The Caribbean, the Developing World and the Global Crisis

By Don Robotham

*Don Robotham is a Jamaican anthropologist who teaches in New York and works on West Africa and the Caribbean. His main interests are in economic and social development, especially the problems of the youth in the developing world.*

All economists and commentators are now agreed that the current global economic crisis is the most serious since the Great Depression. In a recent poll, about 74% of the American population was of the view that the crisis would last well past 2010 into an indeterminate future.

The tendency in the US and European media has been to understand the present moment solely from the point of view of the developed world. The ‘world’ is in crisis because the US, Britain, Germany and France are in trouble. Little or no attention has been paid to how this immense crisis is impacting on developing countries. But this is not just a US or European crisis. In fact its effects are likely to be far more severe for the peoples of the Developing World, as was the case in the Great Depression of the 1930s.

The Crisis in the Developing World

This is a particular acute crisis for the rural and urban poor in India and Pakistan and many parts of sub-Saharan Africa, Asia and Latin America and the Caribbean. For example, debt service charges for developing countries have already jumped because the interest rate spread for developing country bonds and commercial paper has spiraled as their bonds have been downgraded by the rating agencies. Jamaican government long term bonds, for example, had declined in value by more than 40% between August and December 2008.

Local currencies in the developing world have devalued across the board by 10-15% between September 2008 and January 2009. The rise in the food import bill is especially alarming for sub-Saharan Africa which imports 45% of its rice and 85% of its wheat. At the same time, commodity prices are collapsing: 200,000 mine workers were laid off in the Democratic Republic of the Congo by the end of December 2008. Zambian copper production is at a standstill. Two alumina plants in the Caribbean have been closed so far and the Jamaican-Brazilian sugar divestment project has fallen apart for lack of adequate financing.

Although visitor arrivals in tourism may hold up for a while, this will not last. The Caribbean is 75% dependent on the North American market and Americans are not travelling. Remittances to the Caribbean from the United Kingdom have declined at an alarming rate and US remittances are flat. The inflation rate in parts of the region is
running at 14% and likely to rise to about 17-20% by the end of the financial year. Budget deficits are rising to over 6%. How will this be financed?

All of this has major implications for health and education and the growth of unemployment and the accompanying severe hardship. Youth unemployment in the region already stood at above 20% for 2006. In Jamaica—a so-called ‘upper middle income’ economy by World Bank standards—the female youth unemployment rate in the poorest quintile was already at 41% from 2006, before the present economic crisis hit.

All of this is occurring spontaneously via the operation of global market mechanisms. But the IMF is making matters worse. While the US and Europe are increasing their budget deficits and cutting interest rates close to zero to finance various stimulus packages, draconian deficit reduction conditionalities are being imposed on various countries by the IMF. In the $7.6bn Pakistan loan concluded at the end of November 2008, the IMF compelled the Pakistanis to reduce their budget deficit from 7.4% to 4.2% by the end of the 2008-2009 fiscal year. It is also imposing a further increase in interest rates from 13% to 15%—the precise opposite of what is being done in the US and Europe.

In his recent visit to Jamaica, Dominique Strauss-Kahn, the IMF managing director, affirmed this policy, stating that there was “no room” for a fiscal stimulus in Jamaica without offering any alternatives. If we follow Strauss-Kahn and the IMF/World Bank we will starve to death and explode socially and politically way beyond anything experienced in the 1930s. This is the lesson from the current protests which have shaken Guadeloupe to its foundations.

**Group of 20 or Group of 130?**

The basic approach of the IMF/World Bank is to hang the bulk of the developing countries out to dry while incorporating some key former members of the Third World club. Amidst much self-congratulation, the Group of 8 is being expanded to the Group of 20. Brazil, Mexico, India, China, South Africa, South Korea, Saudi Arabia and others are now to be admitted to the rich man’s club.

This is a divide-and-rule tactic designed to drive a wedge between the strongest and weakest in the developing world. We must do everything in our power to combat this strategy. What are some of the things which we can do?

We must begin a process of re-constituting our own Group of 130. Progressive people need to convene our own Caribbean Social Forum as a first step in that direction.

This Forum must be the start of a larger Third World mobilization with peoples in Africa, Asia and Latin America for a global stimulus package for the Developing World. This could be an expanded version of the existing Short Term Liquidity Facility (SLF) but without access being restricted to countries with investment grade bond ratings as is presently the case.
IMF/World Bank conditionalities must be reviewed and substantially modified to the benefit of developing countries. The formulae of the discredited Washington Consensus are no longer acceptable. The principle—proposed by Keynes at Bretton Woods in 1944—that the creditor and not the debtor should bear the burden of adjustment—must become the basis for all future balance of payments and other adjustments and support.

The World Bank soft money window must be substantially expanded and assistance from this source governed by the principles outlined above.

The entire architecture of the WTO arrangements and agreements need to be re-examined, especially in areas which affect services, intellectual property and other arrangements which have short and medium term negative effects on developing countries.

In the light of the above, the EPA with the Caribbean must be substantially modified to take account of the reservations widely expressed by many in the region.

The above proposals represent only a general statement of principles and orientations. The key point for the Caribbean to grasp is that we have to put our case forward as part of a much larger global package, if we are to be effective.

The global crisis which we face will not be adequately addressed if we remain within orthodox paradigms, especially the neoliberal orthodoxies of the last 30 years. Market fundamentalism is dead. Even in the United States there is a growing consensus that some of the big ‘zombie banks’ such as Citigroup and Bank of America will have to be nationalized. A substantially enhanced role for the state in the economy will be essential if the present crisis is to be addressed.

This enhanced role for the state will be even more important in developing countries in the Caribbean and throughout much of Africa, Asia and Latin America. In the Caribbean no new economic sector has emerged since the years of early import substitution industrialization in the 1950s. We cannot resolve this stagnation without state leadership. We have to think long term and seek to make the structural changes which alone can lift our people out of poverty.