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FOCUS

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A call for greater cooperation and dialogue between Latin America and the Caribbean

13 September 2011 – The Fifteenth meeting of the Monitoring Committee of the Caribbean Development and Cooperation Committee (CDCC) concluded on Monday 12 September 2011 with a call for greater coordination of the different players in development to promote dialogue and cooperation between the Caribbean and Latin America.

The meeting was convened by the Economic Commission for Latin America and the Caribbean (ECLAC) and discussed the progress made on the implementation of the 2010-2011 programme of work of the Subregional Headquarters for the Caribbean. Over the course of the biennium, ECLAC has conducted analyses on the developmental challenges faced by small states, the role and impact of foreign direct investment in the Caribbean, and has made recommendations to policy makers for sustainable growth, regional trade and integration, the strengthening of institutional capacity in the Caribbean, and work on violence against women, climate change and disaster assessment. Capacity-building was provided to Caribbean countries to support the generation of Purchasing Power Parities, improved management of their census data, improved generation and compilation of reliable statistics to support evidence-based policymaking and programming, and use economic modelling methodologies to evaluate climate change options.

Executive Secretary of ECLAC, Alicia Bárcena noted that the global economic crisis is still far from over, as the possibility of a debt crisis looms in the horizon in several developed economies of Europe, North America and Asia. "The spread of such a crisis could affect the small open economies of the Caribbean which are closely intertwined with those of the developed world," she said. In her proposal for a medium term development agenda, Ms. Bárcena outlined a need for macroeconomic policies focusing on inclusive development and for improving the region's position in the international economy through diversification.

On the role of ECLAC in the Caribbean, Dame Billie Miller presented a report on the second phase of the ECLAC evaluation. While the recommendations of the first phase were being implemented, the second phase would focus on the perspective of ECLAC headquarters. Even though results were preliminary, the Monitoring Committee acknowledged that some improvements in cooperation and collaboration had been made, which were welcomed.

On the other hand, the Committee noted that despite the enhanced collaboration, there was still a need to improve the identification and incorporation of Caribbean specific issues into the Latin American activities and publications of ECLAC. The Committee also noted the need for a more coherent coordination of the full range of players in development to promote dialogue and future cooperation between the United Nations, Latin America and the Caribbean

During the informal consultation, Ms. Bárcena, outlined where, in the view of ECLAC, Latin America and the Caribbean stood today. An unprecedented context of a two-speed global economy, one being slow-growing developed countries and one being dynamic in emerging countries, became apparent. The challenges faced by the region are abundant and outlined the need for marking out a new development agenda based on rights to equality. In her proposal for a medium-term development agenda, she outlined a need for macroeconomic policies focusing on inclusive development and aimed at improving the region's position in the international economy through diversification.

In the informal consultation, that idea was mirrored in discussions on investment, both internal and foreign, highlighting the importance of intraregional trade. The need to increase economic, environmental and social resilience of Caribbean countries was highlighted and different approaches were exchanged. The Executive Secretary's call for diversification was reflected in many of the priorities expressed by member States present and the role of the private sector was underscored.

The Monitoring Committee agreed that the incoming Chair, Guyana, would finalize the date and venue of the twenty-fourth Session of CDCC in consultation with the secretariat. It was also agreed that the upcoming meeting would focus on enhancing the collaboration between the Caribbean, Latin America, ECLAC and the wider development community.

The Monitoring Committee concluded that the region faced many challenges and that collaboration on finding solutions was essential. ECLAC was confirmed as an integral partner in the pursuit of such solutions in the future.

At the meeting, Ms. Bárcena announced that a new Director of the Subregional Headquarters had been appointed, Ms. Diane Quarless, who is the former Chief of the Small Islands Developing States Unit in the Department of Economic and Social Affairs of the United Nations.

Latin America and the Caribbean urged to pursue avenues for integration

The Executive Secretary of ECLAC, Alicia Bárcena, called on the countries of the Caribbean to re-examine strategic regionalism as an approach to addressing the development challenges facing the region, during the *Caribbean Development Round Table,* which took place in Port of Spain on 13 September 2011.

The meeting organized by the Economic Commission for Latin America and the Caribbean (ECLAC) in collaboration with the Ministry of Finance of Trinidad and Tobago examined new approaches and challenges to the sustainable development of small developing countries including the Caribbean and Central America.

The opening session was chaired by Executive Secretary of ECLAC, Alicia Bárcena, and the Prime Minister of Trinidad and Tobago, Kamla Persad-Bissessar, with the participation of the President of Guyana, Bharrat Jagdeo.

In her opening remarks, Mrs. Persad-Bissessar noted that the Caribbean Development Round Table offered an opportunity to rewrite the development 'destinies' and to introduce a new path towards the long-held goals of the region, which include poverty alleviation, economic growth, social development, achievement of social equity, establishment of a more equitable international financial architecture, debt reduction, trade deficit reductions, and the diversification of trade and industry.

"Cohesion and cooperation are critical prerequisites for Latin America and the Caribbean to become a force to be reckoned with in the international sphere," Mrs. Persad-Bissessar noted.

The Prime Minister of Trinidad and Tobago challenged the participants of the Round Table to deliberate, debate and develop workable solutions and concrete directives to these barriers to development which may be applied 'on the ground' in the Caribbean.

Alicia Bárcena delivered a presentation on *"Time for equality: Closing gaps, opening trails"*, which proposed a strategy for economic growth that emphasizes investment, integration and innovation, and highlights the importance of building the State's capacity to redistribute resources and promote equity. She stated that the focus should be on building resilience given the many challenges in the region which include inequality, poverty and economic vulnerabilities.

"Small States, collectively, need to advocate for a global financial architecture that minimizes the volatility of capital and institutes regulatory mechanisms to reduce financial contagion," Ms. Bárcena said. "Avenues for greater integration, especially through renewed efforts to implement regional agreements, need to be pursued in order to benefit from economies of scale."

Ms. Bárcena suggested that profits from natural resources should be used to invest in higher value added activities and upgrade the human capital stock, and called for better integration of regional SMEs into global value chains.

The ECLAC Executive Secretary called on participants to rethink development from within with a focus on putting the resources of the region at the disposal of the people to promote growth.

Ms. Bárcena reaffirmed the commitment of ECLAC to work closely with the Caribbean Community (CARICOM), the Organization of Eastern Caribbean States (OECS) and other institutions in the Caribbean to address the challenges facing the region.

The President of Guyana, Bharrat Jagdeo said the Caribbean needs to determine together what aspects of the global system best complement its development strategy.

"Unless we have strong advocates in the areas of the environment, a global trading system and a global financial system that allows us to access financing competitively particularly from multilateral agencies in a swift manner, there will be no change," he said.

President Jagdeo stated that the Caribbean must rethink development from its own perspective. "There is an urgent need to move away from outdated sunset industries to new industries that can drive growth and development, especially those with low carbon footprints," he said.

The Minister of Finance of Trinidad and Tobago, Winston Dookeran, spoke on the evolution of economic thought and development, stating that the region needs to build economic buffers to withstand price and commodity shocks and global recessions.

He called on countries to drill down to find endogenous economic growth strategies, and highlighted the need for the development of a new integration model that is appropriate to the current challenges facing the region.

The First Meeting of the Caribbean Development Round Table presented an opportunity to build bridges of cooperation between the Caribbean and Latin America, one of the regions which has been able to thrive economically, despite the recent global economic crisis.

The Executive Secretary of ECLAC held bi-lateral discussions with representatives of several Caribbean countries.

Ms. Bárcena met the Prime Minister of Antigua and Barbuda, the Prime Minister of Jamaica, the Prime Minister of Trinidad and Tobago, the Prime Minister of Grenada, who is concluding his term as Chair of the CDCC, and the President of Guyana, who will be assuming the position of Chair of the CDCC at its Twenty-fourth session in 2012.

Ms. Bárcena also met the newly appointed Secretary General of the Caribbean Community (CARICOM) and the Secretary General of the Association of Caribbean States (ACS). She also held discussions with the Minister of Foreign Affairs and Foreign Trade of Barbados, the First Vice Minister of Foreign Trade, Commerce and International Investment of Cuba, the Minister of Information, Telecommunications and Constituency Empowerment of Dominica, the Minister of Foreign Affairs, the Environment, Foreign Trade and Export Development of Grenada, the Minister of Foreign Affairs of Suriname.

ECLAC: Caribbean countries will be negatively affected by Climate Change

Although the countries of the Caribbean contribute less than 1% of global greenhouse gas emissions, they will be among the first to suffer the consequences of climate change and their economies and societies are more likely to suffer disproportional impacts.

The study entitled ***The Economics of Climate Change in the Caribbean***, conducted by **ECLAC** Subregional Headquarters for the Caribbean in Port of Spain, in collaboration with the United Kingdom Department for International Development (DFID) and the Caribbean Community Climate Change Centre, estimated the economic impact of climate change in the subregion.

It indicates that climate change will cost the countries of the Caribbean up to 5% of annual GDP if mitigation and adaptation strategies are not implemented.

It states that climate change poses a serious threat to sustainable human development, impacting negatively on livelihoods, ecosystems, infrastructure, health and the productive sectors. For the small island developing States (SIDS) of the Caribbean, the threat is even more severe due to the biophysical and socio-economic characteristics of these countries which make them especially vulnerable to these impacts.

Additionally, tourism, the main economic activity of many countries in the subregion, and agriculture will be the most affected sectors. This is a result of the geographic location of many of these Caribbean States in the hurricane belt, and the concentrations of their populations and economic infrastructure in coastal zones.

The increase in temperature will have a very negative impact on food security. According to the study, the projections for precipitation in the Southern Caribbean indicate a drop in rainfall. An increase of between 3% and 11% is predicted for the Northern Caribbean. This will have severe consequences on agricultural production given that in many of the islands, agriculture is not as important as before and they are more dependent on food imports.

The assessment carried out in the study indicates that the agricultural sector accounts for 30% of employment in the Caribbean. The largest impact of climate change in this region is expected to be derived from increases in the incidence of extreme weather events, including high-intensity hurricanes and flooding. For example, in Guyana, the sugarcane subsector is expected to experience losses of US$ 300 million by 2050 under one of the possible scenarios of an increase in the average annual temperature in the Caribbean.

Many of the islands, such as the Bahamas, Barbados, Antigua and Barbuda, Saint Vincent and the Grenadines, depend largely on tourism. The study reveals that with the increase in temperatures, tourists will no longer wish to visit places as before. Although they seek the sun, they do not want to be in an excessively hot environment and a decline in visitors is expected.

According to the report, a rise of 1.5 degrees Celsius in the ocean temperature will be enough to provoke major catastrophes, such as the rise in sea level.

For example, in Barbados where 70% of the population lives on the coast and where much infrastructure is located on the coast, an expected loss of the tourism industry's assets is estimated at US$ 4.7 billion by 2020 and US$ 44 billion by 2100 as a result of the rise in sea level.

Likewise, on average the occurrence of diseases relating to the rise in temperatures (dengue fever, gastroenteritis, leptospirosis and malaria) is expected to increase, which in turn will result in a rise in treatment costs.

Adaptation responses

In accordance with the ECLAC report, three options remain open to the governments faced with the enormity of the challenges: mitigation, adaptation or "no response".

Given that their contribution to greenhouse gas emissions is minimal, adaptation to climate change appears to be the only viable alternative for the small island developing States in the Caribbean. For this reason, the nations are advised to integrate efforts promoting low carbon economies, while focusing on the design and implementation of climate change adaptation policies and strategies.

The countries are already adopting climate change adaptation strategies with the help of this Organization of the United Nations.

The options considered include: what to do with the tourism sector, how to increase water supply and how to increase energy efficiency, among others.

However, several studies have also indicated that climate change poses a risk to advances made in recent decades towards the reduction of poverty and inequality in these countries.

Countries of Latin America and the Caribbean Seek a Regional Consensus on Sustainable Development

The Latin American and Caribbean Regional Meeting Preparatory to the United Nations Conference on Sustainable Development, Rio+20, took place from 6-9 September, 2011 at ECLAC Headquarters in Santiago, bringing together authorities and representatives of 28 countries in Latin America and the Caribbean, international experts and members of the civil society. The meeting initiated discussions to agree on a joint stance for the United Nations

Conference on Sustainable Development (Rio+20), which will be held in Rio de Janeiro, Brazil, in June 2012.

The meeting was opened by Alicia Bárcena, Executive Secretary of ECLAC, and authorities from the governments of Brazil, host of the global conference, and Chile, venue for this regional meeting, and senior officials from organizations of the United Nations system which work in the area of development and environment. It was attended by senior representatives from all the countries of Latin America and the Caribbean.

Representatives from the main groups in the region, including women, workers, peasants, indigenous people, businessmen, young people and other NGOs participated in the opening, each one with specific proposals.

In their discussions, the delegates examined the progress and remaining gaps in the region in the fulfilment of several sustainable development commitments adopted at international level, and formulated proposals for the global summit.

"This meeting gives us the opportunity to consider the South's development agenda, which is based on sustainability and which focuses on social equality. A more balanced agenda which includes the interests of developed countries, but above all developing countries," said Alicia Bárcena. "The agenda must respect this real and effective multilateralism in order to guarantee global public goods such as peace, financial stability, protection against pandemics and climate security, within the framework of the joint, but diverse responsibilities," she added.

She also added that the financial crisis and the food and climate crises, which have serious effects on the most vulnerable, also raise ethical dilemmas and it would appear that their effects will be of a structural nature. "This is, without a doubt, not an era of changes, but rather a change of era. We are living in times of great uncertainty and confusion," she stressed.

During the Latin American and Caribbean Regional Meeting Preparatory to the United Nations Conference on Sustainable Development, an Expert Group Meeting under the Review of the Economics of Climate Change in the Caribbean was convened by the ECLAC Subregional Headquarters for the Caribbean on 6 September 2011.

Representatives of the following Caribbean Development and Cooperation Committee member States attended the meeting: Antigua and Barbuda, Bahamas, Barbados, Cuba, Dominica, Dominican Republic, Grenada, Jamaica and Saint Lucia. The United Nations Secretariat was represented by the Department of Economic and Social Affairs. The Caribbean Community Secretariat and the Caribbean Community Climate Change Centre (CCCCC) were also in attendance.

The meeting concluded that climate change would cause considerable negative impacts on Caribbean economies and, as such, it was necessary that countries increase adaptation strategies to reduce those effects.

The meeting determined that countries could lose, annually, about 5% of their GDP projected to 2050, and that the time to act was now so that countries were prepared for the future.

Joseluis Samaniego, Chief, Sustainable Development and Human Settlements Division, ECLAC opened the meeting, reiterating the importance of the RECC reports to the current preparations for the 20-year review of the United Nations Conference on Sustainable Development and to the negotiations for a Kyoto Protocol. He urged countries to continue to research the impacts of climate change and suggested to the meeting the need to use other indicators of impact apart from GDP indicating that natural capital needed to be taken into consideration.

The representative of CCCCC provided a synopsis of RECC studies. He indicated that temperatures might increase between 2.3 – 3.4°C by 2050 and the southern Caribbean was expected to be drier than the northern Caribbean. He mentioned that climate change impacts were expected to cost the Caribbean subregion approximately US$ 5 billion annually projected to 2050, which would amount to 5% of GDP.

He cited losses in the agriculture sector at approximately 2% of GDP, and in the coastal and marine sector, cumulative damage under the A2 scenario projected to 2050 would be in excess of US$33 billion. He noted that adaptation options included enhancement of monitoring of coastal waters to provide early warning alerts of bleaching events, development of artificial reefs and fish-aggregating devices, the development of national evacuation and rescue plans and the formation of irrigation networks that allowed for the recycling of waste water.

In the health sector, costs from climate change were expected to be about US$250 million, and adaptation options included improvements in building codes and enforcement of such codes; incentives to retrofit tourism facilities to limit the impact of increased impacts; retrofitting of ports to accommodate the expected impacts; catastrophe insurance for government buildings that were used by tourists; mangrove reforestation and the development of early warning systems. In discussing policy recommendations, the CCCCC representative mentioned that countries should start with "low regrets" options.

The Expert Group Meeting recommended the following:

(a) The reports of RECC were important in planning for climate change and should be encouraged and expanded to include regional assessments
(b) The Caribbean subregion should examine the possibility of establishing an insurance scheme for small-scale farmers and fishers
(c) CCRIF only provided coverage for damage from hurricanes and that should be expanded to events, such as floods and drought, that wrought considerable damage to countries
(d) Countries needed to access the adaptation fund as well as the climate fund in adapting to climate change.

UN-CARICOM Meeting Identifies Regional Priorities

The sixth general meeting between the UN System and the Caribbean Community (CARICOM) and its Associated Institutions identified regional priorities across seven broad thematic areas for collaboration, including climate change, sustainable development and disaster management, and energy.

The meeting, which was held from 28-29 July 2011 in Georgetown, Guyana, provided a forum for reviewing and enhancing UN-CARICOM cooperation. The other priority thematic areas identified were: the implementation of the CARICOM Single Market and Economy, and institutional development matters; regional security; food security and food safety; human development, including health, education, gender and youth; and the role of information and communication technologies (ICTs) for development. The meeting recognized that the UN system is engaged in significant work in these areas at the global and/or national levels and underlined the need to identify areas where a regional approach would add value to these ongoing national partnerships. Participants thus discussed how to focus their cooperation to maximize progress in these priority areas and emphasized information sharing, capacity building and institutional strengthening as key tools to implement their respective mandates.

In addition, participants received a report on progress achieved in the implementation of commitments made at the fifth general meeting held in February 2009, the outcome of which was the decision to implement the UN-CARICOM Regional Strategic Framework (RSF) to provide for enhanced coordination between the two organizations. Two reports on the implementation of the RSF were presented and the sixth general meeting considered and adopted recommendations made in the reports to the effect that: the UN Department of Political Affairs (DPA) and the CARICOM Secretariat's Foreign and Community Relations Directorate should focus their follow-up on the specific commitments for UN-CARICOM cooperation made during the general meetings, with the result that the RSF in its current form was no longer required; and that a discussion should be initiated on how the UN System could achieve greater coherence in the Caribbean region, in partnership with the CARICOM Secretariat and in support of CARICOM member States.

United Nations Secretary-General Ban Ki-moon's message was delivered by Oscar-Fernandez Taranco, Assistant Secretary-General for Political Affairs. He noted that the Caribbean Community is a key United Nations partner in achieving the shared goals of development, security and human rights. He commended CARICOM's strong commitment to multilateralism and regional integration, and its leadership on global challenges, including combating climate change, strengthening democracy, rebuilding after disasters and stopping the spread of global epidemics.

The United Nations Secretary General assured that the United Nations system will continue to work with CARICOM to formulate strategic and effective approaches for realizing the region's aspirations for prosperity and peace.

Latin America and the Caribbean region continues on growth path

In 2011 Latin America and the Caribbean will maintain the recovery that began in the second half of 2009 following the international economic crisis, and will grow by 4.7% thanks to the boost of internal demand.

In the *Economic Survey of Latin America and the Caribbean 2010-2011,* ECLAC points out that this growth implies a 3.6% rise in per capital GDP, and declares that the current situation calls for close attention to be paid to the macroeconomic policy challenges that will be facing the region.

In 2011, regional growth is mainly being driven by private consumption, which is attributable to improved labour indicators and increased credit. At the same time, the fact that idle productive capacity is being used up to sustain internal demand is pushing up investment, which is benefiting from greater credit availability to return to pre-crisis levels.

According to the report, growth will also have a positive impact on the region's labour market, which means that the unemployment rate may fall from 7.3% in 2010 to between 6.7% and 7% in 2011.

As in previous years, the region has three tier growth. On the one hand, the highest growth rates are in South America, which will grow by 5.1% in 2011, on the back of a significant improvement in its terms of trade by virtue of higher prices for its commodity exports. Meanwhile, Central America will grow by 4.3% and the Caribbean by 1.9%.

In terms of countries, the fastest growing this year will be Panama (8.5%), followed by Argentina (8.3%), Haiti (8.0%) and Peru (7.1%). They are followed by Uruguay with 6.8%, Ecuador (6.4%), Chile (6.3%) and Paraguay (5.7%). At the same time, Brazil and Mexico will grow by 4.0%, the Bolivarian Republic of Venezuela by 4.5% and Colombia by 5.3%.

In the *Economic Survey 2010-2011*, ECLAC states that rising international food and fuel prices, in a context of higher internal demand, have given rise to inflationary pressures. As a result, several of the region's countries have toughened their monetary policy, which has increased the difference between internal and international interest rates. In a context characterized by extremely high external liquidity, this may lead to exchange rate appreciation in the region.

Prospects

Latin America and the Caribbean is expected to grow by 4.1% in 2012, which is the equivalent of a 3.0% rise in per capita GDP, although much uncertainty remains in the light of the situation in the rest of the world.

In its report, ECLAC highlights the macroeconomic policy challenges facing the region's government in a context of high commodity prices, considerable international liquidity and the robustness of certain Latin American economies.

In the current scenario, the region's attractiveness to capital inflows and appreciation pressure on local currencies could be of benefit in the short term by helping to relieve poverty and bring down food prices. However, this situation involves a series of risks and difficulties.

First, the region becomes vulnerable to speculative capital movements in the quest for short-term gains, and this may create bubbles in the prices of financial assets and property markets.

Second, high international liquidity pushes down real exchange rates while pushing up commodity prices (which encourages intensive specialization in commodity exports and production). This increases the vulnerability of the region's economies to external shocks and creates greater investment volatility, thereby negatively affecting the capacity to grow, generate productive employment and reduce inequality.

According to ECLAC, the region's economic authorities should implement measures to contain currency appreciation by combining foreign exchange market interventions, checks on capital inflows and financial regulations. Such measures would be boosted by an accompanying fiscal policy aimed at increasing public sector savings.

Lastly, the report points out the uncertainties in the international economy, particularly in the United States, Europe and Japan, and the possibility of a worsening international climate limiting the region's growth potential. It is therefore advisable to take advantage of the current favourable conditions to recover the policy space that was lost in the crisis.

In the near term, activity levels in the economies of Latin America and the Caribbean are being sustained largely by private consumption, thanks to an improvement in labour indicators and an expansion in lending. At the same time, expectations of buoyant domestic demand and the depletion of idle production capacity, combined with more readily available credit, are fuelling investment.

Caribbean Growth Performance in the Context of a Sluggish Global Economic Recovery

Growth in world output was 5% in 2010, propelled by emerging economies led by China and India. Growth is projected slightly lower at 4.4% in 2011. These positive rates of growth are quite significant having regard to the 0.5% decline in 2009.

Given this context, in 2010, Caribbean economies showed some slight improvement in growth performance over 2009. Driven by elevated export prices, the MDCs[1] reported positive growth of 1.5% in 2010, from a decline of 1.2% in 2009. In the case of the ECCU[2] countries, the recovery is not yet apparent as growth rates are still negative, but improved from a decline of 6.2% in 2009 to a smaller contraction of 1.7% in 2010.

During 2010, most countries initiated fiscal consolidation programs designed to create more sustainable public finances. The average deficit of the ECCU subregion declined from 3.5% of GDP in 2009 to 1.0% of GDP in 2010. The average deficit of the MDCs also contracted from 4.7% of GDP in 2009 to 3.4% of GDP in 2010.

Average total public debt for the Caribbean increased from 69.7% of GDP in 2009 to 73.0% of GDP in 2010 as a number of governments borrowed to finance their deficits.

The current account deficit for the Caribbean narrowed from 14.2% of GDP in 2009 to 10.8% of GDP in 2010 driven by the trade balance which posted a smaller deficit fuelled by the rise in exports (7.8%) and a simultaneous fall in imports (12.2%). Remittances for the MDCs and the ECCU increased by 6.1% and 8.6% respectively relative to declines of 11.0% and 6.7% respectively in 2009. On the other hand, net foreign direct investment as a share of GDP declined by 1.2 percentage points to 4.5% for the MDCs and by 0.8 percentage points to 11.6% for the ECCU.

[1] Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago
[2] Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and St Vincent and the Grenadines

The lack of robust growth in the post crisis period has had a significant impact on labour markets in the Caribbean. Unemployment inched up in Barbados (11.2%), Jamaica (12%) and Saint Lucia (20.6%) and declined marginally in Trinidad and Tobago (4.8%)[3] in 2010.

Inflationary pressures emerged once again in 2010 due to increased global food and oil prices, compounded by domestic fiscal measures in the form of higher taxes. As a result inflation increased in MDCs from 3.1% in 2009 to 6.3% in 2010 and in the ECCU from 0.7% in 2009 to 2.6% in 2010.

Growth in private sector credit declined from 3.3% in 2009 to 2.1% in 2010 in the MDCs but picked up slightly in the ECCU from 4.6% in 2009 to 5.3% in 2010.

Prospects for Caribbean Economies in 2011

The prospects for 2011 are better than 2010 on the assumption that global demand will continue to increase and food and fuel prices will moderate. Growth in MDCs is projected at 2.7% and in the ECCU at 3.2% with positive growth expected in all the countries.

Recommendations:

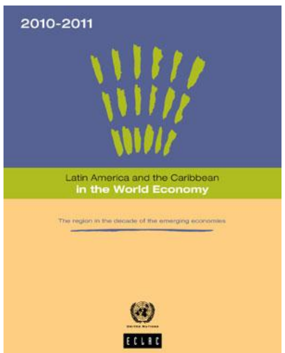
- The process of fiscal consolidation which is being pursued by several countries must continue. The focus however must be on creating greater fiscal space[4], and building resilience in the face of external shocks. This can only be achieved by promoting fiscal responsibility and public expenditure efficiency.
- A strategy of market and product diversification is essential for sustained growth. This means carefully examining ways of building new sectors and activities to expand the domestic private sector. One approach is to promote a system of risk management that would properly evaluate the benefits and costs of new projects and activities.
- Incentives schemes to attract FDI must target firms and activities that will provide greater spillover effects for locals and regional firms and help them, to become part of global value chains.
- The lack of private sector response despite lower interest rates and excess liquidity underline the need for greater private and public sector partnerships as ways of reducing private risks and making public activity more market sensitive.

[3] At end of second quarter 2010

[4] Ability of governments to raise and allocate revenue while maintaining fiscal and economic sustainability

Exports from Latin America and the Caribbean will increase by 27% in 2011

(30 August 2011) International trade has significantly contributed to the economic recovery of Latin America and the Caribbean following the economic and financial crisis of 2008 and 2009. According to the report *Latin America and the Caribbean in the World Economy 2010-2011*, there is a need to prioritize macroeconomic prudence and forms of regional trade and financial cooperation which can buffer the impacts of an eventual weakening of the international scenario.



In the report, ECLAC states that the value of goods exported from Latin America and the Caribbean will grow by 27% in 2011, which is a similar increase to that of last year, and notes that this growth would result from a 9% increase in the volume of exports and an 18% rise in the price of products exported by the region.

The study reveals that the value of imports would increase by 23%, with the region accumulating a trade surplus of slightly more than 80 billion dollars by the end of 2011.
ECLAC warns, however, that at present, the complex situation in developed countries, in particular the United States of America and in Europe, is starting to affect emerging nations and could decrease the rate of growth of exports to these markets in 2012.

"The levels of global volatility and uncertainty are worrying. There are still significant global imbalances, such as the sovereign debt crisis in various European countries and the fiscal uncertainty in the United States of America, which would in turn weaken international trade," stated Alicia Bárcena, Executive Secretary of ECLAC.

Regional trade balance

Over the past decade, the relative importance of Asia in Latin America and the Caribbean foreign trade increased significantly, compared with the fall in the United States of America participation and the stagnation of the European Union.

Latin America and the Caribbean has become the main destination for exports from the United States of America (receiving 23% of exports in 2010, compared to 22% from Asia and 19% from Canada) and the second most important origin of its imports (19% in 2010, following 34% from Asia). The region represents only 2% of the European Union's total trade, which is significantly below exports between the countries which make up the European Union (64%) and Asia (10%).

Over the last five years, exports from the region to Asia-Pacific grew at an annual rate which tripled that of total exports (22% versus 7%). During the same period, imports from Asia-Pacific have also grown more quickly than total imports (annual rates of 15% versus 9%, respectively). Likewise, Latin America has become China's most dynamic trading partner, with an annual growth of 31% in its exports to the region between 2005 and 2010, compared with 16% to the rest of the world. Exports to Asia are still concentrated in primary products and their basic processing, while those directed to Latin America and the Caribbean, and the United States of America are mainly manufactured based products.
With regard to trade balance, South America maintains balanced trade with China and the rest of Asia, a slight surplus with Europe and a small deficit with the United States of America, while Mexico and Central America have a significant surplus with the United States of America, a deficit with the European Union and bulging deficit with China and the rest of Asia-Pacific.

In the report, ECLAC also states that the United States of America lacks an explicit trade policy towards Latin America and the Caribbean, despite the fact that it is still the region's main partner. For example, since 2007, there have not been greater developments in trade negotiations. This situation contrasts with the dynamism shown by lasting negotiations in recent years between various countries and their European and Asian partners.

ECLAC suggests a new alliance between the United States of America and the region in order to tackle common challenges in the search for better integration in the world economy. The organization states that there are interesting perspectives for cooperation between Europe and the region in areas such as green technology and social business responsibility.

Greater productive diversity and inclusive growth must also be achieved. Therefore, some of the measures needed include increasing the value and knowledge component incorporated into exports, diversifying products and markets, insertion into global value chains, improving the governance of natural resources and taking innovation to another level.

In mid-2011, conditions deteriorated in the industrialized economies. Early in the year, instability in North Africa combined with other factors to push up fuel prices. Then, in March, the tragedy of the earthquake, tsunami and nuclear disaster in Japan damaged global production chains. Although the impacts of these factors eased in the second semester, concern mounted over the threat of default in Greece, Ireland and Portugal and the repercussions of such an event for larger European economies. In late July, the difficulties in securing congressional approval on the United States public debt ceiling added to the volatility prevailing in financial markets. The downgrading of the United States' sovereign debt rating for the first time ever and lacklustre economic growth rates in the euro area and the United States added to the uncertainty.

Volatility and uncertainty are again reaching worrying levels. Following the agreement by the United States Congress on the country's public debt ceiling and the approval by European authorities and the International Monetary Fund (IMF) of a second support package for Greece, the major stock exchanges have been highly volatile and have seen falls reminiscent of past financial crises. Economic stagnation in the euro area, including in its largest economies, France and Germany, is another cause of volatility. International commodity prices are beginning to reflect this uncertainty and volatility and have declined sharply in a short time span, although they remain above their long-term trend, particularly in the case of metals and minerals.

Leading composite indicators show that slower growth in the industrialized countries is starting to act as a drag on the main emerging economies. Data for mid-2011 suggest that the slowdown in the industrialized countries is affecting China and, particularly, Brazil and India. If these trends continue, exports to Europe and the United States should be expected to slow in 2012 and export growth will be compromised in economies whose exports depend heavily on those markets. As growth slows in the emerging economies and the industrialized economies show increasing weakness, international commodity prices are likely to fall, affecting the trade and current account balances of net commodity exporters.

The industrialized economies will experience slack growth for the next few years. The outlook in these economies is for several years of growth below potential, high unemployment rates and latent financial threats amid considerable instability and jittery financial markets. The inability of political leaders to find credible and sustainable solutions to fiscal deficits and high sovereign debt adds another element of uncertainty. The fiscal adjustments needed in Europe and the United States are highly complex and will need a long process of consolidation, which will prove difficult to achieve without broad political support over several administrations.

This scenario limits the political space for agreement on the governance of globalization. Economic turbulence and high unemployment in the industrialized economies may prompt a resurgence of protectionist forces and reduce the margin for new initiatives for responding to the challenges of globalization. The Doha Round of trade talks, for example, has failed to achieve even the minimal agreements which could conclude the Round after 10 years of unsuccessful negotiations. The early announcements by the Group of Twenty (G-20) on reform of the international financial system appear to have disappeared from its agenda. Successive summits on climate change have not been able to tackle the issues with the required speed. Furthermore, the increasing weight of emerging economies in the main variables of the global economy seems to have inspired apprehension and defensiveness on the part of the industrialized economies

Given the great uncertainty augured for 2012, the main recommendation for Latin American and Caribbean economies is macroeconomic prudence. Financial volatility is affecting economies with deep financial and stock markets in the region and the slowdown in Europe and the United States will limit export growth and depress commodity prices. Fresh quantitative easing in the United States could worsen currency appreciation in those countries already grappling with large capital inflows. In these circumstances, Latin American and Caribbean economies should strengthen macroeconomic management, pursue sustainable fiscal and external accounts, reinforce macroprudential measures, and steer their policy decisions by the long-term behaviour of main economic variables.

Prudent macroeconomic management must be complemented with more strenuous efforts to further regional cooperation. Deeper commitment to integration and regional cooperation, with extra support for intraregional trade, the consolidation of macroeconomic and social achievements made thus far and progress in forming an enlarged regional market, could help to cushion the impacts should international conditions take another turn for the worse. There is room for more initiatives on trade facilitation and greater cooperation on infrastructure, transport, logistics, custom rules, innovation and technology. Initiatives of this sort would not only open opportunities for exports by small and mediumsized enterprises (SMEs) with a stronger manufacturing content, but also make the region a more attractive partner for trade and foreign direct investment (FDI).

The Caribbean

The response of the Caribbean to external shocks has been made difficult by the dependence on a few key markets and products. A strategy of market and product diversification is essential for sustained growth. This means carefully examining ways of building new sector and expanding the domestic market and by extension the regional private sector. One approach is to promote a system of risk management that would properly evaluate the benefits and costs of new projects and activities.

The improvement in domestic and regional competition is to be encouraged in all sectors and activities so that there are incentives for new activities and investment opportunities.

The reliance on FDI for investment and foreign exchange inflows is important in this phase of Caribbean development; however, the productivity of such investment is essential for structural transformation. Incentives schemes towards FDI must target firms and activities that provide spillovers effects that benefit local and regional firms and help them to become part of global value chains.

Countries that have done well such as Belize, Guyana and Suriname, for example, must be cautious and use the windfall revenue gains to diversify production and to buffer future external shocks since commodity boom are temporary.

Recommendations

ECLAC calls for countries of the region to increase their negotiation power by taking advantage of regional assets and adopting a common stance on the global agenda on issues such as the Doha Round, climate change and the financial crisis. ECLAC calls for the development of open regionalism to improve the supply of regional public goods, in particular, infrastructure, energy, logistics, transport and initiatives for facilitating and financing intra-regional trade. These tasks must be undertaken while maintaining fiscal stability and fiscal discipline.