RE-IGNITING GROWTH AS A PLATFORM FOR MORE EQUITABLE SOCIETIES

Michael Hendrickson, Economic Affairs Officer, ECLAC
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Recovery in Global Economy, but Downside Risks are a Threat

- The world economy is projected to grow by 3.1% in 2013 and 3.8% in 2014.
- Outlook in 2013 is affected by headwinds from weakening of US recovery, weaker growth in emerging economies and recession in Euro Area.
- Growth in major markets in 2013: US 1.7%, Euro Area -0.6%, Japan 2.0%, Emerging markets and Developing countries 5.0%
- Growth in world trade is expected to pick up from 3.1% in 2013 to 5.4% in 2014.
International Trends

**GDP Growth (Percent)**

- Euro Area
- United States
- Latin America and the Caribbean
- World
- Emerging market and developing economies

**World Trade Volume (Percentage growth)**
Caribbean economy stumbled on the path to recovery in 2012

This led to higher unemployment and reduced incomes and human welfare

Economic growth slowed from 1.4% in 2011 to 0.6% in 2012

Growth pegged back by contraction in service producers (-0.6%), as growth in goods producers rose to 3.7%
Caribbean was losing ground to LA, this was only aggravated by the crisis.

Source: ECLAC based on official data
Goods producers have performed better in last decade...

Real growth rates for CARICOM goods and service producers

Source: ECLAC, based on official
Caribbean Economic Performance

- Over half of service producers had slower growth; steepest declines (-6.8% and -3.0%) in Anguilla and St. Lucia
- Jamaica contracted by 0.3% due to lower output in mining and construction
- Trinidad and Tobago grew by 0.2% in 2012 reversing the decline of (-2.6%) in 2011.
But crisis only aggravated Situation in Caribbean

Real per capita GDP Growth rates

Source: ECLAC, based on official data
High unemployment remains a key Challenge

- With decline in activity, unemployment increased slightly to average 12.6%
- Nevertheless, 5 of the 7 countries with data had unemployment rates above 10%, with St. Lucia’s as high as 21%
- High youth unemployment is a veritable wasting of the human capital stock in region
- High costs in human and social welfare
- Inflation fell to 3.15 in 2012, and is expected to remain fairly stable in 2013
High unemployment remains a key challenge.

Unemployment Rates in the Caribbean

<table>
<thead>
<tr>
<th>Country</th>
<th>Average 2001-2008</th>
<th>Average 2009-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>8.9</td>
<td>14.9</td>
</tr>
<tr>
<td>Barbados</td>
<td>9.3</td>
<td>11.1</td>
</tr>
<tr>
<td>Belize</td>
<td>10.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Jamaica</td>
<td>11.6</td>
<td>12.1</td>
</tr>
<tr>
<td>Suriname</td>
<td>11.6</td>
<td>8.7</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>14.8</td>
<td>20.0</td>
</tr>
<tr>
<td>Trinidad and T.</td>
<td>8.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Caribbean</td>
<td>10.0</td>
<td>12.3</td>
</tr>
</tbody>
</table>

Source: ECLAC, based on official data
High Fiscal deficits and debt overhang could hurt growth...

Fiscal deficits and debt in 2012

Source: ECLAC, based on official data
The Caribbean remains one of the most highly indebted regions in the world.

Public debt increased from 72.2% of GDP in 2011 to 74.5% of GDP in 2012.

This is far above threshold of around 55% where research has shown that debt could hurt growth in the Caribbean.

Higher growth in domestic debt.

Efforts at debt restructuring - Jamaica, Belize, St. Kitts and Nevis and Grenada.

Debt Service Payments absorb a full 26.3% of government revenue in region. Range from 1% in T&T to 58% in Jamaica.
Monetary developments did not facilitate growth
- Private credit fell by 0.7%, especially to productive sectors, despite fall in lending rates
- Private sector seems to be deleveraging debt and weighing up investment risks, wait and see attitude
- The CA deficit widened to 13.1% of GDP from 12.9% of GDP in 2011.
- Deficit resulted from a turnaround of the merchandise surplus in goods producers to a small deficit
- This offset the services surplus in service producers that was due to higher tourism receipts
Current Account Balance, 2007-2012

Source: ECLAC, based on official data
Prospects for 2013

- Regional economy is expected to strengthen in short-term
- Growth projected at 2.1% in 2013 and 2.3% in 2014
- Growth premised on recovery in tourism and small decline in commodity prices
- Based on continued recovery in US and stabilisation in Eurozone
- Two speed growth pattern will continue with the service producers growing by 1.5% and 1.8% in both years and the goods producers by 3.7% in both years
- Downside risks remain
An important group of economists, CEO’s and investors have suggested that world might be in a “New Normal” of lower growth.

This is on credible trends including:

- The Increasing costs of resources (high demand and costs acting as drag on world growth)
- The world’s labour force is peaking => perpetual growth in productivity to maintain past growth levels
- No big technological game-changer is on horizon (internet now a mature technology)
- Pierre Azoulay and Ben Jones ( ) [Total productivity of worker in R&D in 2000 was 15% of what it was in 1950]
Possible new Normal of lower Growth for World Economy

- New era of hyper-competition for markets
- Climate change- our Damocles sword
- How Should the Caribbean respond to these threats?
- A crisis is a precious thing to waste..
- Hope for the best, prepare for the worst
- What is required...
An Integrated Sustainable Development Model… UN Post 2015 Agenda
Economic Restructuring... the Foundation

- Global recession has provided an opportunity for region to rethink its development strategy
- Re-ignite Growth
- Focus on economic restructuring to increase value added in traditional areas of comparative advantage
- Comparative advantage following sectors – Yes, but should comparative advantage defying sector/s be considered? (Justin Lin vs. Ha-joon Chang, 2009)
- Economic diversification- intensive and extensive margin
- Role of industrial policy (state vs. market)
Sustainable public finances essential for growth strategy

Fiscal Consolidation

- Improved expenditure programming and management, including procurement practices (cost overruns),
- Improved revenue collections, including back taxes; reduce exemptions and concessions
- Debt restructuring on as favourable terms as possible
A major Competitiveness Drive is needed

- Strong public finances are not enough
- Must be complemented by a Strong Competitiveness programme
- Radical upgrading of traditional sectors, especially tourism and agriculture and search for new activities
- Tourism: focus on upgrading product/service quality, linkages with other sectors and improved airlift
- Agriculture: Big productivity push, investment in farm management and R&D, pharmaceuticals, gourmet foods, cut flowers...
Competitiveness Drive

- Diversification into new areas of comparative advantage e.g. sports, cultural industries, professional services; also new markets e.g. BRICS
- Clusters and Value chains important
- New forms of PPPs are required given weak private investment; public sector might need to absorb part of upfront financial risk
- Fully leverage regional integration: Surplus and deficit capital countries and “learn tricks of trade for exporting”
Finally, systems of education, training and social protection need to be strengthened to create more inclusive societies.

Policies to reduce inequality and marginalisation - “Teach people to fish”

Governance reform is also critical

Crime and deviance should be tackled by ‘carrot and stick’

Complete the mission

Thank You for Listening