The global financial crisis and its aftermath: economic and political recalibration in the non-sovereign Caribbean

Abstract in English

The small non-sovereign island jurisdictions (SNIJs) of the Caribbean have a privileged position in the global political economy, with significant political and economic autonomy on the one hand, and useful protections and support structures provided by their metropolitan powers on the other. However, the global financial and economic crisis of 2007-2008 highlighted starkly some of the fragilities of this privileged status—in particular their economic vulnerability and the unequal and often fractious relationship with their metropolitan powers. This article considers the British, Dutch, French and United States jurisdictions and the short and longer-term impacts of the crisis. The article's key concern is to assess the extent to which the instability in the global economy over the last decade has affected both the economic and political dynamic of these jurisdictions, and to what extent their unique position in the global political economy has been compromised.

Abstract in Spanish

Las pequeñas jurisdicciones no soberanas del Caribe (SNIJs) del Caribe, tienen una posición privilegiada en la economía política global. De un lado gozan de autonomía política y económica significativa, y del otro gozan de protecciones y estructuras de apoyo provistas por sus metrópolis. No obstante, la crisis financiera global de 2007-08 hizo evidente algunas de las fragilidades de este status privilegiado—en particular su vulnerabilidad económica y su relación desigual y fragmentada con sus poderes metropolitanos. Este artículo considera las jurisdicciones inglesas, holandesas, francesas y estadounidenses y los impactos de la crisis a corto y largo plazo. El objetivo central del artículo es evaluar en qué medida la inestabilidad de la economía global durante la pasada década ha afectado la dinámica económica y política de estas jurisdicciones y en qué medida se ha perjudicado su posición única en la economía política global.

Keywords

Caribbean; non-sovereign territories; autonomy; economic reform; vulnerability; constitutional change; metropolitan activism

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Introduction

In the academic literature on small island territories, the benefits of a non-sovereign political status are often highlighted (Hintjens 1997; Baldacchino & Milne 2009; Rezvani 2014). Especially when it comes to economic development, small non-sovereign island jurisdictions (SNIJs, Baldacchino & Milne 2009) are supposed to have a series of advantages vis-à-vis sovereign small states. In the first place, many non-sovereign territories are supported financially and economically by their metropolitan country, for example because of investments or as a consequence of development aid and the extension of metropolitan welfare programs. Secondly, SNIJs often have preferential access to their metropolitan markets, as well access to larger international free trade zones such as the European Union (EU) or the North American Free Trade Agreement (NAFTA). Thirdly, the link with the metropolis offers non-sovereign territories better opportunities for economic development, and especially for developing profitable offshore financial centres (OFCs) and tourism industries (McElroy & De Albuquerque 1995). Due to the constitutional attachment to a reputable metropolitan power, investors often prefer to store their financial assets in non-sovereign territories rather than in sovereign states. With regard to tourism, the transportation infrastructure provided by the metropolis is likely to ensure better access for tourists, resulting in more tourist arrivals.

In addition to economic advantages, non-sovereignty has also been argued to create benefits in the sphere of citizenship and nationality, education, and governance (Baldacchino & Milne 2006; Clegg & Pantojas-Garcia 2009; Rezvani 2014; Thomas 2014). Citizenship of the metropolis allows citizens of SNIJs to migrate without restrictions to Europe or the United States (US), and allows students of SNIJs to pursue their education at a high-quality educational institution in a larger country. In terms of governance, the metropolis often plays a key role in the protection of democracy, human rights, and the rule of law. Conversely, however, non-sovereignty also entails obvious disadvantages. SNIJs cannot become full members of most intergovernmental organizations, such as the World Trade Organisation (WTO), International Monetary Fund, and The Commonwealth; they also do not have political autonomy in a number of key policy areas, including defence, foreign affairs, and citizenship. Further, as this article highlights, there are other competences – depending on the

particular territories – which are also overseen by the metropolitan powers – for example, currency and financial-related matters, the maintenance of law and order, and management of the public service.

Particularly in the context of a post-colonial relationship and a history of slavery and oppression, which is clearly present in most of the Caribbean, this lack of autonomy often creates resentment and frustration among the local population. In sum, the advantages of non-sovereignty are to varying degrees counter-balanced by several drawbacks. However, most scholars (and the majority of people in the territories) agree that non-sovereignty is the preferable option for small island territories, as it allows these territories to accrue "the best of both worlds; providing many of the benefits associated with political sovereignty while delegating responsibilities, enjoying security, and reaping the material benefits of remaining in association with a larger, and typically richer, albeit often reluctant, patron" (Baldacchino 2006, 49).

In this article we interrogate the economic and political relations between the SNIJs in the Caribbean and their metropolitan centres, in particular through the prism of the global financial and economic crisis that erupted in the last decade. This event has had profound and long-lasting impacts on the SNIJs, and revised the balance of power between themselves and their metropolitan powers, which in some cases has arguably decreased the (perceived) benefits of non-sovereignty. First, we provide an overview of the constitutional links in place for the Caribbean SNIJs; second, we assess the nature of the economies, before going onto address our key concern: to what extent has the instability in the global economy over the last decade affected both the economic and political dynamics in the British, Dutch, French and US non-sovereign jurisdictions, and to what extent their unique position in the global political economy has been compromised. We note that some interesting comparisons could be drawn between sovereign and non-sovereign small island jurisdictions in the Caribbean. However, they lie outside the scope of this article; rather we focus exclusively on Caribbean SNIJs and leave the comparison with sovereign Caribbean states open for future analyses.

The SNIJ – metropole political relationship

In order to appreciate fully the impacts of the global financial and economic crisis the political context is all important, thus this section provides a brief overview of the constitutional/political relationships in place. We will begin by looking at the territories

affiliated with Britain. Relations between the British territories (Anguilla, British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos Islands) and Britain are less formalised than for some of the other territories, but the balance of power and responsibility is somewhat similar. The collapse of the Federation of the West Indies precipitated a period of decolonization in the English-speaking Caribbean from the early 1960s. Despite the trend towards self-rule a number of smaller territories were reluctant to follow suit. As a consequence, the British authorities established a new governing framework for them, and the West Indies Act of 1962 was approved for this purpose (Davies 1995). The Act remains today the foremost provision for British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos Islands. The fifth, Anguilla, was dealt with separately owing to its long-standing association with St Kitts and Nevis. When Anguilla broke away and came under direct British rule in the 1970s, eventually becoming a separate territory in 1980, the Anguilla Act 1980 became the principal source of authority. The constitutions in each territory allocate government responsibilities to the Crown (i.e. the British government and the governor) and the territory, according to the nature of the responsibility. Those powers generally reserved for the Crown include defence and external affairs, as well as responsibility for internal security and the police, international financial relations, the public service, and citizenship (all territory citizens can apply for British citizenship). The Crown also has an overarching responsibility for the maintenance of good governance. Meanwhile, each territory government has control over policy that is not overseen by the Crown, including the economy, education, health, social security and immigration. However, ultimate authority lies with Britain as the territories are constitutionally subordinate; yet relations are often messy and contested (Taylor 2000).

In recent years, the British have revised the nature of their relationship with the territories. Under the Labour government (1997-2010) several important reforms were enacted, including a change in nomenclature from 'Dependent Territory' to 'Overseas Territory', and the implementation of a constitutional review process that awarded new (albeit limited) powers to the territories. Also, amendments were made under the Conservative-led coalition Government (2010-2015). In 2012 a White Paper on the Overseas Territories, sub-titled Security, Success and Sustainability, was published by the government (FCO 2012a). The White Paper set out the nature of the existing links between Britain and its territories, and the measures required to "renew and strengthen" the relationship (FCO 2012b, 1). On the one

hand, the government committed itself to support the territories, but on the other expected that the territories would adhere to high levels of political and economic governance.

The constitutional relationship between the metropolitan Netherlands and its Caribbean territories is regulated by the *Statuut voor het Koninkrijk* (Charter for the Kingdom) which was ratified in 1954 (Van Helsdingen 1957). According to the Charter, the Kingdom of the Netherlands consists of a number of *landen* (countries) that are strongly autonomous, and can essentially handle domestic political affairs on their own. So in principle although as we will see not always in practice they have control over government finance, social and economic development, cultural affairs, housing and education. Only a small number of policy areas are designated as 'Kingdom affairs' and these include foreign policy, defence and the safeguarding of human rights, the rule of law, and good governance (Charter for the Kingdom of the Netherlands 1954). While the provisions of the Charter hence appear to establish a federal political entity, the Charter is in fact strongly interwoven with the Dutch constitution, and most Kingdom institutions are de facto Dutch institutions, with or without added representatives from the Caribbean countries (Hillebrink 2008; Broekhuijse 2012; Veenendaal 2016). For example, the Kingdom government is essentially the Dutch government with an extra minister plenipotentiary from each of the Caribbean countries, and the Kingdom parliament is the Dutch parliament, with no Caribbean representatives added at all. In short, the structure of the Kingdom of the Netherlands can be described as quasi-federal (Nauta 2011, 7).

While the structure of the Kingdom has remained essentially the same since 1954, its membership has changed significantly over time. In 1975 Suriname became an independent country, and in 1986 the island of Aruba separated from the Netherlands Antilles (Bonaire, Curaçao, Saba, Sint Eustatius and Sint Maarten) to become a Kingdom country of its own (Oostindie & Klinkers 2003, 101-103). The most recent and most extensive reform thus far occurred in 2010, when the Netherlands Antilles was officially dismantled as a result of increasing inter-island antagonism. The two largest islands in this non-sovereign federation, Curaçao and St Maarten, became autonomous Kingdom countries of their own, and hence acquired a status similar to Aruba's. By contrast, the three smallest islands, Bonaire, Saba, and St Eustatius, were constitutionally integrated into the (metropolitan) Netherlands as public bodies or special municipalities (Veenendaal 2015). As a consequence of these

reforms, each of the Caribbean islands now maintains a direct and bilateral political relationship with the metropolis.

The third European country with a territorial interest in the Caribbean is France, whose territories are integral parts of the French state. The link between the French Caribbean territories (FCTs) of Guadeloupe, Martinique, French Guiana, Saint Martin, and Saint-Barthélemy is underpinned by two main considerations. The first is integration. The Law of 19 March 1946 transformed the 'Quatre Vieilles' colonies of the FCTs, as well as La Reunion, in the Indian Ocean, into Overseas Departments (DOMs). It was seen as the culmination of a long, irregular and halting historical process that began over three centuries earlier. As the place of extrapolation of an administrative model under the old regime, the French West Indies and French Guiana had a political and administrative system imposed on them based on the four-fold principles of assimilation, centralisation, universality and uniformity. These principles were initially circumscribed so that deeply unequal societies built on a socio-racial hierarchy could be preserved; later they were gradually extended. This then opened the way to the Departmentalisation process launched by the 1946 Law, although this was implemented over a much longer time period than the legislative act itself. As full members of the French-European area, the French West Indies and French Guiana now have a unique relationship with Paris. They have the same institutions as local authorities in mainland France; they are governed by the same laws and regulations; while their own 'nationals' formally enjoy the same rights as all French citizens.

Nevertheless, the criticism of the French model's uniformity, which was judged locally to ignore the specific characteristics of the various territories, has led the FCTs, like their Caribbean counterparts, to reassess their relationship with the metropole in recent years. This reassessment is strongly influenced by the paradigm of diversity that has dominated French public policy and which is characterised by a two-fold evolution. Firstly, there is the challenge to category-based unity according to which local authorities categorised in the same way should have the same status regardless of their size and financial capacity. Secondly, there is the recognition and consideration given to institutional diversity as a way of better integrating local self-governing arrangements and preserving the unity of the State (Daniel 2011, 2015). This explains the differing paths observed since the 2003 reform of the French Constitution. St Barthélemy and St Martin (both previously attached to Guadeloupe) became overseas communities governed by Article 74 of the Constitution; the former also

gave up its status as an ultra-peripheral region of the EU. Guadeloupe kept its Overseas Department and Region status (DROM), while Martinique and French Guiana opted for single authority status with the remit and responsibilities of a DROM. These single authorities are still governed by Article 73 of the Constitution but, just like Guadeloupe, they were able to secure the power to adapt laws and regulations in matters related to their remit and responsibilities. They can also set rules in a limited number of policy areas. In other words, the French model applied in the FCTs has tried increasingly to combine institutional diversity with a greater degree of administrative autonomy.

The other remaining metropolitan power in the Caribbean is the USA, with oversight of the Commonwealth of Puerto Rico and the US Virgin Islands. Puerto Rico is an un-incorporated territory of the US, defined also as a US 'possession'. It 'belongs to, but it is not part of the US'. The Island became an 'organized territory' under Law 600 of 1950, 'The Puerto Rico Federal Relations Act'. This law gives Puerto Rico a degree of self-rule and the authority to draft a local constitution, but this is subordinate to the US Constitution. In other words, sovereignty remains with the US Congress. Under these arrangements the US Federal Government controls *inter alia* defence, foreign relations, international trade, inter-state trade, postal services and citizenship; while Puerto Rico has limited self-government in areas such as taxation, economic development, education and culture. All Puerto Ricans are citizens of the US by statute since 1917; however those residing in Puerto Rico are not required to pay federal taxes and do not vote for the US president or members of congress. Puerto Ricans elect a Resident Commissioner to the House of Representatives but he or she does not have voting rights. Local government follows the US republican model.

Unlike the other SNIJs, Puerto Rico's political status has not seen any major changes in recent years. There has been little appetite for reform in Congress and no consensus in Puerto Rico about the way forward. In the latest plebiscite on the territory's status held in 2012 there was a majority in favour of a change, but no clear view on what that new status might look like (i.e. statehood, free association, or something close to the status-quo). So the debate rumbles on to almost everyone's dissatisfaction. There has been a new turn in Puerto Rican politics, however, that may force a resolution to the status issue. The virtual financial collapse of the Puerto Rican government that led to a moratorium on debt payments forced Congress to intervene by creating a Financial Oversight and Management Board. The creation of the Board was authorized by congress and signed into law by the US President invoking Title IV,

section 3 of the Constitution of the United States, which provides Congress the power to dispose of and make all needful rules and regulations for territories. This constitutes a 'de facto' repeal of Puerto Rico's autonomous status.

In contrast, political status is not an issue in the US Virgin Islands, which includes St Thomas, St Croix and St John. The lack of a strong, distinct national identity, the use of English (but spoken with a non-American accent), its small size, the limited population, and its narrow productive base (mainly tourism) make it very difficult for the islands to move to either statehood or full independence. At present the islands are an organized non-incorporated territory, governed by a US Congressional Organic Act, and overseen by the US Office for Insular Affairs. This legal and administrative structure means that the US Virgin Islands has less political and economic autonomy than Puerto Rico.

The economic profile of the SNIJs

As was noted in the introduction, on average, Caribbean non-sovereign territories are economically more successful than the sovereign states of the region and the British territories are no exception. After the Second World War and for the following two decades the territories remained relatively underdeveloped, with a strong focus on agriculture, some fishing, a few light industries, and salt extraction. However, circumstances changed from the 1960s, particularly in Cayman Islands. From the mid-1960s Cayman passed a series of new banking laws and made extensive investments in infrastructure (Cichon 1989). The result, with assistance from the City of London amongst others, was the growth of a large offshore financial sector with no income, property, inheritance, or capital gains taxes. The tourism sector also grew at this time. A similar story was seen in British Virgin Islands after the 1984 enactment of the International Business Companies Act which saw the incorporation of about 3,000 companies in the territory between July 1984 and December 1986 (Cichon 1989, 503). The other territories also saw their economies develop from the 1980s onwards, although largely based on tourism and construction rather than offshore finance. Turks and Caicos Islands, for example, benefitted from the completion in 1983 of an international airport on Providenciales. However, the Montserrat economy was knocked back significantly by the impact of the Soufrière Hills Volcano in the late 1990s. The profile of the economies remains very similar today. So in Cayman Islands, financial services contribute around 50% of GDP, and the territory is the world's sixth largest banking centre and the largest domicile for hedge funds. In British Virgin Islands, tourism and financial services are the key industries, and it is

the world leader for company incorporation. Both have high GNI per capita figures: Cayman Islands, US$53,271 in 2014 (UN 2016a); British Virgin Islands, US$27,843 (UN 2016b). Anguilla and Turks and Caicos Islands are also relatively prosperous; Montserrat is the exception; it still struggles to pay its way and is thus reliant on British budgetary support. It has a GNI per capita of US$11,970 (UN 2016c).

A slightly different and perhaps slightly less impressive, but still significant process of economic development has taken place in the Dutch Caribbean, with the territories having GNI per capita figures of around US$20,000-US$25,000 (UN 2016d; 2016e). Economic growth in the southern Caribbean islands of Aruba and Curaçao commenced with the opening of large oil refineries in the early 20th century, which brought the islands a significant degree of wealth and also functioned as a magnet for migrants from all over the Caribbean, especially the three Dutch Windward islands of Saba, St Eustatius, and St Maarten (Crane 1971; Alofs & Merkies 2001, 53). In the 1950s and 1960s, the automation of the production process meant that many workers were laid off, and many foreign workers returned to their islands of origin. In this period, the declining economy of the Netherlands Antilles became increasingly reliant on development aid and investments from the metropolitan Netherlands (Oostindie & Klinkers 2011, 293). Especially for Aruba and St Maarten, which are blessed with some of the most beautiful beaches in the Caribbean, in the latter half of the 20th century tourism became an opportunity for economic growth (Haan 1998, 133-137). Tourism now accounts for over 80% of their economies, and has resulted in rapid modernization as well as vast population growth (World Bank 2015). At the beginning of the 21st century, Aruba and St Maarten were the economically most successful islands of the Dutch Caribbean. Despite attempts to attract tourists, to reinvigorate the oil refinery, and to establish a financial sector, Curaçao's economy remained relatively weak (Goede 2009). Among the three smallest Dutch islands, Bonaire and Saba reaped the fruits of their abundant natural resources, and while remaining relatively quiet backwaters, a steady flow of tourist arrivals ensured some measure of economic stability. On St Eustatius, where tourism never represented a significant source of income, the economic situation was perhaps the most difficult: it remained almost completely dependent on financial investments from Curaçao (Van den Bor 1983). Also, in each of these islands the government was and is by far the largest employer.

In relation to the French territories, the economies of Guadeloupe and Martinique remain strongly influenced by their colonial past. There is still an influential agricultural sector, in terms of employment and area cultivated, and the level of political support; although the sector now only accounts for a relatively small proportion of GDP (4%). This weakness is offset by a discernible trend towards an expanding service sector in their economies and, to a lesser extent, in French Guiana where the mining industry also plays an important role. Plus, the assimilation of the DOM has taken place along with enormous injections of money from mainland France and increasingly from the EU, which has produced high levels of development – with Guadeloupe and Martinique having a GDP per capita of around US$35,000 (iEDOM 2015a; 2015b). Nonetheless, there are concerns about a model that does not allow the DOM to achieve self-sustained development despite good rates of growth. Indeed, growth is paradoxically derived from a considerable decline in the productive capacities of the territories. Thus, the significant monetary transfers provided have actually impeded economic development. In particular, the implementation of social legislation conceived for a developed country (i.e. mainland France) has distorted the economic performance of the small and formerly underdeveloped DOM. Thus, they have been transformed from producer economies to heavily assisted welfare-based ones. The result is that 80% of required foods are imported, exports amount to only one-seventh of imports, and high unemployment is endemic. In these circumstances only St Barthélemy (which is focused on tourism) is seeing stable economic and social conditions.

In Puerto Rico meanwhile, until 1996, there were several fiscal, trade, and economic competitive advantages associated with Commonwealth status. Exemption from Federal Taxes and local 'tax holidays', together with unrestricted access to the US market fostered export-led industrialization between 1948 and 1996. These advantages were significantly increased in 1976 with the passage of Section 936 of the US Internal Revenue Code, that allowed US transnational corporations to operate as 'possession corporations' (also known as '936 corporations'). Under this provision companies could repatriate all profits reported from operations in Puerto Rico to the US free of federal taxes, as long as those profits remained on the island for a minimum of five years. This prompted the proliferation of pharmaceutical industries in Puerto Rico. The island was also used as a unique 'tax haven' where international profits were transferred by manufacturing corporations operating on the Island to avoid paying federal taxes on global profits. In 1996, the year in which Section 936 was repealed by the US Congress, the profits of US direct investment in Puerto Rico were the

most in the world: amounting to US$15.4 billion. The second and third ranking economies in generating profits for US direct investment abroad were the UK, US$13.8 billion, and Canada, US$8.6 billion (Pantojas Garcia 2007, 217-218). Yet, measured by GDP, the UK economy was 26 times bigger than that of Puerto Rico's, and Canada's was 13 times bigger. Perhaps not surprisingly Puerto Rico is by far the most highly industrialized SNIJ in the Caribbean. Hence, it enjoyed a high standard of living with a GNI per capita of 18,772 in 2014 (UN 2016f), and because of free access to the US labour market, the island's unemployed could move freely to the mainland to search for jobs.

The impact of the global financial crisis

When it came the global economic downturn hit the SNIJs economies very hard, and some are still struggling to recover today. Perhaps the most obviously affected were the British territories. Despite their high levels of economic development they rely on a few key industries for both government revenue and employment, and as we have seen have a narrow revenue base; further they receive little direct financial support from the UK. As a consequence, the territories are "particularly exposed to economic shocks" (Foot 2009, 25) and so it proved. There was reduced activity in financial services and falls in tourist arrivals and construction. For example, in British Virgin Islands new international business company incorporations fell by 44% between September and December 2008 compared to the same period in 2007, while Anguilla and Cayman Islands saw declines in tourist arrivals in 2009 of 15.2% and 10.2% respectively (Foot 2009, 26; Caribbean Tourism Organisation 2010). As a result, their economies shrank, in some cases very considerably: Anguilla's economy, for example, contracted by almost one-third in the two years, 2009 and 2010. In the same period, Turks and Caicos Islands economy declined by 20%, while Cayman Islands economy fell by almost 10%. The recovery has been slow and halting. A related impact was growing fiscal deficits, which were particularly acute in Anguilla, Cayman Islands, and Turks and Caicos Islands – the latter's situation being exacerbated by the well-publicised corruption scandal (see Clegg 2012). In Cayman Islands, for instance, the government's fiscal deficit reached 6% of GDP in 2009; with total government debt equivalent to a 24.9% of GDP in 2011. Although, these deficits were not necessarily high by international standards, they were for Cayman. Its financial vulnerability was starkly highlighted in 2009 when it was reported that there was insufficient cash available to meet all of the government's payroll obligations, and payments to contractors and other general suppliers were postponed. In response the government had to borrow more to cover its short-term financial obligations. The impacts of

the global economic downturn were unexpected and chastening for the British territories, and highlighted that despite their relative affluence they had come very close to bankruptcy.

In the Dutch Caribbean, the crisis had a major impact, and resulted particularly in rapidly growing public debt. In Aruba, decreasing foreign investments and tourism arrivals were accompanied by the final shutdown of the Valero oil refinery, as a result of which public debt grew rapidly to 80% of GDP; commentators speak about a "double dip" crisis (IMF, 2015). On Curaçao, which has a less successful but also crucially a more diversified economy, the financial services sector contracted but the economy overall did not see a significant decline. One key support is Curaçao's oil refinery, which provides 1,500 jobs and about 20% of national income (World Bank 2015). Like Aruba, the St Maarten economy is vulnerable to economic shocks due to its near-exclusive reliance on tourism, and the fact that the large majority of tourists come from a single country (the US) further increases the economic vulnerability. So it was no surprise that during the global economic downturn US tourist arrivals declined, and this instantly resulted in decreasing economic growth on the island (Rabobank 2013). There were some attempts to cushion the effects by increasing public expenditure, but this has had the effect of increasing public debt to about 25% of GDP. On the three smallest islands, which since 2010 have been integrated with the metropolis, over the last six years the economic situation has worsened. The transition to the US dollar has resulted in higher prices and stricter tax compliance while wages and social welfare payments have remained the same or even declined somewhat. As a result, the purchasing power of the island populations has decreased considerably. In 2010 the Dutch government had a variety of plans to stimulate economic development on these islands, but due to the economic crisis and a lack of capacities most of these plans have either not been realized or have so far been unsuccessful (SCP 2015).

In the French territories, Martinique was hardest hit. In 2009 GDP fell by an estimated 6.7%, and since then it has struggled to recover. Uncertainty continues to weigh heavily on most sectors, including agriculture, industry, food processing, public works, and even the hotel trade which is facing severe difficulties (Parain & Merceron 2013; IEDOM 2014a, 13). Also, a drop in public procurement and the stopping of certain tax exemption schemes has not helped; so too the fact that the French economy is still struggling. A similar, albeit slightly less dramatic picture was seen in Guadeloupe, with a decline in GDP of 4.8% in 2009, but the economy continues to be sluggish (IEDOM 2014b). The confidence of both territories was

also undermined by a growing realisation of their vulnerability. They fear being marginalised in an enlarged Europe with an eastward shift in focus, and are concerned by cuts in their funding due to austerity policies emanating from Paris. To this could be added deep unhappiness over the high cost of living which penalises the lowest-income households (Vaugirard 2009). This was seen most starkly when large-scale protests paralysed both Guadeloupe and Martinique in early 2009. This social movement lifted the lid on structural difficulties in their economies and amplified the effects of the global economic crisis. By contrast, French Guiana, which appears to have strong potential and undeniable demographic growth, has better managed to weather the effects of the crisis.

Unlike the other territories that were growing prior to 2008, the Puerto Rican economy was already in the midst of a recession. The creation of the WTO in 1995 and the repeal of 'Section 936' in 1996 eroded two of the pillars of the Puerto Rican economy: free trade with the US and federal tax exemptions for foreign direct investment. The proliferation of free trade deals in the Americas, the accession of China to the WTO in 2001, and the loss of the unique 'tax haven' status provided by 'Section 936' placed Puerto Rico at a disadvantage in the global value chain in manufacturing, especially in pharmaceuticals and electronics. The consequences were a shrinking economy, rising unemployment, and significant outward migration. So when the global economic crisis hit, the trends that could already be seen were magnified. Between 2006 and 2014, GNP decreased at a rate of 1.5 percent per year; 2012 was the only year when the economy grew by 0.5 percent. During the crisis, Puerto Rico has experienced chronic US$2.5 billion budget deficits each year (equivalent to 3.5% of GNP), and now confronts a public debt of over US$70 billion (approximately 90% of GDP) and a US$33 billion unfunded pension liability.

Policy responses to the economic downturn

The response of the British government to the economic problems faced in its territories has been an increased level of engagement and intervention – despite the fact that economic policy is usually the responsibility of territory governments. London felt that strong corrective action was necessary to bring territory economies back onto a more sustainable footing, but had doubts over how effectively the territories themselves would do this. So as a consequence, the British urged the territories to institute several reforms. For example, in both Anguilla and the Cayman Islands Britain forced revisions to local budgets to cut spending and raise revenue by withholding assent of the territories' budgets until the

necessary changes were made. Another reform which the British demanded from all territories were Frameworks for Fiscal Responsibility (FFR)—legislation that commits the governments to be prudent and transparent on fiscal and debt management, establishes borrowing limits, and lays down the stages that must be followed in the planning, development and execution of a project (FCO 2011). FFRs were thought necessary to provide longer-term safeguards against expansive and unsustainable local government expenditure. Although, the situation in most of the territories has stabilised, Anguilla remains an exception. Thus, Britain asked for additional measures to be enacted, embedded within the Anguilla Public Finance Order 2015; a key element of which was the proposed appointment of a UK Chief Financial Adviser to sit in the Ministry of Finance with a set of powers to oversee government finances (*The Anguillan* 2015). Perhaps not unsurprisingly the Anguillan government was strongly opposed, but an appointment was made in September 2016 (*The Anguillan* 2016).

Another issue for those territories that are financial centres was the increasing demands on the part of the international community – at a time of fiscal retrenchment – to clamp down on so-called 'tax havens'. International regulatory oversight was tightened with new initiatives including the Foreign Account Tax Compliance Act passed by the US Congress and the Organisation for Economic Co-operation and Development's Convention on Mutual Administrative Assistance in Tax Matters. Notwithstanding, Britain remains a strong defender of the territories' right to maintain their role in the offshore sector. As the 2012 White Paper suggested, Britain "will continue to represent the interests of those Territories which meet [international standards]" and "will strongly support their right to compete freely in international markets" (FCO 2012a, 57). One reason is that "the international financial centres in the territories can play a positive and complementary role to the UK-based financial services industry" (FCO 2012a, 13). A second is that Britain wants the territories to be economically independent and the offshore sector helps them to be so. A recent example of support was the British government's decision not to require the territories to implement a public registry of beneficial owners which would have given open public access to the names of owners of registered businesses in individual countries (*Caribbean Insight* 2015, 13).

In the Dutch Caribbean, the impact of the economic crisis largely coincided with the political reforms of 2010. In exchange for the remediation of the Netherlands Antilles' large public debt metropolitan oversight of financial policies and law enforcement was increased in the

islands. A board of financial supervision was established with the aim of "bringing about durable public financial administration" in Curaçao and St Maarten (Cft 2016); the three smallest islands also have a similar institution. In addition to supervising the public finances, the boards of supervision advise the island governments on how to conduct their finances, and to advise the Minister of Interior and Kingdom Affairs about potential courses of action in the case of financial irregularities. The boards have been quite pro-active as both Curaçao and St Maarten have seen several draft budgets blocked. Most recently in September 2015, St Maarten was given an instruction by the Kingdom government to take measures to redress its budget deficit. Also in the public bodies, The Hague has stepped up its efforts to impose sound financial management. In the spring of 2015, St Eustatius was placed under higher supervision due to "financial disorder and improper governance" (Rijksoverheid 2015b). The island can no longer enter any financial obligations, and a committee was established with the task to bring the financial and administrative situation under control. In other measures The Hague established a special fund (the BES-fonds). The dividends from this fund were envisaged to complement the taxes that each of these public bodies collect. Also, in 2015 The Hague announced new investments to stimulate the islands' economies, primarily by investing in infrastructure, poverty reduction, entrepreneurship, and governance (Rijksoverheid 2015a). However despite these measures the islands of the former Netherlands Antilles still struggle to balance their budgets. Finally in relation to Aruba it had escaped the greater level of financial oversight seen in the other territories – until 2015. After an independent investigation into the sustainability of Aruba's budget, which highlighted several problems, most particularly an estimated budget deficit of 9.3% of GDP and a national debt of 80.8% of GDP, a board of supervision was established here too.

In the FCTs three economic reforms have been implemented at both central and local levels to address the crisis. The first relates to the agreements that ended the unrest in Guadeloupe and Martinique in early 2009. Although they did not attempt to bring about far-reaching changes to development models, they contained measures to boost the purchasing power of the lowest-income population categories by introducing a temporary supplementary income payment (RSTA) for private sector employees earning up to 1.4 times the minimum wage (SMIC). This was partly funded by the Department and Regional Councils for a 36-month period. It included increases to low wages, a special bonus payment for the poorest households (Guadeloupe) and reduced prices for basic necessities. The second measure concerned the recovery plans proposed by the regions. The Regional Councils in Guadeloupe

and Martinique redeployed funding to counter the effects of the crisis. The former gave €23 million of €107 million worth of investment earmarked in its initial recovery plan for 2009 to fund responses to social emergencies. The latter put together two recovery plans. The first was finalised in 2010 and topped up investments by municipalities, while the second in 2012 sought to undertake strategic construction projects in the form of a €180 million budget for business parks throughout the island. The third measure deals more specifically with the State and combines old systems with new instruments. The State extended its structural tax relief measures through free-trade zones planned as part of the Law of 27 May 2009 for the economic development of the territories. This was augmented by incentives such as tax relief on investments (productive investment and housing), and reduced labour costs (a reduction in payroll taxes for companies and a specific tax regime for exemptions on social security charges). To this can be added the Law of 20 November 2012 concerning overseas economic regulation; this contained various schemes with the stated target of reducing the cost of living in the FCTs. It is difficult to assess these various measures as they came at a time of broader cuts in State funding. One thing is certain, however, they have not definitively stabilised the situation and it is clear that the FCT economies remain fragile and vulnerable and have not regained their vitality of the early 2000s.

Since Puerto Rico's economy entered recession, the government has adopted austerity measures, including higher taxes. In 2009-2010, Law 7 of 2009 was approved, declaring a state of fiscal emergency and taking measures to stabilize public finances. The law mandated the reduction of government employment, and surtaxes on property and on income taxes, which affected primarily the middle classes. Some 15,492 government employees were laid off, which represented a reduction of US$23.2 million per year for the domestic market (Pantojas Garcia 2010, 27). Income taxes were lowered in 2011 as part of a tax reform law, but utility rates and highway tolls were raised. After a change of government in 2012, the new administration passed a second austerity programme – Law 66 of 2014, 'The Special Law for Fiscal and Operational Sustainability of the Government of the Commonwealth of Puerto Rico'. The new package did not layoff any public employees but froze hiring and imposed new taxes or increased existing ones, including the sales and value tax from 7% to 11.5%, and a 68% increase on the taxes on oil and its by-products (gasoline; lubricants) that went from $9.25 per barrel to $15.50. The government also borrowed US$2.5 billion in 2014 to ensure it could pay its bills until 2015. However, this exacerbated the territory's high level of debt, and in March 2014 its credit rating was downgraded to 'junk status'. Taxes on

gasoline sales were increased again in 2014 and 2015. Then on 29 June 2015 the governor announced that the debt was unpayable. Although the government has not defaulted on its debt, it is not meeting its interest payments thus forcing renegotiation. A key failure of all governments in recent years has been the inability to articulate a strategic plan for economic reactivation or repositioning the economy in global value chains.

The political impact of the financial crisis

There has certainly been a political impact as a result of the financial crisis in the British territories; although in most respects this has been rhetorical rather than actual. The British government is now more engaged than it has been for quite some time in the economic affairs of the territories; however this has been done by using existing constitutional tools at its disposal rather than fundamentally re-ordering the political settlement. Indeed, in the longer-term the government hopes that it might be possible to afford further autonomy to the territories when the time is right. As Mark Simmonds, then United Kingdom Parliamentary Under-Secretary of State said in 2013, "My view is that where Territories demonstrate responsible governance, transparency, efficient procurement and financially responsible management, we should look at ways of continually allowing democratically-elected Territories to have more and more control over their jurisdictions" (Foreign Affairs Committee 2013, 4).

Notwithstanding, the actions of the British have been controversial in the territories, and have been resisted strongly in many cases. For instance the implementation of the FFRs was resented in all territories, and the tighter oversight of budgets also caused disquiet. For example, responding to the British government's decision to withhold assent of Anguilla's budget in 2011, then Chief Minister Hubert Hughes called on the population to "throw off the yoke of oppression" and consider independence (*The Anguillan* 2013); while in Cayman Islands former Premier McKeeva Bush talked of "bureaucratic harassment" and "meddling". Bush also accused the British governor of doing "nothing of substance" to help the country and undermining his efforts to improve the Cayman economy (*Cayman Compass*, 2012). Further, the insertion by the British government of a Chief Financial Adviser into Anguilla's Ministry of Finance also caused significant opposition. As a result, voices have been heard from some of the territories concerning a possible move towards independence. However, in no case has a proper debate been initiated, nor a clear time-line set-out. Any mention of

independence has largely been used as a means of political point-scoring, often at the expense of the British, rather than the start of a proper reflection of the issue.

Further, the recent decision of the UK to leave the EU, which was certainly influenced by the impact of the global financial crisis, may if anything strengthen underlying relations. In the lead-up to the referendum, James Duddridge, UK minister with responsibility for the UKOTs argued that, "An independent Britain can spend more time developing our historic ties rather than be shackled by the regulation and political infrastructure that is a federal union. OTs value the relationship with the UK more than the EU" (*Caribbean Insight*, 2016, p. 4). So overall, little has changed in relation to the political status question and what could be done to facilitate decolonisation as set out by the United Nations. Neither Britain nor the territories favour incorporation; while although Free Association (whereby the territory can decide on the nature of the link with the metropolis) is favoured by some territories it is also not a viable option at present, as the UK is committed to retaining certain key powers and responsibilities. Thus in short even though the global financial crisis and the responses to it have sometimes strained relations, there is little desire to change the constitutional status-quo.

As with the British territories, one key result of the Kingdom reforms of 2010 is the increased role of the Netherlands in overseeing the financial policies of the Dutch Caribbean. The augmented Dutch pressure and interference to ensure fiscal austerity, balanced budgets, and sound economic policies has ushered in significant conflict. For example, in 2012 when the Kingdom government forced Curaçao to balance its budget and implement austerity measures, there was strong opposition to do so and the local government appealed (unsuccessfully) to the Council of State. In addition, after The Hague's refusal to approve Aruba's budget in 2014, Premier Mike Eman claimed that Aruba's domestic autonomy was violated, and announced an immediate hunger strike. In the autumn of 2016, disagreement about the appointment of a new governor to Aruba sparked further political conflict between The Hague and Aruba, deepening the mistrust between the Kingdom countries. On each of the islands, local governments have reacted strongly against the new Dutch interference and assertiveness, and discourses about recolonization, racism, and even slavery can currently be observed. The extent to which the anger and resentment of politicians towards the metropolis reverberates among the island populations is unclear, and thus far on all islands wide popular majorities have supported the continuing attachment to the Netherlands. While the Caribbean parts of the Kingdom have never figured prominently in public debates in the metropole,

reports about financial mismanagement, a lack of good governance, and corruption, as well as the recent political confrontations with the islands, have arguably had a negative impact on Dutch public opinion towards the Kingdom partners (De Jong & Van der Veer 2012).

On both sides of the Atlantic, the rise of populist parties contributes further to increasing confrontational politics. In Aruba, Curaçao, and St Maarten, the renewed Dutch assertiveness reinforces the frustration about political inequalities and the dominant position of the Netherlands within the Kingdom. Some politicians claim that too much autonomy was conceded in the 2010 reforms, and several (most notably Helmin Wiels in Curaçao and Theo Heyliger in St Maarten) have advocated independence of their island. The extent to which these calls are supported by significant sections of the population is questionable, however (Veenendaal, 2016). Also in the three public bodies, many citizens and politicians lament the loss of autonomy on their islands. Further, the establishment of new metropolitan institutions and the substantial influx of Dutch bureaucrats also have a societal impact that should not be down-played. Between 2010 and 2015 Bonaire and St Eustatius held a number of status referendums, which were declared invalid because the required turnout level was not met. However, wide majorities of voters on both islands supported a status that would yield more autonomy to their island. The political status of these public bodies is being reviewed by the Kingdom government, and this evaluation might result in new status changes.

Without being the sole explanatory factor of institutional changes observed in the FCTs, the financial and economic crisis does however constitute the backdrop to it. In reality, these reforms stem from a dual process: a bottom-up process based on grievances emerging in the FCTs which are more than ever aware that their economic development model and its funding methods are exhausted; and a top-down reform movement linked to State restructuring. We are thus seeing a significant restructuring process of the State from its margins in the shape of the FCTs. In France, as in Europe, restructuring has manifested itself over the last few years by redefining State limits to deal with scarcer resources. The consequence is a shift of policies towards other stakeholders, including, in particular, infra-State bodies like the FCTs, on the same terms as their counterparts in mainland France. This shift is based on the idea, shared (or not) by these infra-State bodies, of the necessity for more efficient public action. This idea is nevertheless perfectly consistent with calls for self-rule expressed locally. This strategic refocus by the State on some of its prerogatives is accompanied by a reorganisation of its territorial units. From this standpoint, reshaping its

external services (which also applies to DROMs like Guadeloupe, Martinique, and French Guiana) constitutes a perfect example of the desire to make savings while waiting for the switch to a single authority. Clearly, the creation of single authorities for French Guiana and Martinique instead of Departments and Regions indicates that these territories have made greater progress in this regard.

Although a more simplified institutional landscape is a key aim, it is also part of a larger process seeking to address various challenges. One of these, in particular, is development which is vitally important in the territories. Furthermore, it is supplemented and augmented by the provision of new development planning tools in the FCTs. The same applies to the regional strategy for economic development, innovation and internationalisation (SRDEII) provided for under the Law of 7 August 2015 on the new territorial organisation of the French Republic. The combination of these various measures is full of potential for building a strategic and coordinated vision for French Guiana and Martinique. It is also a way forward for a now hard-hit State to encourage local authorities to get more involved in planning and delivering development. It should also be noted that despite these debates the general architecture of the relationship between mainland France and its FCTs is not being challenged, largely because of the rather conservative obedience to the status quo in the territories themselves.

For Puerto Rico the lengthy financial crisis has called into question the viability of Commonwealth status. Everyone, except the most conservative members of the governing *Partido Popular Democrático* (Popular Democratic Party, PPD), agrees that there is a need for substantial change in the current relationship with the US. There are desperate and radical calls for reform from all political parties and tendencies – although crucially there is no consensus on the way forward. Further, these calls have been stifled somewhat by recent developments, particularly the appointment of a Financial Oversight and Management Board in September 2016, which puts control of the government of Puerto Rico in the hands of a non-elected body appointed by Congress and the President. For all intents and purposes, the government of Puerto Rico has reverted back, for the time being at least, to direct colonial rule from Washington.

The future is uncertain but the depth of the crisis, along with the US changes in Inter-American policy, augur significant changes. The precise nature of that change will take some

time to establish but reforms to the Commonwealth are not part of the future. Statehood, independence, or 'free association' are said to be the options. This means Puerto Rico has no immediate way out of its current economic problems. Radical fiscal retrenchment measures, government reform and massive migration delineate the short term future of the Island. Washington and San Juan look with some anxiety for a way out of crisis.

Conclusion

So what impact has the global financial crisis had on the non-independent Caribbean, and to what extent has there been a noticeable economic and political recalibration between the territories and their metropoles? Although SNIJs in the Caribbean are often lumped together, the preceding analysis has shown the political and economic differences between them, and how each has been affected over the last decade in distinct ways. However, the starting point is the same for all of the territories – the crisis highlighted starkly their vulnerabilities and caused significant contraction of their economies. It is perhaps true that in Puerto Rico the effects of the crisis were less obvious because of the more fundamental and acute problems facing the territory, but elsewhere they were clear to see. The responses to the crisis were shaped by past-practice and the nature of the constitutional relationships between the territories and their metropolitan powers. In the British territories that have more autonomous economies that their SNIJ neighbours, British involvement has not been based on providing more direct aid, cancelling debt, or tweaking trade relations, as elsewhere – rather there have been several specific interventions to encourage (and sometimes compel) the territories to better manage their own economic circumstances; and the UK's impending withdrawal from the EU will unlikely change this approach. For France and the Netherlands their engagement has been more pro-active and wide-ranging, due largely to the greater level of support these metropolitan powers provide. Notwithstanding as with the British, the Dutch have placed great emphasis on fiscal responsibility. Puerto Rico left to its own devises until 2016 now faces a return to direct colonial rule with a Fiscal Oversight and Management Board headed by pro-statehood Puerto Ricans with a neoliberal bent and a bias in favour of financial institutions and bond holders, advancing solutions akin to the Greek debt restructuring and structural adjustment programmes.

Apart from the various measures to address the consequence of the financial crisis there are other more profound forces at work: first, greater international oversight of the offshore financial sector is posing a challenge to several territories; second, the impacts of

globalisation and state reform (particularly in the French territories) are reducing the level of support some can depend on; third, the way in which the Dutch territories relate to one another and to the Netherlands is an ongoing point of contention. The financial crisis did not fundamentally alter the direction of these debates, but it has intensified them. The political impact of these developments has been not insubstantial with serious wrangling over policy, and some territory politicians questioning the perceived benefits of non-sovereignty. However, again with the possible future exception of Puerto Rico, the existing constitutional relationships are not being seriously questioned. This is a key point in that despite a very difficult period with the metropoles taking a greater interest in the territories, the core advantages of non-sovereignty highlighted in the introduction remain – even for Puerto Rico. Citizens across the territories still appreciate the particular protections and opportunities non-sovereignty provides, despite the fact that some have been diluted in recent years. In short, it can be argued that important economic and political recalibrations are taking place, but they are occurring in a governing framework that is largely well-entrenched and generally well-supported. In an age of global economic and political turbulence, the unequivocal and unwavering preference for non-sovereignty across Caribbean SNIJs is certainly striking. This stability of public opinion suggests that even in the face of increasing metropolitan dominance and pressure, the populations of the British, Dutch, French, and US territories remain acutely aware of the benefits of the constitutional link with a larger and often distant metropolitan power.

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