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ECLAC

ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN

FOCUS

Newsletter of the Caribbean Development and Cooperation Committee (CDCC)

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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.

MEMBER COUNTRIES:

- | | |
|---------------------|---------------------|
| Antigua and Barbuda | Haiti |
| The Bahamas | Jamaica |
| Barbados | St. Kitts and Nevis |
| Belize | Saint Lucia |
| Cuba | Saint Vincent |
| Dominica | and the Grenadines |
| Dominican Republic | Suriname |
| Grenada | Trinidad and Tobago |
| Guyana | |

ASSOCIATE MEMBER COUNTRIES:

- Anguilla
- Aruba
- British Virgin Islands
- Montserrat
- Netherlands Antilles
- Puerto Rico
- Turks and Caicos Islands
- United States Virgin Islands

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WORK PROGRAMME HIGHLIGHTS

2008 AND 2009

The year 2008 marked the 60th Anniversary of the establishment of ECLAC. This important milestone was observed in the Caribbean through the continuing excellent work the Organisation has become known for and the staging of a number of important events in the course of the year. The second half of the biennium, 2009, will also be marked by the scaling up of work programme implementation as a contribution to the sub-region's development thrust.

During the first half of the 2008-2009 biennium, the **ECLAC Subregional Headquarters for the Caribbean** strengthened the delivery of activities through regular internal meetings with Programme and Research Staff and consultations with member countries and other partner institutions.

The scaling up of efforts advocating for more evidence-based development policy making is now on track with the implementation of additional extra budgetary projects on measuring the informal sector, household survey data gathering, establishment of a Gender Observatory, as well as on measuring progress in the MDGs. The implementation of several critical outputs included in our strategic programme of work for this biennium would therefore be complemented by these initiatives.

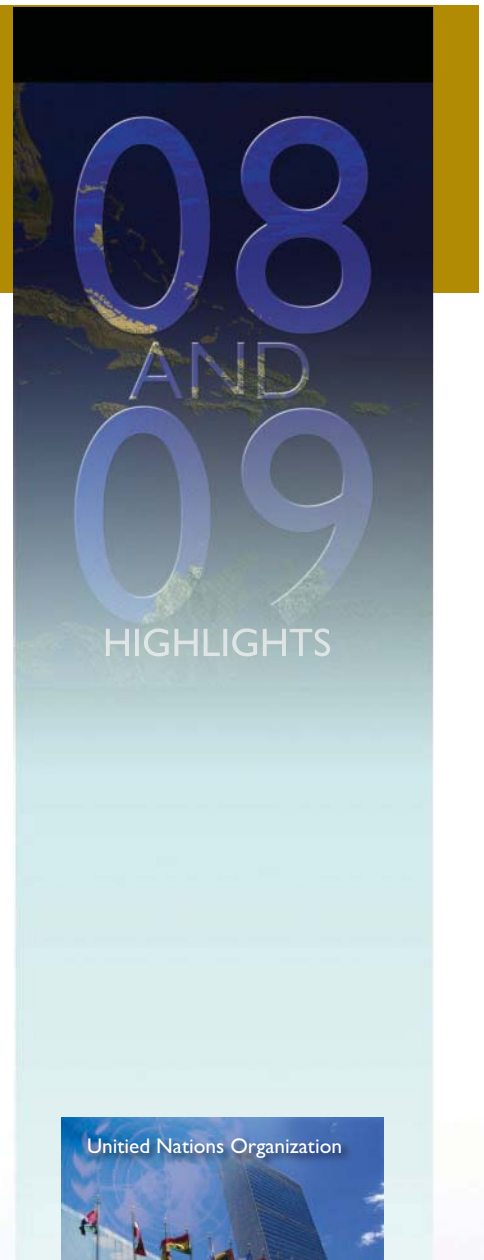
The 22nd Ministerial Session of the CDCC, which convened in April 2008, provided an opportunity to revisit the question of its role and relevance in

the subregion. Through this medium, the Caribbean subprogramme sought to advance a coordinated approach for the implementation of the Programme of Action for Small Island Developing States (SIDS) and the Mauritius Strategy, with the convening of the meeting of the Regional Coordination Mechanism (RCM) as agreed by CDCC member Governments in January 2006.

During 2008, studies were prepared on public-private alliance, the US sub-prime mortgage crisis and on the escalation in world food prices and the resulting impact on Caribbean economies.

The food crisis study provided an analysis on the main effects of world food inflation on the Caribbean countries through four main channels: domestic inflation, import bill and trade balance, poverty and indigence rates, and inequality. In addition to the country briefs and economic statistics by country, the annual publication, "Economic Survey of Caribbean Countries", included an analysis of two issues of relevance for Caribbean economic development, namely, public debt sustainability and tourism sector competitiveness. The Economic Survey and Food Crisis reports were publicly launched in October 2008, with the attendance of representatives from the government, the diplomatic community, other UN agencies and the media.

Studies were also carried out on the implications of the EU-CARIFORUM Economic Partnership Agreement (EPA) as a contribution to the process leading up to the signing and implementation of that Agreement. ►





These studies examined the issues from the perspective of market access, regional integration, WTO compatibility, regional development and gender and their findings will be presented to regional experts and stakeholders.

Implementation of the project “Review of the Economics of Climate Change in the Caribbean” commenced in September 2008, with the research focused on costing the impacts of emitting greenhouse gases as well as the costs of abatement or non-action.

The first phase of this project is scheduled for completion in March 2009, with the intention of entering into the remaining phases as soon as possible thereafter, working in close collaboration with the Caribbean Community Climate Change Center, the CARICOM Secretariat, the UK Department for International Development and other partners. The production of a video on integrated water resources management in collaboration with the Global Water Partnership - Caribbean (GWP - C) and a study on biotechnology in the Caribbean were among the critical outputs for the past year.

Work also continued in the provision of support to member countries in response to the many disasters which plague the subregion.

Impact assessments were conducted in Haiti and the Turks and Caicos Islands, the newest member of ECLAC, and the related training in the use of the ECLAC methodology was taken to an advanced level in Jamaica. Special mention must be made of the invaluable financial support received from UNDP in the conduct of these assignments. Technical support was provided to UNDP and the Caribbean Disaster Emergency Response Agency (CDERA) in advancing their work on disaster risk reduction. The implementation of three extra-budgetary projects which focus

on data gathering and analysis, in the main, would serve to strengthen regional capacity to collect, analyze and make data on the informal sector, the MDGs and on household surveys more accessible. These initiatives would help to address the major concern of data availability for analysis and to produce more evidenced-based policy recommendations for use nationally and regionally. The household surveys project seeks to establish a “CARIBBEAN BADEHOG” to house databases from Caribbean countries and will be accessible to bona fide users. The UN Development Account projects on measuring the informal sector and measuring progress in achieving the MDG and other IADGs will also complement this objective.

The establishment of a Gender Equality Observatory in Latin America and the Caribbean will be mirrored in the Caribbean in 2009, following a Subregional meeting convened in Port of Spain in October 2008, to promote the participation of Caribbean countries in the Observatory.

This latter project is conceived of as a tool to support Governments in analysing national and regional developments in gender mainstreaming, as well as in monitoring progress towards international agreements. The initiative also seeks to provide technical support to national machineries for the advancement of women and to national statistical offices across the Caribbean.

In November 2008, more than twenty (20) Caribbean analysts and technicians received training in the use of the REDATAM computer software developed by CELADE, to assist in the analysis of Population and Housing Censuses and Household Surveys.

ECLAC jointly convened with UNICEF a Regional Meeting on Youth and

Families in Transition, in November 2008 at which the results of our analyses for Latin America and the Caribbean were presented. The strengthening of relations with our partners is expressed in the ongoing joint activities with UNICEF and UNIFEM in the area of youth and gender.

The implementation of ICTs for Development and Knowledge Management strategies continues to be explored with the enhancement of the sub programme's website and the digitization of the office's official

records. Technical support is being provided to the CARICOM Secretariat in the development of a web portal for the CARICOM Steering Committee on Information Technology of which ECLAC is one of the key participants. Two critical studies are programmed to be conducted in 2009, on progress in ICT4D in the Caribbean and on Knowledge Management as a tool for promoting development, while the continuous updating of our Website and ICT tools will receive dedicated focus during the forthcoming period.

PRIORITIES FOR 2009

As indicated, the convening of several crucial regional meetings and workshops in 2009 will be with the aim of disseminating the findings of important studies and research initiatives of the office as well as imparting technical knowledge to key stakeholders. In this vein a high-level regional meeting to examine the implications of the EPA for Caribbean countries will be convened in the course of 2009.

It is envisaged that emanating from that meeting will be a clear endorsement of the proposal for establishing a monitoring and evaluation framework to assess progress and impact of the EPA. As noted also, finalization of Phase 1 of the Review of the Economics of Climate Change (RECC) is contemplated for the first quarter of 2009, while commencement of the remaining phases is expected as soon as possible thereafter.

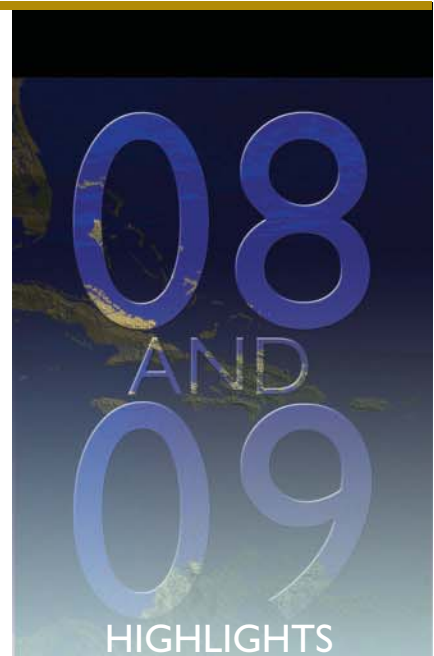
The major national and regional event of the hosting by the Government of Trinidad and Tobago of the Fifth Summit of the Americas in Port of Spain in April 2009 will occupy a significant degree of ECLAC's attention, particularly at the Sub-Regional Headquarters for the Caribbean with Trinidad and Tobago

being the host country. Specifically, ECLAC has been invited to participate and make presentations in the Youth, Private Sector and Civil Society Fora. As a member of the Joint Summit Working Group (JSWG) ECLAC will continue to play its role in support of the successful execution of this event, participating in the preparatory meetings and contributing in various ways to the arrangements being put in place.

The year 2008 concluded with a major global pre-occupation with the effects of the financial and economic crisis. Countries of the Caribbean that are covered by the ECLAC Sub-Regional Headquarters have not been immune to these impacts and so ECLAC has put in place a mechanism for closely monitoring the effects on Caribbean economies as well as to consolidate the responses by Governments, in terms of policy and support measures.

Strengthening the region's capacity to collect, analyse and access accurate data sources for informing evidence-based policy making is one of the principal objectives of ECLAC.

With this in mind, plans are to be put in place to deepen the collaboration between ECLAC, CARICOM, CDB and other regional institutions with a view to focusing initially on the further



implementation of the MDG, Informal Sector and Household Surveys projects. But plans have also been developed to deepen the collaboration with respect to the launch of an International Comparison Programme to establish a baseline purchasing power parity (PPP) for the Caribbean, in line with the global programme due to be conducted in 2010. Attention will also be placed on strengthening the areas of gender and environmental statistics, as well as gathering adequate data to measure the impact of climate change on key economic and social sectors in the Caribbean. Work is also expected to continue in the course of 2009, on developing a monitoring framework to assess the progress and impact of the EU-CARIFORUM EPA, with the view to carrying out a review five years from the date of signature. ■



EXCERPTS FROM PRELIMINARY OVERVIEW OF THE CARIBBEAN 2008-2009



INTRODUCTION

The preliminary overview of the Caribbean 2008 – 2009 addresses the main features of the evolution of Caribbean economies during 2008 and, especially, the prospects for 2009 in the context of the ongoing international financial crisis and economic turmoil.

REGIONAL ANALYSIS

The Gloomy World Economy

Undoubtedly, 2008 was a year of significant events in the world economy, whose prospects became gloomier as months passed by. These events confirmed the warnings raised by the Economic Commission for Latin America and the Caribbean (ECLAC), in April 2008, about the possibility of a financial crisis in the United States as the different measures implemented to tackle the financial sector weaknesses and the credit crunch of mid-2007 – i.e., successive cuts in interest rates and injections of liquidity in the system – would be ineffective as the problem was not one of liquidity, but of solvency on the part of financial institutions. As the financial crisis became systemic in the United States by September 2008, it rapidly turned global, due to the high exposure of international financial institutions based in Europe and other regions to mortgage-backed securities issued in the United States.

The spill-over effects of the financial turmoil on the real economy started to be felt in the second quarter of 2008, when some advanced economies posted negative growth rates relative to the first quarter. All in all, at the end of 2008, the advanced economies were officially in recession, i.e., two consecutive quarters of output dip. According to the International Monetary Fund (IMF)

forecasts released in late January, during 2009 the developed countries would experience a GDP reduction of 2%, the first annual contraction in the post-world war era.

External vulnerability and growth prospects in the Caribbean

a Fiscal and current accounts

The twin deficits – i.e., fiscal and current account – are a useful measure of the magnitude of macroeconomic imbalances and the degree of vulnerability to external negative shocks. With the exception of Suriname and Trinidad and Tobago – countries abundant in minerals and/or hydrocarbons whose prices have been high in recent years – all other countries have experienced twin deficits during the last years.

b Public debt stock and international reserve levels

Other useful indicators of external vulnerability are public debt stock and the level of international reserves. Most Caribbean countries exhibited levels of public debt that are well above any definition of sustainability. As a rule of thumb, this level can be considered as 40% of GDP. Within the MDCs, the Bahamas, Suriname and Trinidad and Tobago showed public debt levels below this figure. In the case of ECCU countries, only Anguilla and Montserrat had a debt overhang that can be deemed to be sustainable. Barbados, Jamaica, Dominica, Grenada and St. Kitts and Nevis on the other hand, recorded massive public debt, above 100% of GDP. In Belize, Guyana, Antigua and Barbuda, Dominica, Saint Lucia and St. Vincent and the Grenadines, public debt stood between 70% and 100% of output. In all these countries excessive public debt will be an important source of vulnerability in 2009 and beyond.

Combining public debt and international reserves levels as a share of GDP shows the relative vulnerability of the Caribbean countries. The countries that are better off according to these indicators are Trinidad and Tobago and Montserrat, that exhibit public debt (international reserves) below (above) the regional average. On the contrary, Belize, Jamaica, Antigua and Barbuda, Dominica, Grenada and St. Kitts and Nevis combine above average public debts and below averages international reserves thus being relatively more vulnerable. On the other hand, Barbados and Guyana are in a relatively strong position in terms of imports coverage of international reserves but with excessive levels of public debt. The opposite is true in Suriname, Anguilla, Saint Lucia and St. Vincent and the Grenadines.

c Exchange rates

On the exchange rate side, with the exception of Jamaica, all Caribbean countries have in place either a fixed (Bahamas, Barbados, Belize, ECCU) or quasi-fixed (Guyana, Suriname and Trinidad and Tobago) nominal exchange rate regime vis-à-vis the United States dollar. Generally, inflation rates have been higher in the region than in the United States, this has implied that there has been a bilateral real exchange rate appreciation of the Caribbean currencies with the corresponding loss of competitiveness of local producers relative to imports from the United States.

Given the difficulties in accessing foreign financing, both private and official, in the current situation, another important challenge faced by most Caribbean countries is the defence of their fixed or quasi-fixed exchange rate regimes.

Indeed, the reversal or even the reduction of foreign capital inflows would put devaluating pressures on local currencies that, if extreme, may eventually lead to a currency crisis.

The capacity of a country to defend a peg or dirty peg depends, among other things, on the level of international reserves. Thus, Bahamas and Belize appear to be in the relative weakest position in this regard. It is worth mentioning that these exchange rate arrangements have helped to ease inflationary pressures. Therefore, any devaluation will significantly impact inflation rates, let alone its perverse effects on entities with balance sheets with important currency mismatches, i.e., liabilities denominated in foreign currency and assets denominated in local currency. In addition, external public debt service will increase in domestic currency, thus posing extra pressures on public finance and reducing the manoeuvring capacity of fiscal policy further.

GROWTH PERFORMANCE AND PROSPECTS 2006 – 2009

As in other countries and regions, in 2009 growth forecasts point to a further slowdown of economic activity in the Caribbean, as compared to 2008 and 2007.

As in previous years, among MDCs in 2008, economic growth was led by the countries abundant in natural resources, i.e., Belize, Guyana, Suriname and Trinidad and Tobago. In 2009, the situation would be similar. All in all, this group of economies would expand at a rate of 1.8% this year (simple average), 0.6 percentage point slower than in 2008, 1.8 than in 2007 and 3.7 than in 2006. In the case of the ECCU countries, output has lost momentum since 2007, and this trend is expected to continue in 2009, where GDP growth would be 1.4 (simple average), less than half the rate recorded in 2008 and four than in 2007. This illustrates the intensity of the economic slowdown registered recently throughout

the Caribbean and the forecasted exacerbation of this tendency in 2009.

Channels of Transmission of the Global Economic Crisis to Caribbean Economies

a Trade

Results indicate that the countries that would be more isolated in terms of growth from the recession in the developed countries are Belize, Guyana, Dominica, Montserrat, and St. Kitts and Nevis. The other countries would be expected to experience a higher negative impact on growth in 2009.

On average, the recession in the United States would greatly jeopardise the growth prospects of the Caribbean, whereas the downturn in the Canadian economy would exert a much milder effect on economic activity in the region. The contraction of the United Kingdom economy would have an intermediate intensity impact. These results are consistent with the fact that the United States is the major trading partner of the Caribbean countries.

Perspectives for export sectors in 2009 are not encouraging as a consequence of the global economic crisis which has translated into diminished demand for Caribbean exports coupled with a generalized reduction in commodity international prices. In this context, countries more dependent on commodity exports to fuel economic growth (i.e., Jamaica, Suriname and Trinidad and Tobago) are the ones that would suffer the effects of the global economic downturn with higher intensity.

b Tourism

One area where the impact of the global economic crisis would be acutely felt is the tourism sector which is a major activity in most Caribbean countries. In 2008, total tourist stay over arrivals

to the region topped 4.3 million while cruise passenger arrivals totalled 5.2 million, according to preliminary figures of the Caribbean Tourism Organization (CTO). Most of these visitors came from the United States, Canada and Europe. Under the current circumstances and considering that the economic crisis in the developed countries is still unfolding, the tourism sector in the Caribbean would experience a substantial reduction in demand from its main source markets in 2009. Countries relatively more vulnerable are the ones with the higher share of visitors coming from developed countries.

c Remittances

Remittances to the Caribbean are highest from the United States followed by Western Europe. As a consequence of the economic recession and the collapse of real estate prices, the construction sector which employs a large number of immigrants has been hard hit. This has not only generated reductions in the construction sector's labour demand, inasmuch as sub-prime mortgages were particularly popular among immigrants in States such as California, New York and Florida which are the highest remittance states, assuming the Caribbean has a similar pattern to Latin America¹.

The most affected countries would be Guyana and Jamaica, the main recipients in the region. The impact would be important but less intense in Belize, Anguilla and Grenada. In the other countries the effect of the global economic crisis through the remittances channel of transmission would be much lower. However, it is important to bear in mind that even in countries where remittances are not that significant at the national level, the impact of a contraction in these flows could be devastating for specific socioeconomic groups whose consumption depends on remittances from relatives abroad.

d FDI and External Financing

Until mid-2008s, the financial turmoil in the United States exerted little impact on financial and FDI flows to ►

¹In 2004, remittances' estimates to Latin America were 32% from California, 11.9% from New York, 10.6% from Texas and 8.2% from Florida (<http://www.cbo.gov/ftpdocs/63xx/doc6366/05-19-Remittances.pdf>).

the Caribbean and the region's access to external financing. However, the accelerated deterioration of global financial markets during the second half of 2008 and the subsequent economic recession in developed countries have changed drastically the perspectives for developing countries regarding access to foreign credit and productive investment. Indeed, the high levels of uncertainty and the persistent emergence of bad news in the world economy have exacerbated risk aversion on the part of foreign investors and creditors which have resulted in a credit crunch which it has not been possible to overcome, despite aggressive cuts in interest rates, massive injections of liquidity and even recapitalization of financial institutions as well as implementation of significant economic stimulus packages in several countries, especially in the developed world, a process that is still ongoing. As international investors and lenders have recomposed their portfolios towards safer (and lower returns) assets – a process known as “flight to quality” – developing countries have been facing increasing difficulties to access external financing, a situation that would persist during 2009.

The same is true regarding FDI, with most multinational companies abandoning or freezing investment projects worldwide. Indeed, with banks more reluctant to grant credit to multinational corporations, and with those enterprises already scaling down activities and putting expansion plans on hold worldwide, the Caribbean would experience a reduction in FDI inflows during 2009. It is worth mentioning that in the case of countries with abundant oil and mining reserves such as Trinidad and Tobago and Suriname, the contraction of foreign investment inflows as a consequence of the global economic crisis and increasing uncertainty could be further exacerbated by the fall of the international prices of commodities, which makes investment in these sectors less attractive.

SUMMARY

It is still not clear what will be the duration and intensity of the current global economic crisis and the recession in developed countries. However, according to the current performance of the world economy and the hiccups in the international financial sector, it is

likely that this crisis will be of significant proportions and could even extend to 2010. In this context, Caribbean economies would be affected with varying intensities by different channels.

The financial sector in the Caribbean countries

So far the contagion effect from the global financial crisis has been very moderate in the financial sectors of Caribbean countries.

This is explained mainly by two factors. First, banks in the region had low exposure to United States' (sub-prime) mortgage-backed securities. Second, credit expansion was mostly financed by domestic deposits rather than by foreign credit lines. It seems that the main contagion effect of the global financial turmoil and economic crisis has been on Caribbean stock markets. The impact of the international crisis on financial markets has not only been at the level of stock prices, but also on their volatility due to increased investor uncertainty stemming from concerns about the solvency of financial institutions and, most recently, the decline in earnings of blue chip companies. As volatility is influenced by both macroeconomic and microeconomic factors, during times of economic and financial unrest, volatility tends to rise hand in hand with bad news releases, thus further fuelling uncertainty.

In Trinidad and Tobago, the government is currently faced with the bailout of Colonial Life Insurance (Trinidad) Limited (CLICO), member of the holding company CL Financial Ltd., a major conglomerate in more than 28 companies located throughout the Caribbean and other countries, in sectors such as insurance, banking and finance, property and real estate, media and communications and energy and petrochemicals, among others.

To make things worse, another financial concern for the region came up in February 2009: the implosion of the Stanford Financial Group (SFG), a multinational corporation with banking and investment operations across North America, Latin America, Europe and the Caribbean. Although there is still no accurate assessment of

the full implications derived from the debacle of the SFG, it is undeniable that it has become an additional blow for the regional financial markets, just after the CLICO bailout. In Antigua and Barbuda, where the Group has a major presence, the impact has been heavier. It is clear that the impact of the Group's downfall on Antigua and Barbuda's economic health, including stability, job generation and output growth will be considerable.

On the other hand, the Offshore Financial Center (OFC) has been a pillar of economic activity in many Caribbean countries mainly the Bahamas, the Caymans Islands, British Virgin Islands, Barbados and Nevis, among others. These financial centers provide significant services in private investments, asset protection and estate planning. The main challenges facing the offshore sector are, firstly, the implementation of effective regulation to combat money laundering and terrorism financing, and secondly, stemming from the financial crisis the fact that clients' deposits are not guaranteed. The Financial Action Task Force continues to exert pressure on OFCs to comply with anti-money laundering standards.

Overall, the global financial turmoil has not only brought about negative effects but it brought to the fore the urgent need for Caribbean authorities and businesses to take action to upgrade regulatory and supervisory frameworks throughout the region.

Measures implemented to tackle the global crisis in the Caribbean countries

The form and extent of the measures and policies that are being implemented by Caribbean governments depend on a number of factors. In the first place, the availability of resources (public savings) was (and will continue to be) a key factor determining the extent of intervention. Countries that had benefited from commodity booms that allowed them to accumulate fiscal savings and international reserves were obviously in a much better position to undertake counter-shock stimulus in the current environment. On the other hand, for those countries which lack reserves and might need to borrow, the availability of affordable finance sets a limit on their

capacity to undertake fiscal stimulus, particularly given the current scarcity of international finance. In addition, even where some finance might be available, a number of countries are already over-leveraged because of high and unsustainable debt-to-GDP ratios and debt servicing Costs.

A third important consideration is the extent of financial deepening, financial market sophistication and the capacity to carry out an effective two-pronged strategy based on complementary monetary policy and fiscal policy. Unlike advanced economies with well-developed integrated money and capital markets, relatively underdeveloped financial markets in the Caribbean put a damper on the effectiveness of monetary policy in a number of countries. Moreover, the latitude for effective monetary policy is constrained in the countries with fixed or quasi-fixed exchange rate regimes. Also, countries with pegged rates are confronted with the so-called unholy trinity, which prevents independent monetary action given their fixed or quasi-fixed pegs in a context of an open capital account.

Finally, given the balance of payments constraint that is accentuated in small economies such as the Caribbean, where it is necessary to earn foreign exchange to import vital inputs, the twin deficits and, especially, the external gap is an important consideration. Indeed, current account deficits recorded in 2008 were above 20% and even 30% of GDP in Guyana, Jamaica, and all ECCU countries. This means that in 2009 this situation has to be reverted as less external financing would be available given the current global economic crisis. The reduction of these current account deficits would imply a sharp contraction in domestic absorption which, in turn, would exert recessive impulses in economic activity.

Against this backdrop, what have been the specific counter-recessionary measures implemented by Caribbean countries in 2008 and early 2009?

Generally, the policy measures adopted by Caribbean governments to deal with the global recession could be classified

into three broad groups: fiscal stimulus, sectoral policies and social policies.

CONCLUSIONS

The immense degree of uncertainty on the prospects of the global economy for 2009, together with the speed at which bad news and pessimistic forecasts emerged each week during January and February 2009, makes it particularly difficult to predict the evolution of the Caribbean economies during the current year and beyond. Only Suriname and Trinidad and Tobago seem to be in a favourable position to cope with the international crisis. The other countries exhibit either excessive current account deficits, or huge public debt-to-GDP ratios, or low imports coverage of international reserves; or some combination of the three.

This report identified a number of channels of transmission of the global economic crisis to the Caribbean countries. Obviously, the relevance of each channel will depend on the idiosyncratic characteristics of each country, such as the importance of the United States or the European Union as destinies for their exports of goods or as sources of tourists, remittances, FDI and foreign financing. Other important factors are the share of the tourism sector in total output on employment, the share of commodities in export baskets, among others. In any case, all Caribbean countries will feel with more or less intensity the adverse effects of the economic crisis through these channels of transmission.

As regards specific policy measures adopted by Caribbean countries to mitigate the impact of the international economic crisis on their economies, these can be divided in three groups, namely fiscal, sectoral and social. The number and the intensity of these measures, as well as their focus vary from country to country. Nevertheless, in general, there is not much fiscal room to implement significant increases in public spending which also constrains the option for devising new sectoral or social programmes. The scope of any of such policies will critically depend on the capacity of the countries to contract loans from multilateral organizations and

the international donor community to finance them.

Finally, the convenience of conducting counter-cyclical fiscal policies is totally clear. The point, however, is the capacity of the Caribbean countries to implement such policies, given the massive current account deficits and unsustainable levels of public debt recorded by most of them recently. The former means that they would need to cut domestic absorption – i.e., apply a restrictive fiscal-monetary policy mix – to reduce the external gap due to less availability of external capital inflows to finance it. The latter implies that a significant share of fiscal revenue is devoted to debt service thus reducing resources available for spending.

In this scenario, is it realistic to ask the Caribbean countries to implement counter-cyclical fiscal policies to cope with the current world economic crisis? Perhaps a much more realistic but still worthwhile goal would be to reduce the eventual pro-cyclicality of fiscal policies in the Caribbean. In any case, preliminary estimations on this issue in the Caribbean reveal that in most of them fiscal policies have been a-cyclical during 1975-2008.

But perhaps the main policy innovation in the region would be the introduction of mechanisms that ensure that financial resources are saved during growth booms so that they can be used during the low phase of the business cycle.

This calls for the generation of surpluses in relatively favourable times so as to have some manoeuvring space during difficult times. This would also increase the creditworthiness of countries in external credit markets. Only in this manner would Caribbean countries not be confronted with the hard decision of implementing a fiscal adjustment precisely in moments when vast portions of their populations are suffering because of the economic downturn and the rising unemployment rate. ■

The full report is available at:
<http://www.eclac.org/id.asp?id=35610>

ECONOMICS OF CLIMATE CHANGE IN THE CARIBBEAN – Update



BACKGROUND

In the September 2008 Issue of Focus Newsletter, it was announced that a Review of the Economics of Climate Change in the Caribbean would be the subject of a study to be undertaken by ECLAC, with funding by the United Kingdom's Department for International Development (DFID).

The project, which consists of three phases, commenced in October 2008. The first phase of the project sought to establish the scope and feasibility of carrying out a study on the costs and benefits of taking action on climate change adaptation and the cost effectiveness of mitigation in the Caribbean compared to a “business as usual” scenario. This first phase was also aimed at supporting initial actions to alert policy-makers and key influencing constituencies in the Caribbean (civil society, academia, media, NGO's, private sector), to the urgency of the climate change challenge.

Phase 1 of the study ended in March 2009 with an Expert Group meeting that was held in Barbados on February 13, 2009. The meeting was held to introduce the project to stakeholders, which included a review of the preliminary findings of the studies conducted in order to obtain substantive feedback before finalization and subsequent dissemination to policy makers in the Caribbean. The meeting also discussed the implications of climate change on key sectors of interest in the Caribbean, namely agriculture, health, tourism, trade and its association with disaster management; and discussed the major outputs and activities to be developed in Phases 2, 3 and 4 with the aim of identifying opportunities for technical and financial collaboration between ECLAC and various stakeholders for the remaining phases of the project.



Climate Change in the Caribbean

The Caribbean is likely to become warmer and drier due to climate change and this will have implications for food security and agriculture, tourism, health and trade in the Caribbean.

Preliminary evidence of this as it relates to agriculture and crop production is already noted for countries such as Cuba, Dominican Republic and St Kitts and Nevis. Current adaptation strategies in agriculture in the Caribbean currently revolve around capacity-building, raising public awareness, improving water harvesting methods, increasing crop efficiency and implementing United Nations conventions that relate to desertification and land degradation, forestation and protection of natural ecosystems.

In the case of tourism, it is likely that climate change will affect this sector through its impacts on energy costs, increased prevalence of tropical diseases, increased dependence on food imports and destruction of beaches and coral reefs. It is recommended that adaptation policies reinforce implementation of the various United Nations environmental conventions and protocols, strengthen the forging of alliances among developing countries and foster the development of sustainable tourism. Caribbean countries should also strive to position themselves as carbon neutral destinations and embrace proper, eco-friendly, low-volume but high value-added tourism strategies.

It is hypothesized that climate change may impact on health in the Caribbean through air quality and pollution including increased Sahara dust; incidence of heat waves, storms and sea level rise; increased droughts; water and food-borne diseases, quality of coastal water; and incidence of vector borne diseases. Adaptation will necessitate better monitoring and evaluation methods in the health sector.

On the trade front, Caribbean countries will need to be careful that the imposition of eco-labeling and environmental standards by developed countries end up discriminating against their exports. Vigilance will need to be exercised regarding compatibility between measures and commitments taken under the World Trade Organization (WTO) and the United Nations Framework Convention on Climate Change (UNFCCC). Attention will also need to be paid to the implications that mitigation measures adopted by developed countries may have on the competitiveness of industries in Caribbean economies.

Future research in the Caribbean will require a shift from regional studies to country-level studies. In particular, while a fair amount of research already exists on the impacts of climate change for the region, it is now time to move forward to concrete policy-making and recommendations for concrete actions. Climate change may require a new way of doing research, since it requires a multi-disciplinary approach. Linkages across sectors and disciplines must therefore be further explored and studied.

Review of the Economics of Climate Change (RECC) in Latin America and the Caribbean

Phase 1 of the “Review of the Economics of Climate Change (RECC) in the Caribbean”, which started in September 2008 consisted of the elaboration of

studies to scope the technical planning necessary for undertaking a Stern-type report for the Caribbean as well as the conduct of media/public outreach activities destined to raise awareness about the project and climate change in general.

Central and South America



This first phase has been completed in Central America, where Phase 2 is currently taking place with a review of the methodological components of a Stern-type report for Central America. Macroeconomic projections are being constructed for the region for two scenarios - a scenario with climate change and another without - while the former will in turn take into account several emissions scenarios. The analysis will emphasize the impact of extreme events on the region as well as the implications for poverty and inequity. At a regional level, analyses will be done for the sectors of water, agriculture and forests, energy, human health, ecosystems and biodiversity, marine and coastal zones. This regional sectoral analysis will be complemented by an in-depth study of one sector for each country.



Phase 1 of the RECC in South America started in November 2008 and consisted of a review of existing information on climate change in South America and work planning for the remaining phases. Phase 2 is expected to start in July 2009 and will lead to the preparation of studies on the physical and economic impact of climate change in each of the nine

South American countries. Common assumptions will be made across these studies when it comes to projecting on economic growth, population growth, energy prices and agricultural prices. Sensitivity analysis will be performed to account for variations in emissions path and discount rate. Focus will also be laid on the impact of climate change on macroeconomic stability including fiscal balance. Phase 3 will analyze the regional inter-dependencies across Latin America and the Caribbean. It is hoped that ECLAC will be able to prepare a single regional report for Latin America and the Caribbean with some preliminary findings in time for the Copenhagen summit in 2009.

Caribbean



It is recognized that in the Caribbean, economists have been slow to take climate change on board. As a result, it may not be realistic to expect results from the RECC Caribbean studies to be ready in time to feed into the international negotiations at Copenhagen in 2009. It is important that national circumstances guide the development of responses to climate change, especially since resources available for funding such responses will be a critical issue for the region. There is a need to carefully disentangle the effects of climate change from other effects and appropriate costing should be done to ascertain the additional resources that climate change will necessitate for the development of the region. There may also be a need to strengthen the negotiation skills of policy makers in the Caribbean in order to secure effective participation at international forums on climate change. Negotiations on climate change take place at two levels: a technical level and a high political level, but unfortunately, the political directorate tends to be less visible at such negotiations than their other counterparts.

OVERALL

There is an urgent need to establish common assumptions for the technical studies of the RECC across all three subregions (Central America, Caribbean and South America) in order to facilitate analyses about the implications of regional integration for climate change. At a meeting of regional negotiators on climate change for the Latin America and the Caribbean region on 9-10 March 2009 in Santiago, Chile, ECLAC invited the Caribbean governments to be represented at another meeting to facilitate discussion on the post-2012 Kyoto Protocol that would be addressed at the 15th Conference of Parties to the UNFCCC to be held in Copenhagen in December 2009.

STUDIES

Phase I of the RECC Caribbean - Methodology, Findings and Challenges

Under this phase, three reports were commissioned by ECLAC. The first report made reference to the various available documents that have been published providing background information data and information on climate change. These include the Caribbean Environment Outlook, Human Development Report 2007/2008 and The Inter-governmental Panel on Climate Change (IPCC) Fourth Assessment Report, 2007. The studies highlighted the common challenges facing the Caribbean in terms of insularity, small size and economies as well as their small contribution to global emissions of greenhouse gases making a case for adapting to and mitigating climate change. Preliminary results of consultations conducted to obtain data and opinions from stakeholders are arranged under climate change initiatives; institutional framework; legislative framework; vulnerable sectors; research needs and gaps; and main obstacles to climate change adaptation.

The second report indicated that the project was feasible and that data needed to inform modeling were also available. The report examined the available tools and economic models that could be employed in an assessment of the economic impacts of climate change ►

in the Caribbean. These include the Policy Analysis of the Greenhouse Effect (PAGE), Dynamic Integrated model of Climate and the Economy (DICE), Regional dynamic Integrated model of Climate and the Economy (RICE) and Climate Framework for Uncertainty, Negotiation and Distribution (FUND). Of the available models, the FUND was deemed the most appropriate but it did not take into account changes in precipitation. It was noted however, that the modality of adapting the model could be done but at tremendous cost and time. It was therefore accepted that a mathematical model be used whereby, data representing different climate scenarios would be inputted and the results compared. These same data would be inputted into the model utilized by Central America for comparison of results. Furthermore, the data would be inputted into the FUND model again to provide comparison.

The third report which was presented by the Caribbean Community Climate Change Center (CCCCC) is the Project Document that would inform the activities of future phases of the initiative. The report outlines the vulnerability of Caribbean States based on location, size, natural disasters; the economic (limited diversification and narrow export base); the social (migration of skilled persons, approximately 30% of absolute poverty) and technological areas that need to be addressed. The report also listed global challenges to the region, namely global recession, trade liberalization, meeting the MDGs and climate change. It was noted that meeting these challenges calls for an increased need to assess the economic impacts of climate change and adaptation options and policies versus a Business As Usual Approach (BAU).

PROPOSED PROJECT OBJECTIVES

Recommendations on project objectives for phases 2 and 3 of the RECC are as follows:

(i) an assessment of the likely economic impacts of climate change on key sectors of the Caribbean economies in an effort to stimulate governments, regional institutions and private sector actions to develop and implement the most effective policies to mitigate and adapt to climate change;

(ii) robust analyses, using simulation modelling analyses under various scenarios, that will encourage the adoption of cost effective adaptation options. The project envisages the following phases:

PHASE II

- Project coordination and planning;
- Methodological aspects for studies;
- Conduct of national studies (*in all 27 States on the most important sectors*)

PHASE III

- Methodological Issues;
- Socio-economic aspects and scenarios;
- International context;
- Analysis of extreme events;
- Application of models;
- Regional studies on: water, agriculture, forestry, human health, energy, terrestrial ecosystems and biodiversity, marine and coastal areas, transportation systems, infrastructure and housing, cultural, scientific and natural heritage.

Energy, because of its cross-cutting nature, was identified as crucial to any studies being undertaken and it was noted that a regional energy policy should not be divorced from a regional climate change policy. Mitigation should also be regarded as a co-benefit since the Caribbean contributes less than 1% to greenhouse gas emissions. In keeping with the Bali road map, it was suggested that countries implement a verifiable, measurable system that commits them to an agreed level of mitigation. With regard to the legal framework in terms of the existing multilateral environment agreements that support sustainability, it might be useful to leverage the objectives of this initiative with existing ones. Other recommendations included sensitization of the public to the issue; increasing awareness of existing initiatives that would complement activities; livelihoods analysis; short term and long term incremental costs of impacts of disasters and natural hazards; defining of data and information needs for national studies, with particular reference to price, livelihood and gender data; and the link between poverty and adaptation, in terms of the naturally poor and the vulnerable.

For more information, visit:
<http://www.eclac.org> Sustainable Development Unit

FREQUENTLY ASKED QUESTIONS ON CLIMATE CHANGE

What is climate change?

Climate change is any long-term significant change in the “average weather” that a given region experiences. Average weather may include average temperature, precipitation and wind patterns. It involves changes in the variability or average state of the atmosphere over time ranging from decades to millions of years. These changes can be caused by dynamic processes on earth, external forces including variations in sunlight intensity, and more recently by anthropogenic activities.

What is global warming?

Global warming is the increase in the average measured temperature of the earth’s near-surface air and oceans since the mid-20th century, and its projected continuation.

What are greenhouse gases?

Greenhouse gases (GHGs) are the gases present in the earth’s atmosphere which warm near-surface global temperatures through the greenhouse effect. Greenhouse gases are essential to maintaining the temperature of the earth; without them the planet would be so cold as to be uninhabitable. However, an excess of greenhouse gases can raise the temperature to lethal levels. Greenhouse gases are produced by many natural and industrial processes. Some common GHGs are carbon dioxide, methane and nitrous oxide.

What is the greenhouse effect?

Greenhouse gases effectively absorb thermal infrared radiation, emitted by the Earth’s surface, by the atmosphere itself due to the same gases, and by clouds. Atmospheric radiation is emitted to all sides, including downward to the Earth’s surface. GHGs trap heat within the surface-troposphere system. This is called the greenhouse effect. This is an analogy to the mechanism of an actual greenhouse, which thermodynamically isolates the structure to stop release of heat by convection and conduction thereby resulting in a warming effect.

In the absence of the greenhouse effect, the earth’s average surface temperature

of 14 °C (57 °F) would be about -18 °C (-0.4 °F). Global warming is believed to be the result of an enhanced greenhouse effect due to increased concentrations of GHGs in the atmosphere. The greenhouse effect is only one of many factors which affects the temperature of the Earth.

What are some impacts of climate change?

Although it is difficult to connect specific weather events to global warming, an increase in global temperatures may in turn cause broader changes including glacial retreat and sea level rise. Changes in the amount and pattern of precipitation may result in flooding and drought. There may also be changes in the intensity of extreme weather events. Other effects may include changes in agricultural yields, species extinctions, and increases in the range of disease vectors.

Some effects on both the natural environment and human life are, at least in part, already being attributed to global warming. Increasing deaths, displacements, and economic losses projected due to extreme weather attributed to global warming may be exacerbated by growing population densities in affected areas. The 4th IPCC Assessment Report indicates that there is observational evidence for an increase in intense hurricane activity in the North Atlantic Ocean since about 1970, in correlation with the increase in sea surface temperature, but that the detection of long-term trends is complicated by the quality of records prior to routine satellite observations. The summary also states that there is no clear trend in the annual worldwide number of tropical cyclones. Changes in climate patterns and the concomitant impacts may be predicted through the use of climate models.

What are climate models?

Scientists have studied global warming with computer models of the climate. These models compare the amount of energy that enters the earth with the amount that leaves. All modern climate models include an atmospheric model that is coupled to an ocean model and

models for ice cover on land and sea. Some models also include treatments of chemical and biological processes. These models predict that the effect of adding greenhouse gases is to produce a warmer climate. However, even when the same assumptions of future greenhouse gas levels are used, there still remains a considerable range of climate sensitivity. Including uncertainties in future greenhouse gas concentrations and climate modeling, the IPCC anticipates a warming of 1.1 °C to 6.4 °C (2.0 °F to 11.5 °F) by the end of the 21st century, relative to 1980-1999. Models have also been used to help investigate the causes by comparing the observed changes to those that the models project from various natural and human-derived causes.

What is the Stern Report?

The Stern Review on the Economics of Climate Change is a 700-page report released on October 30, 2006 by economist Lord Stern of Brentford for the British Government, which discusses the effects of climate change and global warming on the world economy. Although not the first economic report on global warming, it is significant as the largest and most widely known and discussed report of its kind.

Its main conclusions are that 1% of global GDP per annum is required to be invested in order to avoid the worst effects of climate change, and that failure to do so could risk global GDP being up to 20% lower than it otherwise might be. Stern’s report suggests that climate change threatens to be the greatest and widest-ranging market failure ever seen, and it provides prescriptions including environmental taxes to minimize the economic and social disruptions. He states, “our actions over the coming few decades could create risks of major disruption to economic and social activity, later in this century and in the next, on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century.” In June 2008 Stern increased the estimate to 2% of GNP to account for faster than expected climate change. ▶



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FREQUENTLY ASKED QUESTIONS ON CLIMATE CHANGE

The Stern Review has been criticized by some economists, saying that Stern used an incorrect discount rate in his calculations, and that stopping or significantly slowing climate change will require deep emission cuts everywhere. Other economists have supported Stern's approach, or argued that Stern's conclusions are reasonable, even if the method by which he reached them is open to criticism.

Why adapt and mitigate?

Given that the contribution of the Caribbean Region to global climate change is miniscule, the better option for

the Region is to adapt. This essentially means preparing to cope with the potential and expected impacts thereby minimising their effects. The Region has, since 1997, been addressing the matter of adaptation through the project, Caribbean Planning for Adaptation to Climate Change (CPACC), which was followed by Adaptation to Climate Change (ACC), then Mainstreaming Adaptation to Climate Change (MACC), followed by Specific Adaptation to Climate Change (SPACC) and continuing with the establishment of the Caribbean Community Climate Change Centre (CCCC). ■

LIST OF RECENT ECLAC PUBLICATIONS

Listed by Catalogue Number, Date and Title

LC/CAR/L.192 March/2009

Report of the first meeting of the steering committee on strengthening the capacity of National Statistical Offices (NSOs) in the Caribbean small island developing states to fulfill the Millennium Development Goals (MDGs) and other Internationally Agreed Development Goals (IADG)

LC/CAR/L.191 March/2009

Report of the expert group meeting on the development account supported project on MDG/IADG monitoring in the Caribbean

LC/CAR/L.190 March/2009

An econometric study of the determinants of tourism competitiveness in the Caribbean

LC/CAR/L.189 March/2009

Preliminary overview of the Caribbean: 2008-2009

LC/CAR/L.188 March/2009

Report of the meeting on review of the economics of climate change

UPCOMING MEETING

2nd QUARTER

2009

APRIL

- 7th Meeting of the Technical Group of the Special Committee on Disaster Risk Reduction
- Expert Group Meeting on Biotechnology and Climate Change in the Caribbean
- Expert Group Meeting on the Promotion of Energy Efficiency in the Caribbean

MAY

- Meeting on Small and Medium Size Enterprises in the Caribbean
- Meeting on Geothermal Energy in the Caribbean

JUNE

- Expert Group Meeting on Monitoring of Demography and Health related MDGs
- Eighteenth Meeting of the Council for Human & Social Development (COHSOD)
- Regional consultation on HIV and AIDS and Development initiative in Latin America and the Caribbean in support of the ECOSOC Annual Ministerial Review
- OECS Development Partners Working Meeting
- Meeting of Experts to discuss risk reduction strategies in the Caribbean



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