovernmental and expert group meetings; helps to formulate and articulate a regional perspective within global forums; and introduces global concerns at the regional and subregional levels.

Areas of specialisation include trade, statistics, social development, science and technology, and sustainable development; while actual operational activities extend to economic and development planning, demography, economic surveys, assessment of the socio-economic impacts of natural disasters, data collection and analysis, training, and assistance with the management of national economies.

The ECLAC Subregional Headquarters for the Caribbean also functions as secretariat for the Programme of Action for the Sustainable Development of Small Island Developing States (SIDS POA). The scope of ECLAC/CDCC activities is documented in the wide range of publications produced by the Subregional Headquarters in Port of Spain.

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Turks and Caicos Islands  
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**FOCUS: ECLAC in the Caribbean** is a publication of the Economic Commission for Latin America and the Caribbean (ECLAC) Subregional Headquarters for the Caribbean/Caribbean Development and Cooperation Committee (CDCC).

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**Produced by ECLAC**

Printed by Caribbean Paper & Printed Products (1993) Ltd  
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## THE TWENTY-SECOND SESSION OF THE CARIBBEAN DEVELOPMENT AND COOPERATION COMMITTEE (CDCC)

Port of Spain, Trinidad & Tobago. 22-23 April 2008



**T**he Economic Commission for Latin America and the Caribbean (ECLAC) Subregional Headquarters for the Caribbean convened the twenty-second session of the Caribbean Development and Cooperation Committee (CDCC) at the ministerial level in Port of Spain, Trinidad and Tobago, on 22 and 23 April 2008.

The meeting was attended by representatives of the following CDCC member countries: Barbados, Belize, Cuba, Dominican Republic, Guyana, Jamaica, Suriname, and Trinidad and Tobago. The participating associate members were British Virgin Islands, Netherlands Antilles and Puerto Rico. Turks and Caicos Islands, an associate member of ECLAC, was also present at the meeting.

Representatives of the following organizations of the United Nations system attended the session: the Food and Agriculture Organization of the United Nations (FAO), the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP)/Caribbean Regional Coordinating Unit, the United Nations Population Fund (UNFPA) the United Nations Children's Fund (UNICEF) and the Pan American Health Organization/World Health Organization (PAHO/WHO).

The following intergovernmental organizations were represented: the Association of Caribbean States (ACS), the Caribbean Community Secretariat (CARICOM), the Inter-American Institute for Cooperation on Agriculture (IICA) and the Organization of American States (OAS).

The Secretary of the Commission and senior staff from ECLAC headquarters in Santiago, the ECLAC Subregional Headquarters for the Caribbean and the ECLAC Office in Washington were in attendance.

The representative of the Government of Trinidad and Tobago, the Honourable Paula Gopee-Scoon, Minister of Foreign Affairs of Trinidad and Tobago, welcomed all participants to the twenty-second session of CDCC. She applauded the

contributions of Dr. Eric Williams and Dr. Fidel Castro, whose vision had resulted in the establishment of the CDCC and noted the pivotal role which the Committee had played over the previous 30 years in providing a forum for intraregional discourse and the axis for cooperation in achieving the development priorities. She welcomed the attempt currently being made to revitalize CDCC and transform it into a more dynamic and collaborative forum.

In addressing the main topics for consideration by the meeting, she noted that public-private partnerships could have a significant impact not only on poverty reduction, but also in the field of the environment. The inherent vulnerabilities of the Caribbean to natural disasters and climate change were evident. Indeed, the effects of climate change were already being experienced in the region in the form of rising sea levels and coastal erosion. Adequate preparations must be made to mitigate and, where possible, reverse those effects in order to increase resilience at the national, regional and global levels.

The Honourable Minister spoke of the formidable, but not insurmountable challenges that the region confronted, namely transnational crime, the HIV/AIDS pandemic, rising food prices and called for urgent measures to combat these problems.

Minister Gopee-Scoon observed that a proactive approach to ongoing United Nations reform was needed and would require CDCC to put its own house in order to ensure that resources were utilized efficiently and that countries had the necessary support to achieve their development objectives in a changing global and regional environment.

In closing, the Honourable Minister urged member countries to take up the mantle of leadership and recommit their support and resources to CDCC as a matter of priority.

The Director of the ECLAC Subregional Headquarters for the Caribbean, Mr. Neil Pierre, welcomed participants and provided a brief summary of the CDCC mandate. He said that the twenty-second session, coinciding as it did with the sixtieth anniversary of ECLAC, provided

an opportunity to undertake a thorough review of the work of CDCC and its secretariat in the region. The stage for the deliberations of the current session was set by the outcomes of the discussions of the Technical Advisory Committee for the Regional Coordinating Mechanism for the follow-up of the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States.



*L-R Edwina Leacock, Permanent Secretary of the Ministry of Foreign Affairs, Government of Trinidad and Tobago, Neil Pierre, Director, ECLAC*

He outlined the major challenges the region would have to face in the area of economic development. Countries would need to put practical short-term measures in place, such as means-tested food subsidies for the most vulnerable citizens in the region, to cushion the effects of the unanticipated hike in food prices; devise strategies to mitigate the potential adverse fall-out of recession in the United States occasioned by the effects of the subprime mortgage crisis; address the fiscal imbalances and high levels of indebtedness affecting a number of Caribbean countries; fashion a strategic and Caribbean-wide response, which should be developed in close collaboration with regional and global partners; and tackle at the root the high levels of crime, poverty and youth alienation through evidence-based policies and programmes that would contribute to sustainable development in the region.

In reassessing the policies and options available to countries in the pursuit of their development goals (beyond merely economic requirements), development policies should take into account socio-political, environmental and technological considerations and trade-offs. Policy makers should recall that there is no such thing as a one-size-fits-all prescription for development, but that development was highly dependent on country and regional circumstances. ►

In closing, the Director said that the ECLAC/CDCC secretariat stood ready to provide the critical support and objective analyses needed to meet those challenges and come up with joint approaches for their solution. He thanked the Government of Trinidad and Tobago for hosting the meeting and representatives of all other countries and institutions for participating.

The Secretary of the Commission, Ms. Laura Lopez, extended greetings to participants on behalf of the Executive Secretary of ECLAC, Mr. Jose Luis Machinea, and thanked the countries for their continued support in helping to advance the development process in the region. In reflecting on the impact of the Commission's work in the past, she said that ECLAC had played a critical role in shaping the approach to post-war economic and social development. In the Caribbean, the ECLAC Subregional Headquarters had been recognized for its applied research in numerous areas and had been instrumental in refining the ECLAC disaster assessment methodology for use in the wider region. The Port of Spain office was also well respected for its training programmes for upgrading the services provided by the Documentation Centre and for the recent addition of the Knowledge Management Centre.

ECLAC fully supported the initiative to improve the effectiveness, visibility and relevance of CDCC as a springboard for improving coordination with Caribbean partners. The thirty-second session of the Commission to be held in a country belonging to the Caribbean family of nations, the Dominican Republic, would be a vital forum on current and future priorities and she urged countries to seize the opportunity to articulate their position on priority activities and the support required to advance Caribbean development in the forthcoming biennium. The main document to be presented at the session, *Changing Production Patterns 20 Years Later: Old Problems, New Opportunities*, would examine the role of public-private partnerships in the development process in the light of the comparative experiences of different countries and regions, including those of the Caribbean, and in terms of how such alliances could be brought to the forefront of export development models.

The Commission would continue to advocate greater degrees of freedom for countries in determining their development options. In that regard, reforms and restructuring would need to

be sequenced in such a manner as to allow countries to benefit from linkages with the global economy and to build up their competitiveness, even as they opened up to trade and financial flows; to enable them to carve a niche for themselves especially in light manufactures and services; and to call for technical assistance and trade facilitation support for countries to realize some of the trade and investment gains anticipated by the Doha Development Round. In concluding, she assured participants of the Executive Secretary's pledge of continued support for the work of advancing Caribbean development.

### Decisions

- 1 To emphasize the continuing relevance of the Committee in providing its members with effective support in developing regional strategies to address common global and regional challenges and to inform the articulation of positions in regional and international forums through the elaboration of issue-based negotiating platforms in specific areas of key interest to the Caribbean;
- 2 To reiterate the importance and relevance of the Committee as a subregional entity for cooperation to fulfil their development objectives with the support of the ECLAC secretariat in the Caribbean and in recognition of its necessity as a mechanism whose basic ideas are enshrined in the Constituent Declaration;
- 3 To optimize regular and extrabudgetary resources through, inter alia, further consultations with development partners, donors and other key stakeholders with a view to ensuring the greatest impact on the countries and bearing in mind the inherent vulnerability of the subregion;
- 4 To acknowledge the technical assistance that the secretariat has provided to countries and the need to identify priority areas through concrete proposals so that they may receive greater attention from the Committee;
- 5 To reinforce the CDCC forum by establishing strategic alliances with Caribbean regional offices of United Nations funds, programmes and specialized agencies, donors, private sector and civil society actors and other concerned development partners to ensure their participation in its work on a regular and continuous basis;
- 6 To enhance the effectiveness of the monitoring mechanisms to gauge progress in implementing the Committee's decisions including the priorities, next steps and timelines;

- 7 To develop various strategies, programmes and incentives targeting investment, including joint ventures between Latin America and the Caribbean;
- 8 To examine possibilities for cooperation in tourism, including multi-destination tourism, and the cooperation between CDCC member and associate member countries and Latin American countries in music and entertainment, and sports;
- 9 To underscore the importance of creative industries as a dominant feature of future economic development in the Caribbean;
- 10 To take into account the consequent need for a comprehensive policy on intellectual property to support sound development of creative industries, genetic resources and traditional knowledge;
- 11 To facilitate the establishment of links between Caribbean institutions and the Andean Development Corporation secretariat, in pursuit of collaborative research and technical cooperation projects;
- 12 To strengthen institutional relations among the ECLAC/CDCC, ACS, SELA, CARICOM, SICA and OLADE with a view to promoting dialogue and developing concrete actions to further functional cooperation between the Caribbean and Latin America;

### Closure of meeting

The representative of Cuba, speaking on his own behalf and on behalf of all the other delegations in attendance, thanked the ECLAC/CDCC secretariat for an excellent meeting and the Government of Trinidad and Tobago for its hospitality and good will. He looked forward to continued collaboration.

The Director of the ECLAC Subregional Headquarters for the Caribbean thanked all those who had contributed to the success of the session. He also expressed his thanks to the Minister of Foreign Affairs and the Government of Trinidad and Tobago for their untiring efforts and support in convening the twenty-second session of CDCC, and to the staff of ECLAC for their hard work in making the meeting a success.

The Permanent Secretary of the Ministry Foreign Affairs expressed her congratulations to the participants for the amicable atmosphere in which the session had been conducted. In closing, she thanked all the participating delegations for making this twenty-second session such a success and urged all member and associate member countries to participate fully in the ECLAC session in the Dominican Republic in June 2008. ■



# PUBLIC-PRIVATE PARTNERSHIPS (PPP) AND TOURISM COMPETITIVENESS IN THE CARIBBEAN

Excerpts from a paper on Tourism in the Caribbean: Competitiveness, Upgrading, Linkages and the Role of PPP and Public Policy



## A. Areas of Intervention for PPP in Tourism

In 2000, the World Tourism Organization Business Council (WTOBC) released a study based on global research to ascertain among others the extent to which PPP were perceived as relevant in stimulating tourism competitiveness by the global tourism community.

Given that the literature on PPP and its role in tourism competitiveness is rather limited, the WTOBC study goes towards palliating for a lack of analysis on the subject. The study, unique in its kind, surveyed the tourism industry<sup>1</sup> in more than 90 countries in order to assess PPP as an effective force in stimulating tourism competitiveness around the world at a national, provincial/state and local levels. Out of 234 respondents, 81% rated PPP as “very effective” and 98% as either “very effective” or “effective”. The effectiveness of PPP was gauged in a set of areas as given in Table 1.

On the basis of these responses, the eight areas in which PPP have been the most effective as a determinant of tourism competitiveness were:

- ✓ Improving destination image
- ✓ Preserving cultural and heritage resources
- ✓ Protecting the environment
- ✓ Improving education and training
- ✓ Improving transport infrastructure and basic services
- ✓ Improving safety and security
- ✓ Facilitating investment and financing
- ✓ Overcoming trade and investment barriers

The areas where PPP had been the least effective were:

- ✓ Developing or improving accommodation
- ✓ Improving yield
- ✓ Dealing with competition
- ✓ Electronic marketing and distribution, including the internet
- ✓ Dealing with risk and uncertainty
- ✓ Reducing physical nuisance

The WTOBC study provides survey-based empirical evidence that the tourism industry views PPP as an essential determinant of tourism competitiveness. More recent studies are needed to establish whether this evidence has grown stronger over the past decade in the tourism sector and to ascertain geographical variations in the perceptions of PPP as an effective determinant of tourism competitiveness.

### Forms of Public-Private Partnerships

Before proceeding further, there is a need to define what we mean by a PPP. A public-private partnership can be thought of as a “cooperative venture or collaborative effort between the public and private sectors, which is built on the expertise of each partner and in which each contributes to the planning, resources and activities needed to accomplish a mutual objective”<sup>2</sup>. PPPs are public-private sector arrangements that are characterized by a sharing of

risks, investment, resources, responsibility and reward<sup>3</sup>. We consider in this paper the “public” sector to represent governments and their entities and the “private” sector to represent all non-governmental entities. Based on existing literature from various sources (World Bank; UNDP; National Council for PPP) and on practical observations<sup>4</sup>, we take PPP to exist in various forms in Caribbean tourism. These forms range from:

- (a) **Formal contractual arrangements** (mostly in the area of investment) where the financing, design, building, operation, management and maintenance of a ►

TABLE 1: PPP as an effective determinant of tourism competitiveness – selected areas

Area of Public-Private Sector Partnerships	per cent of Responses as “very effective” or “effective”
<b>Product Development/Enhancement</b>	
Developing or improving attractions	66
Developing or improving accommodation	50
Protecting the environment	79
Preserving cultural and heritage resources	85
Setting quality standards	67
<b>Infrastructure/Human Resources</b>	
Improving transport infrastructure and basic services	77
Improving public health and sanitation	73
Enhancing technological innovation and advancement	63
Improving safety and security	77
Reducing physical nuisance	62
Improving education and training	78
<b>Marketing and Promotions</b>	
Improving destination image	87
Dealing with competition	59
Improving market coverage and reach	65
Electronic marketing and distribution, including internet	61
Consumer protection	70
<b>Socio-economic &amp; Geo-political Factors</b>	
Improving yield	54
Leveraging public investment	72
Facilitating investment and financing	77
Dealing with risk and uncertainty	62
Overcoming trade and investment barriers	77
Easing restrictions to travel	73

Sources: WTOBC, 2000

<sup>1</sup> National tourism organizations, ministry of tourism, consultants, educators, industry associations, international organizations, transport companies, hotel and tour operators.

<sup>2</sup> Several definitions of PPP exist depending on the context of its use. The definition in this paper is based on an adaptation of the definition used from the Canadian Council for Public-Private Partnerships (CCPPP).

<sup>3</sup> Adapted from the CCPPP.

<sup>4</sup> Based on phone conversations with tourism officials in the Caribbean Region.

particular facility is subject to specific contractual sharing arrangements between the private and public sectors (e.g. build-transfer-operate, lease-purchase, privatization with regulation);

- (b) **Formal joint funding and/or ownership** of a particular institution or facility or joint participation and/or funding in an initiative;
- (c) **Joint regular consultations** in a formal setting to review, plan, discuss and agree on certain policy issues (e.g. advisory bodies, commissions);
- (d) **Informal or “loose” arrangements** whereby each sector supports each other (for example, public policy fine-tuned to address private sector needs) and contributes to improve each other’s performance (for example, consultations with the private sector to improve on public policy).

PPP can be thought of as existing *along a spectrum defined by varying degrees of public (or private) involvement*, with at one end public policy to support the private sector as a loose form of public-private sector collaboration and at the other end privatization of a public facility with regulation by the government. In between there exist various types of public-private collaboration such as government owning a hotel and contracting out management to the private sector or the private sector undertaking an investment in return for government signing a contract for agreed service purchases. In all its forms however, a PPP must involve an ongoing relationship between both sectors.

### How do Public-Private Partnerships Promote Tourism Competitiveness?

The economic rationale for PPP lies in the promotion of tourism competitiveness. But how does PPP promote tourism competitiveness? The models of tourism competitiveness that are traditionally proposed in the tourism literature such as that of Dwyer and Kim (2003)<sup>5</sup> do not allow us to answer this question. These models identify the determinants of tourism competitiveness but do not identify either the major actors of the tourism industry, or flesh out the nature of their relationships

and inter-dependencies. To motivate the linkages between PPP and tourism competitiveness, one must understand two dimensions: first the components of the tourism product and the sequencing involved in its generation; and second the nature of the interactions of the various actors of the tourism industry within both the organizational context of the industry (local and foreign), and within the spatial/geographical context located at the destination.

To this end, we need to turn to the model of competitiveness of Michael Porter (as adapted in the WTOBC study above) and utilize the approaches of tourism value-chain and tourism cluster, as described in the WTOBC study<sup>6</sup>.

In a *first instance*, the special nature of the tourism product - a “good tourism experience” - needs to be recognized. In order to be competitive, the tourism destination needs to offer to the client a “tourism experience” which when viewed in its entirety is deemed by the tourist to offer “*greater value* for the same amount of *effort* as compared to other rival destinations” (WTOBC, 2000). This tourism experience can be divided into a sequence of stages or “events”. At each stage or event, value is created for the tourist and the tourism industry, and taken together these multiple events form a tourism value-chain (see Figure 2). Whether the tourist gets a positive tourism experience will depend on the value delivered on activities produced at each specific stage of the tourism experience. These activities may occur *before arriving at the destination* (e.g. viewing of advertisements on the destination, booking with the tour operators, buying travel insurance, going through visa processes, and actual traveling to the destination); *at the destination itself* (e.g. welcome activities at the airport, travel from the airport, buying local currency at currency exchange offices, accommodation, entertainment etc) and the *journey back home*. Clearly the “tourism experience” enjoyed by the tourist depends on the overall attractiveness of the destination which in turn depends on the ability of the different parts of the tourism value-chain to provide an output that satisfies the tourist. This in turn requires for the

various actors along the value-chain to act in a cohesive and coordinated manner to offer a recognized, valued product that subscribes to a uniform set of standards. There is a clear need for cooperation and coordination on strategic management issues that necessitate consultations and joint actions among all actors, both public and private, within the tourism value-chain. In this context, PPP can perform an important coordinating role in promoting competitiveness by bringing together the various components of the tourism value-chain to facilitate joint strategic planning and management at all levels of the value-chain.

The tourism value-chain, like any other value-chain, creates rents that are dynamic i.e. subject to being destroyed by competitive forces, as implied by the Tourism Area Life Cycle<sup>7</sup> and Porter’s model. To preserve these rents or create new ones, the different private and public actors across the tourism value-chain (buyers and suppliers, whether domestic or foreign) need to coordinate their actions around a common competitive positioning strategy to allow the tourism destination to remain competitive. An important source of competitive advantage for the tourism destination, within the value-chain approach, lies in its ability to provide to the tourist a seamless experience of great value as the tourist progresses along the value-chain. This requires cooperation and coordination among the various actors of the tourism value-chain which can be facilitated by PPP.

In a *second instance*, there is also a need to recognize that these “tourism experiences” at the destination can take place in limited geographical spaces known as clusters. According to the WTOBC (2000), clusters are “*a group of tourism resources and attractions, infrastructure, equipment, service providers, other supporting sectors, and administrative bodies whose integrated and coordinated activities contribute to providing customers with the experiences they expect from the destination they choose to visit*”. These clusters are the basic competitive units, competing directly with other tourism clusters in the same country or other destinations. To remain competitive, the cluster must build or maintain

<sup>5</sup> See LC/CAR/L.166 as an accompaniment to this paper.

<sup>6</sup> This section draws in part from the analysis of the WTOBC study, 2000.

<sup>7</sup> See LC/CAR/L.166 for an exposition of the Tourism Area Life Cycle.



competitive advantages that will enable it to withstand the five competitive forces, as identified by Porter that normally erode competitiveness. These are the threat of new competitors; changes in negotiating power with suppliers and buyers that affect price, costs and quality; the threat from substitutes and competition from existing competitors. The cluster will need to engage in competitive activities (such as product development and enhancement, marketing, branding, promotion and the building of linkages across cluster entities) that will allow it to do the same things as its rivals do but only better, or else do things that are different from its competitors, in essence, competitive activities that allow the cluster to offer to the tourist “greater value for the same effort” (WTOBC, 2000). As a matter of fact the tourism cluster needs a “competitive diamond” i.e. according to the WTOBC (2000) “*a business environment that stimulates the permanent process of innovation and improvement in quality, high operational efficiency in carrying out the competitive activities, and a high level of productivity in using resources*”. The vibrancy of this business environment depends on the business strategies of all actors within the cluster (public sector and private sector) as well as their ability to compete with each other to bring efficiency gains. At the same time they also need to know how and when to cooperate and to synchronize their business approaches in order to exploit synergies and play complementary roles to achieve collective goals that in the end increase economic benefits for the tourism cluster and for each producer within the cluster. In order for the tourism cluster to stay competitive and prosper, partnerships such as PPP are needed across all actors within the cluster. The partnerships allow for a concerted, coordinated and coherent development of a common competitive positioning strategy for the cluster (e.g. common branding, joint marketing). Partnerships within the cluster may also be needed to limit excessive competition among actors in the same segment of the value chain that reduces benefits for the cluster as a whole (e.g. avoiding races to the bottom among hotels). This requires for all entities to be willing to evolve in a new paradigm of “co-opetition” as

the WTOBC puts it that involves both competition and cooperation rather than in an environment of competition alone dominated by counter-productive fragmentation of the industry. Furthermore, the major source of competitive advantage, within the cluster approach, lies in the ability of the cluster to take advantage of the economies offered by spatial concentration (forming networks to reap economies of scale, access to a common pool of resources, gains from specialization, collective lobbying). PPP can facilitate the reaping of such economies.

### PPP as a policy instrument for facilitating upgrading within the tourism value chain and tourism cluster

PPP can enhance tourism competitiveness, namely by facilitating the sharing of costs, risks and investments; addressing coordination and market failures; reducing transactions costs; facilitating joint strategic visioning, planning and leadership; facilitating the building of inter-sectoral linkages and facilitating good governance. These types of actions facilitated by PPP may be needed during the implementation of upgrading strategies within the tourism value-chain and tourism cluster with an aim to increase tourism competitiveness. In other words PPP and public policy within a PPP can promote tourism competitiveness by being policy instruments for the implementation of upgrading strategies within the tourism value chain and tourism cluster.

## B. Public-Private Partnerships in Caribbean Tourism

In the area of tourism in the Caribbean, PPP are predominantly observed in the form of:

- (a) **Public institutions** governed by public-private boards of directors with funding by governments and at times by donor agencies, and where the board of directors report to the Minister for Tourism. These will be mostly national tourism boards and national tourism authorities. These institutions collaborate with private sector organizations such as hotel and tourism associations to stage major events in

the region, to finance and organize marketing and promotion programs and implement the tourism policy of the government. It can also include Tourism Development Companies (e.g. Trinidad and Tobago) or Tourism Investment Agencies (e.g. Barbados) or Tourism Product Development Company (e.g. Jamaica), whose responsibilities include forging partnerships with the private sector to attract investment or lead product development. The Minister for Tourism can also appoint private sector members to the Board of Port Authorities, whose roles are to manage the seaports system and provide services to shipping companies including cruise companies as well as to maintain or augment port facilities and infrastructure.

- (b) **Formation of public-private sector alliances** to respond to crisis situations (e.g. Gulf crisis, September 9/11 attacks, economic recessions in North America) or to a pressing need for increased competitiveness.
  - (c) **Public policy** geared to support the private sector in the form of (1) fiscal and regulatory incentives (tax breaks, tax credits, subsidies, streamlining of procedures) in specific areas including support to airlines and in upkeep of infrastructure; (2) earmarking of specific physical areas for tourism development (creation of clusters) that also involves sales or leases of land by the Government to the private sector for development.
  - (d) **Joint ownership of assets** including State and private equity stakes in hotels or airlines, with management left either to the State or to the private sector.
  - (e) **Regular holding of public-private meetings** (e.g. regional and national conferences) for discussions, strategic visioning, policy-making and decision-making (e.g. drafting of strategic tourism documents).
  - (f) **Pooling of financial resources** into a public-private fund for specific programs or initiatives.
- It is widely regarded that these PPP in the Caribbean<sup>8</sup> have been predominant mostly in the area of “marketing and promotions” as part of a product upgrading based on branding and to a lesser extent in the area of “product development and enhancement.” ▶

<sup>8</sup> Based on phone interviews carried out with tourism officials in the Region.

The three major institutional players are: on the public sector side the Ministry of Tourism, in charge of providing the vision for tourism, setting the tourism policy agenda and determining the set of public policy incentives needed by the private sector. On the private side, there are hotels, restaurants and tourism associations that represent the interests of the private sector in tourism and provide supporting services to its members in the form, among others, of lobbying the government for certain preferential advantages. These associations are important partners for the government in guiding and informing the development and implementation of the national tourism policy. In destinations where the cruise segment is significant, cruise industry associations will also be present. Certain gaps in national information systems and capacity constraints in the Caribbean may render it necessary for both the public and private sectors to work closely in order to fulfill the public sector's role in planning for and developing the tourism sector. Tourism boards and tourism authorities have the mandate to lead the development and implementation of the national branding strategy and to promote and market the destination abroad, in accordance with the national tourism policy and the branding strategy. The Port Authority is responsible for the maintenance and upgrading of port infrastructure and cruise terminal facilities and manages port services including cruise ship services.

All these institutions work closely together at a national level as part of the domestic tourism value-chain and are engaged in symbiotic relationships. Their common goals are to maximize benefits from the tourism sector and maintain international competitiveness in accordance with the national tourism and cruise ship policies of the destination and within a common branding strategy. There is a clear delineation of mandates, roles and responsibilities among them that serve to some extent to mitigate conflicts and facilitate inter-institutional collaboration, communication and information sharing (no conflict condition, Figure 5). It is highly common for members of these various institutions to sit at each other's boards of directors. Also

given the small size of the economies in most destinations, the "tourism network" and the "public-private" network are likely to be "thick", fostered by close and sometimes long interpersonal relationships among tourism professionals. These networks favor the building of trust and collaboration across the tourism private and public sectors.

In addition at a regional level, all the member governments and by extension all the national tourism boards and national tourism authorities form part of the Caribbean Tourism Organization (CTO), a public-private regional institution, while the various National Hotel and Tourism Associations are part of the private-led Caribbean Hotel Association (CHA). These two regional organizations are closely inter-linked and have a long history of close collaboration, as we shall see later. The dense tourism network at a national level extends to a regional level, with all tourism professionals meeting at annual regional conferences and the like hosted by the CTO and CHA. Members of the CTO and CHA contribute to participate in the CTO and CHA joint networking events as the expected benefits from participating are deemed to be high for all (proportional-benefits condition, Figure 5). The region, while diverse, also displays strong commonalities among countries in terms of culture, people, history, institutional development, colonial past and common challenges. Regional cooperation has been historically fairly strong in several areas, and this facilitates regional public-private collaboration including in tourism.



Both the public and private sectors in the Caribbean tourism industry at a national level, especially in destinations that are highly tourism dependent, recognize that their "fortunes are tied" and that their interests are inter-linked.

The private sector is in need of profits and needs a well-functioning tourism sector and for this it relies on governments for the supply of supporting services. Governments on the other hand rely on tourism for the creation of national wealth. There is a strong mutual interest between the public and private sectors for protecting and developing the tourism industry. Moreover, each sector in the Caribbean, owing to its respective capacity constraints, needs the leadership, visioning, and managerial competencies of the other to fulfill certain of its functions effectively, mainly when it comes to long-term planning and effective implementation. The public and private sectors are both actors in the tourism value-chain and tourism cluster and as such need to synchronize their actions to create gains for the cluster and throughout the chain.

The tourism industry possesses certain inherent structural characteristics that make collaboration and cooperation "necessary" between the private and public sector. There are large synergies to be harnessed through collaboration between them.

First strategic complementarities are present: a "good tourism experience" depends both on what the private sector provides (nice hotels, excellent resort facilities, great customer service) and what the public sector provides (well-functioning airports and domestic transport system, safety and security, basic utilities). The tourist is a consumer of both private and public or quasi-public goods. The demand for tourism depends on the quality and costs of both these type of goods; hence the private and public sector need to coordinate and communicate with each other to offer a "joint product of high quality".

Second, an excellent image and reputation are important sources of competitive advantages in the Caribbean tourism sector as in any service industry. All the institutions involved in tourism have common interests in building and protecting the image and reputation of the region. In addition Caribbean tourism as a whole is highly vulnerable



to any national idiosyncratic shocks or regional aggregate shocks, (e.g. health scares, crime and violence) that can damage the image and reputation of the Caribbean as a whole as a competitive destination. A random event in one part of the Caribbean can carry negative consequences for all the rest, owing to their physical proximity and perceptions of the Caribbean as a homogeneous bloc by outsiders. Destinations impose positive and negative externalities on each other. This particularity of the tourism sector,

namely presence of regional and national externalities, favors the development of close relationships among the various national and regional institutions (public and private) around a common set of objectives in recognition of the interdependencies of their interests and actions.

Third, tourism demand is “fickle” and “elastic” in a highly dynamic global travel and tourism industry. New destinations come to the market regularly.

Maintaining competitiveness requires continuous upgrading which in turn requires the public and private sector to entertain continuous relationships rather than engage in ad-hoc cooperation. In sum, the nature of the tourism industry in general along with the institutional, historical, and geographical specificities of the Caribbean as a regional community together may create the “right” conditions for PPP to arise and be effective in Caribbean tourism.

## IV. SUMMARY

There are numerous case examples of the role that Public Private Partnerships and public policy have played in enhancing tourism competitiveness, whether at a regional or national level in the Caribbean region. Ideally a comprehensive mapping of PPP in tourism throughout the Caribbean should have been undertaken in order to obtain a valid picture of the range of the types and areas of PPP that have been used to enhance tourism competitiveness and in so doing update the findings of the WTOBC study in 2000. Such a mapping through the use of questionnaire surveys or interviews should also have included an analysis of the objectives of each PPP in respect of enhancing tourism competitiveness, its success at reaching intended outcomes and a mapping of the factors that were critical in generating successes or failures in delivering the objectives.

### A. General observations

- 1 The case examples have demonstrated that the Caribbean as a region has had a long history of using PPP and public policy as instruments for promoting competitiveness in the tourism sector. There has been varied and significant use of PPP and public policy incentives in Caribbean tourism.
- 2 Public policy support to the private sector is an important aspect of PPP. The private sector is dependent on Governments for the latter's support and approval in terms of providing an enabling environment for private tourism development, whether it relates to mass-tourism or niche market development.
- 3 It is clear that a large part of the type of public support given to the private sector in tourism has been in the form of tax or duty or customs exemptions through the enactment of Hotel Aids Acts, especially in initial stages of the tourism life cycle, and through Tourism Development Acts at later stages of the tourism life cycle. With the move away from mass-tourism based on sun, sand and sea within beach hotels towards the development

of broader tourism products based on a range of outdoor attractions that take the tourist out of his resort, the focus of public policy incentives has been shifting away from giving fiscal concessions only to hotels towards granting fiscal concessions to tourism-related facilities in general. However the effectiveness of using tax/duty/customs exemptions to enhance tourism competitiveness relative to the use of other fiscal measures such as non-distortionary grants targeted at specific groups or for specific purposes has not yet been fully examined in the Caribbean tourism sector. There is an important need to undertake a cost-benefit analysis of fiscal concessions in the tourism industry. Another important form of public policy support has been the provision of supporting legislation to enable the development of certain niche markets (e.g. governments changing administrative requirements to allow a speedy issue of wedding licenses to enable the development of the Wedding and Honeymoon segment) or the provision of land and state-owned assets through leases or sales for the development of eco-tourism and attractions. The State can also be an important facilitator of funding and mobilizer of resources from the international community for the private sector as we have seen in the case of NGOs in heritage tourism. It can also use its influence and political clout to bring business deals for the private sector in tourism as we saw in the case of business tourism in Trinidad for the hosting of major inter-governmental conferences. The State is however a major supporter of the tourism industry in the Caribbean in the area of air transportation and securing increased airlift to the destinations.

- 4 Whether at a regional or national level, a significant part of the PPP revolves around the collaboration between the regional/National Tourism Authority governed by a public-private Board of Directors and the Hotel and Tourism Association representing the collective interests of the private sector. A large part of this public-private collaboration has been in the

form of joint promotional and marketing efforts and co-participation in trade and travel shows.

Public-private collaboration in marketing and promotion has played an important role at a regional level and national level in maintaining the region's competitiveness at times of crisis (Gulf War, 11 September attacks, post-hurricane). When it comes to upgrading, public-private collaboration in marketing and promotion has served to highlight the new niches of Caribbean tourism in major travel and road shows and at branding the destination. Promotions through PPP have also contributed towards attracting investors in designated market segments or for the refurbishment of existing hotels and construction of new ones to facilitate upgrading strategies.

- 5 Public-private collaboration at a regional level between the CTO and CHA has led to the hosting of a number of conferences. These conferences in turn have been important facilitators of network-building between investors and suppliers of the tourism industry. Investment is a critical determinant of competitiveness in the tourism industry, especially when destinations are in the later stages of their life-cycle and needs massive capital investment for upgrading facilities and attractions.
- 6 It is important to note that PPP enhance the effectiveness of public policy making for the sake of promoting tourism competitiveness. When PPP take the form of joint fora for discussions and decision-making, it facilitates the implementation of public policy measures that go towards supporting the private sector in the tourism sector as these measures are likely to have been agreed upon by both the public and private sector in a consensus-building approach. On the other hand as the case of Puerto Rico demonstrates, public policy through fiscal incentives can be used to promote the use of PPP in tourism, again for the sake of influencing determinants of tourism competitiveness such as increasing access to finance for tourism investment. The creation of Tourism Venture Funds through fiscal incentives is an example. ▶



8 As a destination moves along its tourism life cycle, increased competitiveness requires increasingly a mix of both product upgrading based on the development of specialized market segments and enhanced quality and process upgrading based on reductions in operational costs through among others human resource development. While in the 1970s and 1980s public-private collaboration in the Caribbean has been predominantly in promotion and marketing to increase sales and feature major events and/or facilitate investment, from the late 1990s onwards, this collaboration had extended to the protection of environmental resources, setting of quality standards, human resource development and targeted promotion and marketing for specialized market segments.

9 At the initial stages of the tourism life cycle, as destinations seek to upgrade their facilities and infrastructure in order to progress further up the life cycle, PPP may be needed to provide access to capital for such upgrading,

especially if the government has limited funds. In the case where national capacities are weak and expertise is needed, partnerships with international private companies may be sought by the Government in order to initially address the national capacity constraints and second to facilitate the transfer of skills and expertise from internationals to locals. This was illustrated by the case example from Cuba.

10 The development of specialized market segments also requires a certain amount of investment. In small cash-strapped economies like Dominica or St Kitts and Nevis, PPP involving international investors are needed to facilitate access to international capital and expertise.

It can be summarized that the basis for a PPP always resides in a recognition by each party (public and private) that there is as yet an unexploited economic opportunity to be realized that will involve mutual gains for each party that are in excess of the costs

for each party to participate in the private-public arrangement. The major benefits of PPP in tourism development for the public sector are an access to private capital and an access to private sector's expertise and creativity in some specialized areas where such capital and expertise are needed to bring to realization a development opportunity for the country, especially in an under-developed area. The public-private partnership also gives the Government the possibility to engage the private sector in corporate social responsibility and get the private sector to invest a share of its profits in local and community development that will yield visible benefits to the populace. On the other hand a partnership with the government may facilitate for the private sector access to large-scale government capital, and/or access to a state-owned asset that the private sector may need as productive capital for its private tourism venture or access to political influence in the area of legislation.

## DISCUSSION - Public-private partnerships for development - A Caribbean perspective

The panellists shared information on country experiences and provided a Caribbean perspective on the issue of public-private partnerships for development.

Robert Devlin of the ECLAC Washington, DC Office, provided a briefing on the preliminary findings of an ECLAC study on Public-Private Alliances and Export Development. The study compared the experiences of 11 high-performing, small- and medium-sized countries with those of seven Latin American and Caribbean countries. It revealed a number of constraints in that area: weak public institutional capacity; a paucity of support programmes; limited evaluation of impact; and problems of transparency. In the Caribbean, the medium- and long-term strategic vision was often missing; and macroeconomic and national plans focused only on the short term. Moreover, public-private alliances were either sporadic and fragmented or incipient and fragile, Barbados being the exception in that area. Such partnerships must, therefore, be based on a forward-looking strategic vision centred around clear medium- and long-term goals for export development and economic convergence. He added that public-private partnerships were fundamental to the formation and implementation of strategies to boost competitiveness in an era of globalization and must be underpinned by political leadership, civil society participation and the building of consensus among stakeholders.

Roberto Machado, of ECLAC POS presented the findings of an ECLAC study on Public-Private Partnerships (PPP) as a Determinant of Tourism Competitiveness: The Case of the Caribbean. The study highlighted the need to expand the use of public-policy incentives beyond the mere tax/duty/customs exemptions that had been practised by the tourism industry for the past 50 years. Mr. Machado drew attention to the role that such partnerships could play in helping the region to

address future challenges in the tourism sector, including the reduction of import leakages and the cost of doing business in Caribbean tourism

Basil Springer described the experience of Barbados and its development strategy with respect to the role of its tripartite partnership. The Barbados model brought together the public sector, a dynamic private sector and effective trade union and NGO movements, among others, to formulate and implement medium- to long-term strategies for development. Those strategies were implemented in a traditionally stable political environment with a sound educational system and an enabling colonial administration legacy. Among other factors, the bedrock of the model was prudent fiscal management and caring social programmes.

The model promoted diversification to enhance export development and investment. The productive sectors of emphasis featured areas such as financial services, tourism and its linkages, agriculture and agro-processing and renewable energy. The model also fostered regional partnerships with the Caribbean Tourism Organization (CTO) and the Caribbean Export Development Agency (CEDA) to enhance regional integration through the Caribbean Single Market and Economy (CSME).

The Barbados model compared well with the Irish model for development and Barbados was poised, particularly because of its historical ties with Ireland, to learn several important lessons from the latter. Under the theme of good governance, the Dr. Springer recommended that the social compact should be integrated into the governance structure and legislative framework of Barbados. In the area of marketing, it was recommended that the model should be promoted and replicated regionally to enable regional partners to emulate that philosophy.

In the discussion that followed, the representative of Suriname pointed out that her country was

unique in terms of culture, language and ethnic composition. While clear economic benefits could be derived from tourism, the question was whether these would be achieved at the expense of the country's cultural identity or environmental sustainability. The representative of the British Virgin Islands enquired about the impact of crime on tourism and sought guidance from the panel as to how to build partnerships to protect that sector against such negative trends. One panellist responded that, given the fact that young men (aged 17 to 24) seemed to be the main perpetrators of crime, the needs of that segment of the population would have to be addressed through continuing education and employment. In response to a query from the representative of Trinidad and Tobago as to how best practices at the international level could be replicated in the Caribbean, one panellist advised that countries such as Singapore could provide a useful model.

The representative of Jamaica advised that the country was currently in the process of formulating a national development plan which included the use of PPPs in the provision of public goods. However, the partnerships have been uneven, where used. In the instance of the construction of the Portmore Highway in Jamaica, the public was particularly dissatisfied. She requested the advice of the panel as to how the benefits of such partnerships could be better managed.

Dr. Springer expressed the view that PPPs needed to be set up infrastructurally: government, private sector, trade unions, church and civil society would all need to be involved. Then, it would be wise to look at the role each was to play towards development: the government was designed to provide services, the private sector was doing the business, the trade unions induced harmony between the two, and the media ensured that there was good communication between the populace and other actors. ■



## THE UNITED STATES SUBPRIME CRISIS AND ITS IMPLICATIONS FOR THE CARIBBEAN - Extract<sup>i</sup>

<sup>i</sup>The full paper with tables is available on  
<http://www.eclac.cl/publicaciones/xml/2/33092/L164.pdf>



### Introduction

The bursting of the property bubble – subprime mortgage crisis – in 2007 in the United States has engendered panic, recession fears and turmoil in the global financial system. Although the United States economy grew by 0.6 per cent in the last quarter of 2007, down from 4.9 per cent in the previous quarter, day by day worsening scenarios emerge, from escalating oil prices, to a depreciating dollar and financial institutions' bailout by the Federal Reserve. Many economists and policy makers share the view that a subprime-led recession – i.e. two consecutive quarters with negative growth – is inevitable and will be much deeper and longer than the 2001 dot-com downturn. Moreover, the critical situation of the financial system has driven some analysts to argue that should the monetary policy response fail to restore confidence among investors, the outcome would be the worst crisis seen since the Great Depression. This pessimism is not only among specialists. Indeed, in late March 2008 the Consumer Confidence Index in the United States recorded its lowest level since February 1992.

A recession in the United States will undoubtedly have an important impact on the world economy, despite the continuous rapid growth experienced by emerging economies, particularly China and India.

### The nature of the crisis

The United States economy is currently confronted with many challenges catalyzed by the property bubble bust.

The collapse of real estate prices has resulted in unprecedented losses and bankruptcies of hedge funds, mortgage

lenders and banks and has led to unnerving uncertainty on Wall Street and global financial markets<sup>1</sup>. The epicentre of this economic weakening are subprime mortgages which are highly risky mortgages issued to borrowers who could not qualify for ordinary or prime mortgages due to low incomes or bad credit history. Most subprime mortgages have adjustable interest rates, with initial fixed low interest rates for two years and then higher rates that are reset every six months based on a benchmark interest rate such as the London Inter-bank Offer Rate (LIBOR). Low interest rates and excessive risk-taking by many weakly supervised financial institutions eager to grant loans largely contributed to a sharp increase in subprime mortgages from 2.4 per cent of total mortgage loans in 2000 to 13.7 per cent in 2006. This, in addition to increased speculative demand, pushed up house prices by 80 per cent during that period, an increase only observed in the immediate post-World War II period.

The rapid appreciation in house prices brought about steep realization of equity from properties which stimulated consumer consumption that makes up a massive 72 per cent of United States GDP. Consequently net equity extraction from residential property spiked from 3 per cent of disposable income in 2001 to 9 per cent in 2005<sup>2</sup>. Once interest rates began to reset, mortgage payments increased – in some cases by 30 per cent – to amounts that many borrowers could no longer afford. By January 2008, the rate of delinquency on subprime mortgages had risen to 21 per cent. The drastic increase in housing inventory, followed by sizeable reduction in house prices, gave rise to negative equity for both subprime and prime homeowners. Being the main asset of most households, the

collapse of the price of houses has had a significant negative wealth effect, which will undoubtedly reduce consumption significantly.

Highly associated with the subprime crisis is a well-defined channel of financial intermediaries (brokers, mortgage companies and special investment funds) which distributed risks extensively from banks to special investment vehicles, hedge funds, offshore banks and investors. The weak regulation of these intermediaries contributed to a marked increase in abusive and predatory lending, i.e. little or no documentation requirements, inadequate credit checks, the removal of down payment requirements, and enticing initial rates on adjustable rate mortgages. As the housing market slowed the value of mortgage-backed securities (Collateralized Debt Obligations) fell sharply and caused investors to pull back from credit markets. Banks were therefore forced to retain on their own balance sheets a higher share of subprime mortgages and, as a result during the last quarter of 2007, the financial sector suffered considerable losses to the tune of US\$83.1 billion. For instance, Citibank reported US\$9.83 billion net loss during this period, caused by a US\$18.1 billion write down in subprime losses. As investors and financial institutions possess assets backed by subprime mortgages now estimated at US\$1.3 trillion (see table 1) there is the potential that these losses will spiral upwards should these mortgages go into default. Hence, a further deterioration of banks' balance sheets and an extension of the infamous credit crunch are possible. To avoid a major financial crisis, the continuous write downs will have to be marked against equity capital hoping that it is sufficient to keep banks solvent. ►

<sup>1</sup>New Century Financial filed for Chapter 11 Bankruptcy in April, 2007; Bear Stearns bailed out two of its Hedge Funds at a cost of US\$3.2 billion in June, 2007. The latter investment bank was itself bailed out in March 2008, at a price per share of around 14 per cent its value a week before.

<sup>2</sup>The Market Oracle ([http://www.marketoracle.co.uk/Article\\_2537.html](http://www.marketoracle.co.uk/Article_2537.html)).

**TABLE 1: Potential subprime losses (U.S. dollars)**

Description	Amount
Subprime mortgages	1.3 trillion
Distressed subprime mortgages	625 billion
Foreclosed subprime mortgages	220 - 450 billion
Current market value of subprime mortgages	300-900 billion
Per cent subprime foreclosed	15%-25%

Source: Federal Reserve, Moodys.com.

### Economic policy responses

At the onset of the financial market turmoil in 2007, policy makers have been industrious in trying to curb and avert a recession.

Faced with the slide in the real economy and the crunch in the financial system, the Federal Reserve has taken unprecedented moves: a US\$200 billion loan programme geared at the biggest banks to stem liquidity constraints and direct borrowing by security dealers previously confined only to commercial banks. Other customary measures taken by policy makers were:

- (a) **Cuts in the federal funds rate:** Since the bursting of the housing bubble in mid-2007 the Federal Reserve has cut interest rates seven times from 5.25 per cent in September 2007 to 2.25 per cent on 18 March 2008. Further cuts are still expected if the economy fails to rebound;
- (b) **Cut in the federal discount rate** by a quarter point to 3.25 per cent on 17 March 2008 aimed at helping banks and thrifts;
- (c) **Increase in money supply:** Between the months of November to December 2007 the Federal Reserve injected US\$81 billion into the money supply for banks to borrow at a low interest rate; and
- (d) **Economic Stimulus Package:** The United States Congress and the Bush Administration have agreed on a US\$150 billion (\$100 for households and \$50 for businesses) economic stimulus package to increase personal consumption and business investment. Approximately 117 million homes will receive a rebate of up to US\$600 for individuals and up to US\$1200 for married couples. Couples with children will also get an extra US\$300 per child.

(e) **In late March 2008** the Bush Administration announced the first reform of the financial regulatory framework which has been in place since the 1930s. Basically, the reform tries to improve coordination among the Federal Reserve and other regulatory institutions so as to avoid overlapping of functions by merging or eliminating some of them. It also extends the Federal Reserve's mandate allowing it to monitor the balance sheets of non-depository financial institutions such as investment banks, risk funds, insurance brokers, and so on. However, the proposal which needs Congressional approval is not intended to resolve the current crisis but prevent financial turmoil in the future.

Some economists believe the federal funds rate cuts and money supply injection will not yield the desired results because:

- Most of the credit crunch is due to solvency as opposed to liquidity of many economic agents;
- The credit problems are caused by lenders' fear of risk, information asymmetries and uncertainty rather than a money shortage or high interest rates;
- A recession would have already occurred before the effects of monetary policy can be felt due its lag; and
- The liquidity and credit problems affect not only banks but also non-bank entities such as broker dealers, money market funds and mortgages which do not have direct access to the Federal Reserve liquidity support.

Moreover, further interest rate cuts would not only be ineffective in restoring confidence and reviving the economy, but also will have a pernicious effect of sustaining the depreciating trend of the United States dollar that in mid-March 2008 hit a historic low against the Euro of approximately 1.6 to 1. This has put upward pressures on oil prices as they are denominated in this currency in world markets. In addition, the depreciating United States dollar

has led to capital losses of central banks that have a large share of their reserves in Treasury Bonds and other greenback denominated assets. This is particularly the case of Asian – notably China – and oil exporting countries that have been financing the fiscal and current account deficits of the United States during the last years. Such capital losses can trigger a collapse of the greenback should any of these central banks sell their United States dollar denominated assets to prevent further losses and others follow suit. Probably it is because of this fear that no monetary authority has made the first move in this direction yet.

Should the problem be that of solvency rather than of liquidity, then the only way out seems to be to bailout non-performing mortgage loans altogether. However, such a financial move would amount to some US\$3 trillion or 20 per cent of GDP<sup>3</sup>. Assuming that the United States can afford to increase its debt by this amount, the implications would be enormous. In particular, the moral hazard behaviour of financial institutions would be extremely exacerbated, as they got away with fat profits during the good times, whereas taxpayers would end up assuming the losses when things turned ghastly.

There is also scepticism about the effectiveness of the fiscal stimulus package. Although the tax rebate is richer, 1 per cent of GDP compared to the 2001 package of 0.4 per cent of GDP, it lacks a spending incentive. This is because the 2001 package was part of a 10-year reduction in income tax rates for all taxpayers as opposed to the one-time tax rebate of the 2008 package. Furthermore, the fiscal stimulus in 2001 was much more significant on the spending side, as it drove a fiscal surplus of 2.6 per cent of GDP in 2000 into a deficit of 2.2 per cent in 2002.

In addition in recent days the economic forecast has gotten gloomier triggered by the surprising takeover of Bear Stearns by J.P. Morgan Chase aided by the Federal Reserve for a mere US\$236 million. Initially, the sale would have represented US\$2 per share compared to nearly US\$70 per share the week

<sup>3</sup>As a share of GDP, this amount would be similar to the fiscal cost of the Japan's post-bubble cleanup. It took more than a decade to this country to overcome recession and stagnation after the bubble bust two decades ago.



before and a high in the previous year of US\$159 per share. In the end, the bargaining between J.P. Morgan and Bear Sterns stock holders resulted in a price of US\$10 per share. This news sent chills in the financial markets as investors wonder which bank is next and about the solvency of the financial system itself. Indeed, during the first quarter of 2008, UBS and Deutsch Bank – two of the world's largest financial institutions – suffered mortgage-related write-offs of US\$19 billion and nearly US\$4 billion, respectively.

An interesting issue that arises is whether central banks should not only monitor consumer prices inflation, but also asset prices. Although the Federal Reserve does not have an inflation targeting framework – i.e. control Consumer Price Index (CPI) inflation and keep unemployment low according to the circumstances – it seems that nothing was learnt from the dot com crisis at the beginning of the current decade. Had the authorities not allowed stock prices to skyrocket, then the economy would not have experienced the problems it faced in 2001 exacerbated by the September 11 attacks.

### Policy Recommendations

Given that the Caribbean is unlikely to escape the impact of a United

States recession, the following recommendations are aimed at providing a soft cushion against this downturn and, by extension, lessen the possible contraction in economic growth.

To soften the impact of reduced import demand from the United States, CARICOM countries must explore alternative markets for their main exports. For instance, Trinidad and Tobago needs to consider the export of oil and gas to China, Japan and India, while Jamaica and Suriname may need to consider the export of bauxite and alumina to Canada and Europe. In addition, there needs to be a deepening of intraregional trade among CARICOM countries given the fact that intraregional trade in domestic exports averaged 16 per cent over the period 2004-2006, while domestic exports to the United States averaged 52 per cent over the same period.

To lessen the negative impact on the tourism sector, CARICOM countries must maximise their comparative advantage in terms of their geographical location. Compared to Europe and Asia, the Caribbean is only four to five hours from the United States by air travel; hence, this creates an opportunity for more affordable travel. Affordable packages can be marketed competitively in the United States. The strength of the

Euro also provides a great opportunity for attracting visitors from Europe, which can be enhanced through aggressive marketing.

There is an urgent need for Caribbean governments to become proactive in creating sustainable employment opportunities, especially for those highly dependent on remittances.

Serious consideration must be given to the diversification of foreign reserves by the region's central and commercial banks. Reserves should not only be United States dollar-denominated but should also consist of a combination of other world currencies such as the Pound Sterling and the Euro.

### Conclusion

All indicators point to a recession in the United States, the duration and intensity of which is still to be determined.

However, according to the current performance of the economy and the hiccups in the financial sector, it is likely that this crisis will be of significant proportions. In this context, Caribbean economies would be affected through different channels. Table 2 sums up these results. ■

**TABLE 2:** Intensity of the effects of a U.S. recession on the Caribbean economies

Channel	High	Medium	Low
<b>Trade</b>			
- Contraction in U.S. demand	Barbados, The Bahamas, Jamaica, Suriname, Trinidad and Tobago, Anguilla, Antigua and Barbuda, St. Lucia, St. Vincent and the Grenadines	Belize, Guyana, Grenada, St. Kitts and Nevis	Dominica, Montserrat
- Terms of trade	Jamaica, Trinidad and Tobago, Suriname	Belize, Barbados, The Bahamas, Guyana, Dominica, St. Lucia, St. Vincent and the Grenadines	Anguilla, Antigua and Barbuda, Grenada, Montserrat, St. Kitts and Nevis
<b>Tourism</b>	The Bahamas, Anguilla, Antigua and Barbuda	Barbados, Belize, Jamaica, St. Lucia, St. Kitts and Nevis	Guyana, Suriname, Trinidad and Tobago, Dominica, Grenada, Montserrat, St. Vincent and the Grenadines
<b>Remittances</b>	Guyana, Jamaica	Barbados, Belize, Anguilla, Grenada	The Bahamas, Suriname, Trinidad and Tobago, Antigua and Barbuda, Dominica, Montserrat, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines
<b>Finance</b>	The Bahamas, Barbados, Belize, Anguilla, St. Kitts and Nevis	Jamaica, Trinidad and Tobago, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Lucia, St. Vincent and the Grenadines	Guyana, Suriname
<b>FDI</b>	Anguilla, Antigua and Barbuda, St. Vincent and the Grenadines	The Bahamas, Dominica, St. Lucia, Grenada	Barbados, Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago, Montserrat, St. Kitts and Nevis

Source: ECLAC

## DISCUSSION - Impact of the United States subprime crisis in the Caribbean

The policy brief presented suggested that the United States recession brought about by the subprime mortgage crisis would have a negative impact on Caribbean economies, particularly in the areas of trade, tourism, remittances, finance and foreign direct investment. Specifically, the impact on tourism would be most severe in the Bahamas, Anguilla and Antigua and Barbuda while the impact on remittances would be most severe in Guyana and Jamaica. The financial sector impact would be felt strongly in the Bahamas, Barbados, Belize and Anguilla and St Kitts and Nevis and the impact of any contraction in foreign direct investment (FDI) would be most severe in Anguilla, St Kitts and Nevis, Grenada and Suriname.

According to recent International Monetary Fund (IMF) data, the world economy was projected to slow to 3.7 per cent growth in 2008 and 2009 (i.e. a downward revision by 1.25 percentage points) attributable primarily to the economic downturn in the United States. Hence, the report concluded that Caribbean economic growth would also contract as a result of the trade and financial linkages between the two regions. The entire region would be affected by a contraction in the United States' demand for imports, which would affect their terms of trade. The CARICOM countries other than those belonging to the Organisation of Eastern Caribbean States (OECS), together with St Kitts and Nevis and Saint Lucia, would be especially hard hit.

The representative of Barbados stated that the region should offer concessions directly to cruise-ship passengers and not only to cruise-ship operators. In addition, PPPs should be facilitated to improve transportation links in the region. Both large and small service providers would stand to benefit.

The representative of the Turks and Caicos Islands noted that her country had not been included in the report, although it would undoubtedly be as hard hit as the other tourism-dependent economies of the subregion. She said that the Caribbean and Latin America needed to strengthen ties in order to boost tourism flows from the latter.

The representative of the British Virgin Islands said that the experience of the Cricket World Cup had demonstrated the region's ability to collaborate in areas of common interest. Transportation remained a sore point in the region and needed to be

tackled. Moreover, the cruise ship industry had managed to establish negotiations with individual countries at the expense of other Caribbean destinations. The region therefore needed to set up a think tank to propose practical solutions to problems in the tourism sector. The presenters agreed that PPPs could help to increase intraregional trade and create sustainable employment in the region.

The representative of the secretariat expressed pessimism about the chances of a quick recovery in the United States, since the crisis was mainly a solvency issue rather than a liquidity issue. Moreover, it was unlikely that central banks in Asia and other countries would invest in United States treasury bills to finance a bail-out of the subprime market in the United States. ■

### ABSTRACTS OF SELECTED RECENT ECLAC PUBLICATIONS

#### Exploring policy linkages between poverty, crime and violence: A look at three Caribbean states

This discussion paper seeks to contribute to the body of knowledge on crime and violence through an exploration of the possible policy linkages between poverty, crime and violence, using data from Jamaica, Saint Lucia and Trinidad and Tobago. It does so against the backdrop of increasing concern for the impact of violence on the social and economic development and human welfare of Caribbean societies. In addition to the primary objective of exploring the policy and programming linkages between poverty reduction programming and that aimed at reducing crime and violence, the study includes an overview of crime and poverty statistics in the three countries under investigation as well as a review of literature which examines the crime, violence and poverty nexus. Finally the paper seeks to generate discussion regarding future research that could inform public policy in this sensitive area.

#### Report of the ad hoc expert group meeting on social exclusion, poverty, inequality, crime and violence: towards a research agenda for informed public policy for Caribbean SIDS

The purpose of the meeting was to provide a forum in which differing theories and methodologies useful to addressing the issues of social exclusion, poverty, inequality, crime and violence could be explored. It was expected that at the end of the meeting there would be consensus on areas of research which could be pursued over a two to four-year period by the ECLAC Subregional Headquarters for the Caribbean and its partners, which would lead to informed public policy in support of the reduction of the growing violence in Caribbean society.

#### Impact of changes in the European Union import regimes for sugar, banana and rice on selected CARICOM countries

This document examines the effects on CARICOM countries of changes in the EU import regimes for banana, rice and sugar. Changes have been pursued by the EU since the formation of the Single Market in 1992 and were determined by both internal and external factors - cost to the EU budget and WTO requirements, respectively. Changes were made to tariff quotas affecting mainly non ACP exports of bananas to the EU market; reduction in the price of sugar in the EU market and reduction in both price and tariffs in the EU rice market.

### LIST OF RECENT ECLAC PUBLICATIONS Listed by Catalogue Number, Title and Date

#### No.LC/CAR/L.172 - May/2008

Exploring policy linkages between poverty, crime and violence: A look at three Caribbean states

#### No.LC/CAR/L.170 - May/2008

Report of the ad hoc expert group meeting on social exclusion, poverty, inequality, crime and violence: towards a research agenda for informed public policy for Caribbean SIDS

#### No.LC/CAR/L.169/rev.1 - May/2008

Report of the twenty-second session of the Caribbean Development and Cooperation Committee (CDCC)

#### No.LC/CAR/L.168 - May/2008

Impact of changes in the European Union import regimes for sugar, banana and rice on selected CARICOM countries

#### No.LC/CAR/L.167 - April/2008

Summary of resolutions recently adopted by CDCC and resolutions of ECLAC and other organs of the United Nations which might be of special interest to member countries of ECLAC/CDCC

#### No.LC/CAR/L.165 - April/2008

Provisional agenda

#### No.LC/CAR/L.164 - April/2008

The United States subprime mortgage crisis and its implications for the Caribbean

#### No.LC/CAR/L.163/rev.1 - April/2008

Report of the CDCC working group - redefining and revitalizing the role of the CDCC in Caribbean regional development

#### No.LC/CAR/L.162/Add.1 - April/2008

Report on the meetings convened in Biennium 2006-2007-[covering the period 1 January 2006 to 31 December 2007]

#### No.LC/CAR/L.162 - April/2008

Report on the implementation of the ECLAC work programme-Subregional activities for the Caribbean-2006-2007 biennium-[covering the period 1 January 2006-31 December 2007]

#### No.LC/CAR/L.161/rev.1 - April/2008

Agenda





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Subregional Headquarters for the Caribbean

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