

Caribbean Economies and the Year Ahead 2018

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Caribbean economies face 2018 with mixed prospects. While overall trends are positive for most countries, a number of economies are still struggling from the damage sustained during last year's hurricane season. The positive forces at work are a stronger global economic expansion, improving prospects for tourism, development of the oil industry in the Guiana Shield, and a strengthening in commodity prices. On the negative side are the costs of reconstruction, ongoing fiscal pressures in a handful of states, and the increasing negative consequences of an imploding Venezuela. Significant questions continue to exist as to U.S. policy in the region, spillover of Brexit, Chinese Caribbean policy, and a rising level of Russian engagement in some countries. In all of this, the Caribbean remains vulnerable to events external to the region and increasingly needs to focus on digital technology and how it can be applied to make local economies more competitive.

During much of 2017, growth prospects were generally positive, helped along by a stronger expansion in the advanced economies, stabilization in commodity prices, and a higher level of remittances from the Caribbean diaspora. The Dominican Republic led the way, though at a slower pace than the year prior due to efforts to reduce the fiscal deficit. Better tourist numbers also lifted growth prospects in much of the Eastern Caribbean and Jamaica. The laggards were Puerto Rico (with a \$72 billion debt crisis), the U.S. Virgin Islands (dealing with acute fiscal pressures), Barbados (struggling with deteriorating public finances and reduced capital market access), and commodity exporters Suriname and Trinidad and Tobago.

While most Caribbean countries and dependencies were fortunate to avoid massive destruction during the 2017 hurricane season, storms Irma and Maria brought considerable disruption to Barbuda, Dominica, St. Martin (both the French and Dutch sides), the British Virgin Islands, and U.S. Virgins Islands. Category 5 Hurricane Maria in September was the worst natural disaster on record in Dominica and certainly ranks in the top 10 for Puerto Rico. Indeed, both Dominica and Puerto Rico were left effectively without economies.¹

¹ Janise Elie, "It feels like Dominica is finished': Life amid the ruins left by Hurricane Maria," *Guardian*, November 1, 2017, <https://www.theguardian.com/global-development/2017/nov/01/it-feels-like-dominica-is-finished-life-amid-the-ruins-left-by-hurricane-maria>.

Caribbean Countries GDP Outlook, October 2017

	2015	2016	2017	2018E
Caribbean	3.9	3.4	2.8	4.4
Eastern Caribbean Currency Union	NA	2.6	2.6	2.8
Antigua & Barbuda	0.9	-0.5	2.3	2.4
The Bahamas	-1.7	-0.3	1.8	2.5
Barbados	0.9	1.6	0.9	0.5
Belize	2.9	-0.8	2.5	2.3
Cuba	1.3	-0.9	1.6	1.0
Dominica	-1.8	1.0	3.0	NA
Dominican Rep.	7.0	6.6	4.8	5.8
Grenada	5.2	3.9	2.3	2.4
Guyana	3.1	3.3	3.5	3.6
Haiti	1.2	1.4	1.0	2.4
Jamaica	0.9	1.3	1.7	2.3
Puerto Rico	-1.1	-2.6	-2.8	-2.5
St. Kitts-Nevis	-2.4	-0.7	1.2	1.8
St. Lucia	1.8	0.8	0.5	1.5
St. Vincent & The Grenadines	0.9	0.8	1.0	2.1
Suriname	-2.7	-10.5	-1.2	1.2
Trinidad & Tobago	-0.6	-5.4	-3.2	1.9

Sources: International Monetary Fund (IMF), *World Economic Outlook, October 2017: Seeking Sustainable Growth: Short-Term Recover, Long-Term Challenges* (Washington, DC: IMF, October 2017), <http://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017#Introduction>; IMF, "Latin America and the Caribbean: Stuck in Low Gear," Regional Economic Outlook Update, October 13, 2017, <https://www.imf.org/en/Publications/REO/WH/Issues/2017/10/11/wreo1017>. (The Economist Intelligence Unit is projecting 8.8 percent real gross domestic product (GDP) growth for Dominica in 2018.)

The British, French, and Dutch islands were quick to receive assistance from their European capitals. Indeed, French president Emmanuel Macron visited St. Martin and Guadeloupe; British foreign secretary Boris Johnson showed up in the British Virgin Islands; and King Willem-Alexander of the Netherlands went to St. Maarten. Rounding out the picture, President Donald Trump visited Puerto Rico. The parade of leaders was meant to stress the responsiveness of the European and U.S. governments to their dependencies in the Caribbean.

Regional Caribbean Community (CARICOM) countries also reacted quickly to assist their damaged members. Immediate financial assistance, plus maritime and airlift of food and vital supplies, were sent by Trinidad and Tobago to Dominica and Antigua and Barbuda, while contingents of police officers from Trinidad and Tobago, Barbados, Grenada, Saint Lucia, and Jamaica, among others, assisted with security. The Barbados-based Caribbean Disaster Emergency Management Agency (CDEMA) coordinated the efforts.

For tourism-based economies, the hurricanes struck at their core economic strategy, hitting and uprooting agriculture, services, buildings, road networks, harbor facilities, restaurants, hotels, food supplies, and stores. In many cases, water services were and remain compromised. In January 2018, parts of Puerto Rico still remain without electricity, while three months after Hurricane Irma hit

Barbuda, only 350 people (less than 20 percent of the population) have returned. And there was the psychological dimension—a loss of confidence, demoralization, and new hardships.

For the hurricane-hit islands, economic activity in 2018 will be dominated by reconstruction. In Puerto Rico estimated costs range from \$45 billion to \$95 billion.² According to Moody's Investors Service, as much as \$40 billion could be lost in economic output due to impassable roads and lost power. Property damage could total \$55 billion. This is not good news for Puerto Rico, which has been in recession since 2006 and has lost an estimated 10 percent of its population during that time. More are expected to leave. According to the Center for Puerto Rican Studies at Hunter College in New York, between 2017 and 2019, the U.S. territory could well lose 470,335 residents, which would take it to 2.9 million inhabitants. In 2004, the island had 3.83 million people.

The hurricanes have an added dimension for Puerto Rico. There has been a substantial erosion of faith in the government to deal with the island's crisis. The future appears bleak: an unresolved debt default, a pressing need for reconstruction of basic infrastructure, the likelihood of further economic contractions through 2018 and 2019, and a political elite that still needs to come to terms with the size and scope of the island's problems. Ethical questions raised over a contract with Whitefish Energy, a three-man company based in Montana, to help PREPA (the local electric power public utility) reelectrify the island did not help matters.³

Recovery is also going to be a slow process in Barbuda, Dominica, and St. Martin. In Dominica, 90 percent of all buildings, including government facilities, were affected after Hurricane Maria brought destruction. Sadly, Dominica was still recovering from Tropical Storm Erika in 2015. The International Monetary Fund 2017 Article IV Report (released in December) on Dominica accurately stated, "...the outlook remains subject to significant risks, mainly from recurrent natural disasters, delays in construction and public investment affected by capacity constraints and uncertain sources of grant and CBI financing, and natural disasters."⁴

While one part of the Caribbean seeks recovery in 2018, the rest of the region remains in a healthier condition. For most tourist-based economies, the problems of the hurricane-afflicted islands left them ready to fill the gap. While Puerto Rico, Dominica, the U.S. Virgin Islands, and British Virgin Islands seek to get their basic amenities up and running, Aruba, Barbados, Curacao, the Dominican Republic, the Bahamas, Jamaica, St. Lucia, and Grenada remained open for business and still will benefit from that position well into 2018.

² Jill Disis, "Hurricane Maria could be a \$95 billion storm for Puerto Rico," CNN, September 28, 2017, <http://money.cnn.com/2017/09/28/news/economy/puerto-rico-hurricane-maria-damage-estimate/index.html>.

³ See Armondo Valdés Prieto, "Puerto Rico shows the real cost of bad government," *Washington Post*, October 30, 2017, https://www.washingtonpost.com/news/posteverything/wp/2017/10/30/the-whitefish-contract-in-puerto-rico-shows-the-real-cost-of-bad-government/?utm_term=.02448dcf6871; and Frances Robles, "The Lineman Got \$63 an Hour: The Utility Was Billed \$319 an Hour," *New York Times*, November 12, 2017, <https://www.nytimes.com/2017/11/12/us/whitefish-energy-holdings-prepa-hurricane-recovery-corruption-hurricane-recovery-in-puerto-rico.html?mtref=www.google.com>.

⁴ International Monetary Fund (IMF), *Dominica: 2017 Article IV Consultation* (Washington, DC: December 2017), <https://www.imf.org/en/Publications/CR/Issues/2017/12/20/Dominica-2017-Article-IV-Consultation-Press-Release-and-Staff-Report-45498>.

Damage of Extreme Weather Events

Country	Year	Disaster	Damage costs/GDP %
Belize	2000	Storm	33
Grenada	2004	Hurricane	200
Dominica	2009	Flood	36
Haiti	2010	Earthquake	121
St. Lucia	2011	Hurricane	34
Dominica	2015	Flood	96
Dominica, Puerto Rico, St. Martin, Antigua and Barbuda	2017	Hurricanes	?

Source: Caribbean Development Bank, 2016.

The Cuban economy has struggled over recent years due in large part to dwindling oil supplies from Venezuela, damage from the past hurricane season, and an overall economic malaise. While tourism has helped bring in badly needed dollars, Cuba has been forced to tighten its belt. Tough economic times pushed Havana to seek an opening with its long-time nemesis, Washington, in order to bolster its tourist sector and hopefully gain other forms of investment. However, the cooler tone of the Trump administration has brought growth prospects down a notch, and there are major questions as to what “Castroism” will be when Raul Castro eventually steps down as *lider maximo* sometime in 2018.

The natural resource extraction-based economies in the southern Caribbean, in particular, Trinidad and Tobago and Suriname, have struggled through the last couple of years as their economies are closely linked to oil and natural gas (as well as gold and bauxite in the latter). Guyana has been the exception, benefiting from investments and activity from two new gold mines and positive sentiment ahead of the commencement of oil production in 2020. ExxonMobil has been active in Guyana since 2008 and confirmed its sixth discovery (world class) in October 2017 and is gearing up for oil production.⁵

In 2018, Guyana, Trinidad and Tobago, and Suriname are likely to benefit from stronger global economic growth, which is expected to translate into higher demand for oil. In the second half of 2017 and continuing into early 2018, oil prices have steadily risen, which is expected to reduce some fiscal pressures and help growth prospects. Because of several new offshore natural gas finds in 2017 and rising demand global demand for liquified natural gas (LNG) exports, Trinidad and Tobago will benefit greatly.

The further exploration of the Guiana Shelf (which encompasses Guyana, Suriname, and Guyane Francaise) could inject considerable capital into the region, but it will also prove challenging from a management standpoint in such areas as environmental controls, matching educational capacities to changing economic demands, and capital allocation., And there should be a sense of urgency to this as large multinational corporations, like ExxonMobil, Hess, and Total, are already on the ground and

⁵ Clifford Krauss, “With a Major Oil Discovery, Guyana Is Poised to Become a Top Producer,” *New York Times*, January 13, 2017, <https://www.nytimes.com/2017/01/13/business/energy-environment/major-oil-find-guyana-exxon-mobile-hess.html?mtrref=www.google.com>.

seeking to ramp up their business operations. For this part of the Caribbean, this is not business as usual, but a major shift to being pulled much deeper into the global economy.

Looking ahead, Dominica, Puerto Rico, and other afflicted islands will suffer economically through the next year (and benefit later from reconstruction), but the rest of the Caribbean will have strong enough growth to carry the expansion another year, helped by ongoing moderate growth in the advanced economies, knock-on effects of reconstruction for regional companies, and a marginal improvement in commodity prices. That said, many of the problems that were facing the Caribbean before the hurricanes are still there—the need for further structural reforms, heavy debt burdens in some cases, and de-risking issues (which limit the flow of capital).

Another major challenge in 2018 is going to be Venezuela. As the Nicolás Maduro government continues its march deeper into socialist economics, a growing number of Venezuelans are likely to join those who have already left for the United States, Colombia, Brazil, and other Caribbean countries. There is a growing risk that Venezuelans could become the twenty-first century's new boat people. In the Caribbean, the Dutch islands of Aruba, Bonaire, and Curacao have been forced to contend with refugees, allegedly looters (based on anecdotal evidence), and in January 2018 with a temporary trade ban undertaken by Caracas to stop contraband trading.⁶ While this decidedly hurts Venezuelans seeking to buy goods that are now unavailable at home, it has also been disruptive for the Dutch islands that have traditionally relied on the South American country for fruits and vegetables. It is likely that there will be more disruption coming out of Venezuela as the economy is again expected to contract in 2018 by double digits.

One aspect of the volatility in Caribbean economics is how this plays out in the region's geopolitics. While the Caribbean remains heavily engaged with the U.S. economy, the home of many of its tourists and a major source of foreign investment and trade, Washington has increasingly been less engaged. The Bush and Obama administrations were preoccupied by the Great Recession and its aftermath, wars in Afghanistan and Iraq, the rise of Chinese power, and a sustained push by Russia to reassert its role as a major global power. In this mix, the Caribbean ranked low.

While trying to figure out the intricacies of Washington's policymaking under Bush and Obama was a challenge, most Caribbean leaders have found the Trump administration even more difficult. The Trump administration did launch the Caribbean 2020, which is supposed to be a policy "for engagement in the Caribbean." This was done as a response to the congressional passage in 2016 of the U.S.-Caribbean Strategic Engagement Act, which established a policy framework and little else. Complicating the definition of U.S. Caribbean policy has been the new administration's disdain for multilateral agreements, focus on "America First" in trade relations, and a slowness to appoint people in its key diplomatic positions.

Washington's focus appears to be on rolling back some of the changes in Cuban policy made by the Obama administration and taking a hardline stance against Venezuela's autocratic regime. The exception to this is Puerto Rico, which comes under domestic U.S. politics than foreign policy.

⁶ Anna Paganini, "Food Hoarding on Dutch Islands as Venezuela Issues Trade Ban over Smuggling," *NL Times*, January 8, 2018, <https://nltimes.nl/2018/01/08/food-hoarding-dutch-islands-venezuela-issues-trade-ban-smuggling>.

Although Washington's response to Puerto Rico's crisis—even the hurricane season—has been criticized, Washington has been drawn deeper into finding some type of solution.

While Washington is focused elsewhere, Beijing and more recently Moscow have found the Caribbean a zone of activity. Both China and Russia have been supporters of the autocratic Venezuelan regime, extending loans to the cash-strapped government. Chinese companies have been active throughout the rest of the region, helping construct cricket stadiums, roads, and harbor facilities. Jamaica has benefited from Chinese assistance in the construction of a four-lane highway linking the north and south parts of the country; Chinese companies are developing port facilities and are buying local commodities.

The Russians have been following suit. According to the London-based Caribbean Council, Russian activity has picked up considerably in recent years—far more Russian tourists are descending on the Caribbean, the relationship with Cuba has intensified, and Russian long-range strategic bombers, using mid-air refueling, have since 2014 been flying transatlantic sorties from Russia to Cuba, Nicaragua, and Venezuela.⁷ Russia has also cancelled Guyana's outstanding debt, is offering police training and scholarships, and through UC Rusal (the world's second-largest aluminum company) has invested substantially in Bauxite Company of Guyana. UC Rusal is also investing in Jamaica's bauxite industry.

While it is easy to overstate the implications of an increased Chinese and Russian presence in the Caribbean, the role of those two countries in what traditionally has been a U.S. sphere of influence has gained attention (though no policy response). R. Evan Ellis, a professor at the U.S. Army War College and senior associate of the Americas Program at the Center for Strategic and International Studies, noted "In a time of conflict China's substantial commercial base, its access to ports, and its military-to-military contacts in the Caribbean might prove useful. All of these add up to growing Chinese influence in a region located close to the U.S. as well as its most important Atlantic Coast military facilities."⁸ The same can be said of Russia.

Looking into 2018, the Caribbean's economies look to a more positive global environment, but major challenges remain. While some are set to enjoy a year of stronger economic growth, others are struggling from the ill-effects of extreme weather and heavy debt overhang. Many Caribbean economies are seeing their resilience tested; what is needed is sustainable economic growth to reduce unemployment, cut poverty levels, and provide a greater sense of a positive future for each country's citizens. This also implies a reexamination of education policies and how to more fulsomely embrace digital technology. Without that, the legitimacy of governments is eroded, productivity gains jeopardized, and the region runs the risk of becoming a cockpit for the geopolitics of other countries.

⁷ "Russian planes to patrol in Caribbean, Gulf of Mexico," BBC, November 12, 2014, <http://www.bbc.com/news/world-europe-30028371>.

⁸ Author interview, January 22, 2018. For more on China and Russia in the Caribbean, see Evan Ellis, "Russian engagement in Latin America: An update," *Global Americans*, December 5, 2017, <https://theglobalamericans.org/2017/12/russian-engagement-latin-america-update/>.

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