

## **CARIBBEAN GROWTH FORUM**

**Nassau, The Bahamas**

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### **Remarks by Luis Alberto Moreno**

**President, Inter-American Development Bank**

I want to thank Prime Minister Christie for inviting me to join you today to reflect on how to spur economic growth in the Caribbean.

This is the most urgent challenge facing the region, so I commend you for bringing together leaders from governments, the private sector and civil society and for allowing us, your partners in the international community, to take part in your discussions.

I would also like to recognize the Compete Caribbean program for the support it has provided for this event and the extensive preparatory work it did in each of the participating countries. The IDB is proud to support the program together with the governments of Canada and the United Kingdom.

The questions before us are straightforward: what is constraining economic growth in the Caribbean? And, how can we best work together to build a more dynamic region?

Just to have some perspective, four decades ago Caribbean per capita incomes were about three times higher than those of small countries in other parts of the world. Since that time, a low growth tendency has caused the Caribbean to fall behind.

Unless things change, that declining trend is likely to persist throughout this decade. An upturn in global economic activity would, like a rising tide, lift all boats. But given the present international conditions, it would not be enough to help this region preserve its living standards or catch up with its competitors.

According to the IMF's most recent World Economic Outlook, global growth prospects remain subdued. This is particularly true of countries that used to be the international engines of growth, and who happen to be the Caribbean's main trading partners. The new poles of high economic growth still have limited trade relations with the Caribbean.

Weak economic growth in North America and Europe is bad news for the Caribbean tourism industry. The outlook for offshore financial services is also uncertain. Countries that export commodities have a somewhat brighter outlook, but depending on one or two exports introduces substantial volatility to the economies.

To sum this up, we cannot depend on an improvement of external conditions.

Given that scenario, the Caribbean faces a choice: sticking with the status quo or going for a grand agreement.

Doing nothing, of course, is not a viable option. It implies either spiraling debts or a fiscal compression with persistent low growth. Inevitably, it would lead to worse living standards for your citizens.

The alternative is reaching a grand agreement to put your countries on a path to higher and socially inclusive economic growth. An option that generates good jobs and resources to care for the vulnerable. A choice that offers hope.

A grand agreement does not mean a one-size-fits-all solution. There is no single set of policies that would allow the entire Caribbean to get on the path to growth. The solutions must be home-grown in each of your countries.

In that sense, this meeting is a step in the right direction. We need more national dialogues that will lead to broad accords and actionable plans. We also need to share ideas on how to move forward at regional gatherings such as this one.

That said, since the region shares a number of constraints, there are some general principles worth keeping in mind:

**First, the Caribbean has to export more.** For small, open economies facing chronic external imbalances and fiscal retrenchment, competitive exports are the only path to growth. To that end, the Caribbean needs to diversify both its trading partners and its exports.

In this context, the recent launch of the Caribbean Aid for Trade Strategy takes on great importance. At that meeting in Port-au-Prince someone put it in stark terms: the future requires the Caribbean to export or die. To put things in perspective, in 2010 the Caribbean exported goods and services equivalent to 44% of its GDP. This compares to 77% in Panama and 207% in Singapore.

Where would you find new trading partners? You could start with your faster growing Latin American neighbors. For example, had Brazil been one of the Caribbean's trading partners during the recent global recession rather than the United States or Europe, economic growth in this region would have been nearly 3 percentage points higher. But in order to achieve this, we must increase air and maritime connections between both regions.

**Second, the Caribbean has to set its fiscal house in order.** Regional leaders often prefer to talk about growth rather than about debt, but the truth is public debt levels over 60 percent of GDP create a drag on economic growth, as do unsustainable fiscal deficits.

Several countries have surpassed that threshold and others are fast approaching it. The path to growth requires dealing with fiscal retrenchment and high debt levels today. Many of your Latin

American neighbors learnt this lesson the hard way. They've also learnt that fiscal adjustment can and should be pro-growth.

**Third, higher growth requires more investments in infrastructure.** The Caribbean Aid for Trade Strategy highlighted that the region is significantly behind other competitors. Given their current public debt levels, most countries will have to rely on the private sector to play a leading role in mobilizing the necessary financing.

One proven mechanism to achieve this is to promote public-private partnerships. But despite their benefits, they are rarely used in the Caribbean. The region needs to remove obstacles to these investments, whether they come from domestic or foreign sponsors.

**Fourth, fiscal adjustments require stronger social safety nets.** The global crisis erased many of the gains made against poverty prior to 2008. The downturn left the poor with fewer resources to cushion a blow, so great care should be taken to avoid having the burden of the adjustment fall on the most vulnerable.

**A fifth imperative is that productivity must increase.** Caribbean productivity levels have been flat for many years but there are many reforms that can be carried out to reduce the cost of doing business and to make the region more competitive.

Not all of these measures are economic. At a meeting we held last week on crime and violence in the Caribbean, it was noted that the cost of insecurity can consume as much as 10 percent of GDP.

**And finally, renewable energy sources must be developed.** The Caribbean has some of the highest energy costs in the world, in some cases up to five times more expensive than in North America. But technological advances and competition are bringing down the costs of solar and wind power equipment, to the point where they are now competitive with many fossil fuels.

The Caribbean stands to be a clear beneficiary of this trend, which would also allow most countries to reduce their oil bill. In addition, the region also has plenty of untapped hydroelectric potential. Cheap and abundant natural gas can also be part of the mix, although it would require significant investments.

We are so bullish about these prospects that we have organized a big conference later this year to discuss how to make all of this happen.

In closing, let me assure you that the IDB will continue to support you through its traditional lending products, its analytical work on policy alternatives, and its permanent advocacy in favor of the region. Our Caribbean Country Department has no higher priority than supporting your efforts to boost growth and living standards. We are also working on every one of the sectors I mentioned.

In a way, the Caribbean has been at a similar juncture in the past. In the 1970s and the 1980s the region had to deal with the consequences of the dismantling of trade preferences, the decline in aid flows and a succession of external shocks. Your countries had to rethink their development strategies, switching from agriculture to tourism and financial services as engines of growth. When others turned into dictatorships, you upheld democracy. This is an asset that will serve you well as you build a consensus on your national growth strategies.

Once again, I want to congratulate the governments of the Caribbean for holding this forum and the participants for sharing their ideas, experience and enthusiasm.

Besides thanking The Bahamas for their warm welcome and hospitality, I also wish them well as they approach the 40<sup>th</sup> anniversary of their independence.

I am sure that if the Caribbean comes together and forges a grand agreement for growth and better living standards, all of your development partners will respond enthusiastically. We are at your service, ever ready to engage with you in making this a reality.

Thank you.