Cayman Economic Outlook 2019

Address from the Premier of the Cayman Islands

Hon. Alden McLaughlin MBE, JP, MLA

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Good morning.

My thanks to our hosts, Royal Fidelity, for this invitation to speak at what has become an important annual conference in the Cayman business calendar.

I too wish to pay tribute to Anwer Sunderji, former Chairman and CEO of Fidelity. For many years he was the driving force of this conference and those who have been here before will understand how much he brought to this event and how we all looked forward to his political and economic insights and his wry humour, as he addressed the conference each year.

Governor.. I thank you for your kind words and as you will hear shortly from my presentation – I very much agree that our economy is in great shape. But let’s also get the viewpoint of leading regional economist, Marla Dukharan, when she presented her annual January online video economic report on the state of Caribbean economies in 2019.

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 I thank Ms. Dukharan for continuing to acknowledge the hard work done by this Government to create not only a strong fiscal climate but also one that is conducive to growth and investment and that brings benefits to Caymanians. Ms. Dukharan also mentioned some challenges for us and I will speak to these later. I will also later on provide a few statistics updated from those shown in the video.

As we gather to think about the global future economic outlook, perhaps it is appropriate that you hear this morning from a politician. After all, it was a politician I greatly admire, Winston Churchill, Britain’s great war time Prime Minister who said, “Politics is the ability to foretell what is going to happen tomorrow, next week, next month and next year………And then to have the ability afterwards to explain why it didn't happen.”

He may have made these remarks tongue in cheek, but Churchill certainly understood that in his time, with changing world forces, it was becoming more and more difficult to know with any degree of assurance what the future might bring. The same holds even more true today.

This conference’s organisers have captured that sentiment well by titling today’s conference - Dynamic New World: Braving the Turmoil.

I am not planning to dust off a crystal ball and look into the future with you today. That is always a dangerous idea at an economic conference. After all – economists have correctly forecast at least nine of the last five recessions!

But neither am I planning to play it safe – instead I will provide my thoughts on not only what we in the Cayman Islands need to keep doing to avoid the turmoil; but also, the things that we could consider doing to prepare ourselves for an increasingly dynamic world.

I will start with this observation: in times of dynamic and profound change we should expect that there will be turmoil.

Great change and turmoil are but different sides of the same coin. Whether the change is political, economic, or technological – where there is great change we can expect turmoil; turmoil defined not just as total disorder - but also as upheaval, agitation, disruption or uncertainty.

The economic growth that the world has seen over the past 100 years has lifted millions out of poverty globally, but it has also made the very rich even richer – and highlighted a widening income disparity. This has caused agitation and uncertainty in many countries – consider the ‘gilets jaunes’ protestors in France. A new fuel tax has seemingly been the proverbial ‘last straw that broke the camel’s back’ and created an organic movement without a leader or a focus on any one particular cause, but a movement that has certainly created economic, social and political upheaval across France.

We have experienced great change in our Islands over the past 50 years, with the pace of change increasing at an ever faster rate. And this has inevitably brought with it some agitation and uncertainty as Caymanians have experienced tremendous economic growth but also significant and sustained levels of immigration and development that have not just brought ‘new faces’ to Cayman but are also changing the very face of our Islands.

It is testament to the nature of our people that despite these immense changes, Cayman remains one of the most peaceful places on earth, largely free from the racial, ethnic, and social tensions that plague much of the world.

Consider just for a moment the political turmoil that is also impacting much larger countries and compare it to what we see in our small Islands.

In the world’s largest economy, we’ve seen political squabbling, principally over a border wall and immigration, shut down the very business of government for well over a month, causing real problems to both those who receive public services and the civil servants who provide them. In the result, some 800,000 public servants were left furloughed or required to work without pay.

In contrast, Cayman continues to value the huge contribution that civil servants make in our society. While we expect ever higher levels of efficiency and performance, we recognize and reward their service. And whilst we have some tensions around increasing immigration we also understand the need to welcome people here to help us drive our economy and build a nation. And because of that our population has grown by over 700% in my lifetime – with over 130 nationalities living amongst us in relative harmony. We are a veritable little United Nations.

 In the UK, Brexit is revealing what has long been disguised – fundamental fault lines that run right through the core of the political establishment. Again, it is not simply within the political sphere that the impact is felt, the British people feel it as well. One of Britain’s most influential think tanks, the Institute for Government, in its annual report on the performance of the UK government concluded that all the time and effort that has gone into the political wrangling over Brexit has, “squeezed government’s capacity to manage public services and major projects, and to bring about improvement in them.”

In Cayman, by comparison, political differences have been put aside in the creation of a unity government that I have the privilege to lead – a coalition of the two main political parties and a number of independents. The result has been a strong government that generates good decisions and is able to focus its attention on improving public services and delivering major projects.

In Venezuela we see a once proud country, with some of the largest oil reserves in the world, become crippled under the weight of economic and political mismanagement. Its people face a humanitarian crisis - suffering from a shortage in food supplies and medicines, and skyrocketing inflation making their currency useless as a store of value. The impact is also being felt by its neighbors, including those in the Caribbean, as many thousands of Venezuelans leave the country in desperation.

In Cayman we have had successive Governments that for 60 years have generally managed our economy and finances well and, despite the many changes here, there is political and social stability. We are no Utopia – as I mentioned at last year’s conference, we face our own challenges. But by and large we have done exceedingly well for a small nation with little in the way of natural resources.

 I mention these things to illustrate the fact that in the present day context the political and social stability we are enjoying in Cayman is more the exception than the norm.

There are two important lessons in this.

The first is that stability cannot be taken for granted. We as politicians, particularly those within the unity government, need to continue to work tirelessly to maintain stability for the good of our country and our people.

The second is that political instability, should we ever allow it to creep in, has real world consequences that none of us want to see in our Islands. And so, we must be vigilant. And by we, I mean Government as well as private citizens, and business.

We must not only appreciate the jewel that we have created here but we must jealously guard and protect it.

Cayman’s political stability is bearing fruit. You can see that in our headline economic indicators.

Annualised real terms GDP growth for the whole of 2018 is expected to close at 3.4%. – This is on par with our largest trading partner, the USA. So we have closed out the old year and started the new with continuing strong economic performance.

We have a strong economy that continues to generate jobs and opportunities for Caymanians. The fall 2018 Labour Force Survey will be completed and released soon, but preliminary results indicate that overall unemployment, taking into consideration everyone legally resident here, has dropped from 4.9% in Fall 2017 to 2.9% in Fall 2018. As significant as that number may be, to me as Premier the more important number is that of Caymanian unemployment – which has dropped from 7.3% in Fall 2017 to 4.6% in Fall 2018.

This is the lowest level of Caymanian unemployment in more than a decade and is far lower than the peak Caymanian unemployment level of 10.5% that we saw in 2012.

Political stability then has assisted in creating strong economic performance. That in turn is sustaining confidence among businesses and investors about our future and their confidence is the foundation for maintaining growth and creating further opportunities for Caymanians.

Perhaps the most tangible and visible expression of confidence in the long term prospects of our economy is the growth that is going on in our development and construction sector. This was one of the key factors driving the high level of overall GDP growth in our economy that I mentioned earlier. Annualised growth in the construction sector reached 8.9% for the first half of 2018. This growth in development is also driving an increase in imports with more than one billion dollars’ worth of goods having been imported into the Cayman Islands last year.

In large part so far I have been focusing on what we are doing, and must keep doing, to secure and underpin our success.

This conference though is about looking to the future and in keeping with the theme I will consider what else we can do to prepare ourselves for the new dynamic world we face. In considering the future we should not just look at the most careful and predictable of scenarios, but at what exciting possibilities may be available to us if we are only more ambitious and innovative in our approach.

If we are to maintain, and indeed improve, our place in the world far into the future then we will need to be bold and to think big. In my view, it only makes sense to think about bigger and bolder steps if we are confident in the foundations that are needed to support them. If the economic fundamentals are sound then risk is more manageable and the confidence will be there to fund the investments that will be required.

Equally, it also only makes sense to think of such steps if they will bring real and tangible benefits to the Caymanian people. Ours is a proud history of willingness to innovate and to support inward investment but it has always been done on the basis that there is a meaningful return for our people. You don’t grow an economy for the sake of business – you do it to provide opportunities for your people.

In terms of Cayman’s future prospects for growth and development, the fundamentals remain solid. The factors that have fueled the success of Cayman’s economy continue to do so, despite challenges.

For Financial Services, the bedrock foundation of our status as a UK overseas territory and our legal system based on English common law combined with the choice we have made to remain a tax-neutral jurisdiction with no direct taxation remains a fundamentally attractive proposition for businesses and investors alike. The ability of the industry to innovate and the willingness of government to combine a business-friendly environment with appropriate but proportionate regulation will continue to maintain our competitive advantage so long as there is a level playing field.

Despite the challenges that our financial services industry is facing I am of the view that we can withstand these and continue to grow from strength to strength. Ms Dukharan noted one such challenge in her video when she referred to initiatives by the European Union and their concern, justified or not, with countries that have ‘no tax or low tax regimes’.

For those of you unaware, the Cayman Islands, along with over 20 other countries, are currently undergoing yet another review, at the end of which the EU will either give us their good housekeeping badge of approval or ‘black list’ us as having a harmful tax regime. The concern presumably is that low or no tax regimes are harmful whilst, presumably, high tax regimes are not.

This is never, though, simply a technical exercise. In the end, the EU makes political judgments. My government has therefore played its part in trying to influence those judgments by engaging with the EU. This engagement continues and we, along with the 20 other jurisdictions undergoing the EU review process, await the decision of the EU Economic and Financial Affairs Council (Ecofin) meeting on March 12th.

I repeat here what I have said elsewhere - I remain confident that if the EU review process is fair, and not overtly political, we will not end up on any blacklist. But we know that this is but one challenge – there are more to come.

 I remain confident, however, that we can manage that future uncertainty and that by working together, government and the industry, we can keep pace with changing global standards while preserving the special characteristics of this jurisdiction that make it an attractive place to do business in the first place.

At the same time, our tourism industry continues to flourish with record numbers of tourists arriving at our newly renovated airport and at our seaport. This growth will continue because we will continue to develop our world class tourism product.

This Government has already been bold in not only modernising and tripling the size of our international airport but also in thinking of the future and committing to building the much-needed cruise piers that will serve us today but also protect our key cruise tourism business into the future.

The immediate economic prospects for Cayman are indeed therefore strong. While there are uncertainties and threats, I believe that both our financial services industry and tourism have a positive outlook and we can continue to deliver sustainable levels of growth.

However, we do need to think longer term about what will drive future growth in the Cayman economy. The more diverse the Cayman economy, the more resilient it becomes. Diversifying our economic base also creates new kinds of opportunities for our people, both as entrepreneurs and in the labour market. And so we have attracted and continue to attract new types of technology and knowledge based businesses.

Cayman Enterprise City, our well-established special economic zone, continues to attract new kinds of businesses to our Islands, notably internet and technology businesses, including FinTech and BioTech.

Newcomer Tech Cayman brings together Caymanian business acumen with established US technology entrepreneurship and is gearing up to create new forms of digital and knowledge-based business here.

Health City Cayman Islands utilises some of the most modern technology available anywhere. It is the first hospital in the English-speaking Caribbean to use robotic navigation for joint replacements; the first to install artificial hearts; and much more. This is a key part of our medical tourism platform.

And we continue to look to diversify financial services, more recently by attracting more reinsurance companies into Cayman – taking advantage of disruption in other jurisdictions to create new opportunities for us.

But growth too brings its own set of challenges that we must manage. If we are to continue to grow, it is my view that we need to make really creative use of the scarce space we have. And despite the huge strides we have made in recent years we must improve our future infrastructure, particularly our road network. The Government is currently consulting on a draft national planning framework that begins to look at some of the crucial land use choices that will face us in the years ahead. I support that consultation process and I hope everyone will want to take part in the debate.

However, the planning framework considers a relatively short time horizon and inevitably therefore this causes participants to focus on marginal or incremental change.

This has traditionally been the Caymanian way. We have taken a pragmatic approach and looked to make relatively small changes over time as circumstances have changed.

Over a period of decades, we have gradually allowed taller buildings as the demand for property for development increased. This demand continues and indeed strengthens and with the growth we are now experiencing there is already pressure to go beyond the current maximum of 10 stories above ground level.

I pose this as a series of questions that we as a nation should now consider, do we want to continue with the approach of incremental change? Or is now the time for us to think bigger and act more boldly when it comes to our land use and building heights? If so, how high and where do we want future development to be allowed?

Last week, speaking to the Chamber of Commerce I discussed the work Government is doing in partnership with business and the wider community to revitalize our capital, George Town. I encouraged all involved to think creatively about how we might best use the space in George Town and the uses to which it might be put. While I personally favour mixed-use development across the redevelopment area, this is a genuinely inclusive process and the Government is willing to listen positively to the ideas people will bring forward.

The Government has already removed many of the constraints that have prevented innovative planning approaches in George Town in the past. We would be willing to look further and remove other obstacles such as restrictions on building heights in order to see the kind of positive redevelopment we want in our Capital.

The other obvious example of the potential for taller buildings is along the Seven Mile Beach corridor. All the messages about the strength of the tourism market and the luxury housing market suggest that there may be no obvious limit to building height in terms of what the market will bear. The question becomes then, what is our community willing to see happen?

The answer to that crucially will depend upon the benefits that any such development brings. I said earlier that if we are to take bold steps then there must be clear and tangible benefits for Caymanians. If development is seen to be just about luxury hotels and accommodation for rich foreigners then our community will rightly reject it. If on the other hand, it is not just seen to be, but actually is about, the delivery of improvements in infrastructure and in the economic and employment opportunities and the social conditions of Caymanians then I believe this is a debate we should be willing to engage in.

By way of a kick start to that debate, I can say today that representatives from Dart Enterprises have recently spoken to Government regarding plans for a landmark development within Camana Bay that includes an iconic tower that would greatly exceed the current development height limits - creating a new skyline that would be recognizable the world over. With this development they will commit to investing in excess of an additional $1 ½ billion into the Cayman Islands economy, not just in the development itself but in critical infrastructure improvements and supporting workforce development.

We know that future development along Seven Mile Beach is inevitable. In fact the new wave of redevelopment started some years ago and is now accelerating with the demolition of condominium complexes built in the 70’s and 80’s and the construction of new 10 story luxury residences in their stead. The question is whether we wish to continue to limit the type of development in the seven mile beach corridor in line with the status quo, gradually ratcheting up building heights and redeveloping existing sites to take advantage of changing regulations. If so, the result will be more of the same in terms of what Seven Mile Beach is slowly becoming – just a higher wall of glass and concrete than we have at present and which continues to take over the whole beach.

Perhaps we can be content with this and the economic activity this incremental and ad hoc approach will create over the next ten or so years. But what about the next decade and the ones after that? This approach is unlikely to ensure that as a country we maximize the full economic benefits of the Seven Mile Beach Corridor.

The alternative is to be bold and look at something different. A more proactive approach that considers taller buildings and that conserves ever scarcer beach land on the important Seven Mile Beach strip. Taller buildings but in particular hotel developments that generate much more income and economic activity for our islands than other types of development do. Taller buildings that will require developers to give back more of the beach and to have farther setbacks - creating a large open space between the building and the beach.

I believe we must at least take a long, hard look at the potential for the kind of tower Dart is proposing.

The development would necessarily be mixed-use with hotel, residential, retail and entertainment spaces.

The potential economic benefits are considerable. More and different construction jobs during the build phase. New business and job opportunities for Caymanians to follow as new tourism and entertainment markets are developed to meet the needs of a different kind of tourist and a different kind of resident.

But we must also consider that such a large scale development project would create hundreds of jobs and economic opportunities and thus would also help to serve as a much needed buffer over the next few years when the inevitable next recession occurs.

As part of considering this or any similar proposal, any developer will also need to bring forward a significant programme of infrastructure investment. This would necessarily include road improvements but also potentially social infrastructure – improvements to Cayman’s schools or investment in affordable housing for local people for example. And so, as a Caymanian, I am excited about the idea. As Premier, I am determined that we engage positively with Dart and with any other developers who might want to bring forward such ideas to see what might be possible.

There is an awfully long way to go before such ideas might come to fruition but now is the time for a national debate. The Plan Cayman process gives us a timely and appropriate vehicle to have that national debate. The next phase of consultation in that process will be on an area plan for the Seven Mile Beach Corridor and the potential for a landmark development can be addressed as part of that consultation. I will leave it to Dart to outline their ideas in more detail and, as I have said, I would welcome others coming forward with other proposals.

I wish to make it clear that there has been no commitment from the Government to Dart or anyone else at this stage but we do believe we must be willing at least to consider the proposal.

The renowned architect Adrian Smith noted in an article on tall buildings that the landmarks they create often over time become a symbol of national pride and identity. Such developments create new types of jobs and economic benefit as well as serving as an iconic tourist attraction in their own right.

Think for a minute the impact that the Burj Khalifa, which was designed by Adrian Smith, has made for Dubai. Or indeed the impact of the Eiffel Tower on Paris and indeed France as a whole.

Hang on! Before people start taking to social media to decry this idea, hear me out.

Many people here will know that Gustave Eiffel was commissioned to design his iconic tower for the 1889 World’s Fair in Paris. What you may not know is that the proposed tower was immediately controversial. Indeed 300 members of the Paris artistic and cultural elite signed a petition to the Fair’s organizing Committee asking for the project to be abandoned.

Yes – petitions against progress were a thing even then.

But I digress. Describing themselves as “passionate devotees of the hitherto untouched beauty of Paris”, they protested with all their strength and indignation against what they described as “this useless and monstrous Eiffel Tower” that they claimed would be antithetical to the traditions of the city and would overshadow existing cultural sites.

I can just imagine those in Cayman who will make very similar – if not pretty much identical – objections to any proposals for a major development here. Yet now, the Eiffel Tower is not just part of the Paris skyline; it is the very symbol of the city itself.

Could we in Cayman imagine a similarly iconic structure here that would come not to threaten our cultural heritage but to reimagine it and to symbolize the bold future we want for our Islands and our people?

I have no doubt that this last section of my speech this morning will be highly controversial and will ignite considerable debate. If so, good! That is my intention because this is a debate that the country needs to have. There is much that is within our grasp if only we are bold and the decisions we make will have profound impact on the long term economic outlook of these Islands.

It comes down to a matter of choice about the future we want for ourselves and these Islands. Brutus, in Shakespeare’s Julius Caesar, put it this way:

There is a tide in the affairs of men

Which, taken at the flood, leads on to fortune;

Omitted, all the voyage of their life

Is bound in shallows and in miseries.

On such a full sea are we now afloat,

And we must take the current when it serves,

Or lose our ventures.