CHAPTER 1

Unleashing Strong, Sustainable, and Inclusive Growth in the Caribbean

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Since attaining independence in the 1960s and 1970s, Caribbean countries have registered strong economic and social outcomes. Per capita incomes have risen, with most Caribbean countries now in the top 25 percent of all emerging market and developing economies (EMDEs).[1] Median life expectancy is 73 years, compared with 70 years for other EMDEs; infant mortality is relatively low; and female labor force participation relatively high (Figure 1.1). Poverty rates are comparable to other EMDEs. Beyond these achievements, Caribbean countries have developed strong democratic traditions, with public policies actively debated and influenced by the aspirations of their people.

In recent decades, however, progress on converging with the living standards of advanced economies has slowed and, in some cases, reversed. Since 2000, real GDP growth of Caribbean economies has been half that of other EMDEs and two-thirds that of non-Caribbean small states (Figure 1.2). The growth weakness is concentrated among tourism-intensive Caribbean economies, which, on average, grew by only 1.6 percent per year, and only 0.8 percent in per capita terms. The per capita incomes of these countries, converted at purchasing-power-parity exchange rates, have stopped converging toward those of advanced economies. Commodity exporters in the Caribbean have grown faster, reflecting the international commodity price boom. More recently, growth across these countries has also slowed or turned negative.

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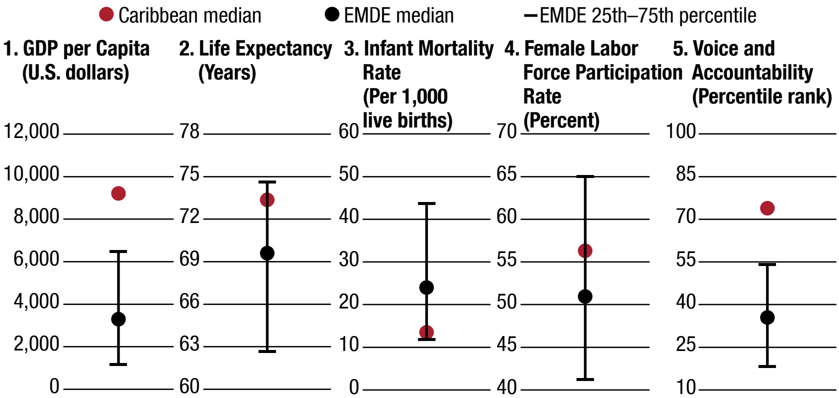
[1]This book focuses on 13 Caribbean economies, divided into two analytical groups: nine tourism-intensive economies (Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines) and four commodity exporters (Belize, Guyana, Suriname, Trinidad and Tobago). Income per capita for Caribbean countries is typically lower when measured using gross national product (GNP) rather than GDP, as GNP does not include income earned by foreigners, including, for example, profits of foreign-owned hotels in the region's large tourism sector. Even when measured using GNP, however, income per capita of Caribbean countries is well above that of other EMDEs.

Figure 1.1. Demographic, Economic, and Social Indicators

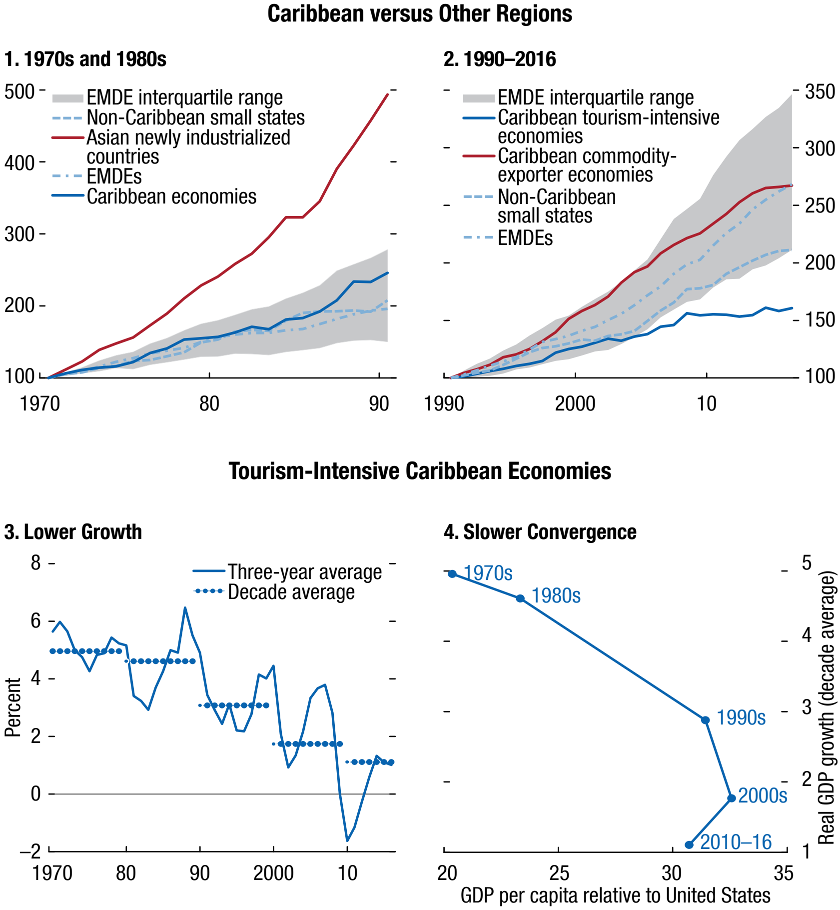


Sources: World Bank, *Governance Indicators*; World Bank, *World Development Indicators*; and IMF staff estimates.
Note: EMDE = emerging market and developing economy. Figure reports data for 2015 or most recent year available. The World Bank's "Voice and Accountability" indicator captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as the freedom of expression, association, and media.

No single reason can explain the Caribbean growth slowdown. Drivers include both large adverse external developments and, more important, persistent domestic macroeconomic imbalances and structural impediments. Adverse external shocks include the erosion of preferential trade access to European markets, the decline of official development assistance, and increasingly frequent natural disasters. Caribbean economies have not been able to fully insulate themselves from such shocks because of their large macroeconomic imbalances, notably pertaining to their fiscal position and strains in the financial sector, along with serious structural weaknesses. Elevated government debt burdens have constrained the ability of these economies to pursue a countercyclical fiscal policy response to shocks and to finance priority spending, including on infrastructure, while problems in the financial sector have disrupted credit supply and impeded private sector activity. Meanwhile, structural factors, including the region's high costs of electricity and constrained access to credit for households and small and medium-sized enterprises (SMEs), high rates of violent crime, and a persistent outflow of highly skilled workers to richer countries, have undermined growth prospects. Feedback loops between weak macroeconomic fundamentals and structural impediments have hurt growth and sustainability prospects, preventing these economies from benefiting fully from globalization and technological progress (Figure 1.3).

How can Caribbean economies overcome these challenges and resume their convergence toward the living standards of advanced economies? To shed light on these questions, this book brings together the latest research on the Caribbean economies conducted at the IMF, including on new developments such as

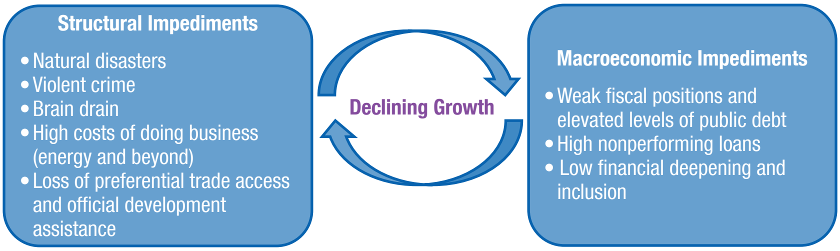
Figure 1.2. Real GDP Performance



Sources: World Bank, *World Development Indicators*; and IMF staff estimates.
Note: EMDEs = emerging market and developing economies. Figure reports country-group medians.

potential U.S.-Cuba rapprochement and the interconnected financial sector, where banks are grappling with the consequences of the global financial crisis and the withdrawal of correspondent banking relationships. Following a discussion of growth performance in the Caribbean, various chapters in the book analyze the region's macroeconomic imbalances along with recent initiatives to address them. Other chapters then examine structural impediments affecting competitiveness and growth in the tourism-intensive economies of the Caribbean, which account for about 60 percent of the region's population. The book aims to stimulate policy dialogue and contribute to policymakers' efforts to address these unique challenges.

Figure 1.3. Self-Reinforcing Structural and Macroeconomic Impediments to Growth



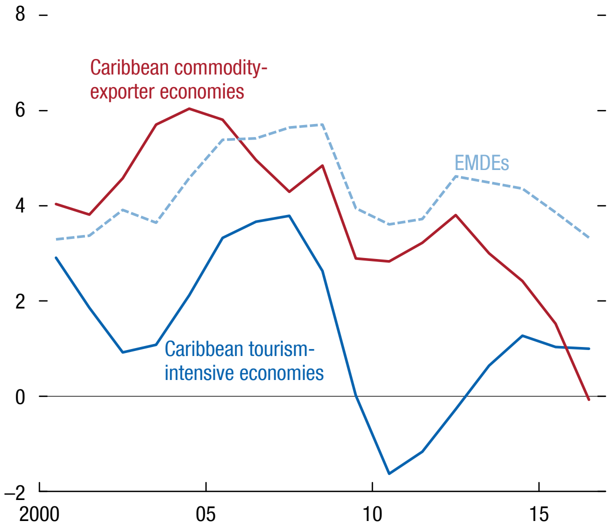
GROWTH IN THE CARIBBEAN

Economic growth in the Caribbean, particularly across the tourism-intensive economies, has been disappointing in recent years (Figure 1.4). How do growth rates in the Caribbean compare with outcomes elsewhere, including in non-Caribbean small states? Have these upper-middle-income to high-income economies already reached their potential, with little scope for boosting their productive capacity, or could they, by tackling macroeconomic imbalances and structural distortions, grow faster again? To what extent have Caribbean economies leveraged their comparative advantage to secure a preeminent position as tourist destinations?

Chamon and others find, in Chapter 2, that per capita real GDP growth in tourism-intensive Caribbean economies since 2000 has been significantly below that of countries at similar income levels, including non-Caribbean small states. Their analysis establishes a strong association between this puzzlingly weak performance and country characteristics, including elevated levels of government debt, strains in the financial sector arising from high levels of nonperforming loans, emigration of skilled people, vulnerability to natural disasters, high rates of violent crime, an unfavorable business environment, and limited trade integration. The authors conclude that there is ample scope for raising growth in the Caribbean by tackling these macroeconomic and structural challenges, but that policy priorities need to be tailored to individual country circumstances.

The tourism industry is the dominant driver of economic activity in most Caribbean countries, but, as Acevedo and LaFramboise document in Chapter 3, the Caribbean share of the global tourism market has been falling since the 1990s. The authors conclude that this shrinking market share reflects a lack of diversification across tourism source markets, the impact of the global financial crisis, the region's unique vulnerability to natural disasters, and high pricing, which partly reflects weak competitiveness in, especially, labor and electricity costs and a lack of adequate infrastructure. Since global demand for tourism is likely to continue rising, and new tourist destinations are emerging, the authors argue that addressing Caribbean competitiveness challenges is vital for reinforcing the role of tourism as a driver for robust growth in incomes and jobs.

Figure 1.4. Real GDP Growth
(Percent per year; three-year moving average)



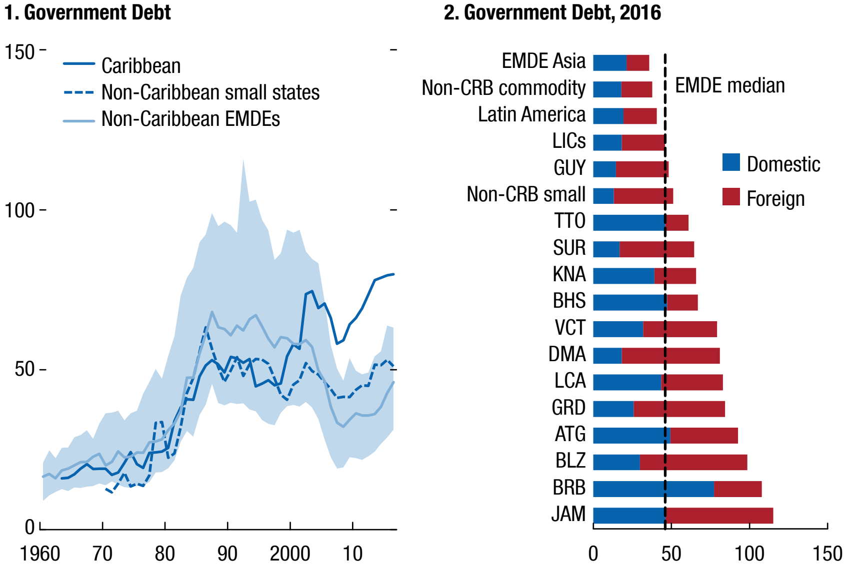
Sources: World Bank, *World Development Indicators*; and IMF staff estimates.
Note: EMDEs = emerging market and developing economies.

The emergence of new tourist destinations could, at least in principle, pose a challenge to the Caribbean tourism industry. To illustrate this issue, Acevedo and Wong investigate, in Chapter 4, the impact on the Caribbean of a potential U.S. rapprochement with Cuba, through a diversion of U.S. tourists. The authors find that, in the short term, a U.S.-Cuba rapprochement could reduce the number of U.S. tourists going to non-Cuban Caribbean destinations, although this reduction would likely be offset by larger inflows of Canadian and European tourists displaced from Cuba by the larger number of U.S. visitors. They also argue that, over time, the whole region is likely to see tourism flows increase.

FISCAL MALAISE IN THE CARIBBEAN: A VICIOUS CYCLE OF HIGH DEBT AND LOW GROWTH

Caribbean economies face high and rising sovereign debt levels that weigh on their prospects for strong and sustainable growth. The rapid increase in public debt over the past five decades reflects a tendency in these economies to run large budget deficits in bad times, and to not offset these by saving enough in good times. Bad times include natural disaster events that Caribbean economies experience frequently and the attendant reconstruction costs that they need to absorb. But high levels of public debt also reflect a conscious decision by many of these countries to compete for foreign investment by providing large tax

Figure 1.5. Government Debt
(Percent of GDP)



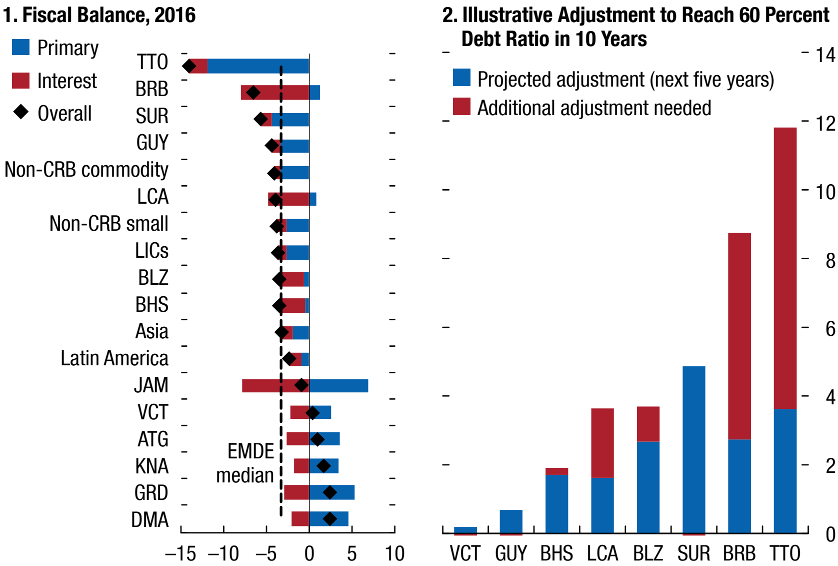
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Note: CRB = Caribbean; EMDEs = emerging market and developing economies; LICs = low-income countries. Figure reports country-group medians. Data labels in figure use International Organization for Standardization (ISO) country codes.

incentives, which has led to significant revenue losses and, in turn, to larger budget deficits and debt. Elevated levels of indebtedness have made it difficult for these economies both to insulate themselves from external shocks and to alleviate their impact, through countercyclical fiscal policy responses, when they materialize. In effect, these economies suffer from a vicious cycle of high debt and low growth.

In 2016, Caribbean government debt reached a median level of 81 percent of GDP, its highest in half a century and more than 30 percentage points of GDP above the non-Caribbean EMDE median (Figure 1.5). Only one Caribbean economy—Guyana—has a debt-to-GDP ratio of less than 60 percent, and even that is greater than the EMDE median of 46 percent. The highest debt-to-GDP ratios in the Caribbean, those of Jamaica, at 115 percent, and Barbados, at 108 percent, are in the top 5 percent of all EMDEs.

While government debt is high in all Caribbean economies, budget deficits span a wide range (Figure 1.6). Some countries have large budget deficits, as in Trinidad and Tobago, while others, such as Grenada, are running budget surpluses. Accordingly, the need for additional fiscal consolidation—cuts in government spending or tax hikes—to reduce government debt to less than 60 percent of

Figure 1.6. Fiscal Balances and Adjustment Needs
(Percent of GDP)



Sources: IMF, *World Economic Outlook*; and IMF staff estimates.
Note: CRB = Caribbean; EMDE = emerging market and developing economy; LICs = low-income countries. Planned adjustment based on April 2017 IMF *World Economic Outlook* projection for the primary fiscal surplus. Figure omits countries with no planned or estimated need for increases in the primary fiscal surplus. Data labels in figure use International Organization for Standardization (ISO) country codes.

GDP over the next 10 years differs greatly across the region, with the greatest need concentrated in high-deficit economies.[2]

To shed light on why Caribbean government debt remains so high, and to assess ways in which policymakers can reduce fiscal vulnerabilities, the book addresses the following questions:

- How have the global financial crisis and the international commodity price cycle affected Caribbean fiscal performance?
- To what extent do elevated levels of debt reflect the costs associated with frequent natural disasters?
- How has tax competition in the Caribbean aimed at attracting foreign direct investment contributed to the fiscal malaise?

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[2]The adjustment need is the difference between the 2016 primary balance and the primary balance that, if held constant, would result in the debt-to-GDP ratio reaching 60 percent in 10 years. The calculation assumes a constant real exchange rate, and that the real interest rate, growth rate, and share of foreign debt in total debt are as in the April 2017 IMF *World Economic Outlook* through 2022, on average, with no change thereafter.

- What has been the role of two important public policy initiatives—citizenship by investment programs and debt restructuring—in improving Caribbean fiscal health?

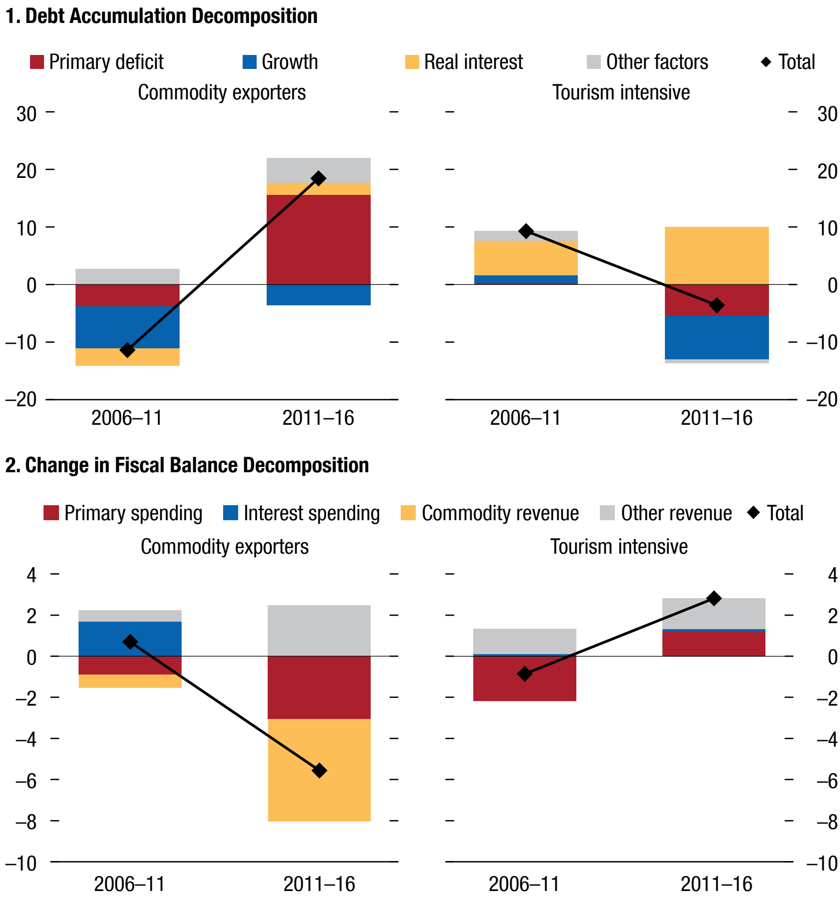
The global financial crisis and international commodity price cycle have affected tourism-intensive and commodity-exporter Caribbean economies very differently. To illustrate this point, Figure 1.7 decomposes the change in government debt during the crisis and its immediate aftermath (2006–11) and the years since (2011–16) into four main drivers: the primary deficit, interest payments, inflation, and real GDP growth. It also decomposes shifts in the overall fiscal balance into changes in interest spending, primary (non-interest) spending, commodity revenue, and other government revenue. The following insights emerge:

- *Tourism-intensive economies*. During 2006–11, tourism-intensive economies saw government debt rise by 9.3 percent of GDP. The largest drivers of the increase were high interest payments (reflecting already-high debt levels), negative growth associated with the crisis, and increased (countercyclical) government spending that reduced these countries' primary budget surpluses. Since 2011, however, tourism-intensive economies have seen a partial recovery in fiscal health. The return of growth, combined with government spending restraint, has unwound about one-third (3.6 percentage points of GDP) of the crisis-induced debt increase.
- *Commodity-exporter economies*. Commodity exporters were largely insulated from the crisis, owing to the high international commodity prices that prevailed at the time. During 2006–11, they enjoyed, on average, an 11 percent of GDP *drop* in their government debt, driven by strong growth and primary fiscal surpluses. Since 2011, however, as the commodity boom turned to bust, these economies saw sharp declines in their commodity-related government revenues and an increase in government spending as a share of GDP (Figure 1.7). The resulting rise in budget deficits propelled their debt by an average of nearly 20 percent of GDP.

This analysis clarifies the role of recent global shocks in driving up Caribbean government debt. It also shows how a recovery in growth, combined with fiscal discipline, has helped some economies turn the corner. But the long-term success of debt-reduction efforts will require addressing underlying challenges that are specific to the Caribbean.

Otker and Loyola analyze, in Chapter 5, how frequent natural disasters, such as cyclones, hurricanes, and earthquakes, have contributed to a ratcheting up of public debt in the Caribbean. The authors find that natural disasters have affected Caribbean economies more than other small states, causing physical damage averaging 2.4 percent of GDP per year and depressing tourism arrivals and economic activity. The resulting drops in tax revenues, along with extra government spending on social assistance and rebuilding, have raised budget deficits and debt. Otker and Loyola discuss policies to strengthen countries' resilience to disasters through better preparation and risk management. They recommend explicitly building disaster and climate change risks into policy frameworks, including in

Figure 1.7. Commodity-Exporter versus Tourism-Intensive Caribbean Economies, 2006–16
(Percentage points of GDP)



Sources: IMF, *World Economic Outlook*; and IMF staff estimates.
Note: A positive contribution of spending to the change in fiscal balance reflects a reduction in spending.

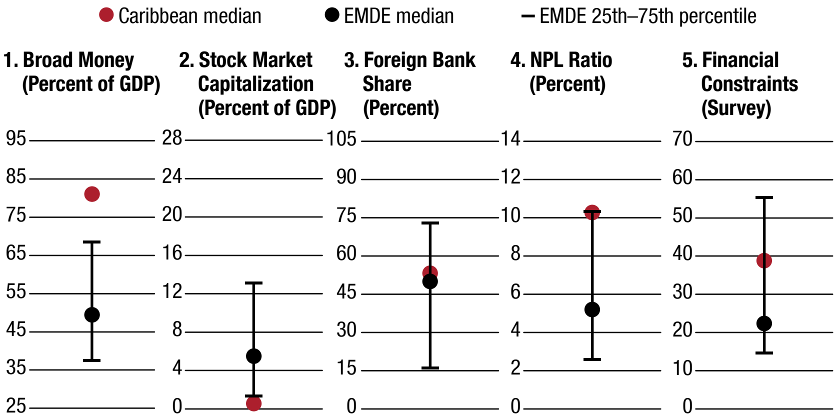
the design of budgets, fiscal rules, and public investment plans. They also discuss insurance and financial hedging tools that can protect governments from the burden of disasters and increase their capacity to respond appropriately. Finally, the authors underscore the benefits of regional and global efforts, such as the pooling of insurance cover at the Caribbean level, to support countries through capacity building, tools for risk management, and financing.

In Chapter 6, McIntyre examines the role of tax incentives in affecting Caribbean fiscal performance. Tax incentives motivated by a desire to boost private investment, notably foreign direct investment, are an important part of the policy framework in several Caribbean countries. McIntyre finds that tax incentives have supported private investment in the region, but have also imposed significant costs in forgone revenue, which has, in turn, weakened countries' fiscal positions. He argues that a more cost-effective way to encourage companies to invest in the Caribbean is to reinforce structural reform efforts aimed at strengthening competitiveness and improving the business environment. To reduce the fiscal cost of tax incentives and to make them more transparent, he recommends streamlining them and moving to rules-based administrative arrangements. McIntyre also warns that, if left unchecked, tax competition to attract investment could cause a "race to the bottom," and that coordination across the region's countries is needed to avert this risk.

Turning to factors that have helped improve fiscal positions in Caribbean countries, Gold and Myrvoda investigate, in Chapter 7, the role of economic citizenship programs (ECPs), which offer citizenship or residency in exchange for a substantial financial contribution to the domestic economy. The authors find that ECP inflows in the Caribbean have surged in recent years as a result of global demand for secondary citizenships and their increasing appeal to governments as a means of financing investment. Gold and Myrvoda also find that ECP inflows have yielded macroeconomic benefits by raising private investment, particularly in the construction and real estate sectors; bolstering fiscal and current account balances; and strengthening bank liquidity. The authors caution, however, that growing reliance on these potentially volatile revenues can pose substantial challenges for small states. To contain risks, they argue that ECPs and their associated revenues should be managed prudently with priority given to saving, including through sovereign wealth funds; infrastructure investment; and paying off debt. The authors underscore the benefits of regional collaboration and coordination on administering ECPs to ensure the consistent and stringent screening of applicants, reduce costs and reputation risks, and avoid a "race to the bottom" through the easing of program conditions.

In Chapter 8, Okwuokei and van Selm assess the impact of recent debt-restructuring operations in the Caribbean. They focus on countries that have restructured their sovereign debt to commercial creditors since 2011. Some of these countries restructured their debt repeatedly, which, the authors argue, weakened their credibility and access to capital markets. For debt-restructuring operations undertaken in the context of an IMF-supported program, Okwuokei and van Selm find that restoring debt sustainability was the main objective, while in other cases, relieving immediate cash flow pressure was the focus. The authors document how the scope of restructuring across domestic and external debt differed, and how this difference reflected domestic financial stability considerations. They also identify factors that increased the likelihood of a successful debt restructuring, including features that created incentives for sustained prudent fiscal policy, increased investor participation rates, and included mechanisms that insulate government debt from the effects of natural disasters. The authors conclude by underscoring the importance of embedding debt restructuring in a credible program of fiscal consolidation and structural reform.

Figure 1.8. Financial Sector Indicators



Sources: Cull and others 2017; World Bank, *Enterprise Surveys*; World Bank, *World Development Indicators*; and IMF staff estimates.
Note: EMDE = emerging market and developing economy; NPL = nonperforming loan. Figure reports data for 2015 or most recent year available.

BALANCING FINANCIAL SECTOR GROWTH, STABILITY, AND INCLUSION

The Caribbean banking system is relatively deep and interconnected, but external shocks, combined with institutional inefficiencies and rigidities, have caused persistent vulnerabilities and constrained access to credit. The depth of the financial system, when measured by the ratio of credit provided by financial institutions or broad money to GDP, is generally higher or comparable to that of peer economies (Figure 1.8). This depth, however, partly reflects the region's high government debt held by the public, while equity and corporate bond markets remain underdeveloped. Moreover, banks are saddled with high levels of nonperforming loans (NPLs), and a large share of nonfinancial firms cite access to credit as a major constraint.

To inform the debate about how to strengthen the Caribbean financial sector's resilience, as well as its ability to finance business investment and growth, the book addresses the following questions:

- What reforms could ease financial constraints facing Caribbean households and firms, and how would such reforms influence economic growth, inequality, and financial sector stability?
- How strongly interconnected is the Caribbean financial sector, to what extent have these links propagated financial distress across the region, and what reforms could limit the occurrence and transmission of such shocks?

- What factors explain the persistent rise of NPLs in the Caribbean, what is the effect of these NPLs on growth, and how can policymakers sever the adverse feedback loops between weak economic activity and weak asset quality?
- Why have Caribbean countries been losing correspondent banking relationships (CBRs), how has this loss affected the cost of international transactions and domestic financial intermediation, and what steps can regulators in the Caribbean and in advanced economies take to reduce CBR risks?

In Chapter 9, Wong investigates how deepening financial systems and expanding financial inclusion could support consumption and investment growth in the Caribbean. Wong finds that access to financial institutions has generally expanded over the past decade, with higher levels of deposits as a share of GDP and a larger nonbank financial sector. However, she also finds that Caribbean economies still lag behind their peers on indicators measuring credit availability to households and SMEs, with a high proportion of SMEs identifying access to credit as a major constraint. She argues that a careful deepening of financial systems and an expansion of financial inclusion that is mindful of the trade-offs between credit growth, inequality, and financial stability could bring significant benefits to Caribbean countries. To ease financial constraints, she proposes strengthening institutional and legal frameworks related to property rights and collateral, reducing information costs through stronger credit bureaus, and reducing operational costs through mobile networks. To safeguard the benefits of expanded financial inclusion without jeopardizing financial stability, Wong underscores the need for a strong framework for financial regulation and consumer protection.

Chapter 10, by Canetti and others, highlights the region's strong degree of financial connectivity, which, when coupled with insufficient regional oversight and regulatory controls, has amplified and spread financial distress. Canetti and his coauthors argue that the interconnectedness of the Caribbean banking, insurance, and other financial services sectors can promote international risk sharing, competition, and efficiency, but that it can also spread adverse shocks in unexpected ways. To assess the resilience of the regional system to financial and macroeconomic shocks, the authors conduct network simulations based on a unique data set on financial exposures. Their results confirm the systemic role of stability in the home financial sector of the region's largest conglomerates in limiting financial contagion. They also highlight the importance of strong capital positions in the region's banks and insurers. The authors conclude that national efforts to strengthen financial sector oversight need to be complemented with regional and global cooperation to strengthen resilience to cross-border shocks.

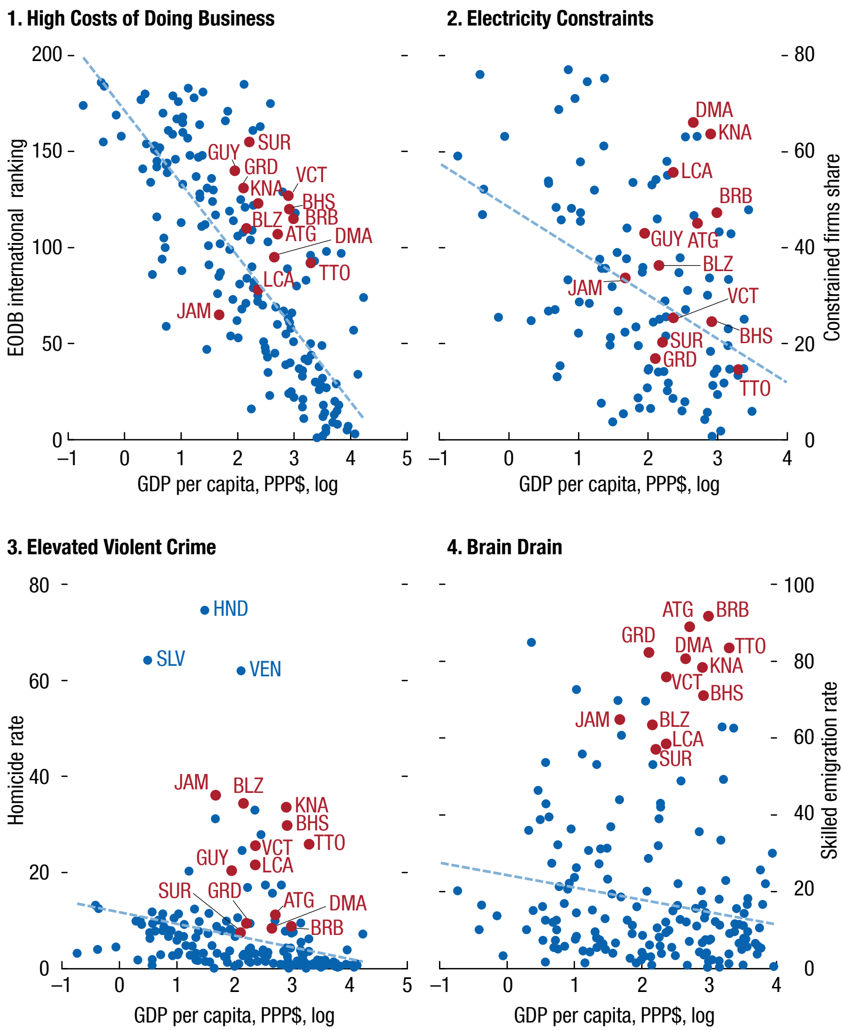
Beaton and others examine, in Chapter 11, the factors driving the rapid increase in NPLs across many Caribbean economies and propose a strategy for their resolution. They find that the high level of NPLs is, in large part, a legacy of the global financial crisis, but that their persistence reflects structural and institutional obstacles to their resolution. The authors also confirm the presence of an adverse feedback loop: NPLs depress growth of credit and economic activity, and this, in turn, further worsens asset quality. Beaton and her coauthors propose a multifaceted approach for severing this feedback loop: raising growth through macroeconomic policy support; strengthening supervisory frameworks to ensure financial stability and create incentives for NPL resolution; addressing deficiencies in information, insolvency, and debt-enforcement frameworks; and developing a pan-Caribbean market for distressed assets to facilitate the disposal of NPLs. Given the limits to institutional capacity in small Caribbean states, the authors conclude that there is a strong need to coordinate reforms and support these efforts with capacity-building assistance from international financial institutions.

Alleyne and others analyze, in Chapter 12, a recent development that has exacerbated the challenges facing the Caribbean financial system: the loss of CBRs. For many international banks, maintaining CBRs with banks in EMDEs has become less attractive given changes in the regulatory and enforcement landscape and higher compliance costs. In this context, banks in several Caribbean countries have lost CBRs over the past few years. The chapter authors find that this "de-risking" has raised the cost of international financial transactions and adversely affected services, such as international wire transfers, offshore financial services, and cash-intensive services. They estimate that, except for one case, countries have avoided major disruptions to financial intermediation, but caution that risks remain high. To address CBR risks, Alleyne and his coauthors urge Caribbean authorities to reinforce their anti-money laundering frameworks, and recommend that local banks explore ways to expand business volume available to their correspondent banks, including through mergers of small banks. The authors also urge advanced economy regulators to continue proactively communicating their regulatory expectations to correspondent banks, and call on international standards-setters to be mindful of unintended consequences on EMDEs of efforts to improve the resilience of the international financial system.

STRUCTURAL IMPEDIMENTS TO GROWTH

Caribbean economies suffer from several structural impediments to growth that feed into and are an outcome of weak macroeconomic fundamentals. Three structural factors in particular—high energy costs, the emigration of skilled people ("brain drain"), and violent crime—in addition to the frequency and severity of natural disasters, are undermining the region's business climate. Most Caribbean economies fare poorly with respect to these factors when compared with other economies at a similar level of GDP per capita (Figure 1.9). The structural impediments weigh on the region's external competitiveness as well as on its ability to innovate, diversify, and grow. They also cause a vicious cycle by weakening financial and fiscal positions, which, in turn, hampers efforts to overcome the structural challenges. It is therefore imperative that policymakers address these structural weaknesses with a greater sense of urgency, including through targeted public intervention and infrastructure spending, in close

Figure 1.9. Structural Impediments to Growth



Sources: EM-DAT; Institute for Employment Research brain-drain data set (Brücker, Capuano, and Marfouk, 2013); World Bank, *Ease of Doing Business* (EODB) index; World Bank, *Enterprise Surveys*; World Bank, *World Development Indicators*; and IMF staff estimates.
Note: PPP = purchasing power parity. Electricity constraints measure share of firms reporting electricity as a major constraint; homicide rate is in homicides per 100,000; and skilled emigration rate is in percent of population of skilled nationals. Data labels in figure use International Organization for Standardization (ISO) country codes.

collaboration with the private sector. The book's last three chapters analyze each of these structural impediments.

McIntyre examines, in Chapter 13, how reducing the region's elevated energy costs could enhance the business climate, external competitiveness, and growth. He finds that Caribbean economies generally have high electricity costs, which reflect serious inefficiencies in the power sector and dependence on expensive imported petroleum products due to insufficient energy diversification. McIntyre cautions, however, that reducing these costs involves trade-offs: investment in energy reform would have long-term benefits, but raising public energy infrastructure investment would require increasing already-elevated debt-to-GDP ratios. He argues that greater private investment in energy infrastructure is needed, including through public-private partnerships, although such partnerships require strong institutional and legal arrangements to ensure successful implementation and limit contingent liability risks. McIntyre also proposes measures to enhance energy efficiency and encourage diversification toward renewable sources, and advocates establishing independent energy regulators to provide an environment conducive to private energy investment.

Wong analyzes, in Chapter 14, the role that brain drain and remittances have played in affecting Caribbean economic performance. She finds that in the Caribbean, the net effect on growth from emigration is negative for home countries. Reduced labor supply and productivity are the main channels. She also finds that remittances partly mitigate these negative effects, both by serving as a large and stable source of external financing and by helping to cushion the impact of shocks, including natural disasters. To address brain drain, Wong advocates reforms in home countries to improve the business climate and strengthen institutions, which would encourage people to stay while also facilitating the return of skilled and highly educated workers. In addition, given the role of remittances in financing and stabilizing economic activity, she proposes measures to reduce transaction costs associated with these transfers and to promote the use of formal channels of intermediation.

In Chapter 15, Sutton, Jaitman, and Khadan quantify the economic costs of the region's elevated violent crime rates and propose policies for reducing them. The authors focus on three costs: public spending on security and the criminal justice system, private spending on security, and social costs, including the income forgone because of victimization and incarceration. Using data from surveys recently conducted by the Inter-American Development Bank, the authors find that costs associated with crime in the Caribbean average nearly 4 percent of GDP per year, more than in most Latin American countries. The Caribbean economies with the highest costs of violent crime are The Bahamas, Jamaica, and Trinidad and Tobago. The authors estimate that reducing crime would significantly raise sales growth, particularly in the tourism sector. They recommend tackling crime by balancing suppression programs with prevention, including youth vocational training that increases job opportunities in the formal sector; targeting interventions in high-crime areas; and developing indicators that allow policymakers to more accurately monitor the effectiveness of anticrime programs.

CONCLUSION

The chapters in this book provide a diagnosis of the central economic and financial challenges facing Caribbean policymakers and offer broad policy recommendations for promoting a sustained and inclusive increase in economic well-being. The analysis highlights the need for Caribbean economies to make a concerted effort to break the feedback loops between weak macroeconomic fundamentals, notably pertaining to fiscal positions and financial sector strains, and structural impediments, such as high electricity costs, limited financial deepening, violent crime, and brain drain, which have depressed private investment and growth.

A recurring theme in the book is the need for greater regional coordination in finding solutions to address the Caribbean's shared and intertwined macroeconomic and structural challenges. Coordination needs include, among others, reaching regional agreements to avoid a "race to the bottom" with regard to tax concessions for attracting foreign investment and ECPs, establishing a regional market for distressed assets, mitigating the risks of contagion from interconnected financial conglomerates through regional oversight and regulation, and pooling insurance coverage to deal with natural disasters.

The analysis in this book also suggests that strengthening regional and global market integration of Caribbean economies would provide an impetus to sustained growth in incomes and jobs. Related research, including for Caribbean economies, confirms that the free movement of capital, goods, labor, and services has positive effects on economic activity. Increasing market size, accelerating the acquisition and sharing of technological knowledge, and strengthening competition and efficiency are the main channels. Maximizing the benefits of regional and global integration requires, at the same time, providing support to those hurt by shifts in technology or trade, including through safety net programs such as time-bound income transfers and job retraining.

Greater regional and global economic integration of Caribbean economies would also facilitate structural transformation and a shift toward new economic activities, resulting in more diversified and less vulnerable economies. Structural transformation is already underway in the Caribbean, with entrepreneurs developing links from existing tourist destinations to local agricultural production, construction, and entertainment, and the development of medical tourism. Reforms to reduce the costs of doing business would reinforce this process.

A central challenge for the Caribbean is thus to come together as a region, overcome the limitations posed by size, and garner the benefits of globalization. Efforts should build on existing regional arrangements, such as the Caribbean Community—the region's most important trade initiative. Accelerating progress in implementing existing agreements, such as reduction of the common external tariff and completion of the single market and economy, particularly in relation to trade in services and the movement of labor, would stimulate trade. Policymakers could also promote deeper integration with Latin America and the rest of the world by pursuing new trade agreements, leveraging current agreements more effectively or deepening them to include areas beyond traditional trade issues, and developing port and transport infrastructure. Deepening international integration would also facilitate drawing on the experience of other countries dealing with similar challenges, which could yield significant dividends.

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