



## BREXIT: INTERNATIONAL CONTEXT, GLOBAL IMPACT AND IMPLICATIONS FOR THE CARIBBEAN

### INTERNATIONAL CONTEXT

On June 23, 2016 the British people voted by a majority of approximately 52% to 48% to leave the European Union. This decision reverberated around the world not only because it has significant implications for the UK and continental Europe, important parts of the global economy, but also because it has much broader implications for the pace and scope of regional integration movements and globalisation generally. Political sentiment around the world is increasingly being pushed in the direction of less openness and greater insularity driven by the uneven distribution of benefits and costs of globalization across and within countries, as well as the loss of sovereignty in some areas. Moreover, the 2007/2008 international financial crisis and its fallout highlighted some of the risks associated with unbridled globalisation which intensified protectionist and nationalist sentiments. The issues of sovereignty and nationalism are beginning to have greater currency relative to openness and economic logic in many parts of the world. Brexit is therefore likely to be the first of many similar developments which will challenge the status quo of increasing globalisation. Brexit also highlighted the fact that increasing globalisation and ever closer regional integration are ultimately inherently political processes which must be managed accordingly.

The fact that closer economic integration has been mostly promoted as an economic construct means that the necessary discussions on political issues have, in most cases, not been frontally addressed. Inevitably, in the European Union especially, the push back against ever closer integration has been mainly political with some interest groups feeling that essential decisions with respect to governance and welfare were being driven by regional bureaucrats which diminished the influence of their elected representatives. Moreover, the working assumption seems to have been that ever closer integration was desirable, but there now appears to be a sense that there is a limit beyond which people are not willing to go and this is reflected in

the recent advances made by nationalist political parties in the EU. In particular, a large majority of people seem to like the common market but many are uncomfortable with the single economy which implies similar rules, standards and decision making at the regional level and the associated loss of sovereignty in key areas such as immigration and security. British euroskeptics seem to support the globalisation of goods and capital but not uncontrolled immigration nor some of the more invasive European regulations. These concerns have been amplified by initiatives to develop regional arrangements in the wake of the European debt crisis, the migrant crisis and terrorist attacks in Brussels and Paris.

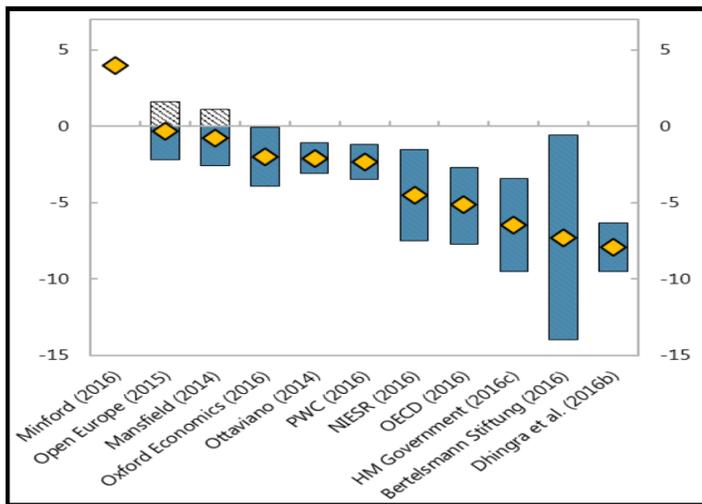
### LIKELY GLOBAL IMPACT

In the weeks leading up to the referendum virtually every major international organisation, industry association and trading partner had warned the UK about the consequences of exiting the EU. Most long-run analyses of Brexit had suggested that leaving the EU would have a net negative impact on the UK economy with significant negative economic fallout for other EU countries as well. The estimates for the impact on the UK economy are, however, very diverse ranging from a small net positive impact to a net negative impact as large as six per cent of GDP (See Figure 1). The studies that find net positive economic benefits usually base their estimates on the potential rapid expansion of trade from new trade agreements with other economies or a substantial boost to productivity from reducing EU regulations. The wide variation in estimates of the economic impact of Brexit is due to the significantly different scenarios that could emerge post-Brexit and the number of channels such as trade, investments, labour market and productivity through which the impact could be transmitted. The crucial factor would be the post-Brexit trade deal the UK will be able to negotiate with the EU, the length of time this will take, the reaction of the international financial markets to these developments, the policy reaction of major capitals and related international economic

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developments that could accentuate or mitigate the impact of Brexit.

**Figure 1: Long Run Estimates of the Impact of Brexit on Economic Growth (% of GDP)**



Source: IMF Country Report 16/169, United Kingdom, Selected Issues, June 2016.

The IMF had indicated that the economic consequence of Brexit would likely involve lower economic growth with the extent of the decline depending on the trade agreement eventually negotiated with the EU. The fact that the separation is expected to take two years plus the time it takes to forge a new agreement with the EU means that significant uncertainty will exist for some time suggesting that there could be higher volatility in financial markets, particularly international currency markets which would have global implications for the value of financial assets and trade.

The initial economic fallout from Brexit was evident on the morning of June 24, 2016. Stock markets in Europe and further afield fell significantly as agents reacted to the news. The Pound Sterling and the Euro also fell against the US dollar. The weakness in the markets was significant but not on the scale of the volatility in the wake of the failure of Lehman Brothers in 2008. Moreover, the Bank of England and other major central banks have already signalled their intentions to support stability in financial markets. These interventions have helped to calm market volatility which emerged in the wake of the UK vote to leave the EU.

Nevertheless, this process is likely to create a relatively long period of uncertainty and the related episodic financial volatility is one of the most serious risks from Brexit which could derail the global economic recovery if not managed properly. The UK economy is only 3.9 per cent of the global economy so it is unlikely to have a major impact on global growth. The EU economy is another matter though, as it is a significant part of the global economy and slow growth in this region has been one of the major reasons for relatively weak global growth in the recent past. New IMF estimates<sup>1</sup> indicates that EU growth for 2016 and 2017 has been marked down by 0.1 and 0.3 per cent respectively. The update to the IMF World Economic Outlook due on July 19, 2016 is therefore expected to mark down estimates for global growth. The real long-term impact is dependent on how the EU responds. If the EU responded by trying to punish the UK then the impact will be significantly negative for the UK, the EU and the global economy. If the EU tries to keep the UK closely integrated then the impact will be relatively benign since the common market would still largely be in place and if rules on immigration could be crafted in such a way that it was dependent on the needs of the labour market then the economic impact will be relatively small. In this scenario, the principle of reciprocity will be key to the success of the arrangements for the new relationship between the UK and the EU. Very importantly, if this arrangement was successful it could serve as a template for the region in cases where members were uncomfortable with the immigration implications of ever closer integration. It could also potentially strengthen the EU by dealing decisively with an issue which has created instability and fractures in the EU.

International collaboration can help minimise the negative impact of Brexit and cooperation rather than conflict is still the most likely course of action since everyone loses if the situation is allowed to spin out of control. The political mood in Europe is, however, a cause of concern with insular and nationalistic sentiments on the rise. In this regard, an important signal would be the results of the upcoming Italian referendum in October 2016 on fundamental changes to its constitution which would strengthen Prime Minister Matteo Renzi's hand to push through measures to increase competitiveness. If this failed it would lead to the resignation of Mr. Renzi and signal that Brexit may not have been an isolated event and would entrench the forces opposed to openness and globalization.

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### IMPACT ON THE CARIBBEAN

Brexit has major implications for the highly open economies in the Caribbean. Different countries will feel the impact in different ways in the short and long term depending on the length of time it takes to structure a new relationship between the EU and the UK, as well as the nature of the final deal. The impact is expected to be mostly negative but there are some opportunities that could emerge. The channels through which Brexit could affect the Caribbean include financial markets and investments, trade, aid and development finance, migration and remittances and international collaboration. The Overseas Development Institute in the UK estimates that in the short run the combined costs (trade, investment, aid and remittances) of Brexit to developing countries would be approximately US\$3.8 billion.

As expected the initial impact has been volatility in financial markets as investors tried to fathom how Brexit would change risks and returns. Exchange rate volatility in terms of the weakening of the Pound Sterling and the Euro against the US Dollar has wide ranging implications for investment flows, financial asset value and portfolio rebalancing. Intervention by the major central banks has since restored some calm in the markets but the pound sterling and the Euro are still much weaker against the US dollar by historical standards.

In the immediate post Brexit world investment sentiment is likely to be very risk averse. In this environment, the demand for "safe haven" assets will come at the expense of financial assets that are seen to be riskier which puts developing countries at a disadvantage. Financing costs are therefore likely to rise and capital flows to developing countries weaken in the short run. This could further weaken the growth prospects of developing countries that depend heavily on these inflows. Many Caribbean countries are in this position which suggests that in the short term financing conditions are likely to become more difficult, hampering growth prospects in the region.

The strengthening of the US dollar will also tend to weaken commodity prices as they are priced in dollars. This has indeed been the case since Brexit with oil prices in particular falling back from the levels recorded in June 2016. This trend in commodity prices will be accentuated if global growth softens because of Brexit. In this environment, the service-based economies in the region will benefit as the cost of fuel imports falls while the commodity based producers in the region suffer as their terms of trade weakens. If global growth weakens significantly, however,

the region's main trading partners will be negatively affected resulting in lower growth prospects for the Caribbean.

Exchange rate dynamics have also been driving the pattern of tourism demand in 2016 with countries with weaker currencies (and therefore lower costs) experiencing more growth in tourist arrivals relative to countries with stronger currencies. Exchange rates also have a significant impact in source markets with countries with weaker currencies and growth experiencing declines in purchasing power relative to those with stronger currencies and therefore less outbound tourists. In this environment, tourism-dependent Caribbean jurisdictions whose exchange rates are pegged to the US dollar and which depend on tourist arrivals from the UK and European markets are likely to experience a decline in total tourist arrivals unless this can be offset by increased arrivals from the USA. The marketing thrust of Caribbean jurisdictions will therefore have to take this factor into account.

The weakening of the pound sterling and the expected softening in UK growth is also likely to have a negative impact on remittances to the Caribbean. The UK is not the biggest source of remittances to the Caribbean but it is significant for some countries such as Barbados (19.4% of total), St. Lucia (16.7% of total) and Jamaica (12.5% of total)<sup>2</sup>. This impact would be more significant if tighter immigration rules also led to a significant fall-off in immigration to the UK from the Caribbean.

The impact of Brexit will also be felt in the area of aid, development finance and international collaboration. The reallocation of aid away from EU channels will mean that Caribbean countries have to refocus their request for development assistance through British institutions. Commonwealth countries such as those in the Caribbean might become the new beneficiaries but this will require renewed diplomatic efforts to ensure Caribbean needs are met. Also, there will be greater competition for financing from a potentially smaller European Development Fund and the Caribbean will have to be more aggressive in competing for these funds. In terms of potential opportunities for the Caribbean, the UK may well have to renew and strengthen old alliances such as the Commonwealth in the pursuance of its international development goals which is an opportunity for the region in terms of greater engagement on a number of issues such as de-risking, international security issues and development financing.

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The long term impact on trade with Caribbean countries will depend on the type of trade agreement the UK eventually negotiates with the EU. In particular, if the custom union with the UK is maintained there will be no change in tariffs and preference arrangements with developing countries will remain fundamentally unchanged. On the other hand, if the UK was no longer part of the EU custom union there will be major changes to the European value chain which implies a different production and trade structure. These changes will constitute serious challenges for the Caribbean's trade relations with the UK and the EU. In particular, it is likely that the EPA will have to be amended to accommodate the changed realities in Europe but this should not fundamentally change the market access protocols agreed to earlier with the exception that the agreement may not cover the UK. In this scenario, there would be a need to develop a new trade agreement between the Caribbean and the UK. One significant challenge if the latter scenario materialises is the divergence in product and service standards and rules between the EU and the UK. In this case, Caribbean businesses will be faced with increased compliance costs. Additionally, any opportunities from this changed reality would not accrue to the Caribbean but to large emerging economies and other developed economies because they generally produce substitutes for goods and services that the UK now trades with the EU.

Perhaps the most significant consequence for the Caribbean from Brexit, however, is the lessons learned with respect to how increased insularity and push back against the regional integration process can potentially do significant damage to the integration process if fundamental challenges are not addressed in an open, consensual manner. The negative fall-out from Brexit should give serious pause to those in the region who prefer more protectionism. At the same time, it highlights how important it is to deal frontally with weaknesses in the integration movement and to ensure as far as possible that the benefits of integration are more evenly distributed. This episode has shown that uncontrolled immigration is the most contentious issue in integration movements and must be handled carefully since this is the main reason behind the push back against closer integration in Europe. The immigration protocols in Europe seem to have been too open-ended and ambitious. A more pragmatic approach in this area would defuse much of the conflict in the EU and seems to be the approach which might be adopted now to shore up the European integration movement. This has proven to be a very contentious issue in the Caribbean as well and given the

huge challenges facing the CARICOM integration movement it is an issue that must be dealt with as a matter of urgency but also pragmatically given the experience of the Europeans.

### CONCLUSIONS

Mitigation strategies can be adopted at the international and Caribbean levels to deal with the Brexit shock. The most important factor is widespread international support for a relatively quick, collaborative and sensible effort to forge a new trade deal between the UK and the EU. A trade deal between the UK and the EU as close as possible to the present EU arrangement would be helpful, possibly with a more pragmatic approach to immigration, to minimise the negative impact of Brexit on the global economy. Also needed is deep introspection from the remaining EU members about the changes to the present arrangements which would defuse opposition to the current arrangements, much of which surround problems with ever closer political union. The Euro is now a major part of the international monetary system and any development that weakens it can have potentially cataclysmic results for the global economy. Every effort must therefore be made to strengthen the architecture underpinning the Euro, including having a more comprehensive set of rules for countries who accede to the Euro with more flexible arrangements based on reciprocity for countries that do not want to be part of the common currency but want to be part of the European trading bloc. This should help strengthen the Euro while defusing insular sentiments in some countries.

In the Caribbean, countries can attempt to increase their resilience to shocks such as Brexit. A consistent set of policies to reduce vulnerabilities in the fiscal and financial arenas, as well as policies to increase their international competitiveness would help to minimise the impact of international shocks on their economies. Diversifying their export base away from traditional export markets can also make countries more resilient. At the international level forging alliances and developing multilateral facilities to deal collectively with events such as Brexit should also help to minimise the negative impact of these shocks.

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1: IMF, Euro Area Article IV consultation Report, July 8, 2016.

2: World Bank, Migration and Remittances Factbook 2016.

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## REGIONAL ECONOMIC NEWS

### Aruba

- Authorities from the governments of Aruba and Venezuela, and officials from Petróleos de Venezuela, SA and CITGO Aruba, gathered in Caracas on Friday to witness the execution of a commercial agreement between CITGO Aruba and the Aruban government that will reopen a 209,000 B/D refinery located in San Nicolas, Aruba. (CNNow, 13 June, 2016)

### The Bahamas

- On June 8, 2016, the Executive Board of the International Monetary Fund concluded the Article IV consultation with The Bahamas. Economic growth is estimated to have stalled in 2015, as a modest increase in air tourism arrivals was not sufficient to offset a contraction in domestic demand and weak exports of goods. (CNNow, 13 June, 2016)
- A new charter made its inaugural flight from Italy to Freeport, Grand Bahama June 9, 2016. The Boeing 767-300ER Alpitour flight will provide direct service to the island from Milan until September 1, 2016. (TheBahamasInvestor, 13 June, 2016)
- Increased airlift and a renewed focus on the US market will help Grand Bahama recover from a downturn in its Canadian visitor arrivals, according to Grand Bahama Island Tourism Board chairman Russell Miller. (TheBahamasInvestor, 15 June, 2016)
- Officials from Bahamasair and the Greater Orlando Aviation Authority welcomed the arrival of a new non-stop service from Freeport to Orlando June 22, 2016. (TheBahamasInvestor, 24 June, 2016)
- The Bahamas government has released a statement about the UK's recent decision to sever ties with the European Union. (TheBahamasInvestor, 28 June, 2016)
- The fast ferry JaumeI was scheduled to begin operating on Tuesday on the route between Fort Lauderdale and the port of Freeport (Grand Bahama), replacing the current vessel used, the Pinar del Río. This change will make it possible for the shipping company to increase passenger capacity on this service and continue guaranteeing quality service between Florida and the Bahamian island. (CNNow, 29 June, 2016)
- The government of The Bahamas and the Inter-American Development Bank (IDB) jointly organized a seminar on "Innovation, Transparency and Service Delivery". Keynoting the seminar on Wednesday, the prime minister of The Bahamas, Perry Christie, emphasized: "Given the harsh economic climate, we cannot afford the luxury of not maintaining tight control of the management of the peoples' funds. More critically, we must be able to account for how that money is spent, so that all can understand what it was spent on, why the vendor was chosen and the expected benefits to be gained from that allocation." (CNNow, 30 June, 2016)

### Barbados

- Sagicor Financial Corporation is on the verge of a "critical" organisational restructuring as it moves to improve its credit rating. On June 8 the regional financial services giant will seek

shareholder approval for its planned re-domiciliation to Bermuda. This move to the A+ (positive outlook) jurisdiction is intended to shore up its credit rating whichever country is its registered domicile. (NationNews, 1 June, 2016)

- Forty-eight Banks Holdings Limited (BHL) employees will be casualties of a restructuring programme initiated by ultimate owner Anheuser-Busch InBev (AB InBev), the world's largest brewing company. (NationNews, 22 June, 2016)
- Barbados has recorded its best year in the history of tourist arrivals with 571 892 visitors coming to the island in 2015. Chief executive officer of the Barbados Hotel and Tourism Association Sue Springer said the performance surpassed 2007 which previously held the highest record of over 570 000 visitors. (NationNews, 22 June, 2016)
- Barbados has defended its decision to import Liquefied Natural Gas from the United States rather than from its Caribbean Community neighbour, Trinidad and Tobago. Minister in the Office of the Prime Minister with responsibility for Energy, Darcy Boyce, is quoted in the online publication, Barbados TODAY, on Friday as saying that it is a matter of logistics. (TT Express, 24 June, 2016)

### Belize

- There is growing concern over the findings of the IMF team released in the recent Article Four consultations. That report points to a weakening fiscal position which has proportionately increased the nation's vulnerability. It's not a glowing report, far from it, but government has yet to formulate an official response. The Chamber of Commerce has, however, expressed its concern and query as to what measures government will put in place to aid recovery. With no official release forthcoming, we've tried to get input from government representatives, none of whom have shown any great concern. Today Mayor Darrell Bradley followed that trend, claiming that it's still all good. (Belize News, 8 June, 2016)

### ECCU

- The threats to the region's banking sector due to de-risking could have disastrous implications for the Caribbean region and as such Hilary Hazel, financial secretary in St Kitts, has shed some light on the issue as it pertains to the Federation during the prime minister's monthly press conference on Monday. (CNNow, 1 June, 2016)
- The management of the Sugar Industry Diversification Foundation by the former government in St Kitts and Nevis has come in for some criticism following a preliminary review by Ernst & Young. (CNNow, 2 June, 2016)
- The St Kitts and Nevis government is making efforts towards reducing the substantial debt owed by the federation to the government of Venezuela under the Petro-Caribe arrangement. (CNNow, 2 June, 2016)
- The Caribbean Development Bank board of directors has

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approved a US\$11.2 million loan to the government of Saint Lucia. The funding will help improve the water supply system in the community of Dennery North. (CNNNow, 2 June, 2016)

- The opposition United Workers Party has won the general election in Saint Lucia, beating the ruling St Lucia Labour Party 11 seats to six, effectively reversing the result of the last election in 2011. (CNNNow, 7 June, 2016)
- The International Monetary Fund has commended the St Kitts and Nevis government for its broad reforms and competent management of its citizenship-by-investment (CBI) programme. In its May 13, 2016, Article IV Consultation report on the fiscal performance of St Kitts and Nevis, Dr Inci Otker of the IMF reported that “the authorities are to be commended for the comprehensive reform of the CBI programme” and that “the improvements in the transparency of SIFD financial reporting are welcome”. (CNNNow, 11 June, 2016)
- The governments of St Kitts and Nevis and Taiwan have strengthened their long standing diplomatic ties with the signing of an agreement of bilateral cooperation on Friday June 10, 2016. (CNNNow, 14 June, 2016)
- Newly-elected Prime Minister, Allen Chastanet, on Tuesday announced the members of his Cabinet, at a swearing in ceremony in Vieux Fort, Saint Lucia. (CNNNow, 15 June, 2016)
- Greening tourism, which contributes around 12 per cent of Saint Lucia's gross domestic product, diversifying agriculture and transforming the fossil fuels-based energy sector could help the Caribbean island strengthen its environmental and economic resilience, according to a new study launched last week. (CNNNow, 21 June, 2016)
- The Organisation of Eastern Caribbean States Commission recently conducted a virtual geographical information strategy or GIS symposium, which is part of plans towards a regional geographic data strategy. (CNNNow, 25 June, 2016)
- The minister of agriculture of St Vincent and the Grenadines made a call in Parliament while congratulating the Organisation of Eastern Caribbean States (OECS) on reaching its 35th anniversary, “To remain united, organized and functional”. This came mere hours before the United Kingdom made a quantum leap to exit the European Union. (CNNNow, 29 June, 2016)

### Haiti

- United Nations Secretary-General Ban Ki-moon, noting the release of the report on the verification of the electoral process in Haiti, has underlined that Haiti can “ill afford” a prolonged period of transitional governance. (CNNNow, 3 June, 2016)
- The Caribbean Development Bank has announced that it will contribute US\$500,000 to give female and male entrepreneurs in Haiti better access to business loan and savings products. The Bank’s funding will specifically focus on underserved and unserved micro, very small and small enterprises on the

island. (CNNNow, 3 June, 2016)

- The United Nations and its partners in Haiti on Wednesday expressed concern that as the provisional president's agreed 120-day mandate has come to end, “no measures have been taken to ensure institutional continuity” in the island nation, where several key deadlines regarding the political transition process have been missed. (CNNNow, 17 June, 2016)

### Guyana

- “Guyana means business” is the theme of an investment conference organized as part of the 50th independence anniversary activities in New York, and will address the need for deeper engagement and an effective pathway between Guyana and the rest of the world including the Diaspora, said Salaudeen Nausrudeen, conference manager and co-founder of Guyana-America Investments. (CNNNow, 4 June, 2016)
- At the just concluded “Guyana Means Business” investment conference in New York City last Friday, minister of tourism and communications Cathy Hughes revealed that negotiations with JetBlue and American Airlines are progressing very well, and said that JetBlue is very interested in the Guyana market. (CNNNow, 14 June, 2016)
- The first Kuwaiti embassy in a Caribbean Community country, Guyana, is still on the cards, according to diplomats working quietly and diligently to see this proposal come to fruition. It may also very well be the first Arab diplomatic mission in a CARICOM country, and would be a significant development for the Community. (CNNNow, 23 June, 2016)
- Grenada’s capacity to mitigate climate change risks stemming from storms, hurricanes, droughts and other extreme weather events has been enhanced by the five-year, \$9.5 million Rallying the Region to Action on Climate Change project implemented by the United States Agency for International Development in collaboration with the Organization of Eastern Caribbean States. (CNNNow, 24 June, 2016)

### Jamaica

- Director of tourism, Paul Pennicook, says Jamaica is not satisfied with arrivals from traditional and emerging markets, and will be targeting new territories to fully maximise its tourism potential. (CNNNow, 15 June, 2016)
- Jamaica recorded 3.6 million stopover and cruise visitors combined and revenues of US\$2.5 billion in 2015. (CNNNow, 17 June, 2016)
- On Friday, the executive board of the International Monetary Fund completed the combined 11th and 12th reviews under the extended arrangement under the extended fund facility for Jamaica. The completion of the reviews enabled the disbursement of an amount equivalent to SDR 56.64 million (about US\$80 million) bringing the total disbursements under the arrangement to the equivalent of

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SDR 530.42 million (about US\$748.2 million). (CNNow, 20 June, 2016)

- The ministry of industry, commerce, agriculture and fisheries will be working to ensure that the banana industry in Jamaica returns to more prosperous days. (CNNow, 23 June, 2016)
- Addressing the inaugural meeting of the Tourism Competitiveness Taskforce on June 23, Jamaica's minister of tourism, Edmund Bartlett, reported growth in visitor arrivals and earnings up to May 2016. He said there were 1.7 million visitors to the island representing a 6.7 per cent increase over the same period last year, with a 4.9 percent growth in earnings at \$1.1 billion. (CNNow, 27 June, 2016)
- Jamaica's Prime Minister Andrew Holness launched the CARICOM Review Commission. The chairman of the commission is Bruce Golding, former prime minister. In his address, Holness said, "We cannot preempt what the commission will say, but it was never the intention to lay any groundwork or chart any path out of CARICOM. This is about strengthening Jamaica's position within the regional integration process, which is absolutely important for Jamaica's economic growth and development for the next 50 years." (CNNow, 30 June, 2016)

### Curacao and Sint Maarten

- The interest in strengthening commercial bonds between Cuba and Curacao was highlighted in Havana, in the context of the visit to the island of Eugene Rhuggenaath, minister of economic development of that country, accompanied by representatives of 20 companies from various sectors. (CNNow, 11 June, 2016)
- Windward Islands Airways (WINAIR) has acquired an additional DHC-3 aircraft for its summer season, which will allow WINAIR to serve new markets and will also enhance its ability to provide additional charter services from its hub in St Maarten. (CNNow, 13 June, 2016)
- Windward Islands Airways (WINAIR) and British Airways have announced the successful implementation of an interline agreement between the two carriers. As British Airways serves Antigua, this will greatly assist passengers to and from any WINAIR destination to make seamless connections to and from Europe. (CNNow, 15 June, 2016)

### Suriname

- Dr Jim Rasam, CEO of Intermed Group, during his visit to Indonesia to participate in the 41st Islamic Bank Governors meeting in Jakarta, used the opportunity to make contacts with potential investors from the Bahasa-speaking nations of Indonesia and Malaysia. Java is the homeland of Suriname's ethnic Indonesian population who are predominately Muslim, and who want to expand commerce between Suriname and Indonesia. (CNNow, 3 June, 2016)
- Residents in Suriname are preparing for a prolonged series of protest demonstrations against the fallout from the ongoing financial and economic crisis in the country. For the second

time in three weeks several thousand people marched in the streets in Paramaribo protesting against austerity measures implemented by the Bouterse administration. (CNNow, 4 June, 2016)

- Suriname will increase the efficiency, transparency, sustainability and accountability of its energy sector, supported by a \$70 million loan approved by the Inter-American Development Bank. It will be able to provide more reliable and sustainable energy to its citizens, and in the process, will both improve the supply of electricity and foster the reduction in its reliance on fossil fuels. (CNNow, 8 June, 2016)
- Delcy Rodríguez, the foreign minister of Venezuela, and Ernesto Samper, the secretary general of UNASUR, arrived in Paramaribo, the capital of Suriname, where they held meetings with President Dési Bouterse, according to Venezuela state media. (CNNow, 28 June, 2016)

### Trinidad and Tobago

- Trinidad and Tobago's liquefied natural gas (LNG) has been selling in the United States for its lowest US average price since 2012 and 62 per cent below Canada's price. Of the 8,568 million cubic feet (MMcf) of LNG that the United States imported in March, 8,503 MMcf, or 99 per cent, came from Atlantic in Point Fortin, according to US Energy Information Administration (EIA) data released yesterday. (TT Express, 2 June, 2016)
- All of the world's top liquified natural gas (LNG) exporters increased the volume of LNG traded in 2015 versus 2014 except Trinidad and Tobago, the BP Statistical Review of World Energy 2016 showed. Trinidad and Tobago barely held on to its position as the world's sixth largest LNG exporter, as changes at the top saw Australia push out Malaysia to become the world's second largest LNG exporter, and had Algeria's volume not fallen too, Trinidad and Tobago would have dropped to the seventh position. (TT Express, 9 June, 2016)
- Finance Minister Colm Imbert sought to explain the decision by the government to withdraw TT\$2.5 billion from the Heritage and Stabilisation Fund during Friday's Parliament sitting at the International Waterfront Complex in Port of Spain. (TT Express, 10 June, 2016)
- The Government is giving urgent consideration to a proposal by a leading Chinese corporation for the Trinidad and Tobago International Financial Centre to be expanded to facilitate business between China and the region. (TT Express, 15 June, 2016)
- Trinidad and Tobago is likely to have cross-border oil and gas reserves with Barbados just like it has with Venezuela, geologists at the Society of Petroleum Engineers' conference at the Hyatt Regency (Trinidad) in Port of Spain said on June 14. (TT Express, 21 June, 2016)
- On May 20, 2016, the executive board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Trinidad and Tobago. Trinidad and Tobago's output

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has continued to shrink while declines in global energy prices are leading to surging fiscal deficits and are pushing the external current account into deficit. Energy output is sharply lower due to supply-side constraints. Combined with weak non-energy growth, real GDP is estimated to have declined 2.1 per cent in 2015 and is expected to fall another 2.7 per cent in 2016. (CNNow, 22 June, 2016)

- The local bank sector says it is not expecting any unusual rise in demand for British pounds after the pound plummeted to a 31-year low, making it much cheaper for locals to buy the currency. Immediately following Britain's vote to exit from the European Union last week, the British pound fell by over eight per cent at one point. (TT Express, 27 June, 2016)

### Caribbean Regional Developments

- The secretary general of the Association of Caribbean States Alfonso Múnera said that, despite advances in unity by the member states of the bloc, they are not enough to overcome the great challenges the region faces today. (CNNow, 6 June, 2016)
- Dr Ralph Gonsalves, prime minister of St Vincent and the Grenadines, reaffirmed in Havana that integration in Latin America and the Caribbean is a possible, realistic path and that its consolidation will make it possible for countries in the area to face common challenges. (CNNow, 8 June, 2016)
- The Association of Caribbean States (ACS) fully supported the debt relief initiative presented by the Economic Commission for Latin America and the Caribbean (ECLAC), which, among other measures, proposes the creation of a resilience fund as part of a strategy based on a swap proposal for climate change adaptation. The seventh summit of the ACS, which concluded on Saturday, June 4, in Cuba, was attended by heads of state and government and high-level governmental representatives from the association's 25 member countries, who approved by consensus the 44 points of the Havana Declaration. (CNNow, 11 June, 2016)
- The formal regional conversation around marijuana in the Caribbean Community will move to another level when the first national consultation on the issue is held in St Vincent and the Grenadines. (CNNow, 14 June, 2016)
- Representative Eliot Engel, ranking member of the House Committee on Foreign Affairs, on Monday praised passage in the US House of Representatives of his legislation to strengthen United States engagement with Caribbean countries. The United States-Caribbean Strategic Engagement Act (HR 4939), which Engel introduced with Rep. Ileana Ros-Lehtinen, would require the Secretary of State and the Administrator of the US Agency for International Development to submit to Congress a multiyear strategy focused on enhancing engagement with the countries of the Caribbean and enhancing outreach to Diaspora communities in the United States. The legislation puts particular emphasis on energy security, countering violence, expanded diplomacy, and other priority areas. (CNNow, 15 June, 2016)
- The United States Agency for International Development's

Caribbean Clean Energy Program (CARCEP) is assisting Caribbean nations to become more energy efficient through policies and incentives that promote low emission growth and greater public-private sector investment in clean energy development. (CNNow, 18 June, 2016)

- On June 15, 2016, the Inter-American Development Bank and Caribbean-Central American Action co-hosted an event on Capitol Hill on "Opportunities and Challenges for the United States and Caribbean Region". (CNNow, 20 June, 2016)
- The UK minister with responsibility for the British overseas territories (BoTs) has said that a British exit from the European Union will be an advantage for the BoTs because the UK will be able to focus on traditional relationships with them and what he described as the English-speaking world. (CNNow, 21 June, 2016)
- Climate change is expected to increase the intensity and frequency of droughts in the Caribbean, so countries in the region must enhance their capabilities to deal with this and other extreme weather-related challenges to ensure food security and hunger eradication, the United Nations Food and Agriculture Organization said in a new report. (CNNow, 24 June, 2016)
- The Caribbean Community has begun responding to the news that Britain has voted to leave the European Union. On Friday 52 percent of voters in a referendum in Britain opted out of remaining in the 28-member grouping. Prime Minister David Cameron has signalled his intention to resign. (CNNow, 25 June, 2016)
- Barbadian Harvard graduate Paula Byer has called on policymakers in the Commonwealth Caribbean to reposition their foreign affairs and international economic policies quickly in response to the exit of the UK from the European Union or suffer the medium term consequence of economic decline. (CNNow, 28 June, 2016)

## Caribbean Region Quarterly Bulletin: Volume 5, Issue 2: June 2016



A moniker often invoked to describe the Caribbean is: "high debt, low growth." It was never completely true. Today it may have become so. The tourism countries, Jamaica, Barbados, and The Bahamas, are still in distress from the tailwinds from the world crisis of 2009. The commodity-exporting countries, Guyana, Suriname, and Trinidad and Tobago, relatively unscathed by that crisis, face strong headwinds as the international commodity boom wanes. In this overview of the region we explore answers to four questions: Is public debt too high? If so, what should be the change in the fiscal stance? How would higher economic growth help? Are fiscal buffers adequate in case downside risks in the world economy materialise?

A publication of IDB, available for download at: <https://publications.iadb.org/handle/11319/7683>

## Firm Innovation and Productivity in Latin America and the Caribbean: The Engine of Economic Development

This study uses the study of firm dynamics to investigate the factors preventing faster productivity growth in Latin America and the Caribbean, pushing past the limits of traditional macroeconomic analyses. Each chapter is dedicated to an examination of a different factor affecting firm productivity - innovation, ICT usage, on-the-job-training, firm age, access to credit, and international linkages - highlighting the differences in firm characteristics, behaviours, and strategies. By showcasing this remarkable heterogeneity, this collection challenges regional policymakers to look beyond one-size-fits-all solutions and create balanced policy mixes tailored to distinct firm needs.

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