ST. VINCENT AND THE GRENADINES

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On the subject of

"The Global Financial and Economic Crisis: The International Response; and the Impact on Remittances to Saint Vincent and the Grenadines"

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[FORMAL GREETINGS]

I am grateful for the opportunity to address this the first Diaspora Conference, during this the inaugural Vincy Homecoming celebration. I am further honoured to be addressing my brothers and sisters within the awe-inspiring walls of our modern public library. While the building is not yet fully complete, one cannot help but feel a tremendous pride when passing through the stately columns at our library's entrance. This magnificent edifice will no doubt stand for years to come as a national monument, and as a monument to our nation's recommitment to education, the quest for knowledge and our own independence and nobility.

I have been asked to discuss the financial and economic crisis from the perspective of its impact on remittances, as well as the international response to the causes and impacts of the crisis. This topic is particularly apt within the context of our ruminations on Homecoming and Independence. The invaluable role that remittances play in Vincentian households is linked to the degree to which so many of our citizens feel compelled to seek employment opportunities overseas. This, in turn, is connected to the narrow economic base bequeathed to us by our former colonial masters, which is itself reflective of our continuing need to further strengthen the pillars of our developing post-colonial economy.

Similarly, our quest for inclusion, for our voice to be heard, and for our perspectives to be respected in international discussions on the crisis is, at its base, also a global struggle of decolonisation and independence.

Remittances and the Crisis

There can be no doubt that remittances constitute a critical component of the national economy, and more importantly, of the individual budgets of thousands of Vincentians. At some point or another, it is likely that most Vincentians have stood in line at a money transfer office, or cleared a barrel, or simply received some cash in an envelope from family overseas. In the context of Saint Vincent and the Grenadines, of the Caribbean, and the wider developing world, remittances are a ubiquitous and indispensable facet of our lives and history.

The World Bank estimates that, in 2008, global remittances totaled US$328 billion dollars. The Bank estimates, further, that US$31 million in remittances flowed into Saint Vincent and the Grenadines in 2007, an amount representing 5.5% of our GDP. These remittances, with their direct, targeted and individualised impact on the finances of households, are associated with investments in education, entrepreneurship and health, and have a demonstrable impact on poverty reduction.

However, the global financial and economic crisis has resulted in a marked slowdown in remittance flows. In July, the World Bank estimated that remittance flows to the developing world would fall by 7-10% in 2009. That estimate was itself a revision of less severe predictions made by the World Bank only four months earlier. A 7-10% reduction in remittances to Saint Vincent and the Grenadines would mean US$2-3 million less money to poor families in the country. And the reduction may be greater than that. For example, according to World Bank data, Jamaica is experiencing a 17% year-to-date decline in remittances. A similar decline in Saint Vincent and the Grenadines would tear a US$5 million-sized hole in the budgets of Vincentian families. In as much as increased remittances are directly linked to poverty reduction, it is fair to assume that slowdowns on the order estimated by the World Bank have the potential to increase the challenges faced by poor Vincentians. The 2010 estimates for remittances are also bleak. At best, the global remittances will stabilise, or dip a further 2%, before possible recovery in 2011.

The truth is that we are in uncharted waters when it comes to the real effect of this global crisis on remittances. The conventional wisdom on remittances – that they are more stable than private financial flows and foreign direct investment, or that they are countercyclical in nature – are being tested by the

depth and all-encompassing nature of this crisis. In the past, if a particular country was facing localised distress – be it economic, sociopolitical or as a result of a natural disaster – it was a safe bet to assume that Diaspora citizens would send remittances to mitigate the impact of that local problem.

However, this crisis is not local, it is global. Our brothers and sisters both at home and abroad are in the same boat. A brief look at unemployment statistics is instructive. In the United Kingdom, unemployment now stands at 7.9%, a 2.1% increase over last year. This translates to an additional 677,000 people who lost their jobs in Britain in the last 12 months. In Canada, unemployment is 8.4%, an increase of 357,000 jobless people since last October. The unemployment rate in the United States is now 9.5%, almost double what it was in April 2008. But even that US's 9.5% rate masks deeper pockets of unemployment in areas that our Diaspora calls home. For example, unemployment in Kings County (Brooklyn) New York is 11.1%, while it is 11.7% in Miami-Dade County Florida.

These numbers don't take into account the hardships being faced by Vincentians living closer to home. Those of us living in CARICOM and OECS countries are similarly affected. For example, the government of Antigua and Barbuda and the IMF have reached an agreement that will force a 20% reduction in wages and salaries. This will no doubt affect some of the hundreds of Vincentians employed in Antigua, with a possible knock-on effect on remittances.

It is therefore impossible to accurately predict the true impact of the global crisis on remittances to Saint Vincent and the Grenadines. Exchange rate volatility, particularly with the British Pound and the Canadian Dollar, could further complicate the picture. Additionally, stiffening immigration policies and reduced remittances could negatively impact the entire global economy. According to Hans Trimmer, Director of the World Bank's Development Prospects Group:

> *"There is a risk that rising unemployment will trigger further immigration restrictions in major destination countries. Such restrictions would curb remittances more than forecast and would slow the global recovery in the same way as protectionism against trade would endanger a global upturn."*

The degree to which we rely on remittances, and the related connections to immigration restrictions, are, of course, also legacies of colonialism and our independence struggle. Our colonial economy, predicated at it was on monocrop agricultural export, low wages and repressive labour practices, did not enable or reward entrepreneurship or educational achievement. Post-independence trade and migration patterns were, for many years, identical to their colonial antecedents. There was a dearth of local opportunities, and those opportunities were controlled by the elites who were left in place by the departing colonial powers. For most Vincentians, educational and employment opportunities were realistically available only overseas, most often in the major cities of colonial or neocolonial powers.

We live with these consequences today, for better and for worse. According to a 2006 IMF Working Paper, 71% of tertiary-educated Vincentians do not live in Saint Vincent and the Grenadines. That is, seven out of every 10 Vincentians with a university degree reside outside of our country. Fifty-seven percent of skilled Vincentians have migrated. Between 1970 and 2000, Saint Vincent and the Grenadines had one of the world's highest rates of emigration.

Remittances have not offset these losses. According to the IMF study, "the total losses due to skilled migration . . . outweigh remittances." These losses, which include the governmental expenditure on education plus the social welfare costs and effects on the labour demand supply framework, are negating the national benefits of remittances. As impressive as our remittance inflows may be, the fact is that 71% of our university graduates should be contributing more than 5.5% of our GDP. Saint Vincent and the Grenadines is therefore not only experiencing a brain drain, but a quantifiable *economic* drain because of the flight of skilled workers overseas.

The International Response to the Crisis

The global economic crisis has not only laid bare the deficiencies in the colonial economy in the local context, but it has also highlighted the road that we have yet to travel in decolonising the international financial architecture. Indeed, the struggle to have our voice heard and our perspectives respected at the level of global financial governance is the latest milestone of our ongoing journey of independence.

Responses to the crisis have occurred at the national, regional and international levels. Nationally, wealthy countries have enacted stimulus packages or protectionist policies in an effort to spur growth. Poorer countries have had no such luck. In our own region, Jamaica and Antigua and Barbuda are currently putting the finishing touches on painful new agreements with the IMF, while other countries, like Saint Vincent and the Grenadines, have tapped the Fund's exogenous shocks facility.

Regionally, groups of countries – like CARICOM, the OECS, ASEAN or ALBA – have sought to fashion arrangements that mitigate the impact of the crisis and develop a unified approach to recovery. These arrangements have been invaluable in staving off the severest effects of the depression.

However, the global nature of this crisis has called most urgently for an appropriate international response. In a global crisis, the solution must also be global. In this global response, there have been two mechanisms for confronting the crisis: The Group of 20 (G20) and the United Nations (UN).

The G20 was formed in 1999 and is made up of 19 countries and a rotating representative of the European Union. The individual members of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the United States of America.

This simple roll call of the members of the G20 immediately highlights some of the problems with entrusting global economic management to this body. First, and most important, from our perspective, is that fact that Saint Vincent and the Grenadines is not a member of the G20. There is no Caribbean presence, no small island developing state presence – indeed, no small states whatsoever. The inclusivity and sensitivity of the G20 is therefore immediately suspect.

Additionally, the G20 faces a serious legitimacy problem: aside from being non-inclusive and unofficial, the countries at that table represent many of the champions of the financial and economic orthodoxies that led the world down the rabbit-hole to its current economic malaise.

The G20 has held two meetings during the financial and economic crisis: Once in April 2008 and, most recently, in September of this year. In their April meeting, the G20 pledged a $1.1 trillion program of support for the world economy. However, very little of those funds were targeted at developing countries, and available money was largely accessible only through the IMF, whose onerous conditionalities and toxic history have made comprehensive engagement with the Fund a course of action to be avoided, if at all possible. Further, even though only $50 million of the $1.1 trillion pledge was specifically earmarked for low-income and developing countries, that money has yet to be delivered.

The G20 also began an aggressive stigmatization of offshore financial jurisdictions. Although offshore jurisdictions had very little to do with the crisis, they have been targeted by the G20 and the OECD (Organisation for Economic Co-operation and Development) – another non-inclusive, non-representative body of rich countries. This stigmatization, which was reinforced in the G20's most recent meeting in the United States, reflects our absence from their deliberations, and has a direct and potentially disastrous effect on our region's financial services sector and our own growth and development.

The Group, despite the prodding of some of its members, has also shown very little appetite for substantive and far-reaching reforms in the global financial architecture. Instead, the G20's approach has been to simply stabilize the financial markets and pledge to cooperate in the future – while leaving in place the same systems and bodies that either caused the crisis or failed to adequately respond to its rapid and debilitating spread. Nothing that the G20 has done, and very little of what it plans to do, would prevent another economic crisis or enhance our ability to withstand its impact.

The G20's most recent meeting, held in the United States this past September, highlighted the extent to which the Group can be insensitive and out of touch with global realities. The Group claimed that a "sense of normalcy" had returned to their economies and proclaimed that the measures they implemented have "worked." To make this statement in the midst of a crisis that is still deepening in many parts of the world – and in the face of rising unemployment in their own countries – is akin to former President George W. Bush's infamous proclamation of "Mission Accomplished" in the middle of a worsening war in Iraq. Indeed, the communiqué issued by the G20 after their September meeting, called "verbose but short on substance" by the *Financial Times*, was more of a self-congratulatory power grab than a credible response to the crisis. Noted economist Professor Jeffery Sachs called the G20 "an experiment" with "makeshift scaffolding" upon which the "success of the planet now rests."

There is, of course, an international alternative – or at least a legitimising complementary partner – to the G20. That would be the "G192," that is, all 192 members of the United Nations General Assembly. The UN Charter originally charged the body with being a "centre for harmonising the actions of nations. . . to achieve international co-operation in solving international problems of an economic . . . character." Over the years, however, the UN largely abdicated this responsibility, and left economics and finance to the Bretton Woods institutions and individual rich countries.

In June of this year, I was honored to be chosen as one of two facilitators of a United Nations Conference on the Global Financial and Economic Crisis and its Impact on Development. It was arguably the first major engagement by the UN in the international financial system since the establishment of the Bretton Woods Institutions. Saint Vincent and the Grenadines was the representative of the developing world, while the Netherlands represented the rich countries. At the conference, in which almost all countries participated, the United Nations delineated the causes and effects of the crisis, and set forth a blueprint of further actions to offset its impacts, and called for profound and far-reaching reform of our financial system. The blueprint produced by the UN, and drafted in large part by Saint Vincent and the Grenadines and the Netherlands, was unanimously adopted. Nobel Prize winning Professor Joseph Stiglitz, in a recent column in *The Guardian*, hailed the outcome, saying "the UN agreement was stronger and more forceful than the G20 communiqué. It also demonstrated why it was important to have an inclusive process: the G192 were willing to raise key issues that the internal politics of the G20 may have made too sensitive."

But the UN process, while affording Saint Vincent and the Grenadines a voice, and, indeed an active role in discussions on the global financial and economic architecture, is also flawed. Its major shortcoming is the lack of the necessary political will and cohesion in the UN membership itself. Many of the G20 countries – themselves members of the UN – are reluctant to dilute their influence on the global economy, and have not embraced the UN process. Indeed, in their most recent statement, the G20 proclaimed themselves "the premier forum for our international economic cooperation," a seeming rejection of the UN's rightful role in the process. Other rich countries have also sought to relegate the UN to observer status with no real voice or policy muscle.

Even within the developing world, there are different views on how the crisis should be addressed, and the optimal role of the UN. Ideological Balkanization has shaken the unity of the developing world, as state-centric and *laissez-faire* philosophies have been difficult to harmonise. The sheer size of the UN

membership, while an asset, has also proven unwieldy in the search for urgent consensus on the necessary actions.

The crisis has therefore brought into sharp relief the deficiencies in the global financial and economic architecture. It has also laid bare the vulnerabilities of countries like Saint Vincent and the Grenadines. We played no role in causing the crisis, but we disproportionately affected by its impacts and inadequately assisted in our recovery.

We have also seen in the impacts of the crisis the necessity of our continued struggles on the road to greater independence. The colonial economy that we inherited from the British is obsolete and ill-suited to the challenges of a modern globalised world. It is also woefully out of step with the needs and expectations of our people. We should migrate because we want to, not because we have to. Our remittances should be welcomed as an added benefit to supplant local earnings, not as a bulwark against poverty. And we must make our voice heard and respected in the international struggle to disassemble neocolonialist structures. Our economic independence – much like our country's education revolution and its home grown constitutional reform effort – is a fundamental pillar in our future development, and an indispensible verse in our own redemption song.

Thank you.