FULL CARICOM MEMBERSHIP

A matter for the Heart or the Head?

The views expressed in this Opinion Editorial are purely my own, and not those of anybody else, or any political or commercial organization.

Let me state from the outset that my Caribbean roots are very strong. My father, having been born and raised in British Guiana, made Bermuda his home, never losing his Guyanese accent until his last breath. My mother, although a born Bermudian, always reminded her children that her grandmother was born and raised in Grand Turk. My wife was born and raised in Barbados. Thus, no one need make the case to me about Bermuda's strong ties with the Caribbean. Although a proud, born Bermudian, deep in my heart, there is an understanding that I am the embodiment of the Caribbean diaspora, and indeed the African diaspora. It is a central part of my identity. Across the political spectrum, there are many other Bermudians who, in their hearts, feel exactly as I do.

The Government's Green Paper places a great deal of emphasis on that history and sense of identity. Feelings such as these are important, but are matters of the heart, not the head.

ECONOMICS

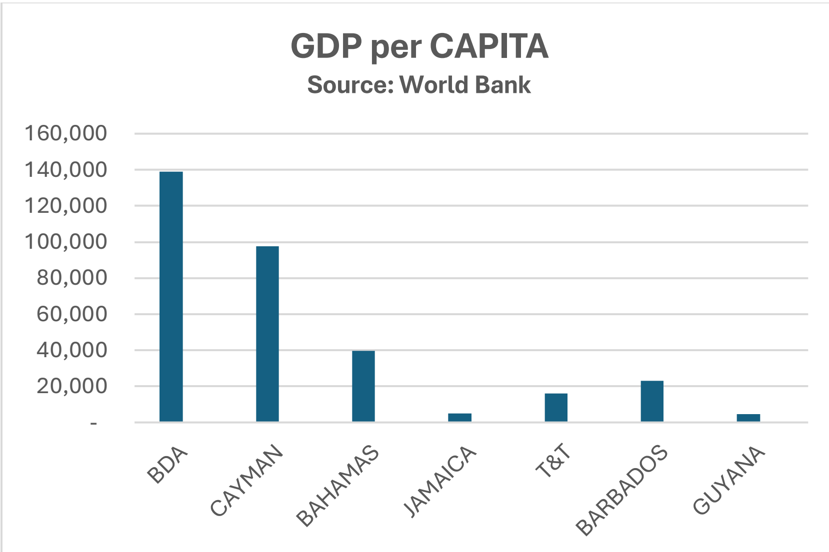
This Op-ed will focus on economics – matters of the head. The Paper describes details about exactly what CARICOM is and how it might benefit Bermuda. But there is only cursory attention paid to the actual economic aspects of this subject and the suitability of full membership to Bermuda's economic model. CARICOM is, at its core, about economics: The "Single Market and Economy," is what CARICOM says it is about. We must examine whether full membership in CARICOM fits with Bermuda's economic model, or whether such membership would amount to a "square peg in a round hole."

The Paper outlines our historical ties with the southern islands and the movement of commerce and people that went along with it. That's well and good, but there is a glaring omission, one that is pivotal to explaining the divergence in economic development between the Caribbean islands and Bermuda. This omission is the establishment of two military bases in Bermuda between 1940-42, and the US military's presence here all the way up to the end of the Cold War – over 50 years. Up until 1940, Bermuda was much closer connected with our sister islands to the south, both culturally and economically. For example, we had the "Lady Boats", ships that regularly serviced the Caribbean/ Bermuda/ Canada routes, facilitating the exchange of goods and people. Sadly, none of these ships survived World War II. But the US bases changed everything. While there were American bases built in the Caribbean as well, none stayed as active for so long, nor had the economic impact, as the two bases in Bermuda. The billions of US dollars spent by the USA in Bermuda transformed the Island from a sleepy third world territory into a first world anomaly. And I use the word "Anomaly" intentionally. I'll come back to that.

They built roads, bridges, and channels. There were so many GI's in Bermuda the bases couldn't house them all, so they rented houses from Bermudians. They provided civilianized employment for Bermudians, paying much higher wages than local employers, and in US dollars. Above all, they built an airport that could land and launch large airplanes. This new infrastructure turbocharged Bermuda tourism, acting like a rising tide that lifted all ships. Our proximity to New York, the world's financial capital, only $3^{1/2}$ hours away in those days, was/is unique. This proximity, combined with good infrastructure from tourism, enabled offshore financial services to take root and flourish. The radical divergence in economic development paths between Bermuda and the Caribbean has resulted in today's state of development in Bermuda being totally different from that of the southern islands, now represented by CARICOM. The only other islands in the Atlantic Basin whose economic models resemble Bermuda's are Cayman and BVI. There's a good reason for that: they shamelessly copied us!

CARICOM today consists of two groups: 1) Those with oil. 2) Those without oil. Trinidad and Tobago has oil and gas but still manages to remain remarkably poor. Guyana's oil is newly discovered and, if well managed, should launch it into a very prosperous future. The others use tourism to generate foreign exchange to supplement/replace the traditional export of agricultural products and minerals. None of the full members of CARICOM feature the successful export of financial services like Bermuda – None.

Let's look at some statistics.



Insofar as GDP per capita is concerned, Bermuda and Cayman are in a class by themselves. Jamaica, Trinidad & Tobago, Barbados and Guyana are the core, founding members of CARICOM. Barbados has the highest GDP per capita of the four core founding member states, but it is still one sixth of Bermuda's.

In assessing financial reliability of one's potential partners, one would want to know the track record of those potential partners. Of the CARICOM member states, only the Bahamas has never had to turn to the IMF for emergency assistance. All the other ones have done so, even the members with oil. A country seeks IMF assistance when their economic situation has deteriorated to such an extent that they cannot meet their obligations. This is important to know in terms of the financial track record of CARICOM member states, a group the Bermuda government wants to join.

The government of which I was a part was elected mainly because in 2012 Bermuda was in economic trouble. Even during the dark days when I first took office as Bermuda's Minister of Finance, Bermuda was held in very high esteem by the bankers in Wall Street. Our credit rating was always investment grade, and we easily sold our bonds in the international credit markets to finance the government's deficits. I discovered that Wall Street divided the world into regions; Bermuda was slotted into the Latin American region, mainly because there was nowhere else to put us. There are two points to note here. 1) There was no Caribbean region: it was part of the larger Latin American region. 2) The average credit rating of countries in this region was so poor that everybody wanted a piece of Bermuda's offerings because of its high quality. Consequently, our bond issues were always hugely oversubscribed, and our costs of debt reduced.

The bottom line here is, financially, Bermuda has nothing in common with the member states of CARICOM. That's not to say we don't have financial issues; indeed, we do. But our economic/financial issues and those of CARICOM member states are as different as chalk and cheese.

Ironically, poor credit ratings of CARICOM member states have already benefited Bermuda. While I was Minister of Finance, we welcomed a large, successful Caribbean based financial services company to set up its headquarters in Bermuda because we have a high credit rating. You see, a company can never have a credit rating higher than its host country, regardless of its own financial strength. So, this company moved its HQ from a CARICOM member country to Bermuda to gain a higher credit rating and thus reduce its financing costs. We did not need full membership in CARICOM to provide this facility to them.

The Green Paper outlines sources of financing available to CARICOM members. Those facilities are made available to those members because they cannot tap the normal credit markets in Wall Street as their credit isn't good enough. We don't have that problem.

GEOPOLITICAL

There are also geopolitical risks to Bermuda being associated with CARICOM. It seems that the Caribbean isn't on the USA's radar unless it is something negative. Recently, the US State Department issued a ban on people from most of the member states of CARICOM from obtaining a certain type of visa to the US. While this doesn't apply to visitors' visas, the action taken by the State Department certainly implies a negative viewpoint held by the US Government relative to the region.

Prominent leaders of Member states of CARICOM are speaking out against the US blockade against Cuba. The Green Paper even references a meeting of CARICOM with Marco Rubio, the US Secretary of State. Bermudians may or may not agree with US actions in the region, but that is beside the point. The Bermuda Government's primary obligation is to protect and uphold the interests of Bermuda. It clearly would not be in Bermuda's interest to associate with a region that the US views as a risk or perceives in a negative light. As a full member of CARICOM how could we possibly differentiate ourselves from viewpoints eloquently expressed by prominent CARICOM members?

The facts of life in Bermuda are that the USA, right or wrong, has always been our bread and butter. Our prosperity depends on good relations with them. It is appropriate to note here that there are over $2 trillion in financial assets that have a Bermuda label on them. Most of this money comes from the USA. This business directly and indirectly supports most of the jobs, spending and tax revenues on our island. Moreover, most of our tourists come from the US. Bermuda's economy could be devastated by a mere, adverse stroke of a pen in Washington DC. Every Bermudian would expect the Bermuda Government to act in their interests. Cozying up to a region that the US views negatively is not in our interests.

TRADE AND FOOD SECURITY

The Green Paper refers to food security and acquiring agriproducts from CARICOM members. First of all, our current status does not prevent such trade from happening. If it can be done profitably, some enterprising Bermudian would already be doing it. Bermuda has already invested in shipping routes: vessels and container terminal facilities in the US: in New Jersey, Florida, and here. Importing directly from the southern islands would have to compete against all that. Servicing Bermuda is not easy: as a small place, there is an absence of scale, making FOB costs high. Since we don’t export physical products (we export services), the ships will have to return empty, making freight costs more expensive. Our current status with CARICOM does not prevent direct importation from the Caribbean. Unfavorable economics does.

In the final analysis, food security for Bermuda will depend on the ability of Bermuda to have sufficient foreign exchange to pay foreign exporters for food. That requires a strong economy.

CONCLUSION

Bermuda’s current status as an associate member of CARICOM enables us to fulfill our connection with our southern sister jurisdictions in matters of mutual interest. There are no CARICOM restrictions on trade at present. There are, however, capital restrictions from individual member states. As mentioned, there are Caribbean companies that use Bermuda facilities and there are Bermuda based companies that have branch offices throughout the southern islands.

In terms of macroeconomics, Bermuda and CARICOM represent a square peg in a round hole. CARICOM was not created for an economy like ours, therefore it does not fit.

Some say Bermuda would be stronger as part of a larger unit. I think the opposite is true. People have often asked me, “What is Bermuda’s primary asset?” The answer is, “There’s nothing else out here.” Bermuda is an anomaly: unique in its combination of a flexible economic model and access/proximity to the largest pool of capital and entrepreneurial innovation on the planet – New York City. Since the 1970’s, successive Bermuda governments, in partnership with our private sector, have outmaneuvered threats from powerhouses like the IRS, the OECD, the FATF, the EU and a hostile European press, to maintain, adjust and improve Bermuda’s value proposition to the global economy, while avoiding efforts from these institutions to put us out of business. Similar challenges will, no doubt, be in our future. No one in CARICOM has the institutional experience and memory of such matters to assist Bermuda against future challenges. They cannot help us.

Becoming part of a group of small nations whose economies are fundamentally different from ours and who have significant issues with our major trading partner, the USA, is NOT IN BERMUDA’S BEST INTEREST.

Therefore, if we think with our heads, and not our hearts, the choice is clear and obvious.

	GDP/POP
BDA	138,900
CAYMAN	97,700
BAHAMAS	39,500
JAMAICA	5,100
T&T	16,100
BARBADOS	23,100
GUYANA	4,600