"Global Political Challenges Impacting Political and Economic Development within Caribbean Region"

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Small may be beautiful, but it is also unhelpful.

Small countries lack the tools available to bigger ones.

Their markets are small; their capital formation for development is miniscule in global terms; they have no military might and no economic clout.

To large countries and international financial institutions, small states and micro states are inconvenient.

They are statistically expensive and burdensome.

That is why for instance, in the present circumstances of the Category 5 hurricane-decimation of Barbuda – the smaller of the two islands of Antigua and Barbuda – and the devastation of Dominica, there are whispers in some international circles that it would be cheaper to abandon those islands and to distribute their populations elsewhere, than to rebuild them.

The existence of societies on these two islands that are more than 300 years old and the extinguishing of them is statistically a cheaper option for international agencies and the governments of some big countries.

Little surprise, therefore, that two months after the disaster on these islands, the international community has done little more than provide emergency relief, and that Barbudan residents have not been able to return to their homeland, and the vast majority of the people on Dominica reside in near-primitive conditions.

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Globalisation failed the Caribbean

Globalisation was originally a construct of industrialised nations whose economic activity had developed sufficiently to withstand competition within their own borders from other countries, and who had the capability of exporting goods and services to other markets.

Their objective was to persuade other nations to open up their markets by liberalising trade, investment and international capital flows.

In this system, Caribbean economies, which were already largely open, were compelled to open-up even more and to accept rules and regulations that have closed-them out from competition in the financial services sector and have locked them out of global markets through trade barriers.

Few small states have benefited from the last 17 years of globalisation.

During that period, Latin America and the Caribbean's share of the world's GDP actually declined from 10% to 7.9%, with Caribbean countries suffering more than the larger Latin States.

For the Caribbean, globalization has been a one-way street of impositions by powerful countries: fiscal sovereignty has been violated by the strong; tax competition remains under threat from the mighty; economic growth and development have been impeded by unfair and unequal trade arrangements; and the real perils that global warming and sea-level rise pose to the very existence of Caribbean islands, are intensifying.

Within the Caribbean itself, the well-known issues of lack of economies of scale; insufficient domestic capital formation to fund business projects; shortage of skilled labour; proneness to natural disasters; high public debt; and impediments to competitiveness continue.

In this connection, despite current forecasts by the International Monetary Fund of world growth rising from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018, Caribbean countries, with a few exceptions, will continue to face fiscal constraints that will make it hard to manage financial, economic and other forms of volatility.

The organisations of the world's powerful countries arbitrarily and unilaterally set rules for the world.

For instance, the World Trade Organisation (WTO) dominated by the big and rich countries, set the rules for trade.

Those rules equate Caribbean countries with larger countries such as the US, Canada, India and Nigeria.

Except for Haiti, no special and differential treatment is accorded Caribbean countries despite their smallness, remoteness and vulnerabilities.

The adverse effects of imposed rules by non-international bodies

The principal rule-setting bodies for financial and tax rules are now the Organisation for Economic Cooperation and Development (OECD), its sister organisation, the Financial Action Task Force (FATF) and the European Union Commission.

Any perceived violation of their rules results in the backlisting of nations with deleterious effects on their capacity to participate in the world's trading and financial system.

In all this, the countries of the Caribbean are deprived of a seat at the table of decision-making with only lip service being paid to their concerns.

And, as I have said before, if you are not invited to the dinner table, it's probably because you are the dinner.

Toward the end of this year, the Commission of the European Union are planning to blacklist a number of countries and territories unless they change their tax rules.

Just the naming of a country has the effect of staining its reputation, and causing international banks to be wary of doing business with its financial institutions.

As far back as 1834, a US Senator described this with prescient clarity.

He said "power marks its victim; denounces it; and then excites public hatred and odium to conceal its own abuses and encroachments".

Threatened by these bodies with the spectre of their jurisdictions being black-listed as 'non-cooperative', governments have adopted legislation, established costly regulatory bodies, and implemented rules governing money laundering, terrorism financing and tax matters with little or no discussion with private sector organisations in their own countries.

The result is that private sector organisations discover these new rules only after they have been implemented, and the opportunity to contribute to their formulation have long passed

Caribbean governments don't even discuss the demands of these external agencies among themselves before each of them accepts and implements them.

In part, the absence of inter-governmental discussion is due to each jurisdiction trying to get an advantage over the other.

Each wants to avoid being black-listed in the belief that this will give it an edge over other Caribbean jurisdictions with which it is in competition.

Some will argue that inter-governmental discussion does take place about OECD and FATF demands in the councils of the Caribbean Financial Action Task Force (CFATF) and the OECD Global Forum.

But those discussions are not regional discussions; they are discussions that take place with the representatives of the OECD and FATF present in full force and well- prepared, whereas representatives of Caribbean governments turn-up, having had no preparatory meetings among themselves and with no agreed position.

The fundamental flaws of imposed rules

The narrative that governments can do little or nothing to withstand the OECD and FATF juggernauts has become so entrenched that no one questions the fundamental flaw in the rules that are devised – and that is the assumption that one size shoe will fit all the feet, large or small.

Well, we know that to be a false premise.

Structures that are required in the countries where more than 90 per cent of the world's financial dealings occur, are inappropriate and burdensome in countries where less than 2% of global transactions take place.

Of course, every country should co-operate in combatting serious crime but not a cost disproportionate to the risk they pose.

The OECD and FATF countries in relation to the AML/CFT measures and the US in relation to FACTA should provide compensation for the high costs that the governments of small countries and their financial institutions face.

Their offer of 'technical assistance' is grossly inadequate and, usually, means placing their own people into the machinery of other governments, but avoiding the financial resources needed.

An authoritative study by the Commonwealth Secretariat revealed that costs of 'the regulatory regime have been rising much faster than any associated tax or fee revenue gain, or the overall growth" of the financial services sector.

The Commonwealth study is also explicit that Tax Information Exchange Agreements that are an integral part of the AML/CFT measures do not compensate small countries "for the expense they must go to in bolstering OECD countries' tax revenues".

We should note that while anonymity of ownership and sharing of tax information is law in the majority of Caribbean countries, this is not so in several OECD countries.

For while the FATF and the OECD Global Forum now require all jurisdictions to identify and name beneficial owners of financial assets, some states of the United States such as South Dakota, Wyoming, Delaware and Nevada continue to allow anonymity.

The result is that they are grabbing-up a great deal of global business, including trust companies that have moved to them so as to avoid disclosure.

They are tax havens to all intents and purposes.

And the OECD does absolutely nothing about it.

The US is not alone in this privileged position.

Emeritus Professor of Gresham College, Avinash Persaud, pointed out in a recent publication that last year the Home Affairs Select Committee of the UK parliament "concluded that the London property market was the primary avenue for the laundering of £100bn of illicit money a year".

Yet, the UK is not on an EU blacklist.

Might is right

So, it is clear that the doctrine of 'might is right' prevails; the principle of transparency applies only to the weak; and the notion of a level playing field for competition is a myth.

The truth that dares not speak its name is that "automatic exchange of tax information"; false branding of countries as "tax havens "while the real tax havens continue to thrive and prosper; and sanctions against what is described as "uncooperative jurisdictions", is an effective form of control by the powerful over the weak.

Effectively, the world of offshore banking and International Business Corporations in offshore jurisdictions is all but dead.

Life has been squeezed out of it and the OECD and FATF are preparing its last rites.

The Caribbean has lost those revenues and contributors to economic growth.

But, the story does not end there.

For even though the region has effectively lost the offshore business, the branding of the area as a tax haven and money launderer is affecting it in other material ways.

The bankers in this room would know well the severe challenges and burdens that have been placed upon them by the withdrawal of Correspondent Banking Relations (CBRs) by global banks in the US and the UK from banks in this region.

Caribbean Banks need correspondent banking relations in the US and the UK in order to facilitate payments and receipts for trade transactions and social activities such as tourism.

Several banks across several countries in the Caribbean (including Barbados, The Bahamas, Belize, the six smaller Eastern Caribbean countries, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago) have lost some or all of their CBRs.

All of this is happening, while the majority of CARICOM countries either have or are bending over backwards to establish and enforce FATF and OECD rules.

Here is a list of a few of the obligations that many Caribbean countries, with very scarce resources, have to finance:

- The FATF's rules on anti-money laundering and counter terrorism financing;
- The US Foreign Account Tax Compliance Act (FATCA), under which financial institutions are required to report to the American Inland Revenue Service on accounts and other financial assets held by US persons and entities;
- Operation of Tax Information Exchange Agreements with over 25 countries;
- Operation of Mutual Legal Assistance Treaties with almost 90 countries.

In the case of the US FACTA, small countries in the Caribbean are paying for the dubious privilege of being policemen for the US IRS.

What is clear is that if the withdrawal of correspondent banking continues, the region will be cut off from trade, finance and investment activities with the US and the UK.

The effect on the economies of the region would be grave indeed.

The Caribbean will also be in danger of losing even more sovereignty over its fiscal and banking affairs.

Absence of Caribbean cohesion

You might well ask: Why do CARICOM governments not jointly resist these impositions that disadvantage their jurisdictions and render them uncompetitive in the global financial system?

The reality is that that particular horse has already bolted; trying to close the stable door now will accomplish nothing except a black-listing by any jurisdiction courageous enough to do so.

When the opportunity for a solid CARICOM resistance to the FATF and OECD rules was ripe, governments failed to act in concert.

In beggar-thy-neighbour policies in which countries sought to escape blacklisting, there was little or no solidarity.

Winston Churchill once warned that feeding an alligator is dangerous, for when the food you feed it runs out, you become the food.

It is time to stop feeding the alligator.

What is required is a robust regional response, and an alliance with other countries that are similarly affected to stand-up and say 'no' to these arbitrary rules, regulations and branding.

But that requires political courage, political bipartisanship, national unity and regional consensus.

Regrettably, all of that has so far eluded us.

Climate Change: a dangerous new Caribbean Vulnerability

Add to this mix, the harmful effects of Climate Change, global warming and sea level rise.

Climate Change was set in motion because of the 200-year-long fossil fuel party the developed countries of the West have been throwing for themselves.

The Caribbean is the victim.

And it is the victim with very little culpability.

For example, no Caribbean country over the last 50 years has matched the CO_2 emissions of just one City - the City of Portland, Oregon - in a single year.

That is the injustice of Climate Change.

2017 has witnessed record-breaking climate disasters across the globe – in the United States, Mexico, the Caribbean, Asia and Africa.

Back-to-back Category 5 hurricanes cut a swathe through the Caribbean in September from which the affected islands will not fully recover for many years to come.

Importantly, these hurricanes have also caused thousands of people, whose homes, schools, hospitals and businesses have been decimated, to seek refuge in other islands.

These people are, in effect, 'Climate Refugees', ripped away from their history, their culture and their identity.

Their plight has been created by ferocious storms not caused by their own actions but by profligate carbon emissions (CO_2) by rich nations.

So, the world has a so-called agreement that only expresses an objective to limit global warming to "well below 2 degrees above pre-industrial levels".

The goal of 1.5 degrees Celsius, is merely "aspirational.

In truth, the climate change action plans submitted by 188 countries would lead to a temperature rise as high as 2.7 degrees Celsius.

At 3 degrees, the size of islands will shrink, productive areas will be under water, people will have to move habitats inland and many will be forced to migrate, legally and illegally.

This poses a deadly threat not only to tourism, but also to human habitats.

In turn, this could cause human dislocation and refugees who flee the island flight to safe havens.

Right now, the possibility of the climate refugees from Barbuda and Dominica returning to their homes in the short to medium term is remote.

They will continue to face hardship for some time.

But, so too will the receiving islands.

For example, the island of Antigua is encumbered with additional costs of unexpectedly providing services for 1,600 inhabitants from Barbuda and another 3,000 from Dominica at costs it can ill afford.

For Antigua and Barbuda and Dominica, the rebuilding prospect is daunting; they simply don't have the money.

Worse for them is that because they are measured by the palpably false criteria of per capita income, they don't have access to aid, grants and concessional loans.

That is why countries, such as Antigua and Barbuda, must hope that Bill Gates never migrates there.

For they would become the richest countries per capita overnight, but the majority of their people would have not one more cent in their pockets than they had before.

Incidentally, there is no possibility for rapid rebuilding by borrowing money on commercial terms.

Even if they could borrow on the commercial market, that would simply increase their debt to unsustainable levels with little possibility of generating enough revenues to make repayments.

As Actuaries, your job is to envisage the world in decades from today.

So, let us all be aware that even if the present level of CO_2 emissions were to stop today, because of the heat that has already built-up in the atmosphere and the oceans, the seas would not stop rising until the Earth cools and that could take centuries.

But the prospect of an end to CO_2 emissions is not yet in sight.

Climate change, global warming and sea level rise all already impacting the region.

Not only have we seen the creation of the first set of 'climate refugees', but the damage done to property has been so extensive that unemployment and poverty have increased.

In many cases, properties that were not insured or were under-insured will not be rebuilt.

This situation is worsened by the need for tough, new construction codes to ensure that buildings can withstand Category 5 hurricanes that have become the new normal.

Insurance companies, already faced with huge pay-outs from 2017, will increase their premiums and they will not insure buildings that do not conform to high standards or resilience.

Many will not be able to afford the higher cost of insurance coverage.

Yet, if they do not, Banks and other financial institutions will not provide mortgages unless there is a larger percentage of insurance on the properties.

In other words, the financial institutions will want far less risk.

Complicating the issue still further, and more worryingly, The Future Business Council and the Centre for Policy Development have recently warned Directors of Public Companies to factor climate change as a risk in business and investment decisions.

Directors that fail to consider and disclose climate change risks could now be found liable for breaking their duty of care and diligence in the future.

There could, therefore, be a decline in investment, particularly in the tourism sector which now accounts for an average of 60 per cent of the region's GDP

In this now very likely scenario, Caribbean countries have to demonstrate clearly that they are implementing active measures to counter global warming and sea-level rise.

Not only must they implement new and tough codes for future construction, they must also pass legislation to ensure compliance.

Governments also now need to consider the building of walls and other defences to withstand sea surges, and reservoirs to cope with flooding.

Much thinking and preparation has to be devoted to how to make Caribbean islands safe and still attractive for tourism.

The answers will not be easy, but they will get no easier by postponement.

The problem has to be faced squarely, deferring it to another generation won't work – the generation confronting the issue is here.

Can the doomsday scenario be reversed?

All this need not necessarily be a doomsday scenario; only a lack of action would make that scenario real.

There is still time to plan for the worse effects of Climate Change.

What there isn't time for is delay.

It is unfortunate that in this Hemisphere, the country that is the single largest CO2 emitter is now unwilling to participate in the Climate Change accords.

Caribbean countries, therefore, should consider engaging individual states of the United States, such as Florida, the Carolinas and New York, where sea-level rise could be as catastrophic as in the Caribbean.

Caribbean voices must be heard loudly in the international community, fighting against worsening climate conditions.

That is why Caribbean countries should form alliances with other countries and regions that are similarly affected.

And there should be one strong, single and united message that small island states are being irreparably damaged, and their people are being made refugees by the rich, polluting nations of the world who must face-up to their obligations to pay compensation for the damage they have so far caused and agree to tackle Climate Change meaningfully now and in the future.

Conclusion

So, what emerges from all this?

Small Caribbean countries are marginalised in the world.

They are, by themselves, too small to matter and too powerless to bargain effectively in trade, in finance, in investment.

That brings us then to the Caribbean Community.

Unfortunately, CARICOM has not lived-up to the promises set-out in its Charter or to the vision of an integrated and stronger Caribbean economic area.

And that is not because other regional economic integration efforts have failed; it is because political elites and some entities in the private sector, have preferred policies that satisfy their narrow self-interest.

Notwithstanding the very close result of the referendum which has caused Britain to seek to exit the European Union, that Union has been a remarkable economic success for its 28 member-states, individually and collectively.

Essentially, it has taken 28 separate states and united them in an economic system that competes favourably with the US and China and gives them bargaining strength in global trade and financial matters that not one of them could have achieved on its own.

Britain may yet regret that ill-fated referendum which was fed more by nostalgia for Empire than for the future well-being of a relatively small island-state.

It is the interest of the member countries of CARICOM to reinvigorate the regional integration project, seeing it not only as an area for trade, but more importantly as a neighbourhood in which collective investment is in all their interest.

No Caribbean country can pick-up itself and move away because the neighbourhood is becoming troubling; it has to invest in making the neighbourhood better.

It also has to defend the neighbourhood from outside threats, and that requires pooling resources for collective bargaining and collective action.

No single Caribbean nation has the capacity to go it alone; notwithstanding flags, national anthems and defined borders.

The nations of the Caribbean can choose to hang together of to hang separately.

Surely, the latter is not an option.

Thank you